

Quadrennial
Benefits
Conference



BENEFIT RESERVES

How Much Is Enough?



Wespath
BENEFITS | INVESTMENTS

Agenda

- Why Talk About Reserves?
- Who Will Talk About Reserves?
- Fiduciary Duties
- The Path to Defining Reserve Levels
 - Collecting Data
 - Assessing Risk Tolerance
 - Analyzing Reserves
 - Taking Action
 - Protecting Reserves
- Where Do We Go From Here?

Why Talk About Reserves?

- We have reserves, but how much do we need?
- Can't Wespath just give us a funding number?
- How best should we use our "conference" assets?
- Market movements, mortality improvements, glide path, smoothing, Comprehensive Protection Plan (CPP) holiday ... help!
- How do we make sure the assets are maintained for our long-term benefit needs?
- How should the reserve assets be managed?
- How should I structure my reserve accounts for maximum flexibility?

Who Will Talk About Reserves?



Steve Clark



Ron Coleman



Luba Levine



Ross Lundstrom

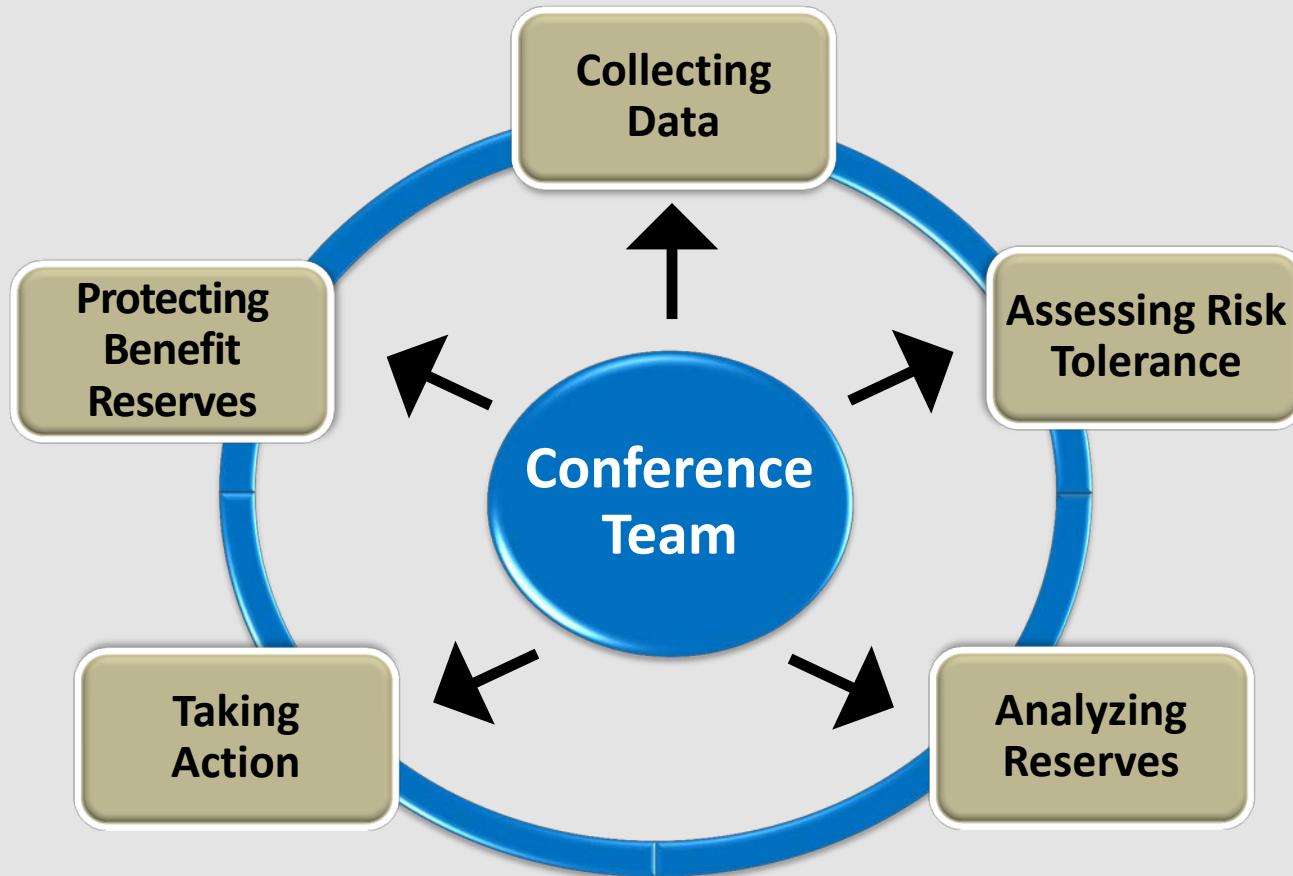


Michael Lohmeier



Ryan Weddle

The Path to Defining Reserve Levels



What Are Your Duties?



What Are Your Duties?

Duty of Obedience

Must not act beyond the scope
of the organization's powers and authority

What Are Your Duties?

Duty of Loyalty

Act solely in the organization's best interests

- Avoid conflicts of interest
 - Financial or personal
 - Present or potential
 - Direct or indirect
 - Disclosure or recusal, if unavoidable
- Maintain confidentiality

What Are Your Duties?

Duty of Care

Be reasonably informed, reasonably prudent,
and use independent judgment



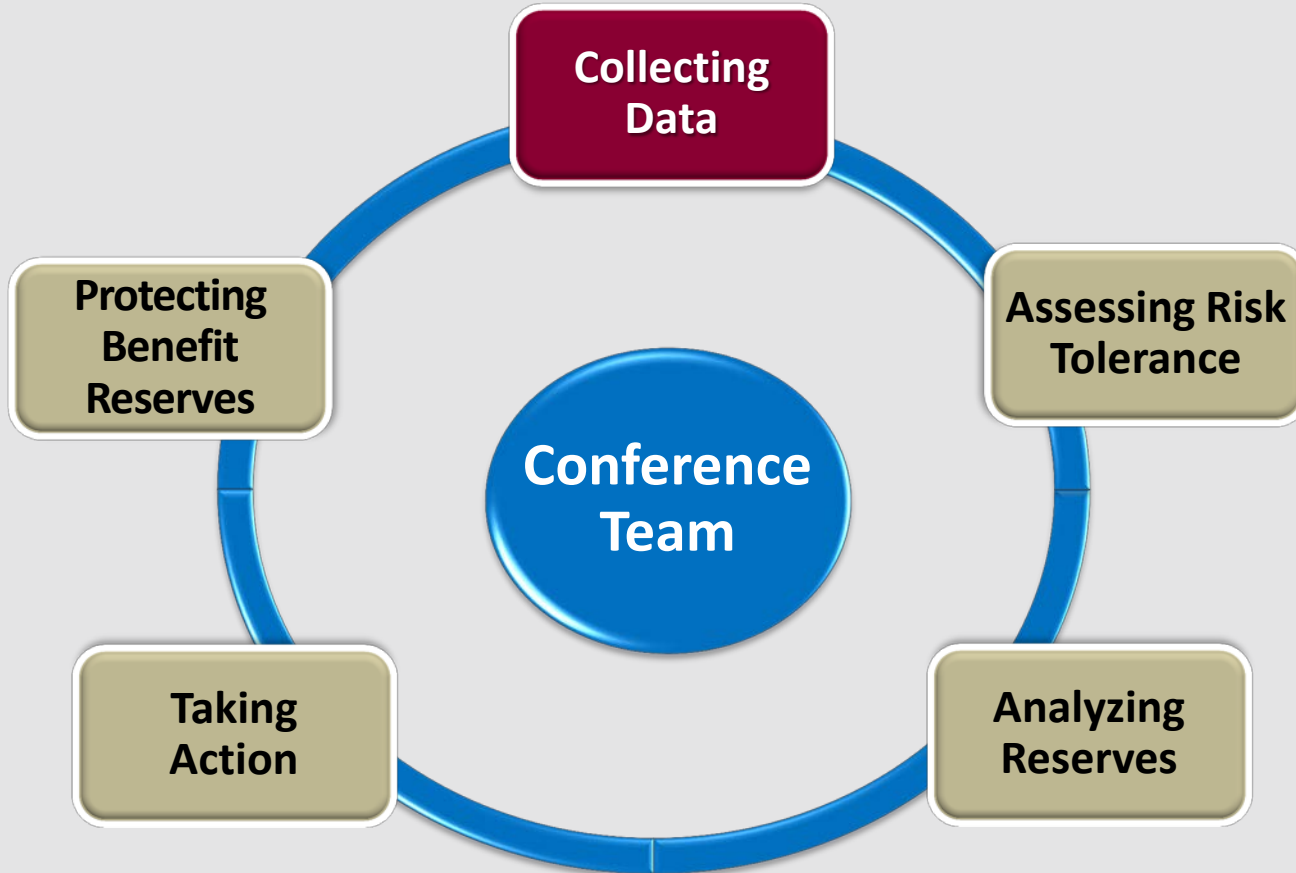
Business Judgment Rule

Shields individuals from liability for decisions made in good faith, where the individual is disinterested, reasonably informed and acting in a manner believed to be in the best interest of the organization

What Are Your Duties?

