



Wespath

BENEFITS | INVESTMENTS

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Actuarial Update

Conference Forum | March 2024

Agenda

- Refresher: Valuation Basics
- Funding Discount Rate Update
- Estimated Valuation Results
- Pre-82 Plan Surplus Items
- CRSP-DB Contribution Adjustments
- Withdrawal Liability





Valuation Basics

Valuation Basics

Actuarial valuation presents the plan's:

- **Assets**
- **Liabilities**
 - Today's value of future expected benefit payments
- **Funded ratio**
 - $\text{Assets} / \text{Liabilities}$
- **Contributions**



Valuation Basics: Asset Returns

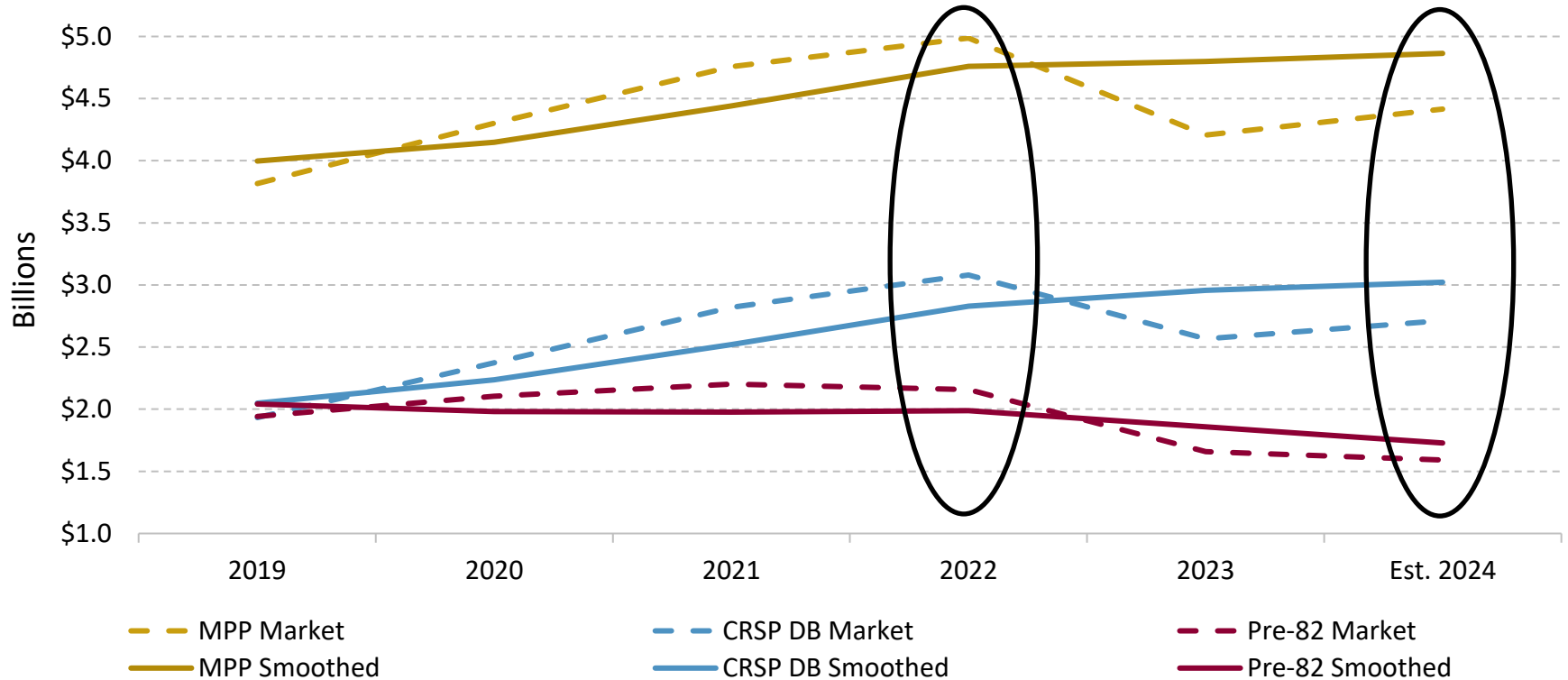
		2022 Returns		2023 Returns	
	% In Equity	Actual	Expected	Actual	Expected
CRSP DB	65%	-16.6%	7.00%	9.7%	7.00%
MPP Annuities	40%	-13.1%	6.25%	8.6%	6.25%
Pre-82	37%*	-14.8%	5.50%	11.1%	5.50%

* The Pre-82 “% In Equity” was 41% in 2022

Valuation Basics: Asset Smoothing

- Actuarial gains/losses on assets recognized incrementally in smoothed assets over 5 years
 - Actuarial gain or loss on assets is the return **above or below the expected return**
 - 20% of actuarial gain or loss will be recognized in each of the 5 years following the gain or loss
- Smoothed asset value—not allowed to go **below 80% or above 120%** of asset market value

Valuation Basics: Asset Smoothing



Valuation Basics:

Types of Valuations

- **Funding valuation**
 - Based on long-term assumptions
 - Discount rate based on expected return on assets
- **Market valuation**
 - Based on current market conditions
 - Discount rate based on current corporate bond yields

