



Wespath

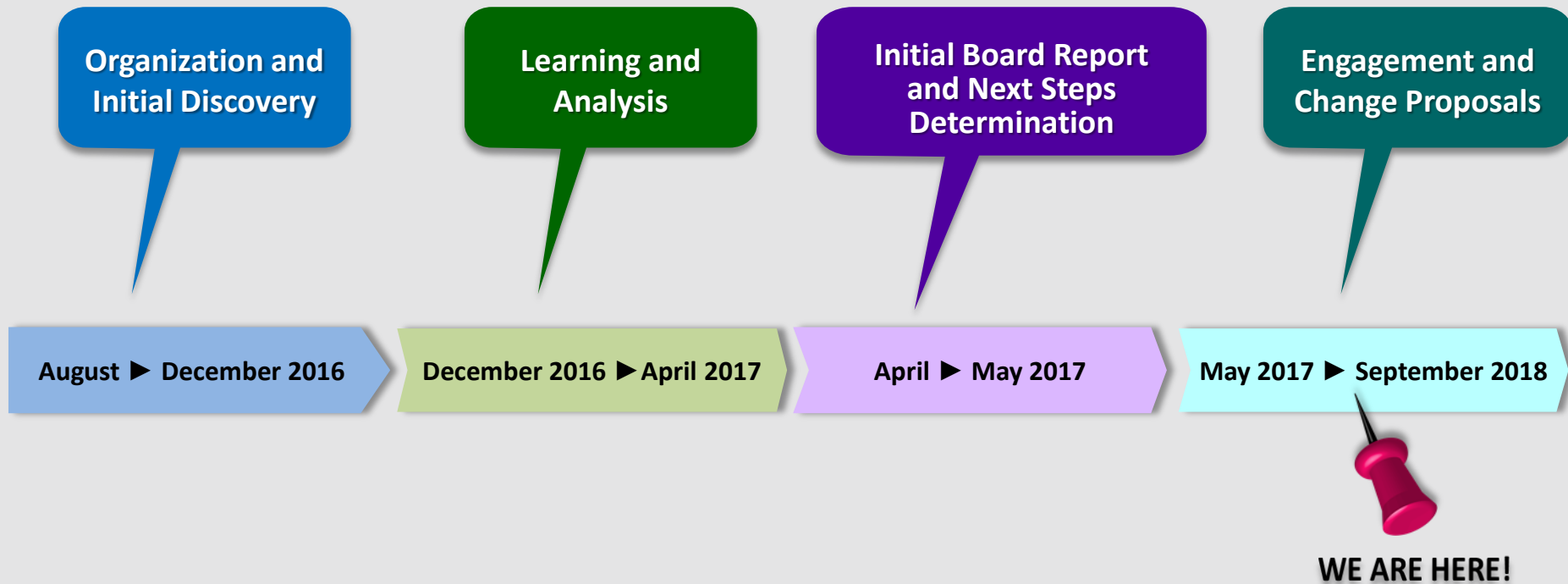
BENEFITS | INVESTMENTS

OCTOBER 2017

Retirement Plan Design Study

AUMCPBO

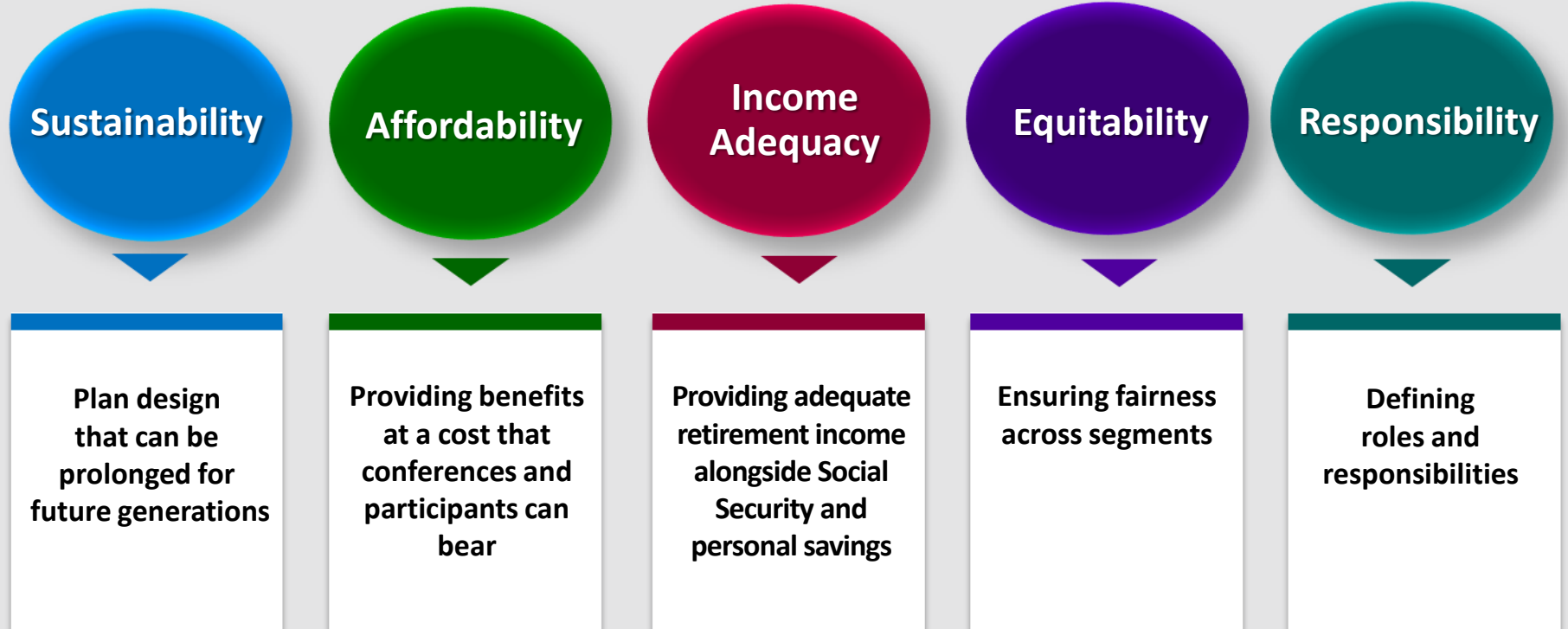
Study Phases and Timeline



Benchmarking and Stakeholder Engagement



Foundational Concepts



Stakeholder Input Placemat



Plan Design Advisory Group	▲
Participant Survey	●
Conference Forum	■
Bishop Focus Groups	★
Benchmarking Study	◆
Bellwether/Services Committee	+
More Than One Source	●

Plan Design Concepts: Stakeholder Input

	Sustainability	Affordability	Income Adequacy	Equitability	Responsibility
Participant	<ul style="list-style-type: none"> Participants expect to receive the benefits that they were promised ● Guaranteed payment stream creates retiree comfort and allows focus on ministry ● Plan design must be prepared for future changes and disruptors ● Ratio of retirements to ordination is concerning ▲ 	<ul style="list-style-type: none"> How much can clergy afford to contribute from their own pay? ● Debt impedes ability to save for retirement ● 	<ul style="list-style-type: none"> Worried that retirement income may be insufficient, especially considering rising healthcare costs ● Preparedness varies depending on housing ● Consider impact of parsonage vs. housing allowance + DAC may not be the right compensation factor in the CRSP DB formula ● UMC plus Social Security replace: <ul style="list-style-type: none"> nearly 100% of income (full-time clergy) nearly 60% of income (second/late career clergy) ◆ Calculation should look at whole career + 	<ul style="list-style-type: none"> Install flexibility for variables, including housing, clergy classifications, appointment levels and compensation ● Changing plan design may lead to generational inequity ● Consider potential inequity in benefits for full-time/part-time clergy ● Consider potential inequity of clergy compensation and clergy serving large vs. small churches ● 	<ul style="list-style-type: none"> Satisfaction with current plan "as is" ● Benefits should consider ministry differently than employment under corporate plans ● Generational perspectives differ ● Desire more control over "their money" ● UMC provides more without requiring participant contribution ◆ Participants rely on UMC to fund 50% or more of retirement ● Must motivate participants to take action +
