



AUMCPBO—September 2019



Wespath
BENEFITS | INVESTMENTS

Compass Plan— **Financial Considerations**

Agenda

Compass Plan Design Basics

Compass Financial Implications

- For Clergy
- For Annual Conferences
- For Local Churches





Compass Plan Design Basics

Objectives of *Compass*



Sustainability



Affordability



Adequacy



Flexibility

Compass (Effective 1/1/2023)



Help lower-paid clergy

Flat-dollar
contribution

\$140 per month



**Relate retirement income to
pre-retirement earnings**

Pay-dependent
contribution

3% of pay



**Promote clergy
engagement and savings**

Matching
contribution

**\$1/\$1 match on
up to 4% of pay**

Retirement Plan Cost

**Benefit Earned
in Prior Years**

**Benefit Earned
During Year**

Amortization
in case of
Underfunding

**Normal
Cost**

This piece will continue
after transition to *Compass*

Contribution
to Individual
Clergy Account

Legacy Plans

Compass

Parsonage Value Increase

- **Reminder:**
Parsonage value and housing allowance are included in pensionable earnings
- Deemed parsonage value to increase from 25% to 35% of pay
 - Reflects a more realistic value
 - Subject to minimum (\$10,000) and maximum



Automatic Features

Making contributions is the key to retirement preparedness

- More money left on the table if no personal contributions are made



Automatic Features will help protect clergy who are less engaged:

- **Automatic enrollment:** Get clergy contributing
- **Automatic escalation:** Increase savings rate incrementally over time

Reminder: Automatic Features do not change personal options. They merely change which option is the default.

Spending Phase—Automatic Payouts

- The new plan will feature an **automatic payout system** to maximize retirement income and strive for a lifetime stream of income
- Integrates with Social Security and offers deferred annuities to help **optimize the result** for clergy
- Hardship exception in autopilot payout phase allows access to money in case of terminal or critical illness





Compass Financial Considerations

Cost of *Compass* Retirement Plan

- Total cost of about **9.5%** of compensation, **down from** current cost of about **11%** of compensation
- If cost considered not generous enough, conference can provide more in UMPIP