VALUATION





Funding Discount Rate Update

Funding Discount Rate

- Based on long-term expected rate of return of assets backing the liabilities
- Expected Rate of Return is based on the Capital Asset Pricing Model (CAPM)
 - Produced annually by the Wespath Investments department
- CAPM is impacted by the current market
 - Near-term returns may change significantly year over year



Discount Rate Methodology Utilizes a Range

To minimize the volatility of the valuation funding discount rates due to annual changes in the CAPM, the following option was approved by Fiduciary Committee, October 2020:

Compare the existing discount rate to a range generated by the new CAPM annually—change only if outside the range. Recalibrate every quadrennium.*

**Range is set using 25% of the standard deviation.*

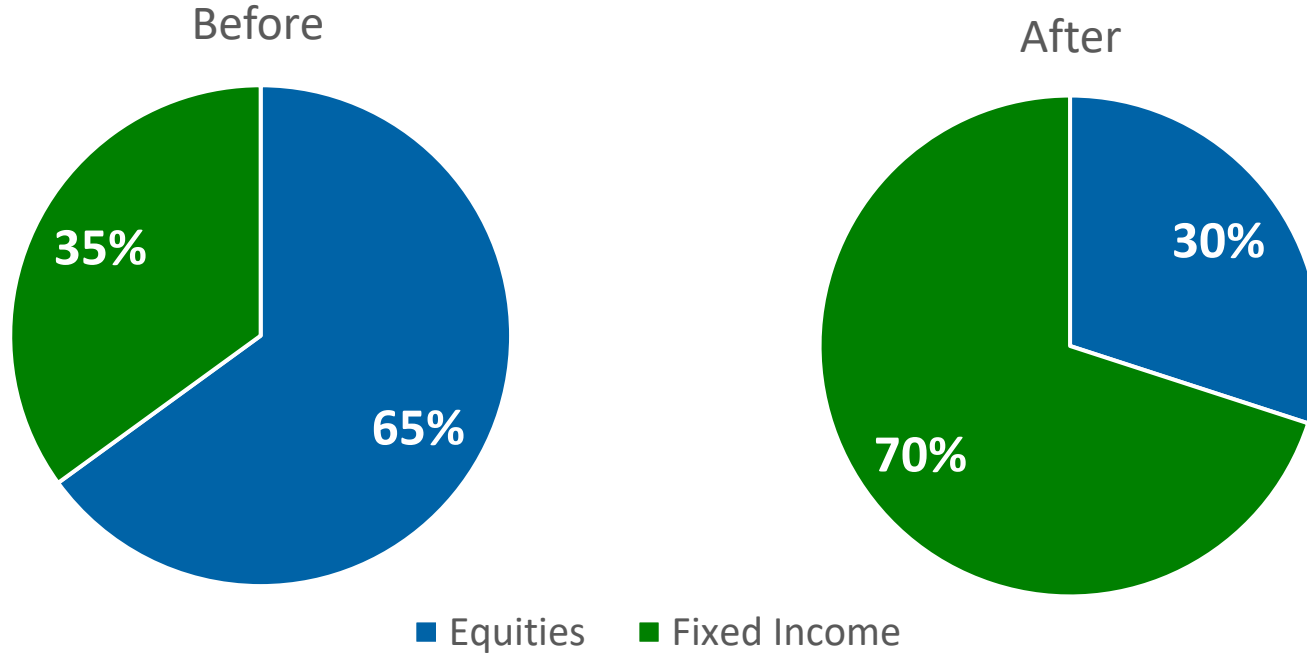


Impact of De-Risking on Discount Rate

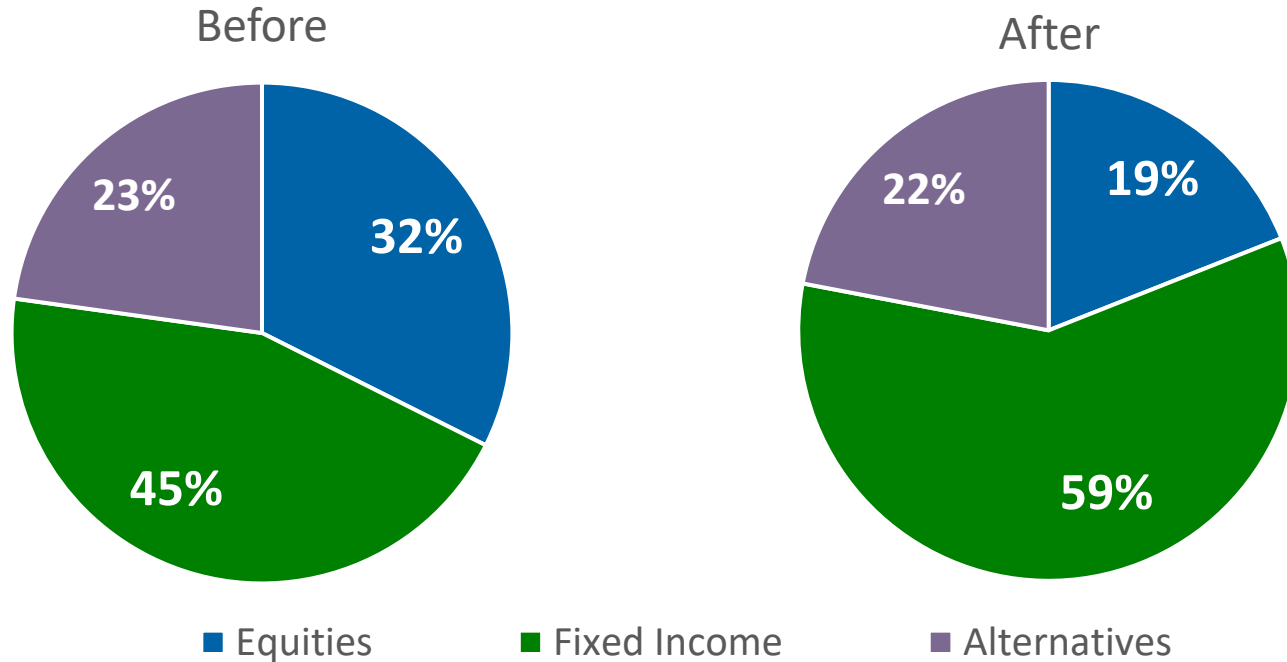
- De-risking resulted in significant changes to asset allocations
- Changes should be fully reflected in expected returns and 2024 discount rates
- Use of the range methodology will resume for 2025 discount rates

