



Conference Forum—March 2022



**Wespath**

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# Estimated Actuarial Valuation Results—January 1, 2022

# Agenda

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- Refresher: Valuation Basics
- Funding Discount Rate Update
- Valuation Results
- Withdrawal Liability
- Conference Risk Dashboard





# Valuation Basics

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## Actuarial valuation presents the plan's:

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



# Valuation Basics: Asset Returns

		2020 Returns		2021 Returns	
	% In Equity	Actual	Expected	Actual	Expected
<b>CRSP DB</b>	65%	<b>18.2%</b>	<b>7.00%</b>	<b>8.8%</b>	<b>7.00%</b>
<b>MPP Annuities</b>	40%	<b>12.5%</b>	<b>6.25%</b>	<b>6.4%</b>	<b>6.25%</b>
<b>Pre-82</b>	45%*	<b>15.5%</b>	<b>5.50%</b>	<b>6.7%</b>	<b>5.50%</b>

\* The Pre-82 % in Equity was 49% in 2020

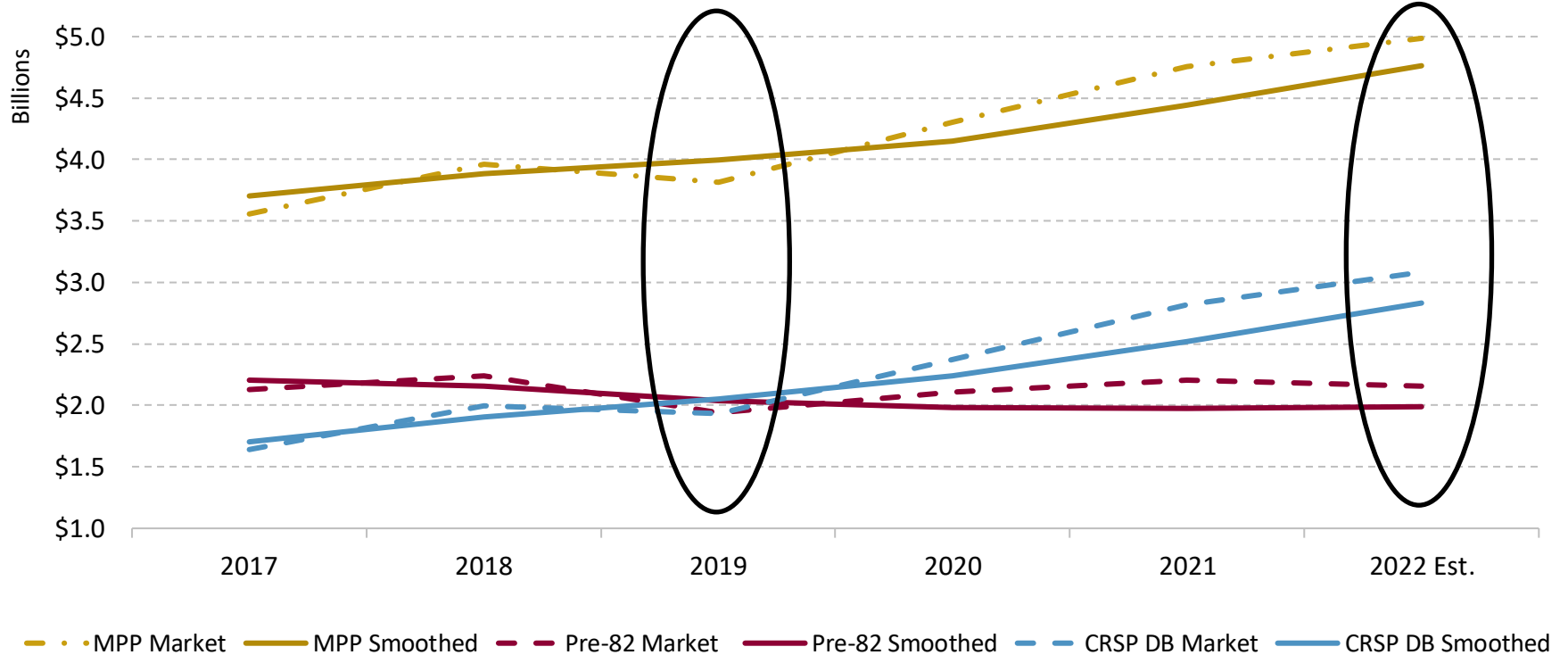


# Valuation Basics: Asset Smoothing

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- Actuarial gains and 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 the market value of assets