- Important to document fiduciary considerations and decisions
- Breach of duties and consequences

The Path to Defining Reserve Levels





Collecting Data

Putting It In Perspective

Clergy Retirement Security Program (CRSP)

Pre-82 Plan

- Approximately 26,000 receiving benefits
- Approximately 4,000 yet to begin receiving benefits

Ministerial Pension Plan

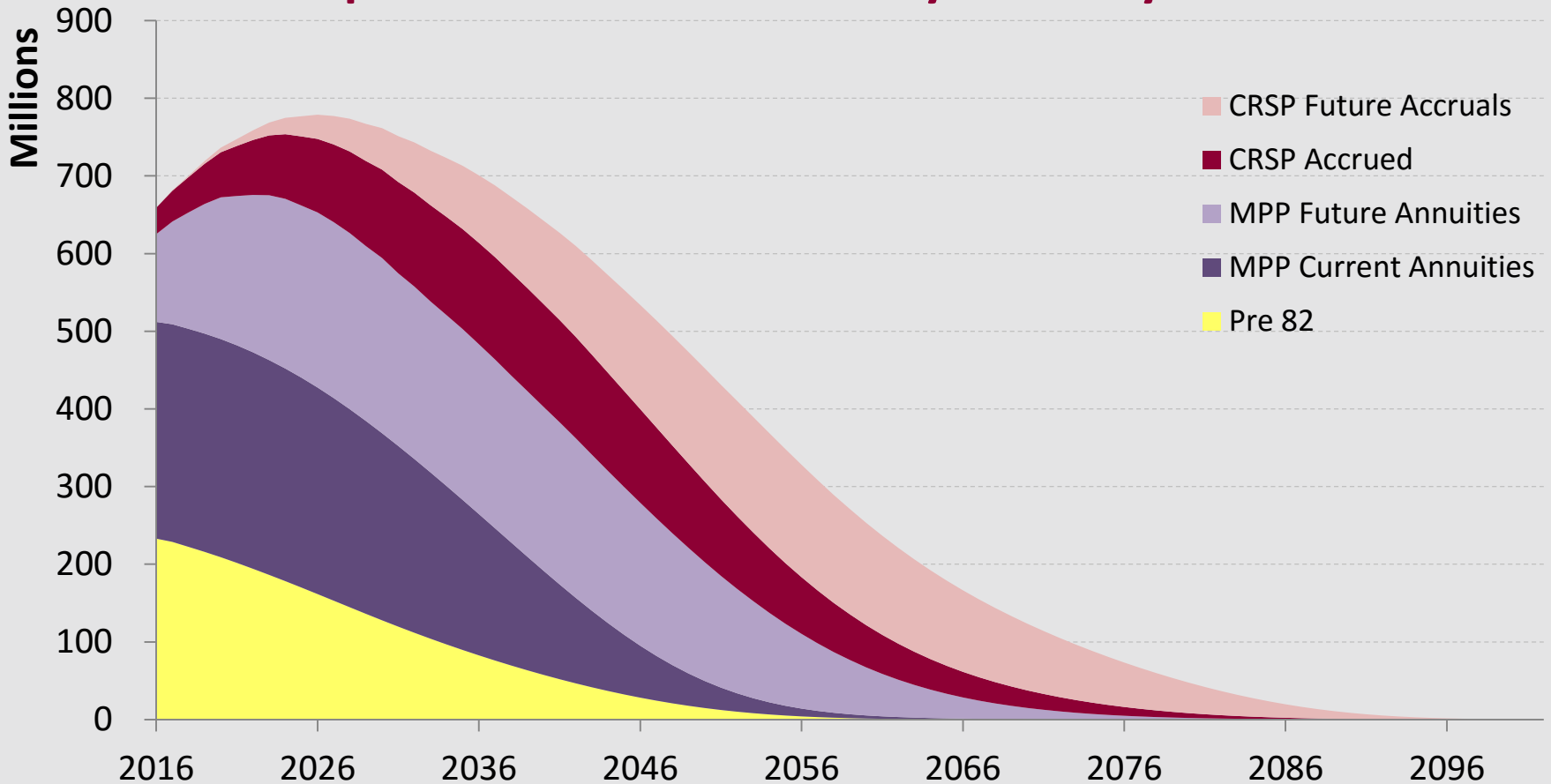
- Approximately 32,000 annuities currently being paid
- Approximately 28,000 additional annuities expected

CRSP

- Approximately 9,000 receiving benefits
- Almost 28,000 not receiving benefits, of which 23,000 are still accruing benefits

Putting It In Perspective

Expected Future Benefit Payments by Plan



Landscape of Health Insurance



Collecting Asset Information

Identify all accounts that contain amounts earmarked for benefits purposes

- Include Wespath and outside accounts
- Identify balances and asset allocations
- Identify if an investment policy addresses the overall allocation of all assets within the conference
- Identify objectives/purpose/restrictions

Collecting Asset Information

Identify incoming amounts and trends

- Apportionments
- Direct bills
- Investment income from all sources
- Preachers Aid
- CPP Premium Holiday
- Superannuate Endowment account held at Wespath
- Retiree Benefit Stabilization Fund
- Medicare Part D Subsidy payment

How are arrearages handled?

Collecting Asset Information

**Who has the decision making authority
on the accounts?**

- CFA, board of pensions or another committee?
- What level of documentation exists on these matters?
- Are past decisions documented?

Collecting Asset Information

Identify any documents that apply

- May include plan documentation
- Trust documentation
- Investment policy
- Articles of Incorporation/bylaws
- Guidelines or restrictions

Collecting Asset Information

Check to see if something is missing

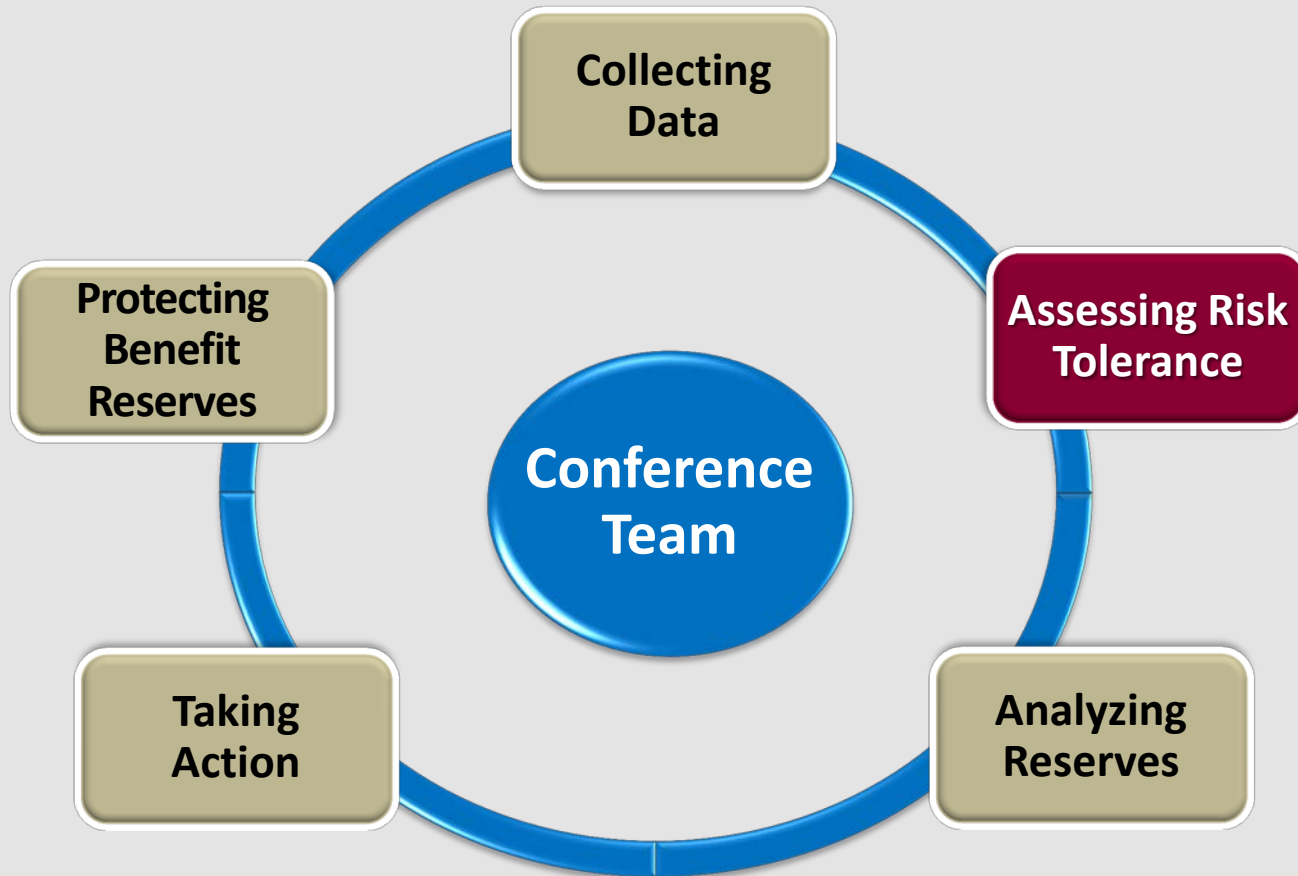
- Missing documentation
- Documentation that was never created
- Documentation gaps

Collecting Liability Information

Comprehensive Benefit Funding Plan contains:

- Listing of programs
- Liability information
- Estimate of future contribution requirements
- Assets assigned to those liabilities
- Future funding sources