The goal of the range is to smooth annual updates to the CAPM, not to smooth significant changes to the asset allocations.

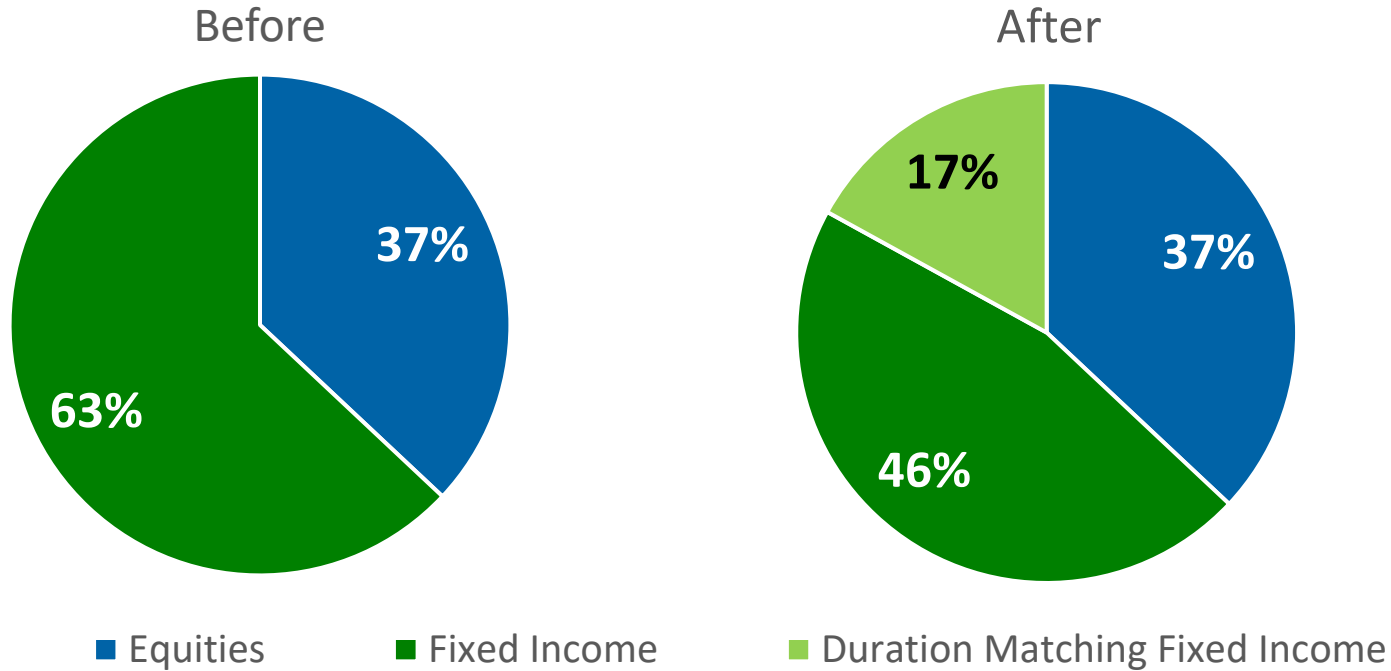
Asset Allocations by Fund: CRSP



Asset Allocations by Fund: MPP