# 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







# Funding Discount Rate Update

# Funding Discount Rate

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- 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
- Because the CAPM is impacted by the current market
  - Near-term returns may change significantly year over year



# Mitigate the Volatility Due to CAPM

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- Annually develop a range of acceptable discount rates based on the new CAPM
- Width of range varies based on equity exposure for the plan



- Don't change the existing discount rate if within the range

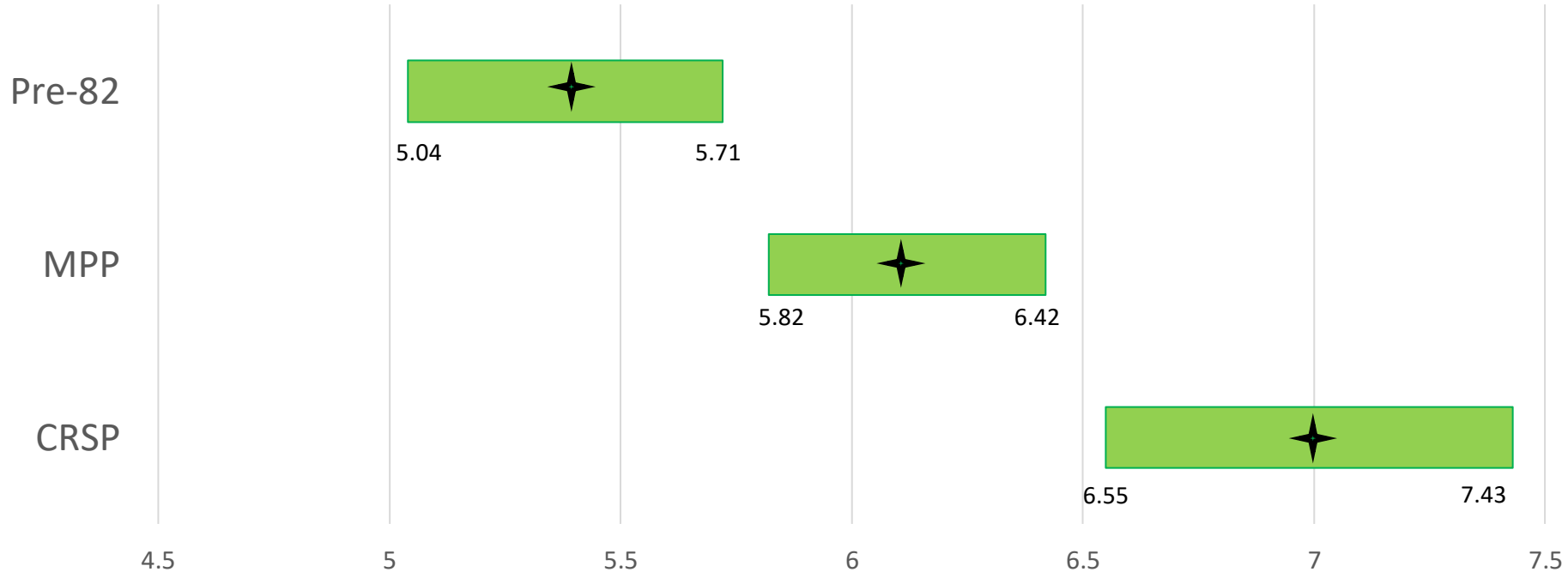