Plan Sponsor	<ul style="list-style-type: none"> Concerned with long-term plan viability and risk mitigation ● Reasonable market returns are vital ● Need plan that can withstand losses from one conference without harming others ▲ Concerned with where to get more money if DB is underfunded + Most comparator groups rely more heavily on DC ◆ 	<ul style="list-style-type: none"> How much can the plan sponsor afford to contribute? ● Funding benefit plans is challenging ● Projecting future costs at the conference level is difficult ▲ Consider ways to mitigate legacy liabilities + 	<ul style="list-style-type: none"> Income adequacy is related to personal responsibility and may vary from person to person ▲ Are our assumptions still accurate? ▲ Income adequacy considers actual compensation; whereas, pension plans use DAC ▲ 	<ul style="list-style-type: none"> Efforts to create equitability may result in administrative complexity ● Conference should retain some autonomy in decision-making ▲ Calculate different benefit for part-time vs. full-time clergy + Consider size of the church and geographical compensation levels ● DAC and years-of-service factors put clergy on level playing field ▲ 	<ul style="list-style-type: none"> Must consider responsibility for funding and risk ● Education is key to persuading clergy to assume responsibility ● Consider the value of parsonage/housing allowance ▲ UMC DC maximum match is lower than comparators' report ◆ COLAs are relatively rare ◆
Denominational Leaders	<ul style="list-style-type: none"> Concern about ability of plan to pay clergy when they retire "as promised" ● Consider schism concerns and how these developments relate to plan design ▲ 	<ul style="list-style-type: none"> Only a small group of denominational leaders understand retirement benefit costs ▲ 	<ul style="list-style-type: none"> Awareness that DAC is imperfect ● Using CAC could discourage some clergy from moving across conferences ▲ Consider a Social Security-like approach to compensation ★ 	<ul style="list-style-type: none"> Do plans adequately address variables in clergy classifications, compensation, housing and marital status? ● Part-time and bivocational clergy have ability to earn/contribute outside income + 	<ul style="list-style-type: none"> DB/DC combination results in shared responsibility ■ Adding more responsibility to clergy—will require more education/motivation ●
Congregants	<ul style="list-style-type: none"> Most are unaware of benefits and funding particulars ▲ Would wonder if retirement plan costs are rising and if healthcare costs impact sustainability ▲ 	<ul style="list-style-type: none"> May be concerned about impact of rising healthcare premiums on church ability to contribute to the retirement plan ▲ 	<ul style="list-style-type: none"> Plans should be in line with market norms ● 	<ul style="list-style-type: none"> Plans should be in line with market norms ● May be wondering why they fund pastor's benefit? ● 	<ul style="list-style-type: none"> Plans should be in line with market norms ●