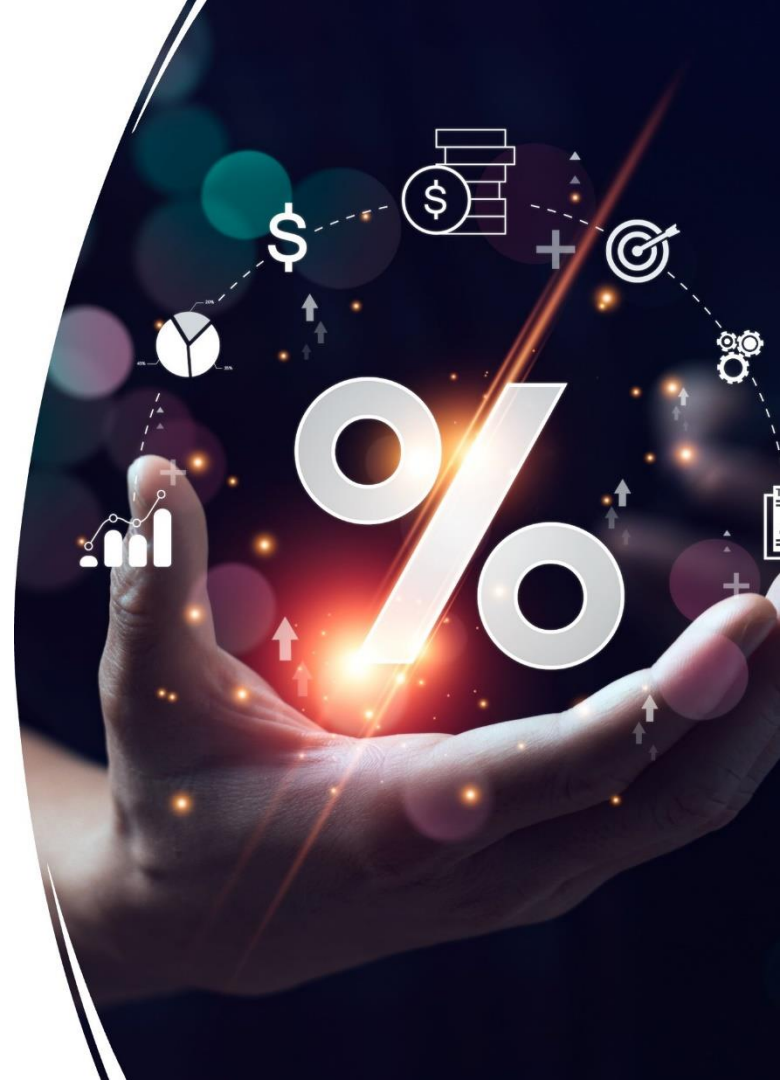


Asset Allocations by Fund: Pre-82



2024 Discount Rates

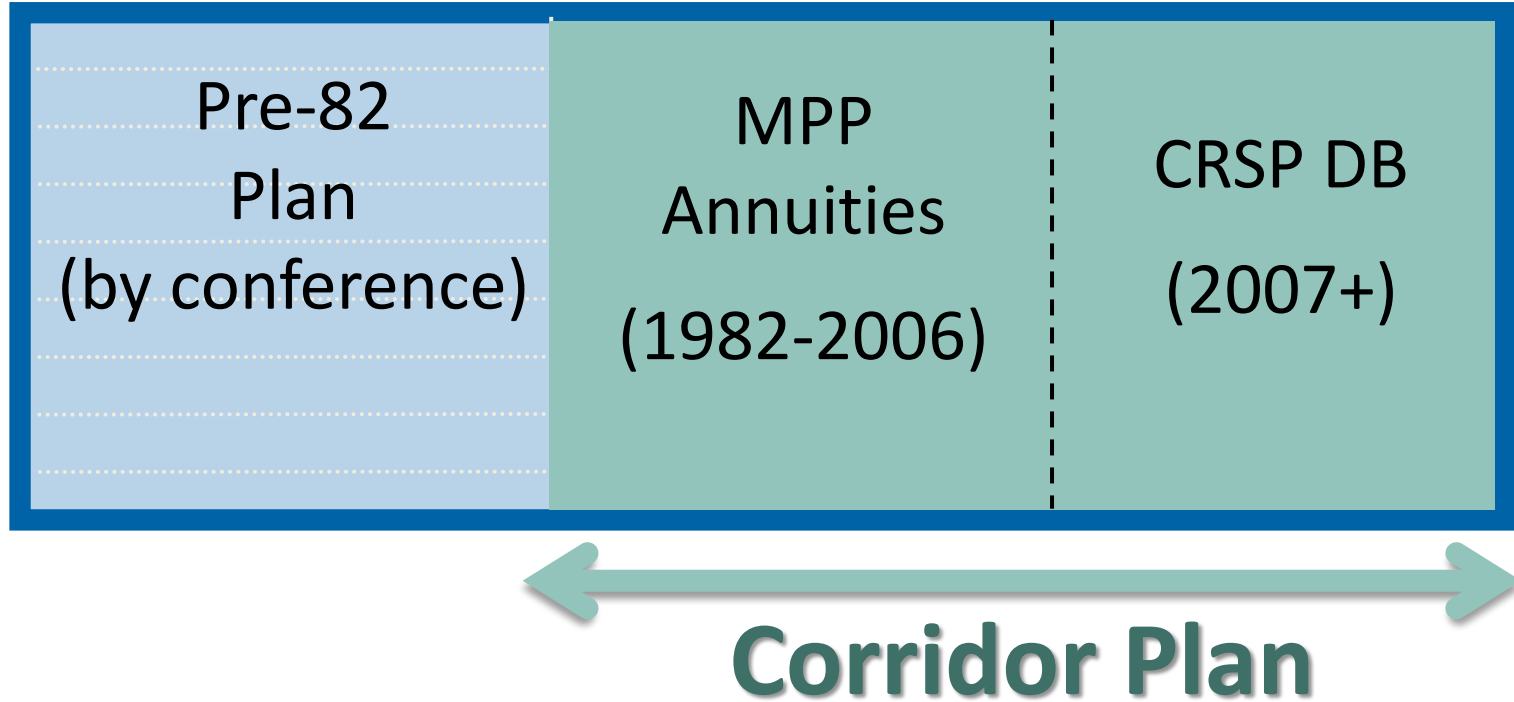
Plan	2023 Discount Rate	2024 Discount Rate
CRSP-DB	7.000%	6.250%
MPP	6.250%	6.125%
Pre-82	5.500%	6.000%