- Update discount rate if outside range



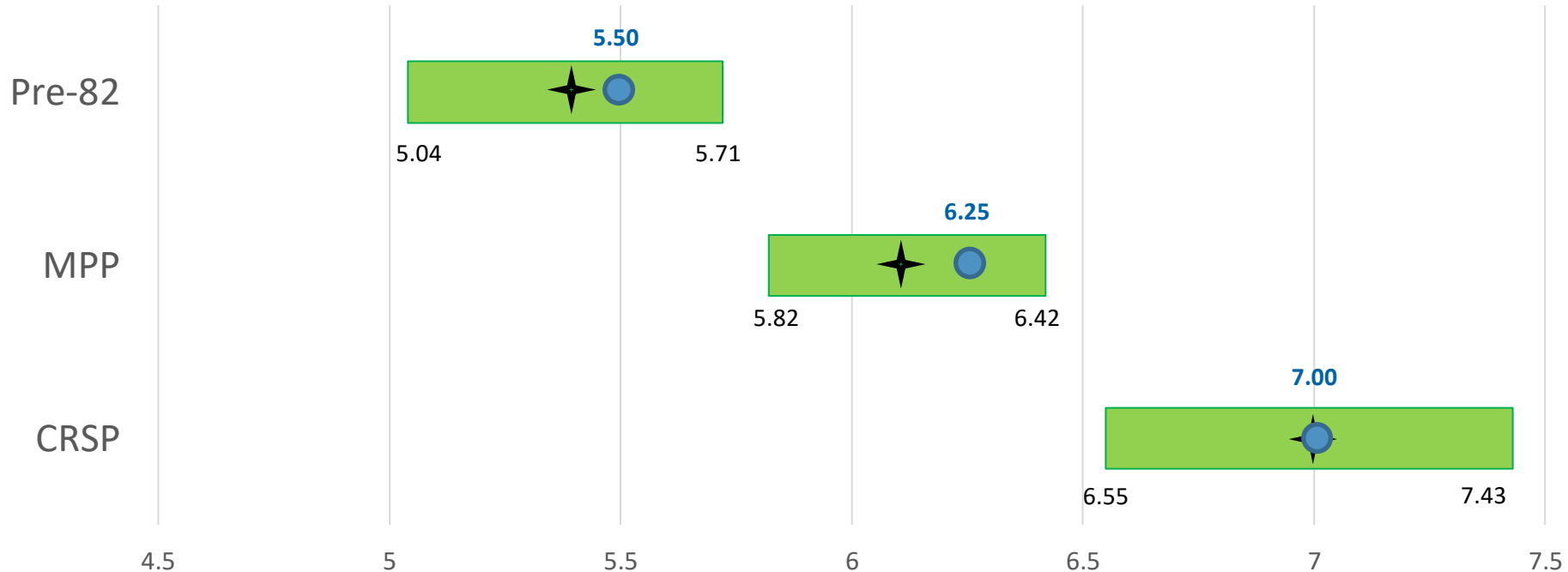
# Mitigate the Volatility Due to CAPM

Discount Rate Ranges



# Mitigate the Volatility Due to CAPM

Existing Discount Rate



# 2022 Funding Discount Rates

- All existing discount rates were inside the range
- No changes to funding discount rates for 2022
- Rates will be evaluated annually against the range and **may change in the future**
  - Expect Pre-82 to decrease gradually with movements down the Pre-82 glide path
- Discount rates will be reset to the midpoint of the range once a quadrennium

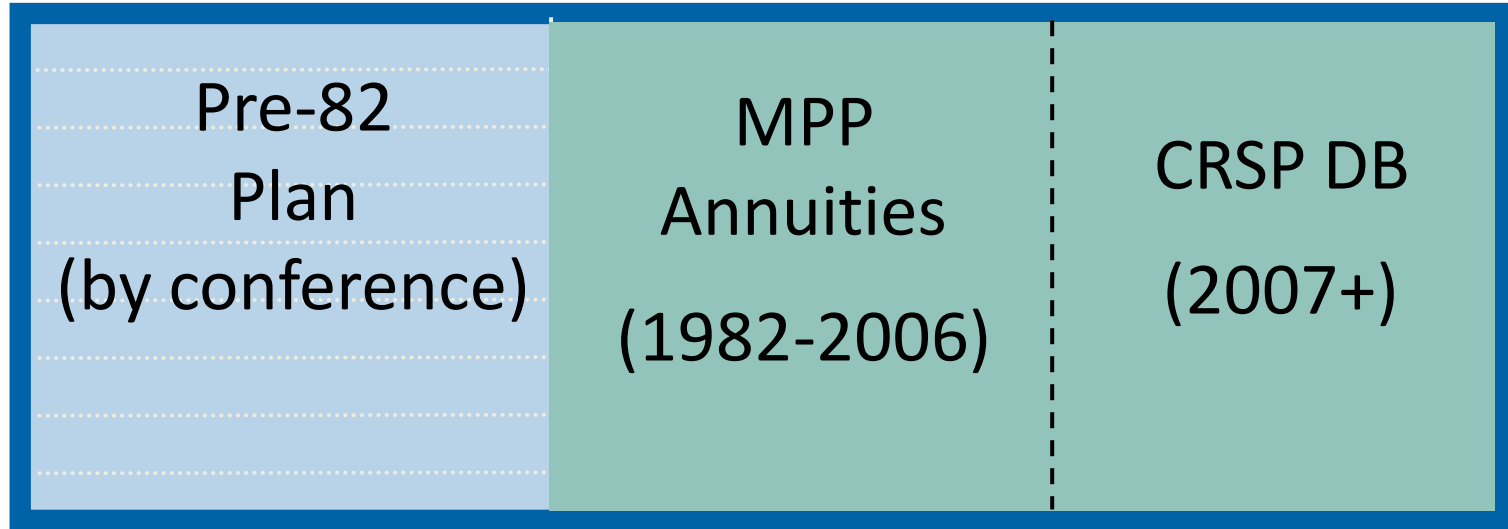
Plan	2022 Discount Rate
CRSP-DB	7.00%
MPP	6.25%
Pre-82	5.50%