Plan Design Tensions

Predominant Tensions

How Can We Best Balance?

**Participant satisfaction/
expectation regarding
status quo**

Sustainability of status quo



Predominant Tensions

How Can We Best Balance?

Desire to provide adequate retirement income

Affordability of providing adequate retirement income



Predominant Tensions

How Can We Best Balance?

Desire for flexibility

Desire for simplicity



Current and Alternative Plan Designs

Current CRSP DB/DC—Background

Current Formula: January 1, 2014 to Present

Provides
defined benefit and
defined contribution

Replaces ~46% of
DAC with 35 years
of service

Replaces close to
100% of DAC when
combined with
Social Security and
personal savings

Affordability/Adequacy—Current Plan

Participant Lens

- 70% of income replaced through DB programs (including Social Security)
- Approximately 46% of income replacement from plan sponsor
- Includes COLA increases of 2%

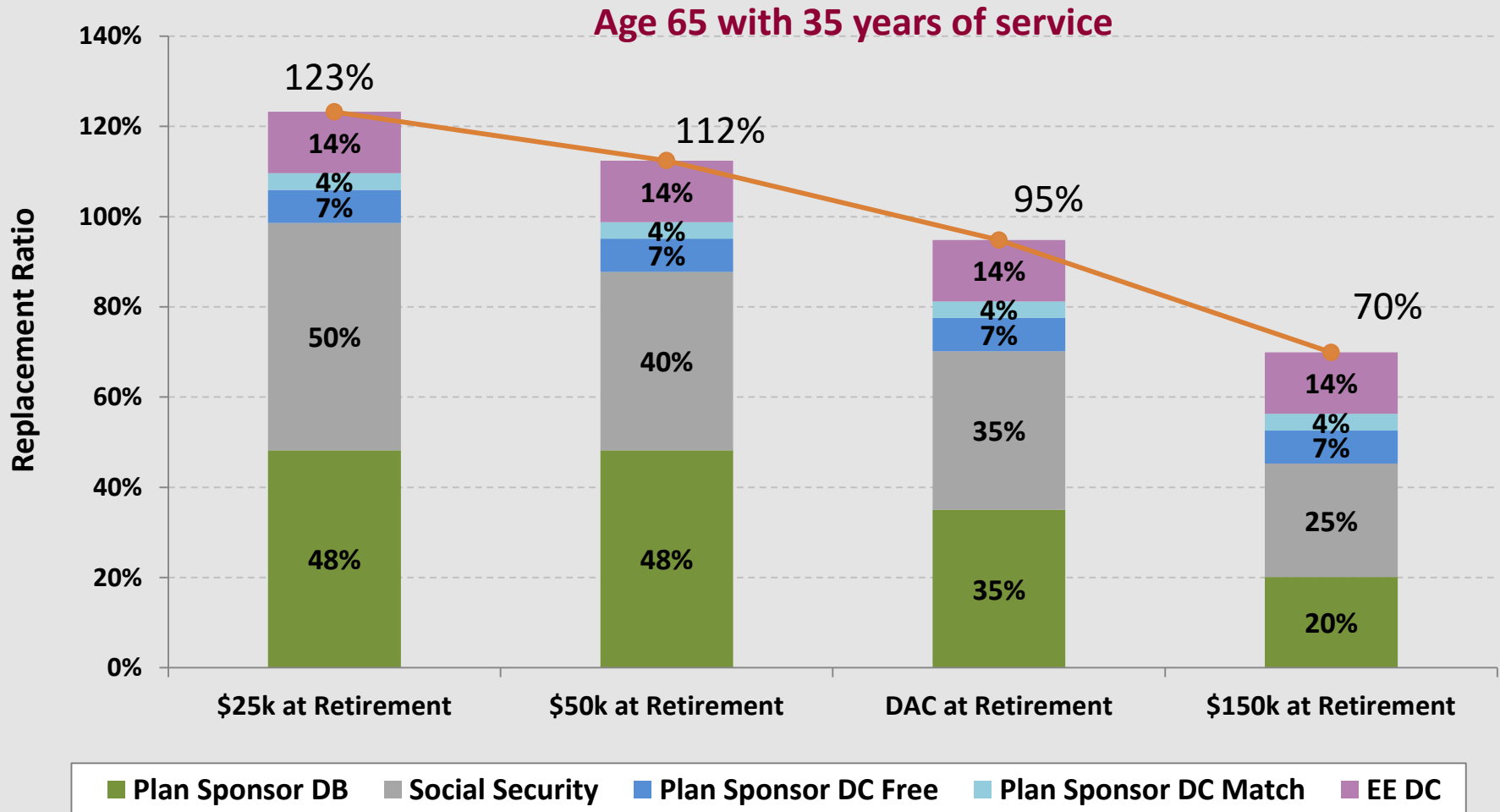


Plan Sponsor Lens

- Cost is 11% of compensation, on average
- DB costs, including legacy plans, volatile
- Sponsor bears most risks
- Sustainability a concern



Replacement Ratio Comparison— Current Program



Alternative DB/DC Hybrid Plan— Considerations

- **Industry range for income replacement is lower (70-85%)**
 - Income replacement ratio varies according to pay level
 - Benefit equalization (DAC, Social Security)
 - Appropriate income replacement for clergy
 - Housing considerations
 - Future of housing allowance
- **Majority of Conference-provided benefit comes from DB plan**
 - In DB plan, risks borne by plan sponsors, not participants
 - Consider a more even balance between DB and DC