Estimated Valuation Results

Estimated Valuation Results for Clergy DB Plans





Corridor Funding

Corridor Plan Funded Ratio

Estimated Funded Ratio— Funding Basis

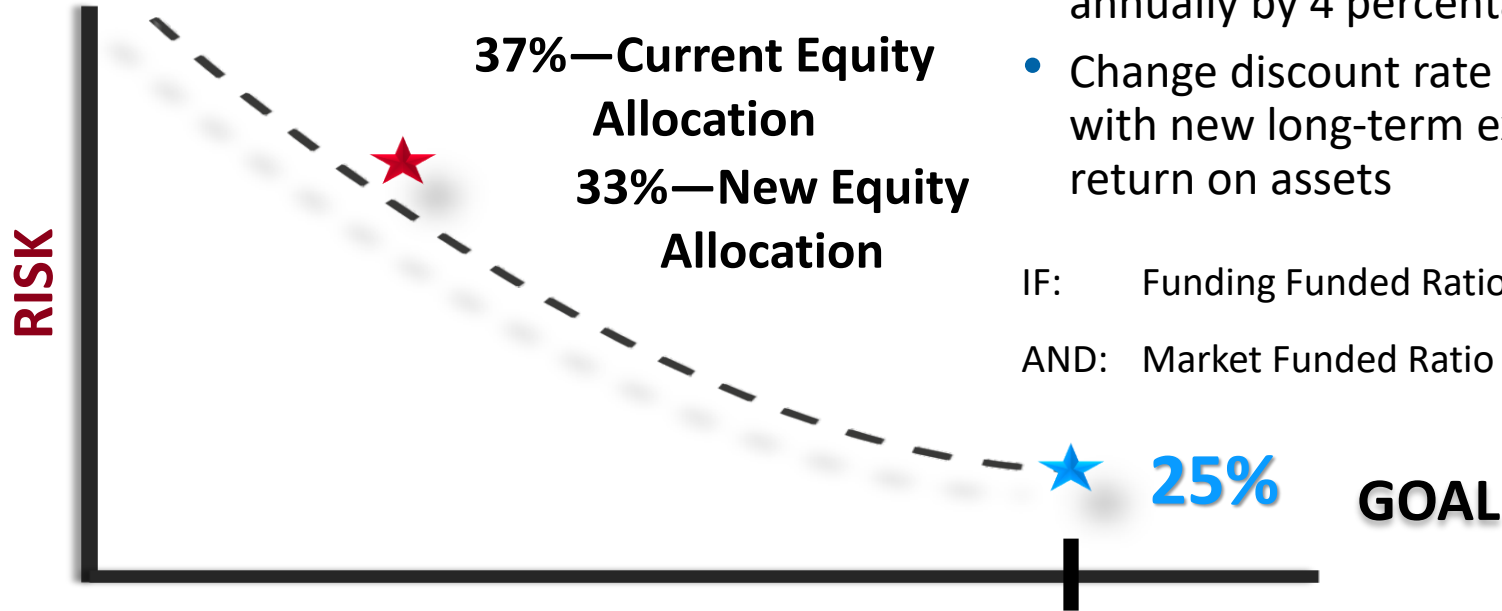
	January 1, 2023	January 1, 2024
CRSP DB	122%	108%
MPP Annuities	130%	128%
Combined	127%	119%

Contributions based purely on Normal Cost: \$71.6 million for 2025
and \$82.4 million for 2026



Pre-82 Funding

Pre-82 Plan Glide Path



- Reduce equity risk exposure annually by 4 percentage points
- Change discount rate to align with new long-term expected return on assets