# Valuation Results

# Valuation Results for Clergy DB Plans



MPP: Ministerial Pension Plan  
CRSP: Clergy Retirement Security Program

**Corridor Plan**

# Corridor Funding

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# Corridor Plan Funded Ratio

## Estimated Funded Ratio—Funding Basis

January 1, 2021

January 1, 2022

<b>CRSP DB</b>	<b>118%</b>	<b>124%</b>
<b>MPP Annuities</b>	<b>122%</b>	<b>126%</b>
<b>Combined</b>	<b>121%</b>	<b>125%</b>

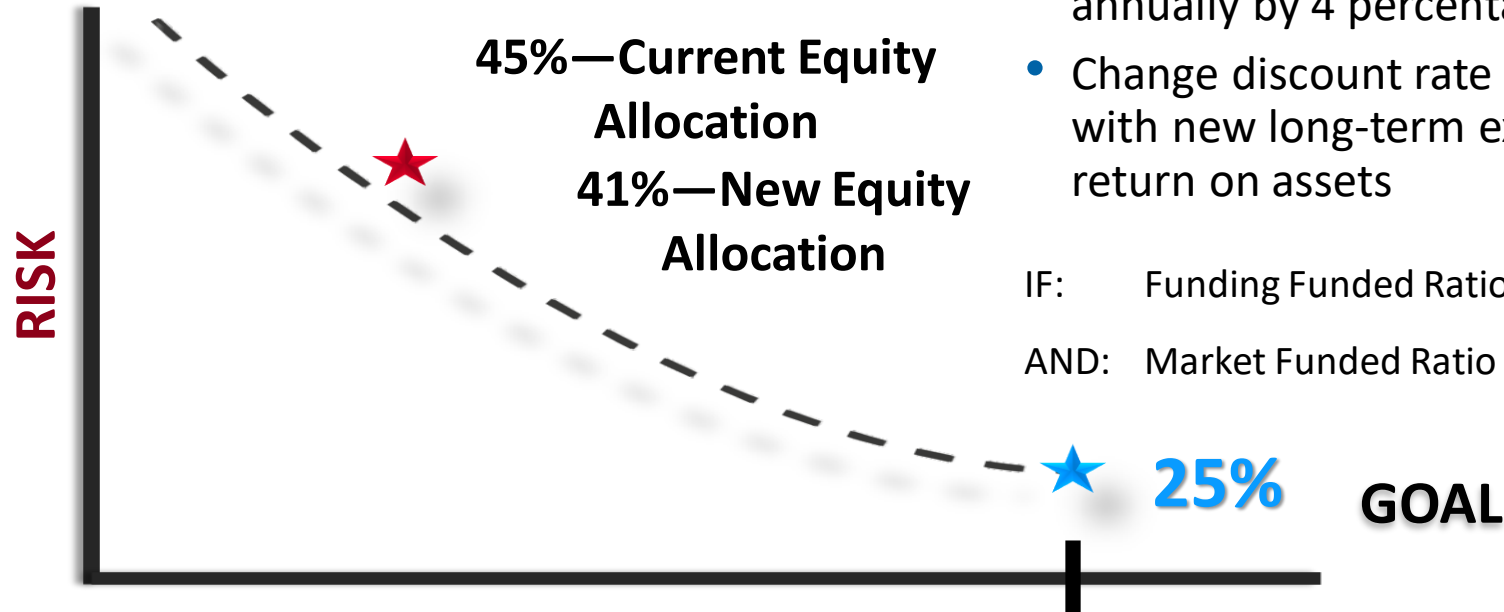
Contributions based purely on Normal Cost: \$80 million for 2023 and 2024

# Pre-82 Funding

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# 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 2022