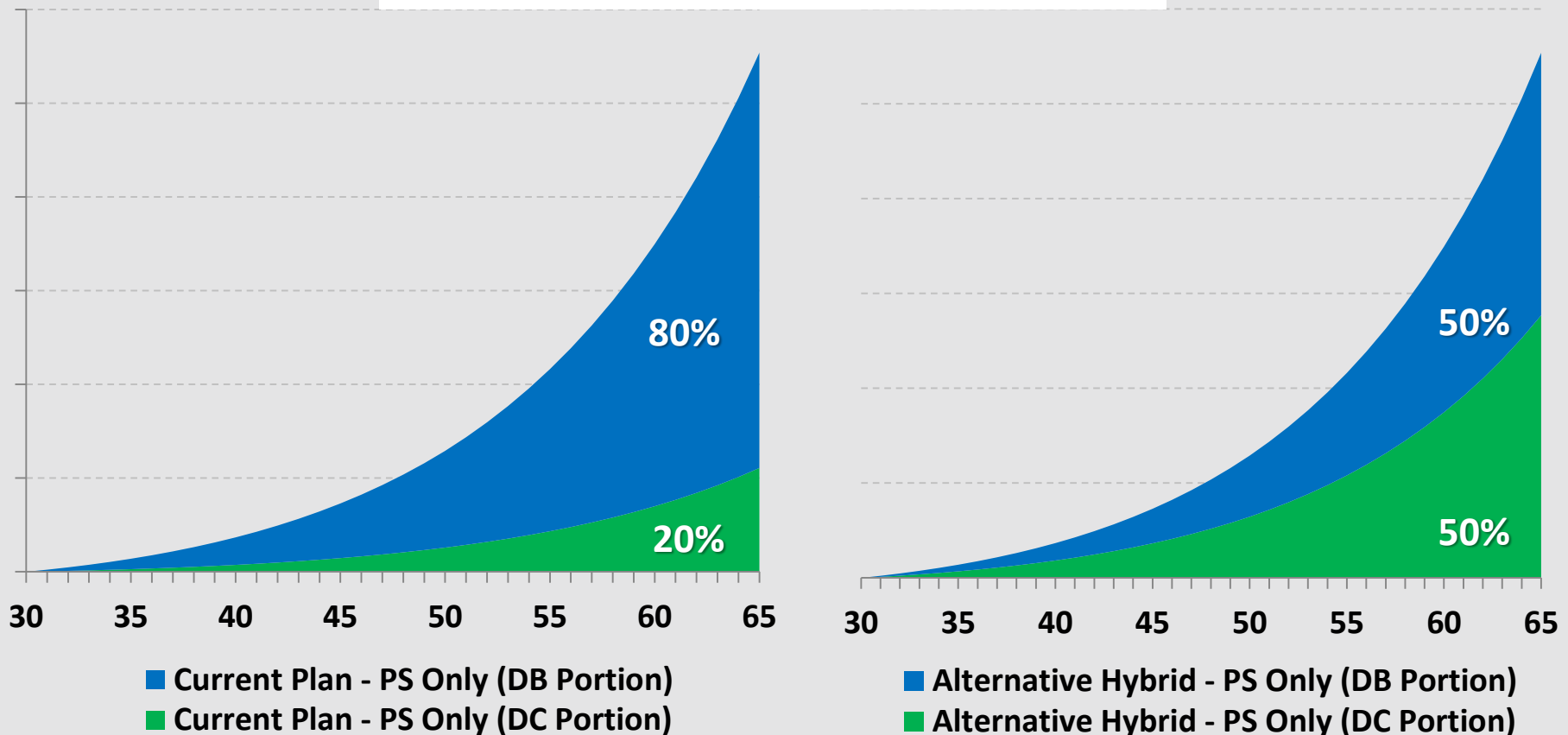
Alternative DB/DC Hybrid Plan— Considerations

- Encourage a higher rate of participant contributions
 - Match to a higher percentage
- Determine appropriate plan sponsor cost, considering legacy plan obligations
 - What's affordable now, and in future
 - Impact of risk shift on what is affordable
- Vesting schedule

Current Plan (Plan Sponsor Contributions Only)— DB/DC Split

Vast majority of the current benefit is delivered through the DB component

Retiree making DAC at Retirement



Alternative DB/DC Hybrid—Pros and Cons

PROS

- Lower DB (relative to higher DC) weighting increases sustainability
- Provides some guaranteed lifetime income
- Balances investment and longevity risk between plan sponsor and participant

CONS

- DC plans less efficient than DB, so higher costs to provide comparable benefits
- Participants bear investment and longevity risk on DC side
- Income replacement levels guaranteed only on smaller DB side

Illustrative DC Only



- Benefit provided through individual accounts
- Significant shift of risk
 - Investment risk, longevity risk, inflation risk
- All DB plans become legacy plans
 - Funding issues eventually eliminated
- Provide lifetime benefits
 - LifeStage Retirement Income

DC Only—Pros and Cons

PROS

- DC plan more sustainable than DB
- More ability to optimize participant contributions and increase engagement
- Plan sponsor contribution is predictable

CONS