IF: Funding Funded Ratio > 90%



AND: Market Funded Ratio > 80%



Pre-82 Glide Path Actions in 2024

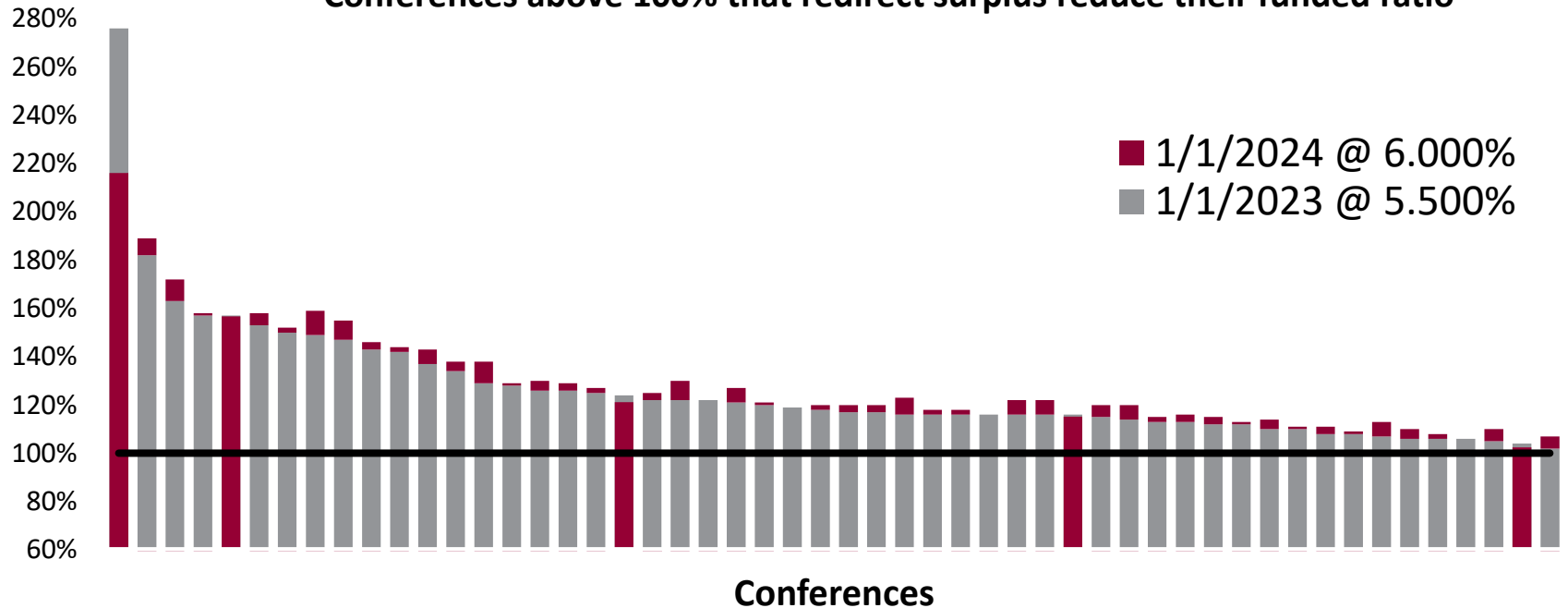
Equity allocation: **decrease from 37% to 33%**

Discount rate for January 1, 2024 liabilities:
Increase from 5.5% to 6.0%

Estimated Funding Change in Pre-82 Plan

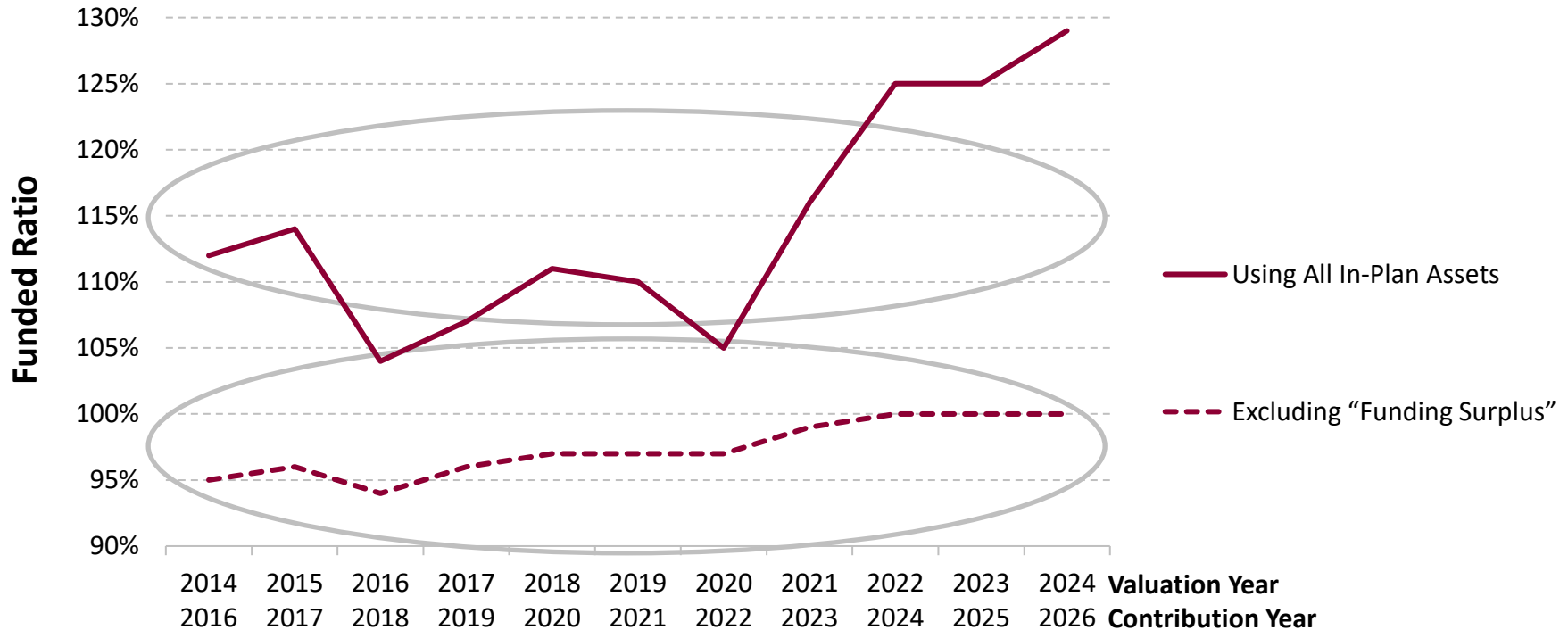
Funded Ratio*—Funding Basis

Conferences above 100% that redirect surplus reduce their funded ratio



*Assuming no change in Past Service Rate (PSR)