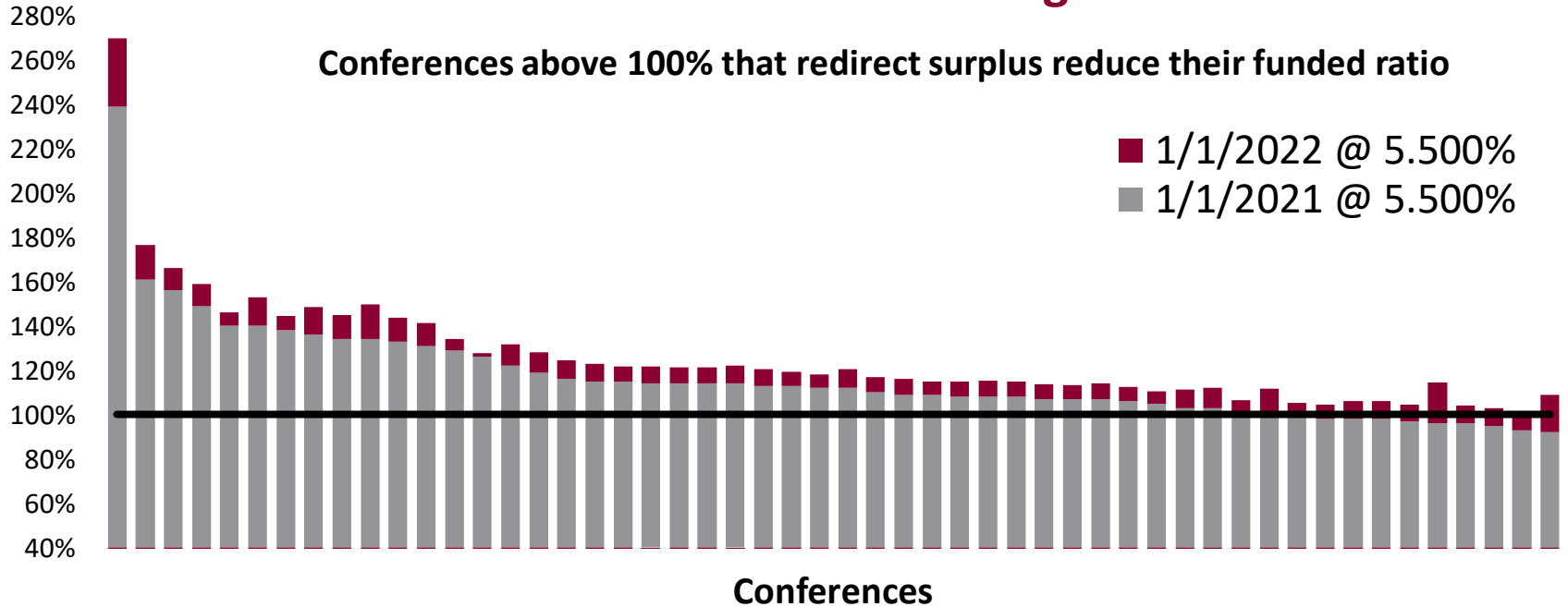
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Equity allocation: **drop from 45% to 41%**