- DC plans less efficient than DB, so:
 - Higher cost to obtain similar benefit
 - Produce lower income replacement at same cost
- Participants bear all investment and longevity risk
- No guaranteed lifetime income, so income adequacy may vary

History of DC Only Proposal

General Conference 2012

Proposals:

- Current CRSP DB/DC
- DC only—plan design similar to the Retirement Plan for General Agencies (RPGA)



Why Now?

Since 2012...

- Mortality has improved
- Church membership declined further
- Industry continues to freeze or terminate DB plans
- Younger employees accept more funding responsibility
 - Higher debt levels constrain ability to contribute



DC Plan—Considerations

- Identifying appropriate income replacement ratio and plan sponsor cost
- Current DC plan does not use DAC
 - Benefit equalization lessened
 - Other methods to equalize
- Encourage higher rate of employee contributions
 - Offer match on contributions above 1% (e.g., up to 5%)
 - Increases income replacement ratio
- No increases in plan benefits in retirement (no COLAs)

Participant Protections

Maximizing Efficiency

- **LifeStage Investment Management**
 - Professional investment management
 - Reduces risk of poor investment decisions
- **LifeStage Retirement Income**
 - Installments over life expectancy, with professional investment management
 - Reduces risk of outliving assets



Your Feedback



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BENEFITS | INVESTMENTS