The Path to Defining Reserve Levels



Assessing Risk Tolerance



Defining Your Risk Tolerance



Prerequisite before investing



Influences your investment decisions



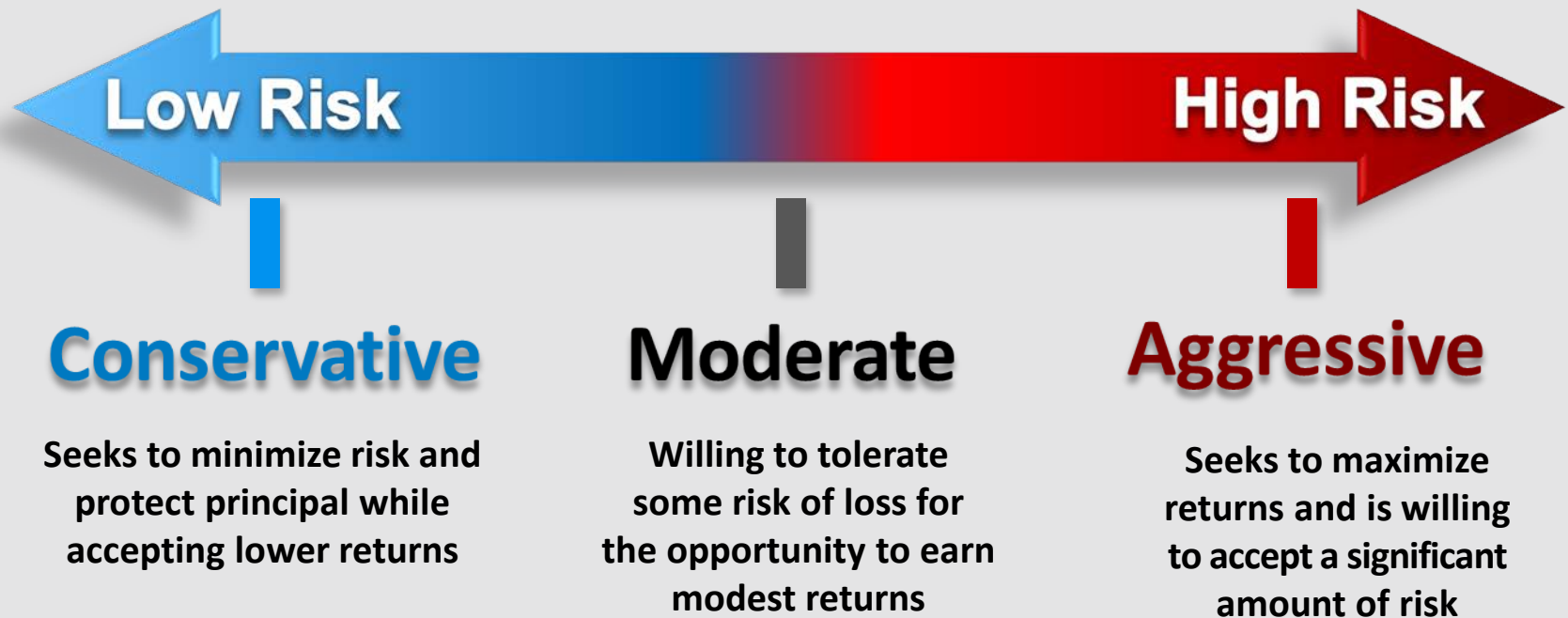
Vital to the financial health of your organization and its mission

The Future Is Uncertain



Range of Risk Tolerance

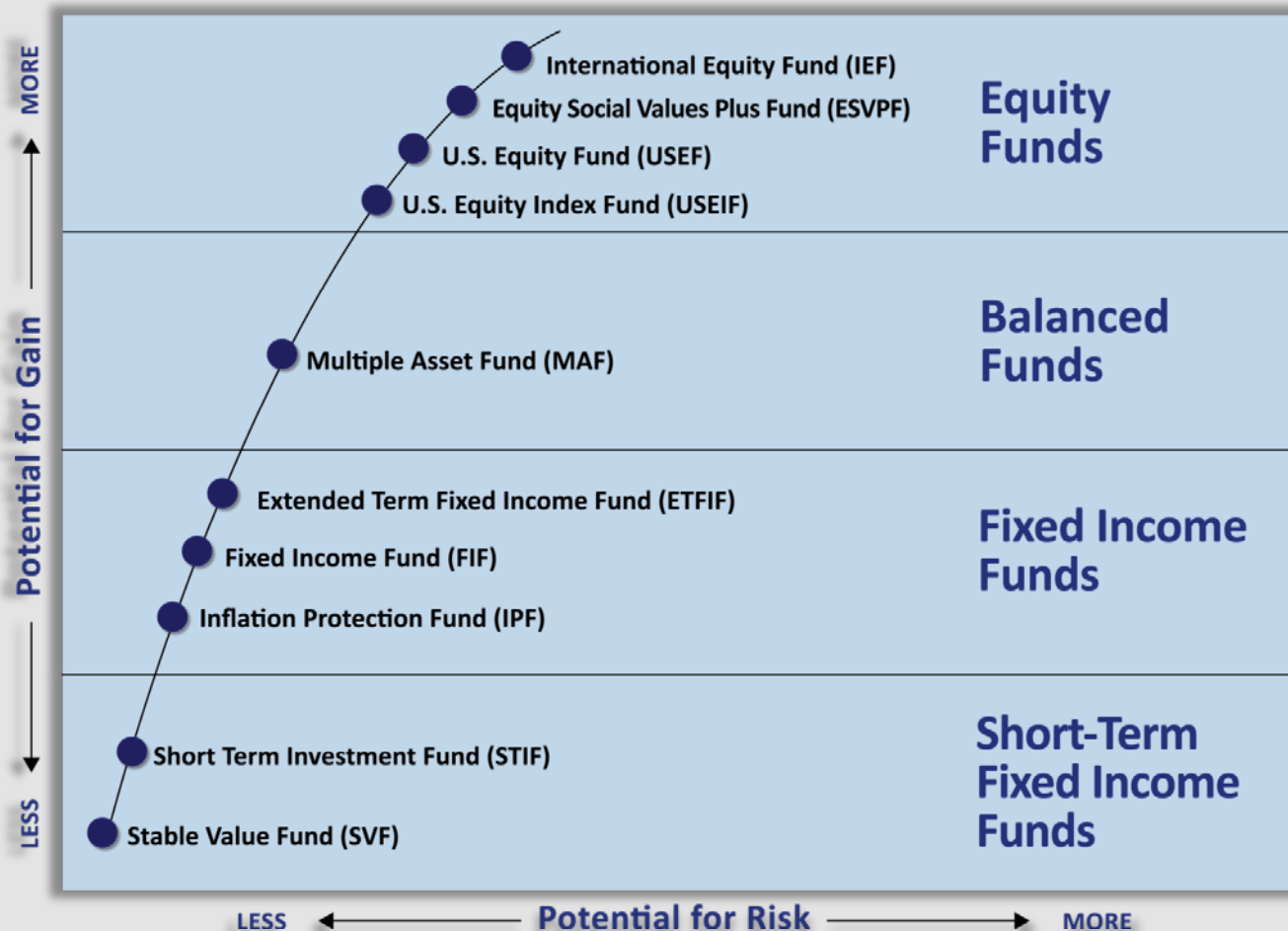
Variability in outcomes that one is willing to withstand



Use Risk Tolerance to Make Informed Decisions

- Specify the time horizon
- Identify the primary objective for assets
 - Preservation of assets?
 - Provide Income?
 - Future payments?
- Forecast likely future cash flow needs
- Assess the committee or board's investment experience
- Determine potential loss limits and maximum time period
- Identify suitable alternatives

Risk/Gain Potential Fund Comparison



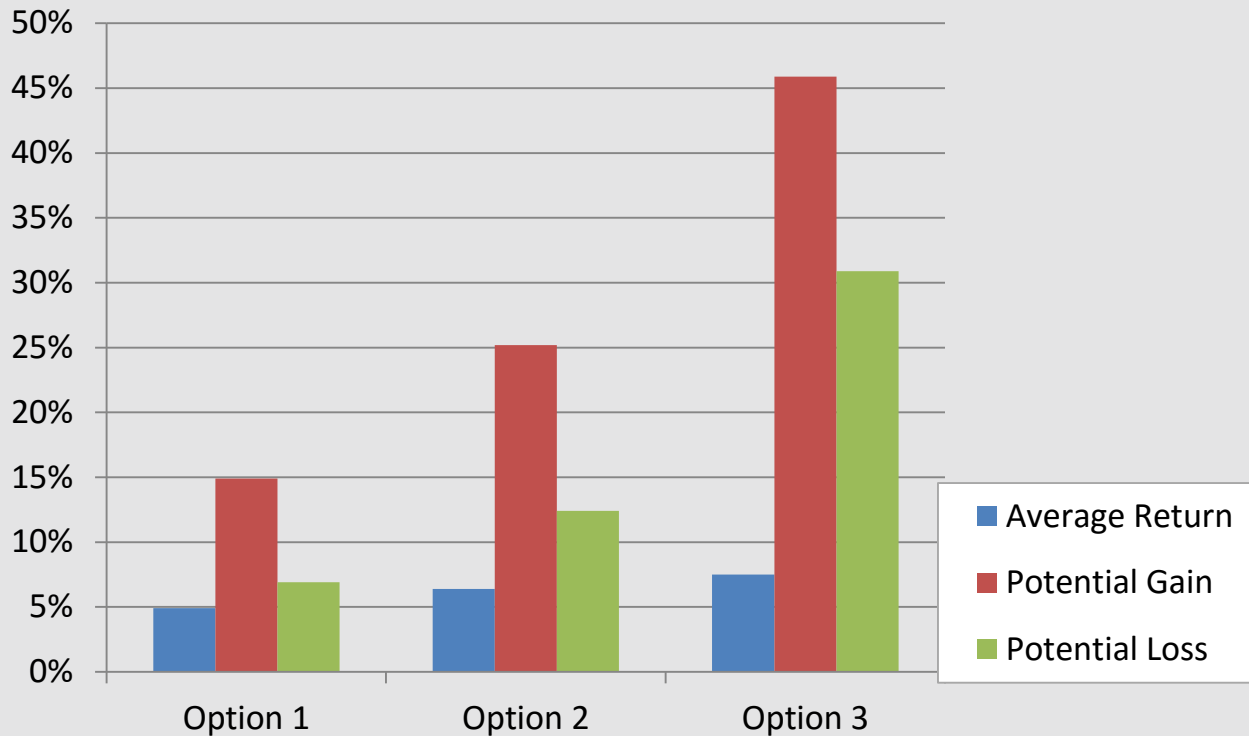
Investment Objective



- Protect principal
- Protect principal and earn income
- Combine growth and income
- Maximize growth (reinvest)

Asset Allocation

How would the committee or board allocate funds?