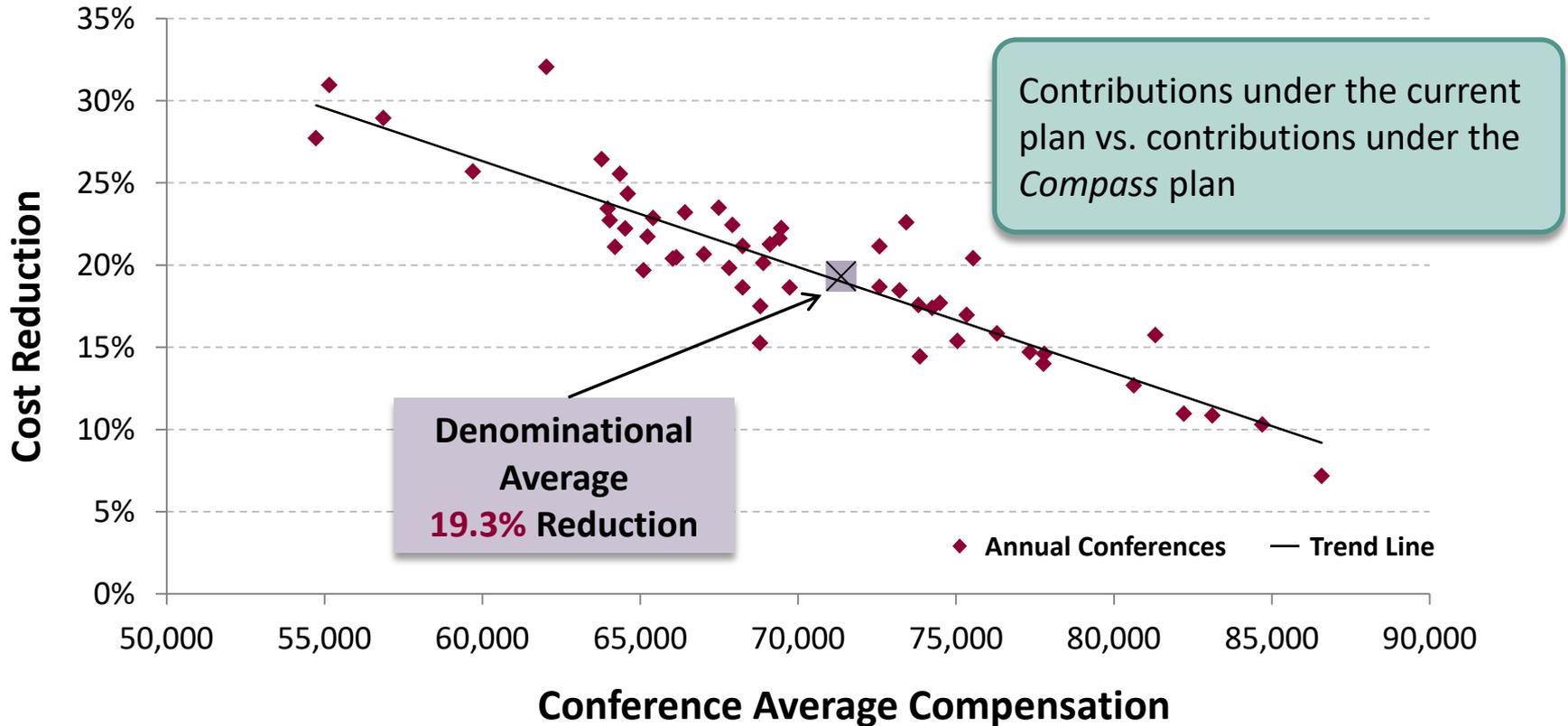


Financial Impact—For Conferences

- All annual conferences will see a reduction in cost
- The extent of the reduction varies from conference to conference and depends on:
 - **Average compensation (CAC)**
 - The higher the pay, the lower the expense reduction
 - **Age structure of clergy**
 - The younger the average age, the lower the expense reduction
 - **Prevalence of parsonages**
 - The more clergy have parsonages, the lower the expense reduction



Financial Impact—For Conferences



Financial Impact—For Local Churches

Depends in part on how cost of CRSP DB
is charged to local church

Flat dollar amount vs. percent of pay



OR



Financial Impact—For Local Churches

Example 1

- Small rural church
- Full-time pastor, \$40,000 base pay
 - Pastor has parsonage
 - Compensation for CRSP: \$50,000 (1.25 x \$40k)
 - Compensation for *Compass*: \$54,000 (1.35 x \$40k)
- All churches pay flat dollar amount for CRSP DB
 - \$6,000 for full-time pastors



Financial Impact—For Local Churches

Example 1

Current Plan

• CRSP DB	\$ 6,000
• CRSP DC (2%)	1,000
• Match (1%)	<u>500</u>
• Total	\$ 7,500

15% of comp.

Compass Plan

• Flat amount	\$ 1,680
• Pay dep. (3%)	1,620
• Match (4%)	<u>2,160</u>
• Total	\$ 5,460

10.1% of comp.



\$2,040 lower cost

Financial Impact—For Local Churches

Example 2

- Large church
- 5 full-time pastors, \$600,000 comp.
 - Comp. includes housing allowances
- All churches are charged same flat dollar amount for CRSP DB
 - \$6,000 for each full-time pastor



Financial Impact—For Local Churches

Example 2

Current Plan

• CRSP-DB	\$ 30,000
• CRSP-DC (2%)	12,000
• Match (1%)	<u>6,000</u>
• Total	\$ 48,000

8.0% of comp.

Compass Plan

• Flat amount	\$ 8,400
• Pay dep. (3%)	18,000
• Match (4%)	<u>24,000</u>
• Total	\$ 50,400

8.4% of comp.



\$2,400 higher cost

Financial Impact—For Local Churches

Example 1b

- Small rural church
- Full-time pastor, \$40,000 base pay
 - Pastor has parsonage
 - Compensation for CRSP: \$50,000 (1.25 x \$40k)
 - Compensation for Compass: \$54,000 (1.35 x \$40k)
- All churches pay flat dollar amount for CRSP DB
 - \$6,000 for full-time pastors

Same as Example 1,
but clergy now assumed
to not contribute



Financial Impact—For Local Churches

Example 1b

Current Plan

• CRSP-DB	\$ 6,000
• CRSP-DC (2%)	1,000
• Match (1%)	<u>0</u>
• Total	\$ 7,000

14% of comp.

Compass Plan

• Flat amount	\$ 1,680
• Pay dep. (3%)	1,620
• Match (4%)	<u>0</u>
• Total	\$ 3,300

6.1% of comp.



\$3,700 lower cost

Financial Impact—For Local Churches

Question:

Should local churches be charged for match based on actual clergy election?

- or -

Should all churches pay 4% maximum match regardless of clergy election?



What message does the conference want to send?
What incentives should there be at the local church level?

Thank You



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