Discount rate for January 1, 2022 liabilities:  
**5.500%, no change from 2021**

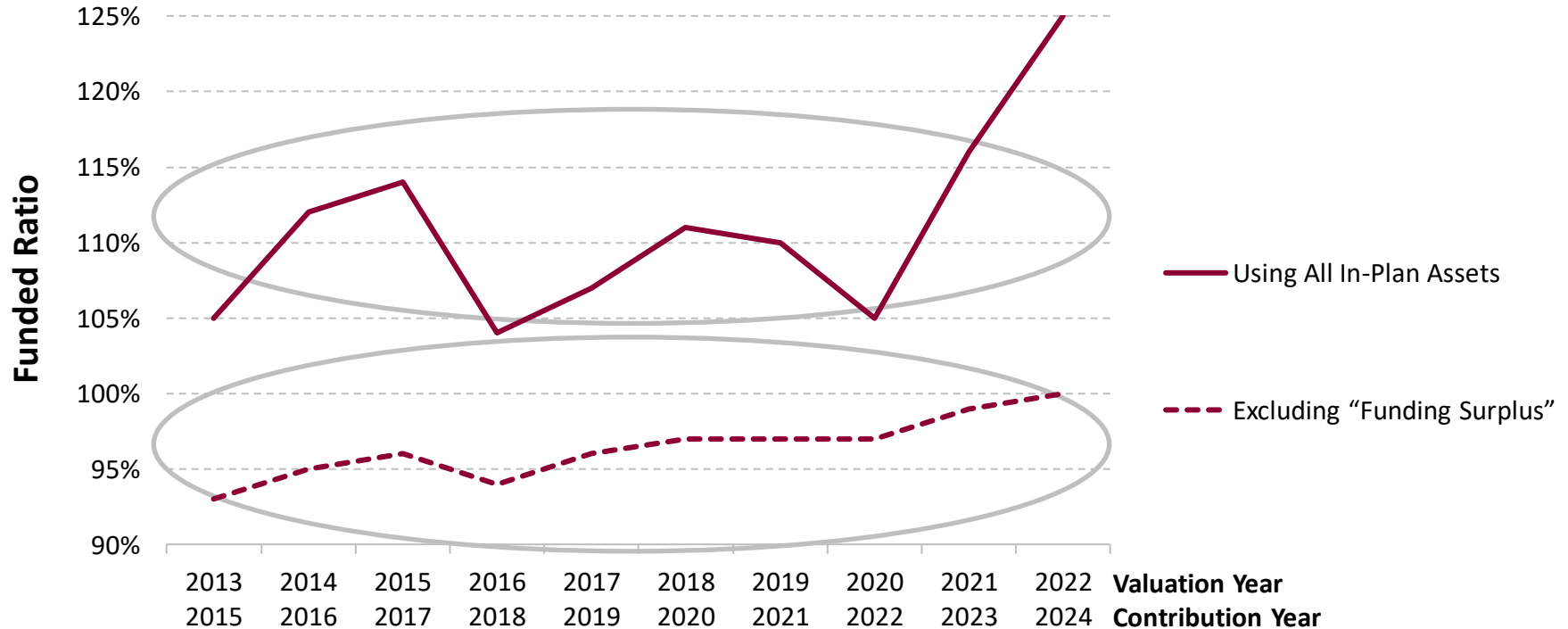
# Estimated Funding Change in Pre-82 Plan

## Funded Ratio\* —Funding Basis



\* Assuming no change in Past Service Rate (PSR)

# Valuation Results Pre-82 Funded Ratio History—Funding Basis





# Withdrawal Liability

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## 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 assumptions does it use?

- Market discount rates and market value of assets
- PSR and DAC increases
- 10% risk transfer premium

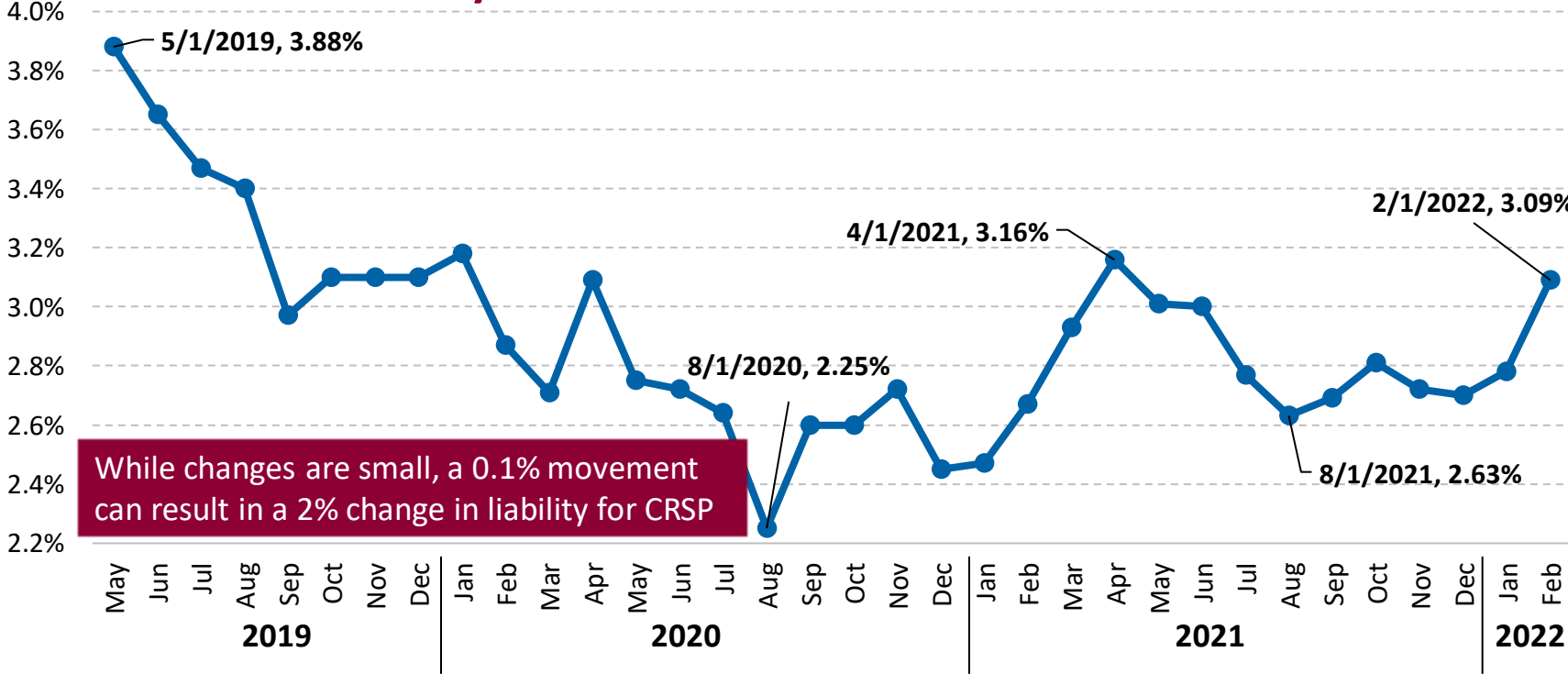
# Historic Interest Rate Environment: 10-Year T-Bill Yields