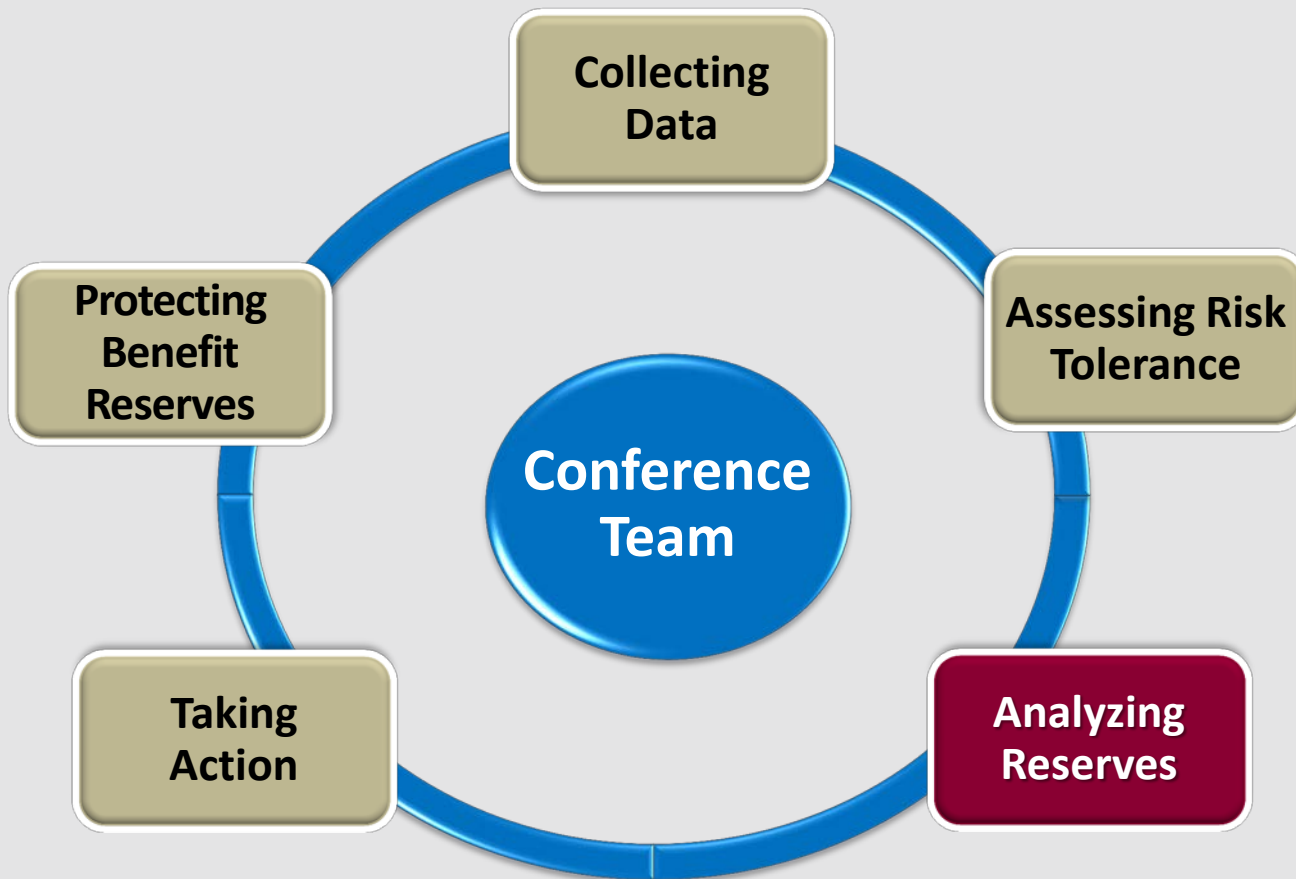


Source: EY Financial Planning Center

Reserve Goals

1. In 10 years, there is a 90% probability that our benefit programs are 100% funded, and we still have assets in our reserve account
2. In 10 years, there is a 75% probability that our benefit programs are progressing to 100% funded, and we still have a balance in our reserve account
3. In 10 years, there is a 50% probability that our benefit programs are funded with the minimum required, and our reserve account has not been fully depleted

