



**Wespath**

BENEFITS | INVESTMENTS

CONFERENCE FORUM—MARCH 2018

# Plan Design Update

# Benchmarking and Stakeholder Engagement

2017

2018

<b>March 17</b>	Conference Forum Breakout Session
<b>April 17</b>	Participant Survey
<b>April 18</b>	WTW Benchmarking Study
<b>May 1 and 2</b>	Bishop Focus Group
<b>March – August</b>	Plan Design Advisory Group
<b>May – December</b>	Bellwether / Services Committee
<b>September 21</b>	NAACT
<b>October 26</b>	AUMCPBO

<b>January – February</b>	Bellwether / Services Committee
<b>March 15 –16</b>	Conference Forum

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

# Foundational Concepts

**Sustainability**

Plan design that  
can be prolonged for  
future generations

**Affordability**

Providing benefits  
at a cost that  
conferences  
and participants  
can bear

**Income  
Adequacy**

Providing adequate  
retirement income  
alongside Social  
Security and  
personal savings

**Equitability**

Ensuring fairness  
across segments

**Responsibility**

Defining  
roles and  
responsibilities

# Objectives of Plan Design

## Priorities

- Increase sustainability
- Balance affordability with income adequacy
- Share risk between clergy and plan sponsors
- Address changing demographics and Church needs