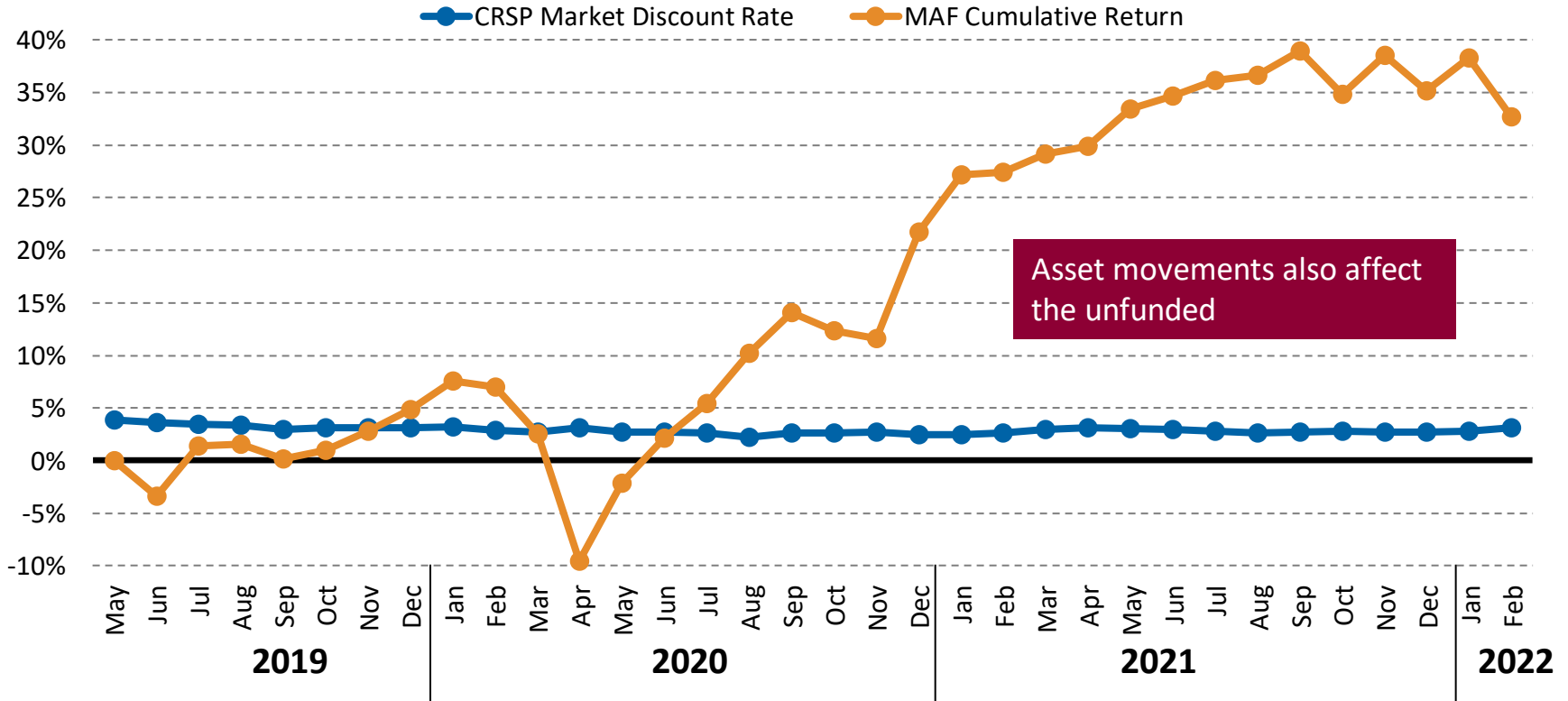
# Withdrawal Liability: Market Discount Rate