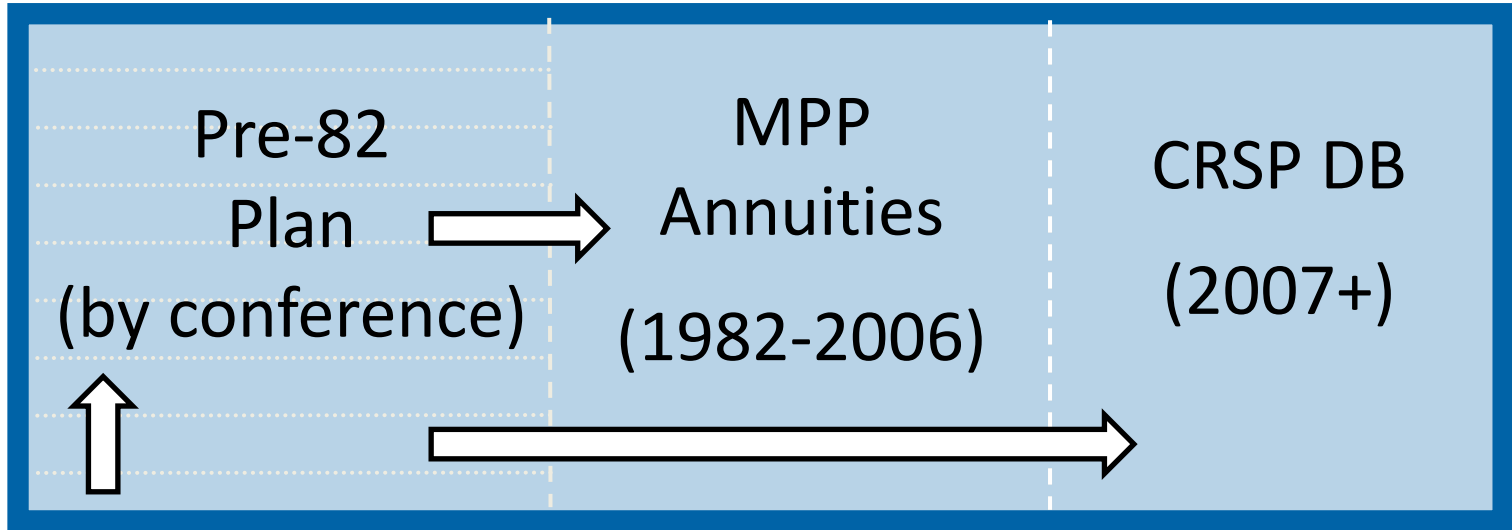
Estimated Valuation Results: Pre-82 Funded Ratio History—Funding Basis






Pre-82 Plan Surplus Items

Clergy DB Plans



**Money can move within the blue lines
(swaps and redirections)**

Pre-82 Surplus

- Generally defined as the excess of plan assets over the plan liability
 - Lesser of market assets and smoothed assets; funding liability
- Two-year lag for budgeting purposes
 - 1/1/2022 valuation  preliminary 2024 surplus
 - Expected asset returns used to adjust from 2022 to 2024
- Due to the two-year lag, surplus may not align with current assets

Conference A

1/1/2023 for 2025 Contributions Valuation Results

	Final 2022 for 2024 Contributions	Preliminary Assuming No Benefit Increase	Preliminary With Illustrative Benefit Increase
Benefit Information			
Year (YR)	2024	2025	2025
Past Service Rate (PSR)	\$ 920.00	\$ 920.00	\$ 939.00
Minimum Contribution			
Applicable Assets, 1/1/(YR-2) ²	\$ 75,647,475	\$ 70,343,964	\$ 62,691,130
Minimum Contribution			
Amortization due 12/31/YR	\$ 0	\$ 0	\$ 0
Advance due 12/31/(YR-1) ³	0	0	338,222
Total	\$ 0	\$ 0	\$ 338,222
Maximum Surplus Available for Redirection			
Available, 12/31/YR ⁴	\$ 9,395,054	N/A	N/A
Contributions/(Surplus Redirection) Used in Calculations			
Amortizable Contribution (Surplus Redirection) due 12/31/(YR-2)	2022: \$ 0	2023: \$(2,193,794)	2023: \$(2,193,794)
Advance Contribution due 12/31/(YR-2)	2022: \$ 0	2023: \$ 0	2023: \$ 0
Amortizable Contribution (Surplus Redirection) due 12/31/(YR-1)	expected 2023: \$(2,193,794)	expected 2024: \$(2,412,149)	expected 2024: \$(2,412,149)