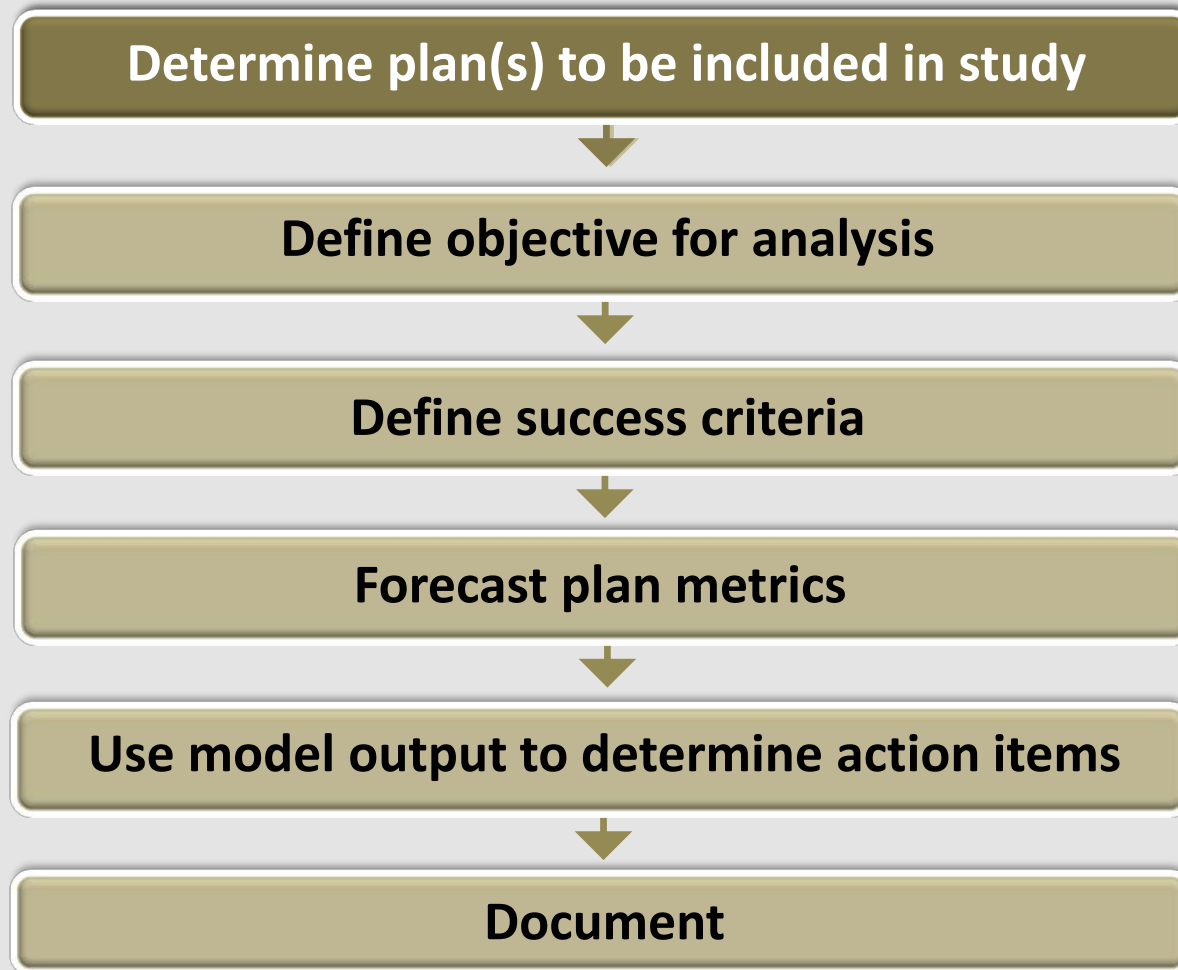
The Path to Defining Reserve Levels





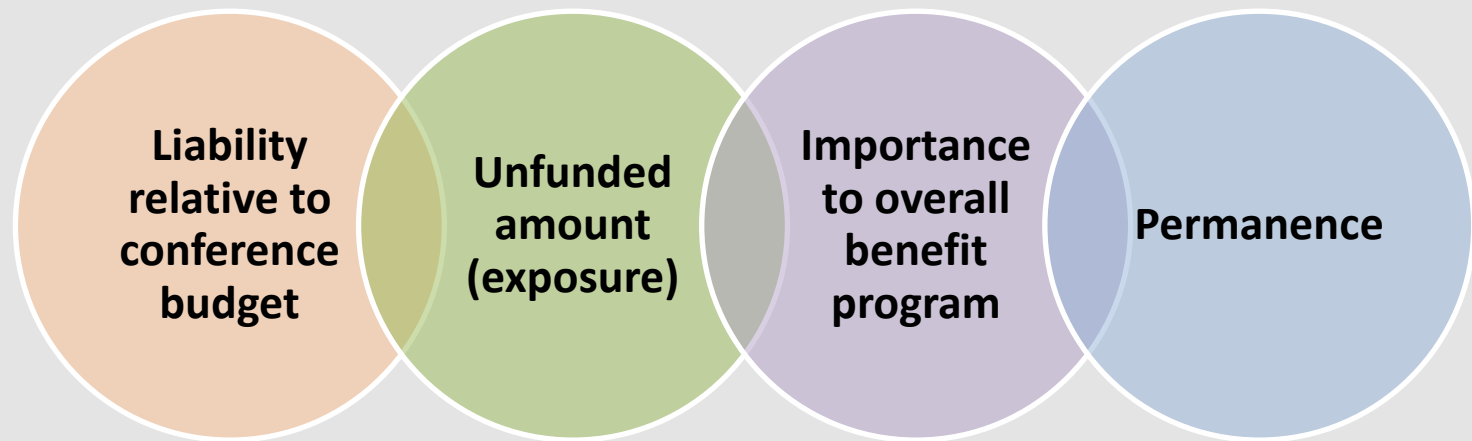
Analyzing Reserves

Steps to Analyze Reserves



Determine Plans to Include

Review individual plan characteristics

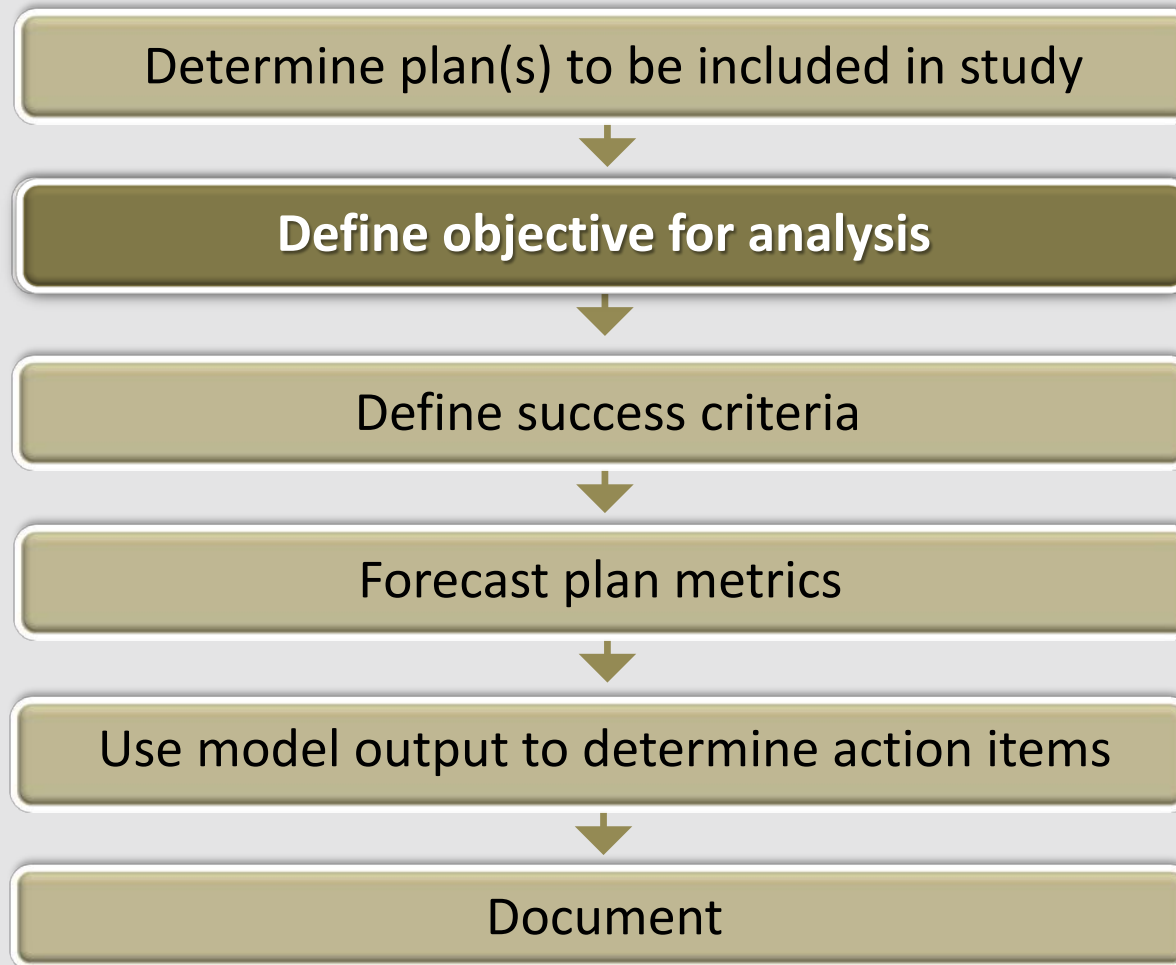


Determine Plans to Include

Which plan would you study?

	Plan A	Plan B	Plan C
% of Budget	30%	1%	10%
Unfunded	\$120 million	\$1 million	\$50 million
Importance	High	Low	Medium
Permanence	Mandatory	Optional	Optional

Steps to Analyze Reserves



Define Objective for Analysis



Analysis can begin with a vague question, such as:

- Do we have sufficient reserves?
- Are we going to satisfy contributions due in the future?
- Will we be in a comfortable financial position 10 years from now?

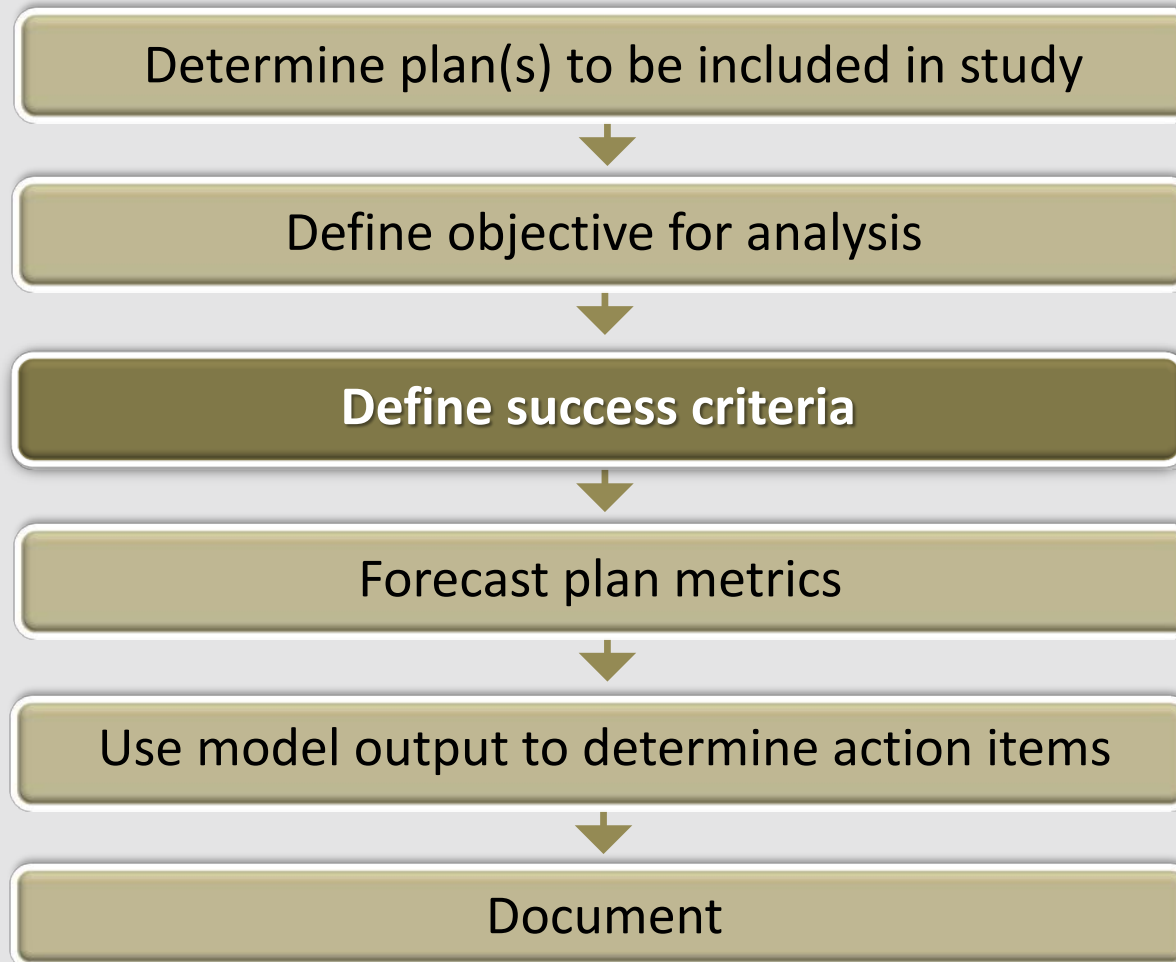
Define Objective for Analysis



Analysis can begin with a more specific question, such as...

- Can I lower my apportionments by 50%?
- Should I swap my Pre-82 surplus with another conference?
- Should I fully fund Pre-82 before 2021 or continue to keep assets outside of the plan?

Steps to Analyze Reserves



Define Success Criteria

- Turn the question into specific goals
- To get more specific you will need to agree on:



Plan Metrics



Timeframe



Risk Tolerance

Define Success Criteria



Several key metrics can help make decisions, including:

- Funded status and funded ratio
- Plan-level contribution requirements
- Total contribution requirements
- Contribution as a % of pay or % of budget
- Asset levels in identified accounts

Define Success Criteria



Determine the timeframe to study

Long enough to see
impact of decisions and
market movements

Not so long that
the last projected years
become too speculative

Define Success Criteria



- Keep in mind that for Pre-82, CRSP DB, and MPP, events can impact contribution requirements up to **12 years** in the future
- Timeframe range is typically 5 to 20 years

Define Success Criteria



- A conference's risk tolerance impacts success criteria
- Risk tolerance could be:



Aggressive



Moderate



Conservative

Define Success Criteria



What does “sufficient reserves” for your conference mean?