## Costs

- Ranging from 8 – 9.5%

## Replacement Ratio

- Range from **75 – 90%**

## Benefit Equalization

- Recognize importance



# Predominant Tensions

## How Can We Best Balance?

**Participant satisfaction/  
expectation regarding  
status quo**

**Sustainability of status quo**



# Predominant Tensions

## How Can We Best Balance?

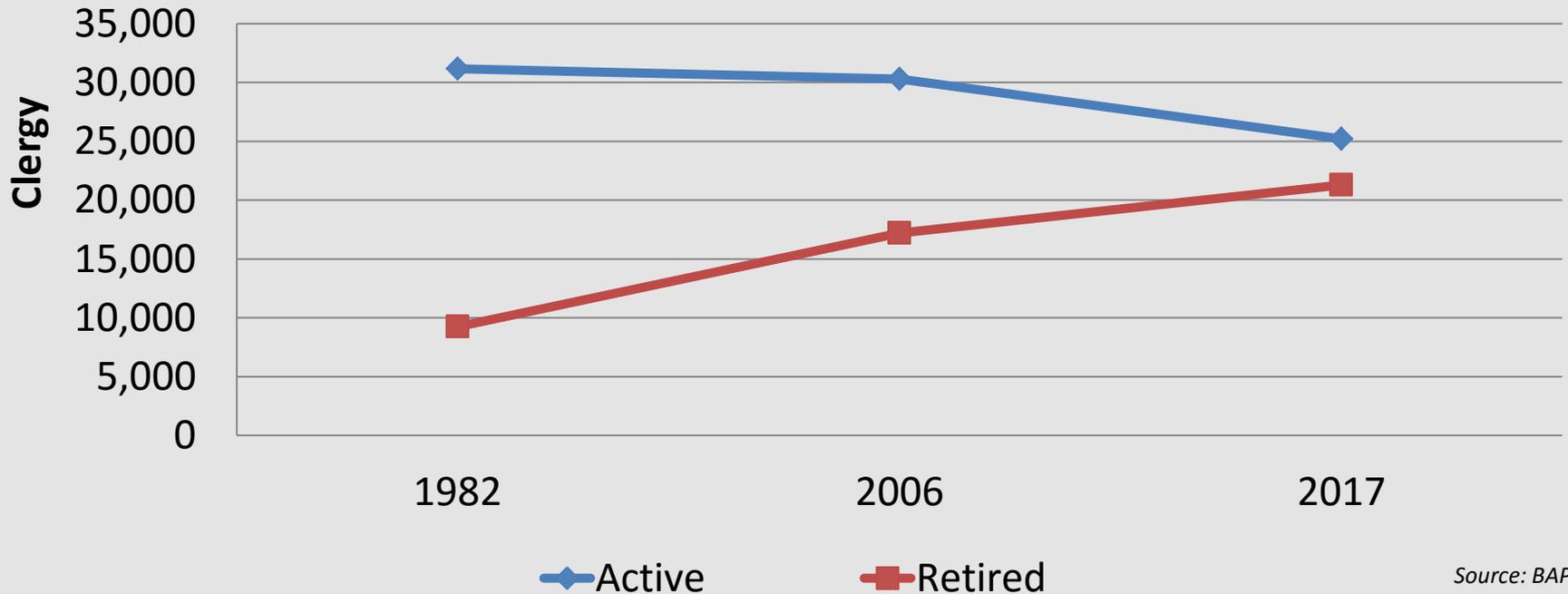
**Risks borne by Sponsors**

**Risks borne by Participants**



# U.S. Clergy Trends

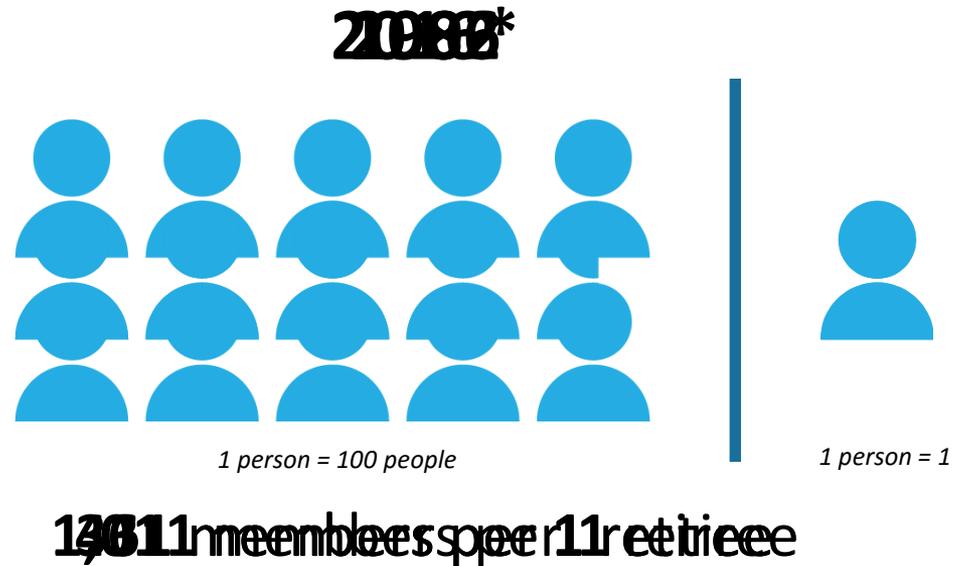
## Active vs. Retired Clergy



Source: BAP

# U.S. Church Membership Declining

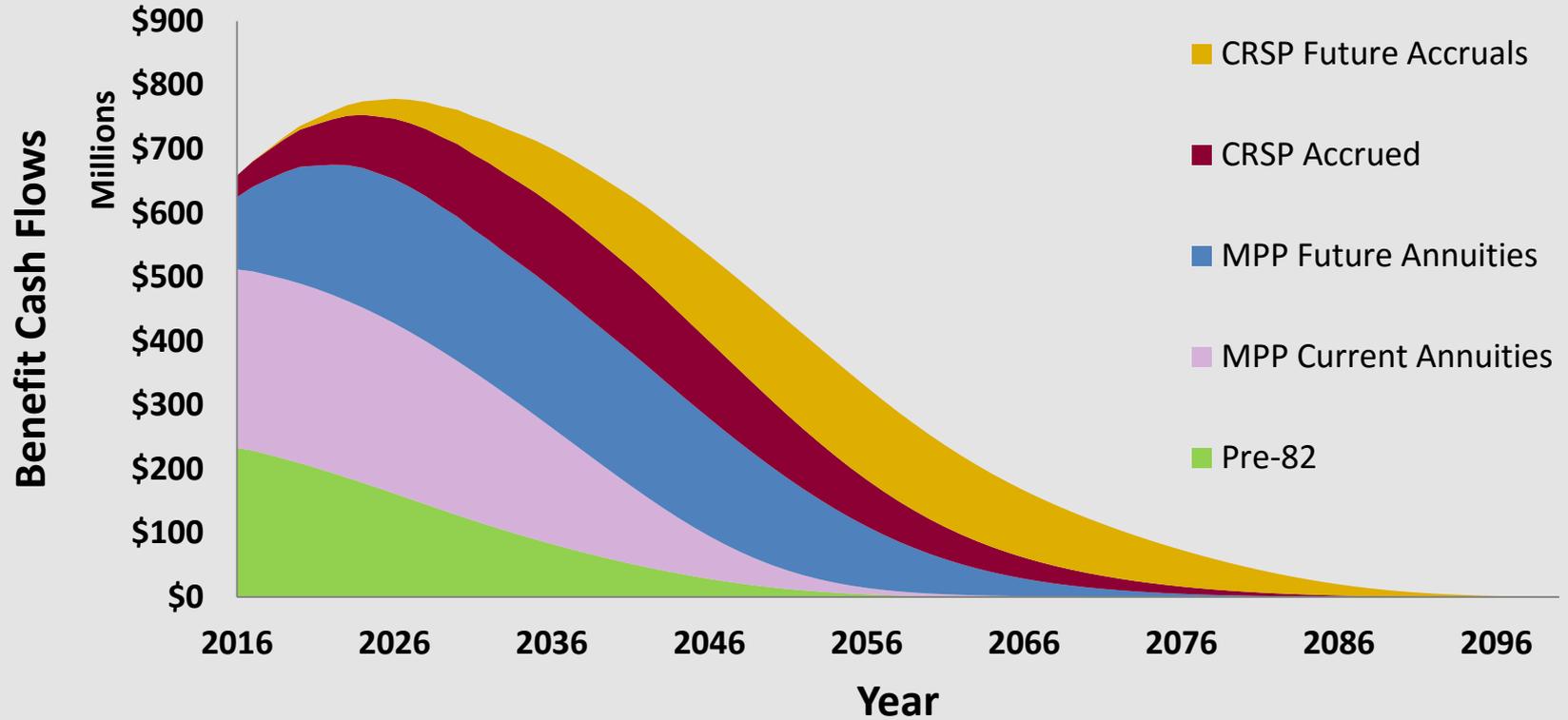
## U.S. Membership per Retired Clergy



*\*Compares 2016 membership to 2017 retired clergy.*

Source: BAP

# Current UMC Participants Projected DB



# Alternative Plan Designs

## Focus on Three Options

1

**Modified Hybrid Plan  
(DB/DC)**

2

**Hybrid Plan  
With Phase-Out to DC  
(DB/DC)**

3