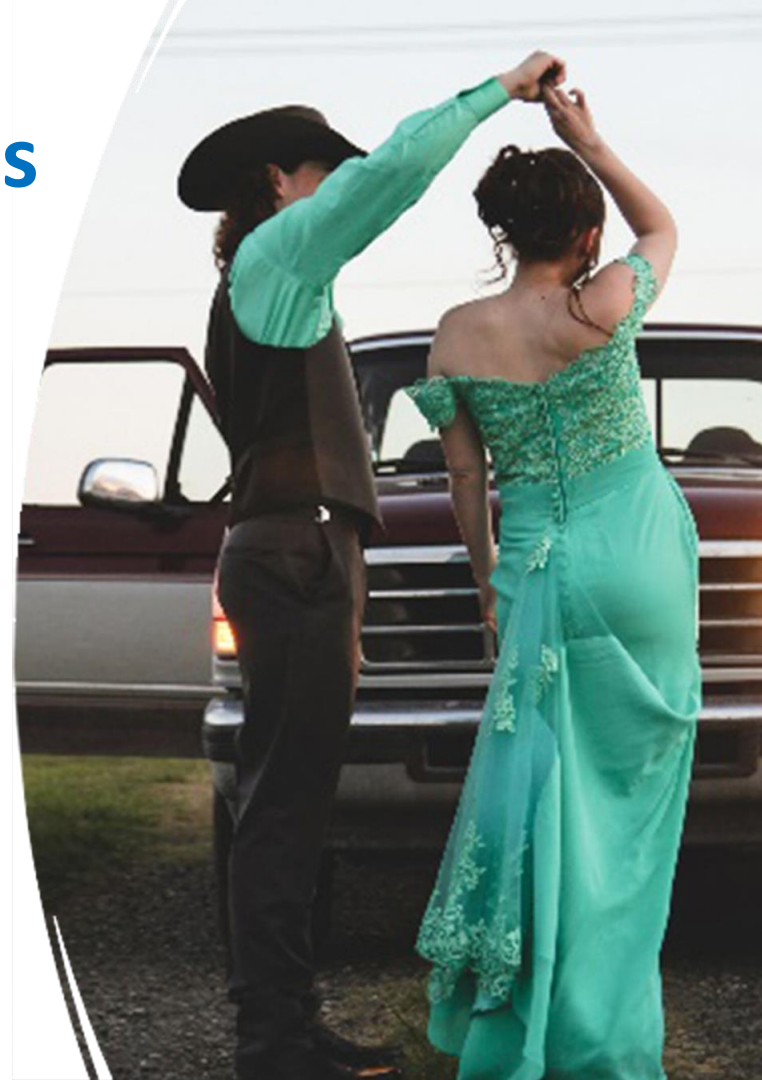
**Pre-82
Surplus:
2025 PSR
Increases**

² Actuarial Value when PSR and CAP are the same as in the prior year, and **the minimum of Actuarial Value and Market Value when PSR or CAP has been increased from the prior year.**

⁴ Based on the minimum of Actuarial Value of Assets and Market Value of Assets

Pre-82 Surplus: Recent Focus

- Likely less opportunities to use surplus after 2025, if Compass passes
- Anticipate continued focus in 2024 and 2025
 - We will assist in finding swap partners as needed



Pre-82 Surplus Communications

- **June 30th:** Surplus Intention forms due
 - Details intended surplus usage for 2024 and 2025, if applicable
 - Used in 2024 valuation reports
- **October:** 2024 valuation results released
- **December:** Contribution elections due
 - Swap contracts finalized
 - Redirections and cash payments options provided to Wespath





CRSP DB Contribution Adjustments

CRSP-DB Contributions

- Currently, CRSP-DB contributions are only Normal Cost
 - Normal Cost = the cost of a year of benefit accrual for active participants
 - Corridor plan is over 100% funded (on a funding basis); therefore, no amortizable contributions are due
- Due to the two-year lag for budgeting purposes, 2024 CRSP-DB contributions are based on the 1/1/2022 valuation
 - Normally 2022 to 2024 population changes are *de minimus*
 - Disaffiliations may increase the magnitude of these changes

CRSP-DB Contributions (continued)

- Difficult to identify all disaffiliating clergy
 - Not all disaffiliating clergy go through the DCBC process
- Method to reflect reduction in 2024 service earned
 - Compare *estimated* 2024 FTEs to 2022 FTEs
 - Apply the reduction in FTEs to the 12/31/2024 normal cost/contribution
 - Same process was applied to adjust the 2023 contribution
- Adjusted 2024 contributions will be communicated in April

CRSP-DB Contributions (continued)

- Sample adjustment calculation for Conference A
 - 1/1/2022 FTEs: 250
 - 1/1/2024 FTEs: 200 (estimated)
 - Adjustment factor: $200 / 250 = 0.80$
 - 2024 contribution based on 1/1/2022 valuation: \$1,000,000

Adjusted 2024 contribution: $0.80 \times 1,000,000 = \$800,000$



Withdrawal Liability

Withdrawal Liability

What is it?

- **Liability of a conference** in accordance with *Book of Discipline ¶1504* as amended by General Conference 2019 petition 90016

How is it used?

- In the determination of the **unfunded liability of a conference** who then assigns a portion of that underfunding to a separating church

What has changed?

- Most separations were under ¶2553; however, this **expired 12/31/2023**
- Separations are expected to dwindle going forward
- Future withdrawal liability letters will only be provided upon request



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