Aggressive



Conservative

- if there is a **50%** probability that there are enough reserves for the benefit programs
- if there is a **90%** probability that there are enough reserves for the benefit programs


Define Success Criteria: Putting it All Together—Example 1

- Assume a  conference with a reserve account earmarked for benefits
- **Question:** “Do we have sufficient reserves?”
- **Answer:**

Then reserves are sufficient today.



Define Success Criteria: Putting it All Together—Example 2

- Assume a  conference with a reserve account earmarked for benefits

- **Question:** “Are we going to be able to satisfy contributions due in the future?”

- **Answer:** Then we are able to satisfy contributions.

The current incoming money and reserve account can cover all contributions



Define Success Criteria



We will be in a comfortable financial position in 2026 if:



Conservative



Moderate



Aggressive

- There is a **90% probability** that our benefit programs are **100% funded** and we still have \$X of assets in our reserve account
- There is a **75% probability** that our benefit programs are progressing to **100% funded** and we still have a balance in our reserve account
- There is a **50% probability** that our benefit programs are **funded with the minimum required** and our reserve account has not been fully depleted

Exercise

- Think of a question / objective for your conference
- Take 1 minute to write it down

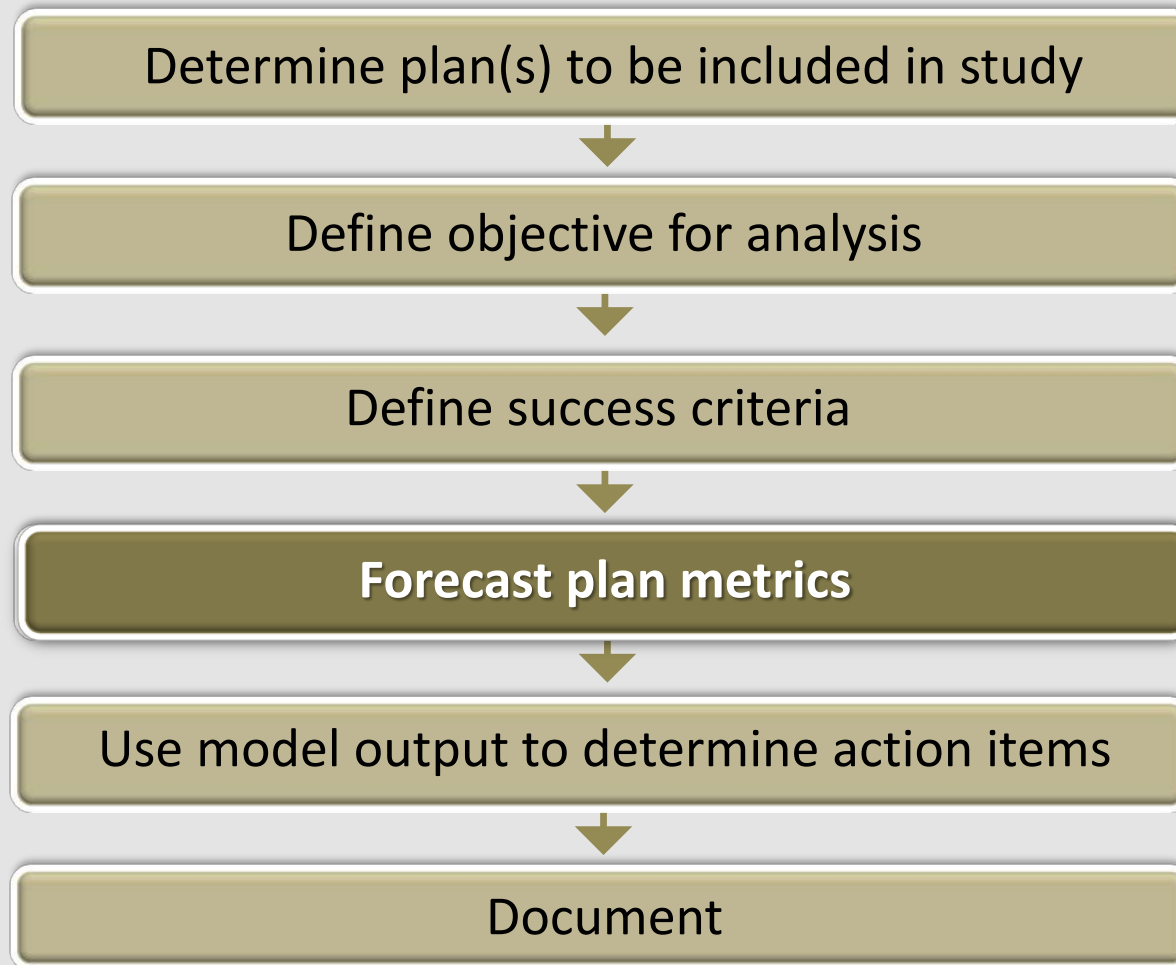


Exercise

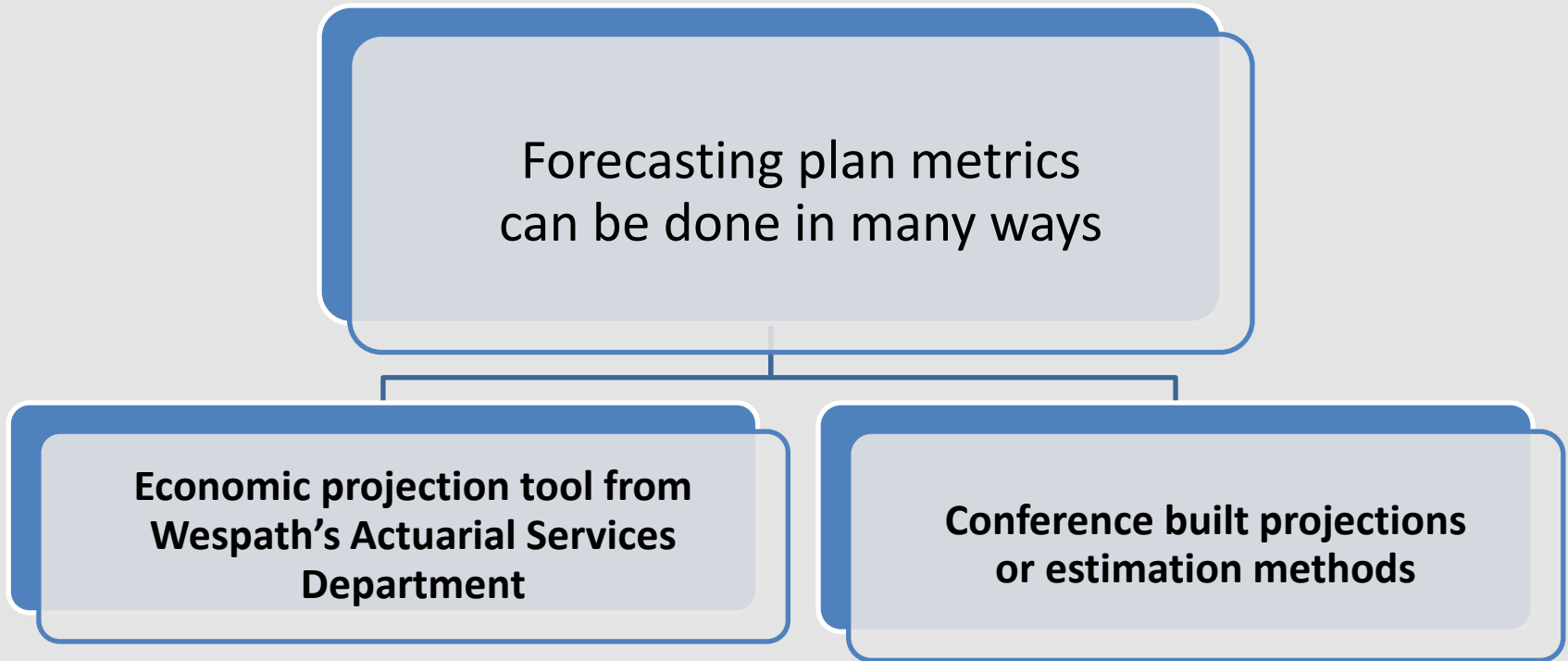
- Exchange questions with your partner
- What information / criteria would you want to analyze and answer your partners question?
- Take 3 minutes to discuss