**Defined  
Contribution Only**

**DB: Defined benefit**

**DC: Defined contribution**

# Modified Hybrid Plan—Example

## **DB/DC Split: 52%/48%**

- For clergy earning DAC at retirement
- Could propose with or without phase out

## **DB Component**

- 0.6% x Final DAC x years of service

## **DC Component**

- 1% plan sponsor contribution, **plus**
  - 100% match on the first 4% of participant contributions
- 
- Total plan sponsor cost of **9%** vs. current cost of 11%

# 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:
- 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
- Feedback has changed:
  - Increased concern over future unfunded liabilities
  - Concerns over impact of Commission on a Way Forward
  - More stakeholders favor a move to DC only



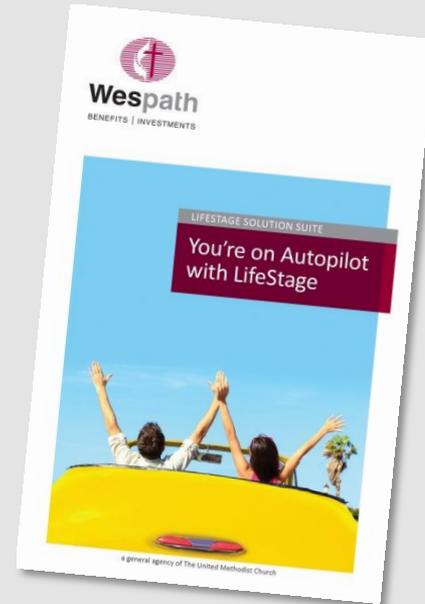
# DC Plan—Considerations

- Identify 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
- Identify appropriate distribution method