## CRSP May 2019 – Feb 2022 Market Discount Rates

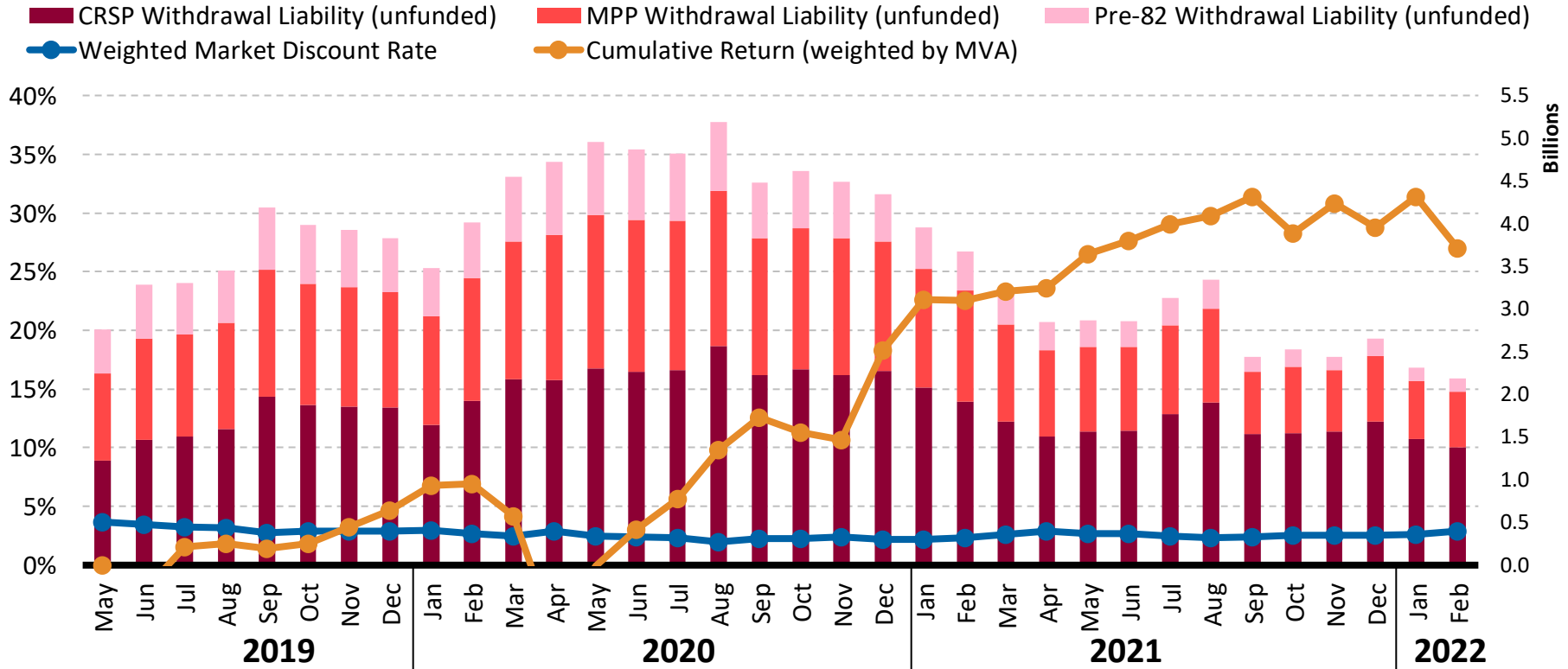


While changes are small, a 0.1% movement can result in a 2% change in liability for CRSP

# Withdrawal Liability: Asset Performance



# Withdrawal Liability: Unfunded Volatility





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