Steps to Analyze Reserves

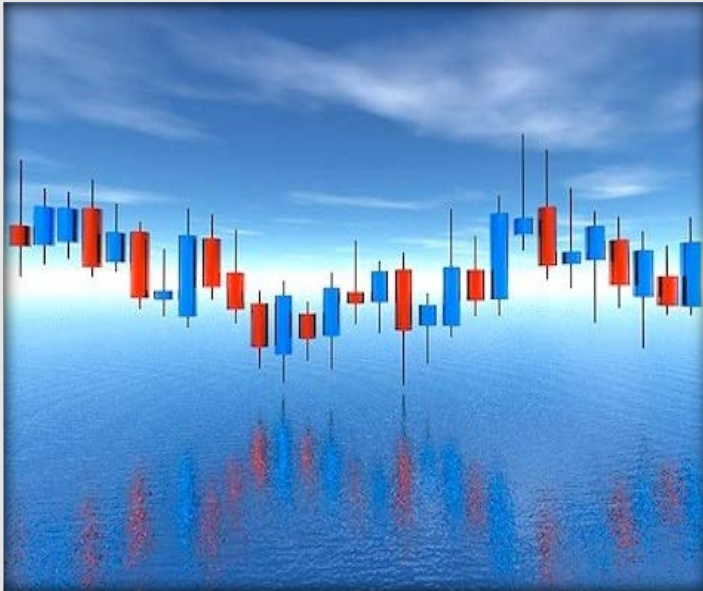


Forecasting Plan Metrics



We will focus on the economic projection tool for this presentation

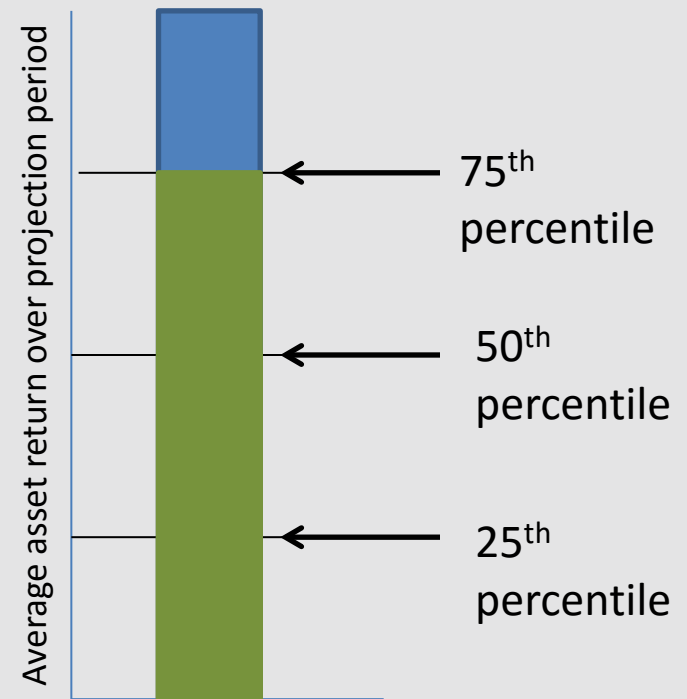
Forecasting Plan Metrics



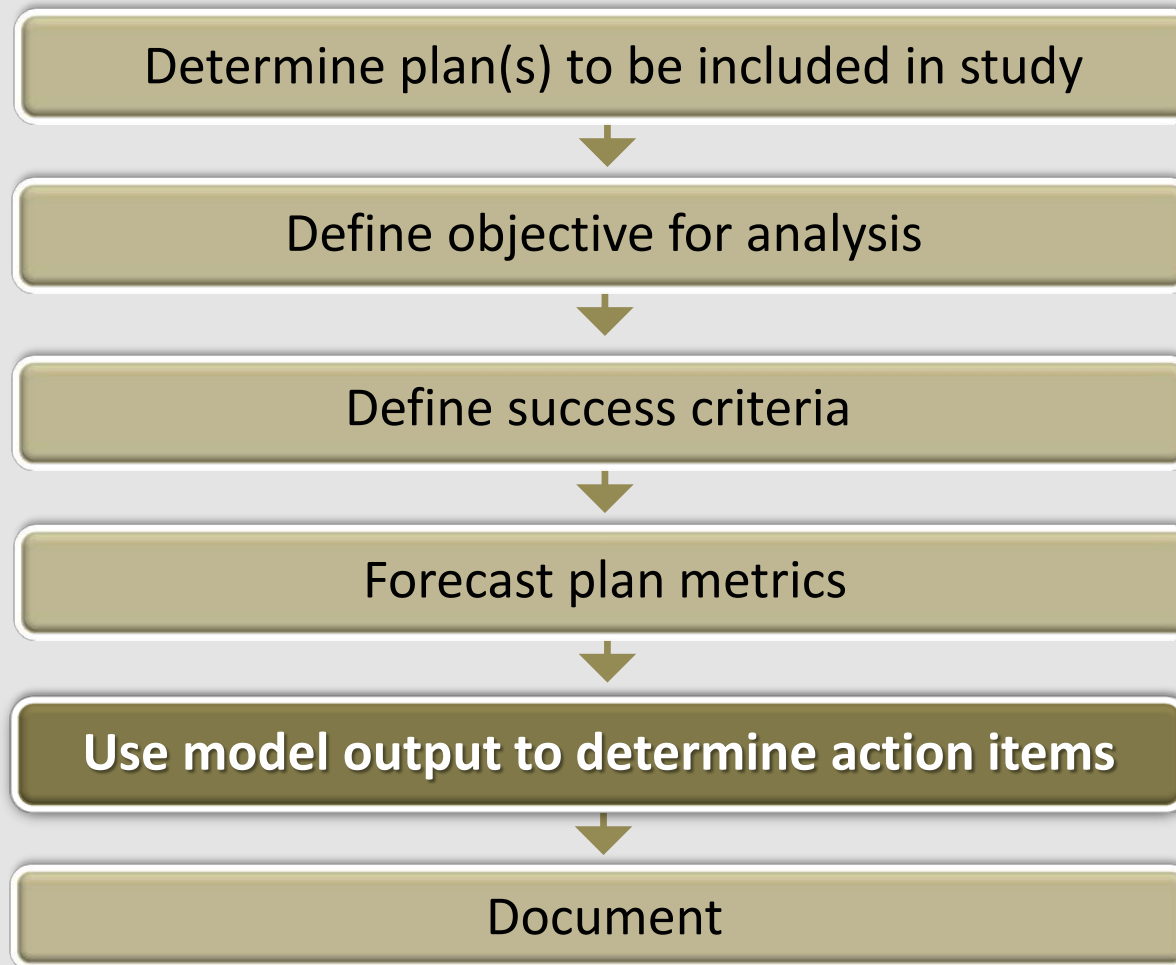
- The market is unpredictable
 - Yet, it directly impacts liabilities, assets and the resulting contributions
- An economic projection simulates the market

Forecasting Plan Metrics

- 5,000 strings of simulated asset returns for inflation, fixed-income, and equity
- Each string ranked 1st–100th percentile
- Typically observe 50th, 25th and 10th percentile strings
 - Also review an expected return scenario



Steps to Analyze Reserves



Background: Pridelands Conference



**Pre-82 Funded
Ratio: 120%**



**\$20 Million
Surplus Account**



Moderate

Background: Pridelands Conference

Study Objectives



Analysis Objective:

Is our safety net big enough?

Success criteria:

- The **METRICS** to study
- The **TIMEFRAME** to analyze
- The **RISK TOLERANCE** of the conference

Background: Pridelands Conference

Success Criteria

Analysis Objective: Is our safety net big enough?

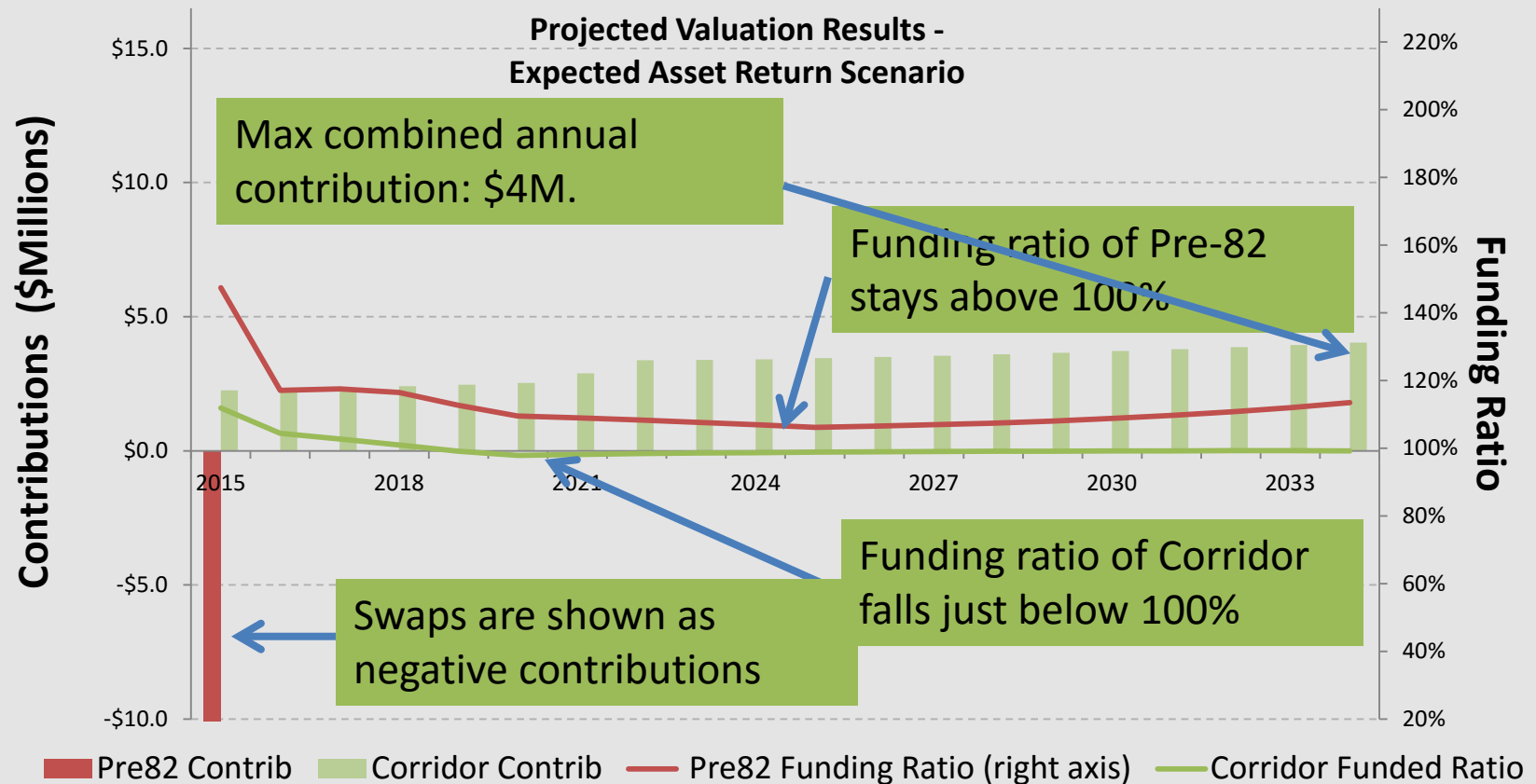


Analysis Success Criteria:

- What impact does swapping \$10 million of Pre-82 surplus this year have on **contributions** over the next **20 years**?
- In a **25th percentile scenario**:
 - How large will annual contributions be?
 - Will the reserve account last for 20 years?