# Features That Mitigate Risk

## 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

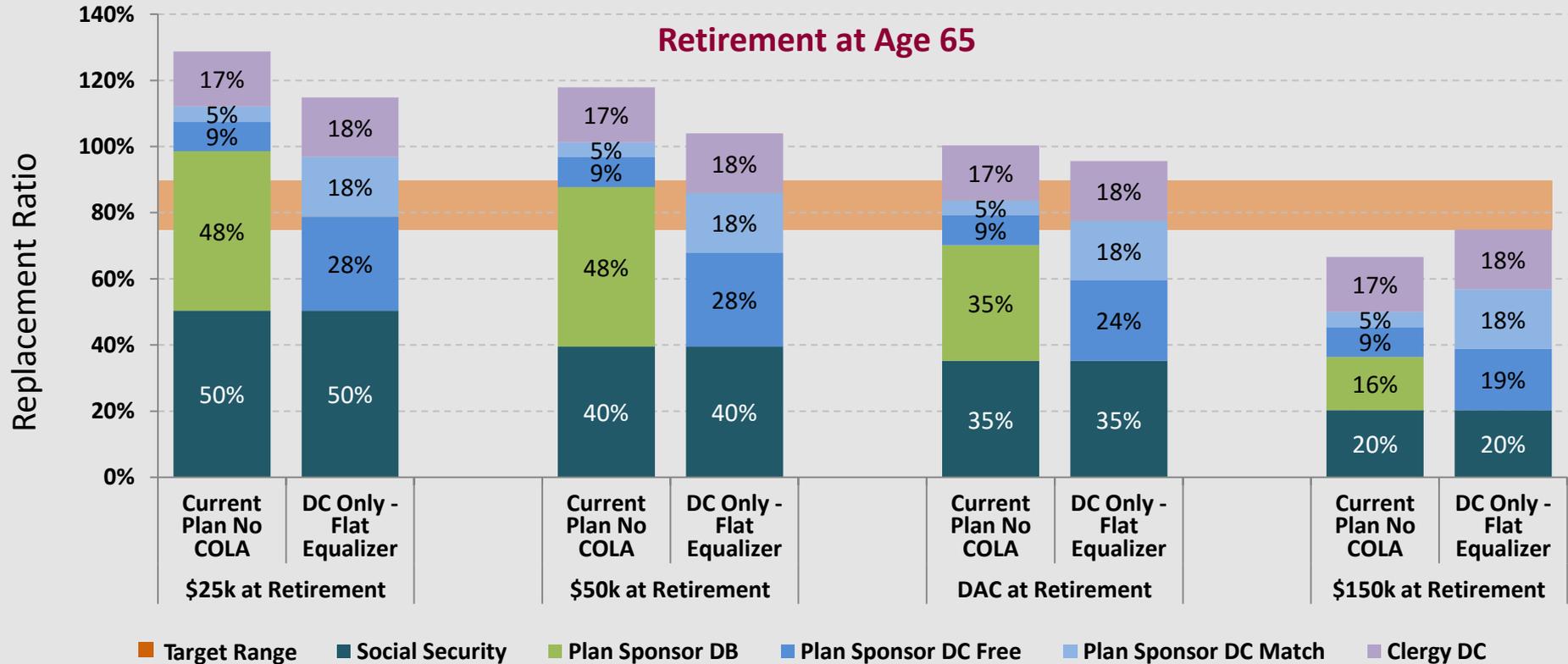


# Example DC Only Plan Design

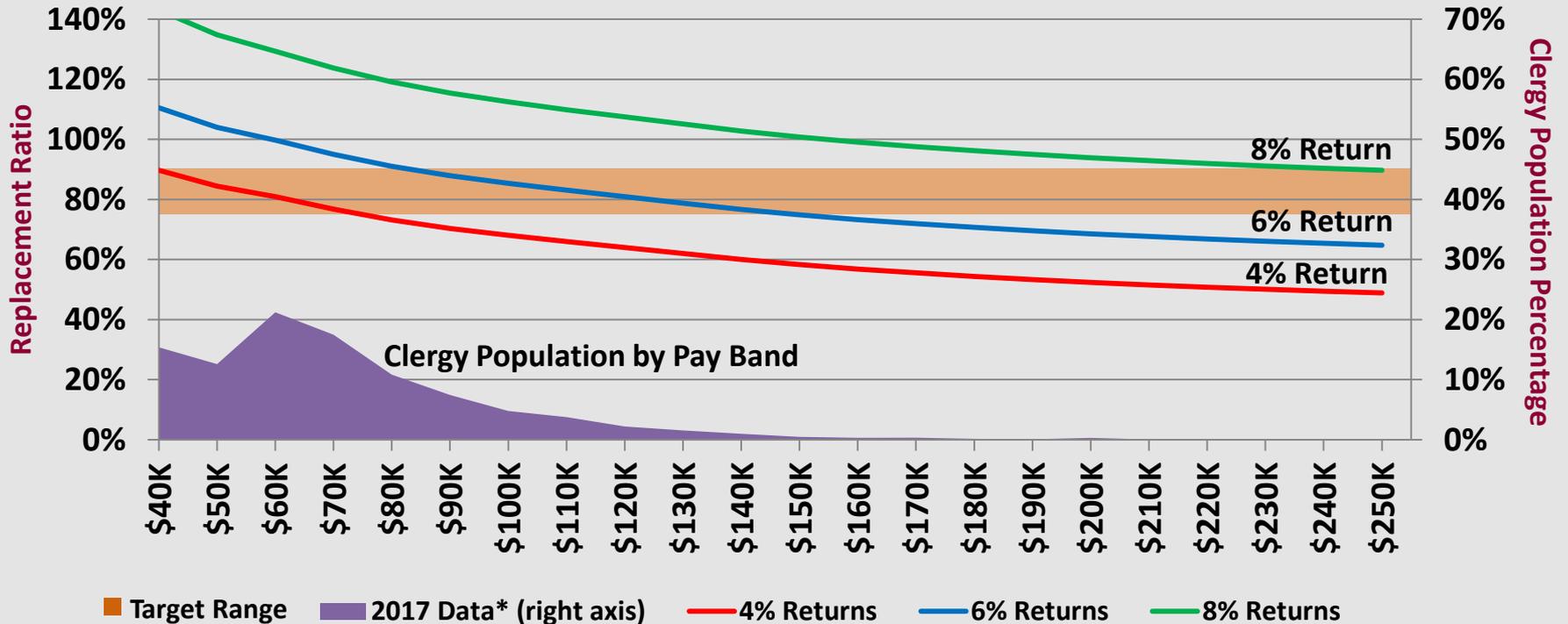
- 3% plan sponsor contribution on all compensation
- Plus \$1,500\* plan sponsor contribution (**equalizer**)
- 100% match on the first 4% of participant contributions
- Total cost of **9.5%** vs. current cost of 11%

\* Indexed for inflation; adjusted for appointment percentage

# Income Replacement Ratio Comparison



# Income Replacement Ratio by Pay Band with Different Rates of Return



\* Clergy population based on 1/1/2017 valuation data including participants appointed 50%+

# Mentimeter Questions





Feedback?



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# Breakout Sessions

- Conferences Planning for Change

*David Stotts and Christine Dodson*

- Moving Expense Reimbursement

*Steve Clark and Jim O'Connell*

- Securing our Future – Benefits Administration

*Ann Mueller*

- Securing your Investments

*Dave Zellner and Kirsty Jenkinson*



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