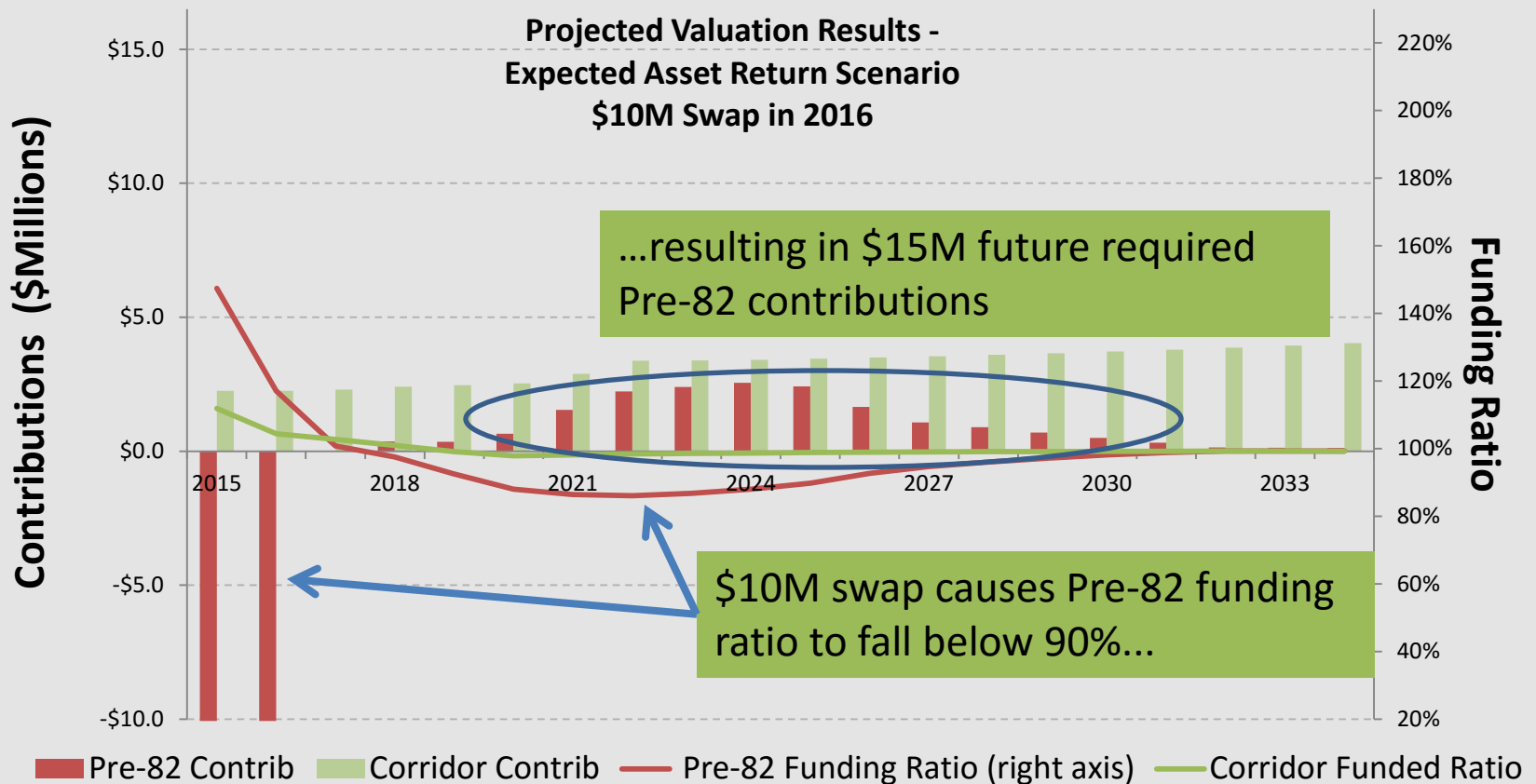
Pridelands Conference

Sample Output—Expected Scenario



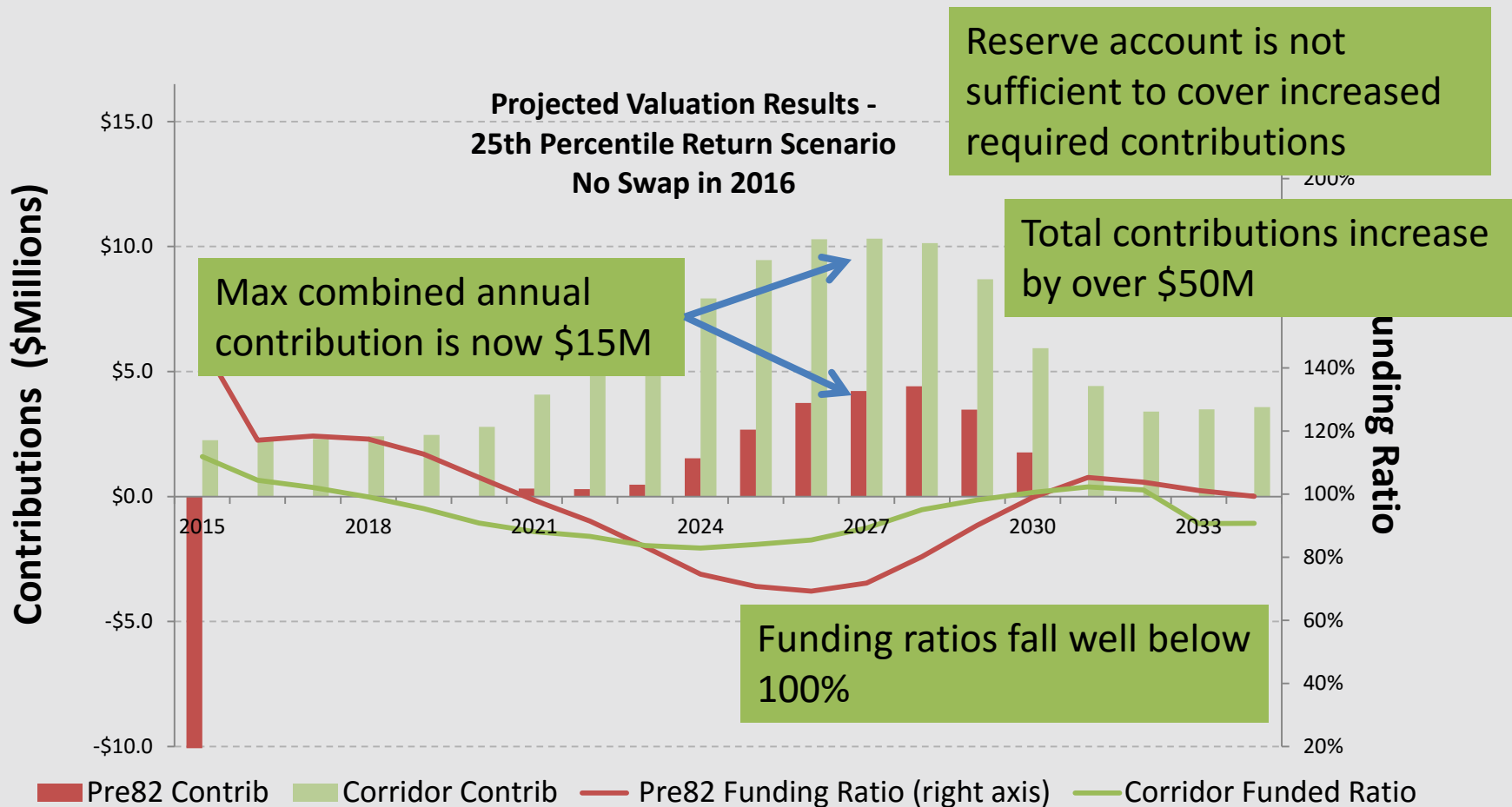
Pridelands Conference

Sample Output—Impact of Swap



Pridelands Conference

Sample Output – 25th Percentile Scenario



Pridelands Conference—Next Steps



Recommendations from Output

- Pre-82 reserves not sufficient to swap
- Build up reserves to cover estimated contributions in a 25th percentile scenario

Next Step

Complete a second round of projections to determine reserve level that meets this criteria

Background: Outlands Conference



**\$25 Million shortfall
across included plans**



**\$40 Million
Surplus Account**



**Collections based
on 5yr average**



Conservative

Background: Outlands Conference Plans to Include in Study

	DB Plans	Retiree Medical	CRSP-DC	CPP
% of Budget	25%	10%	10%	5%
Unfunded \$\$	5M	20M	0M	0M
Importance	High	Med	Med	Med
Permanence	Mandatory	Optional	Mandatory	Mandatory

Decision: In addition to DB Plans, include Retiree Medical and CRSP DC in study

Background: Outlands Conference

Study Objectives

Analysis Objective:

Are we collecting enough money from churches?

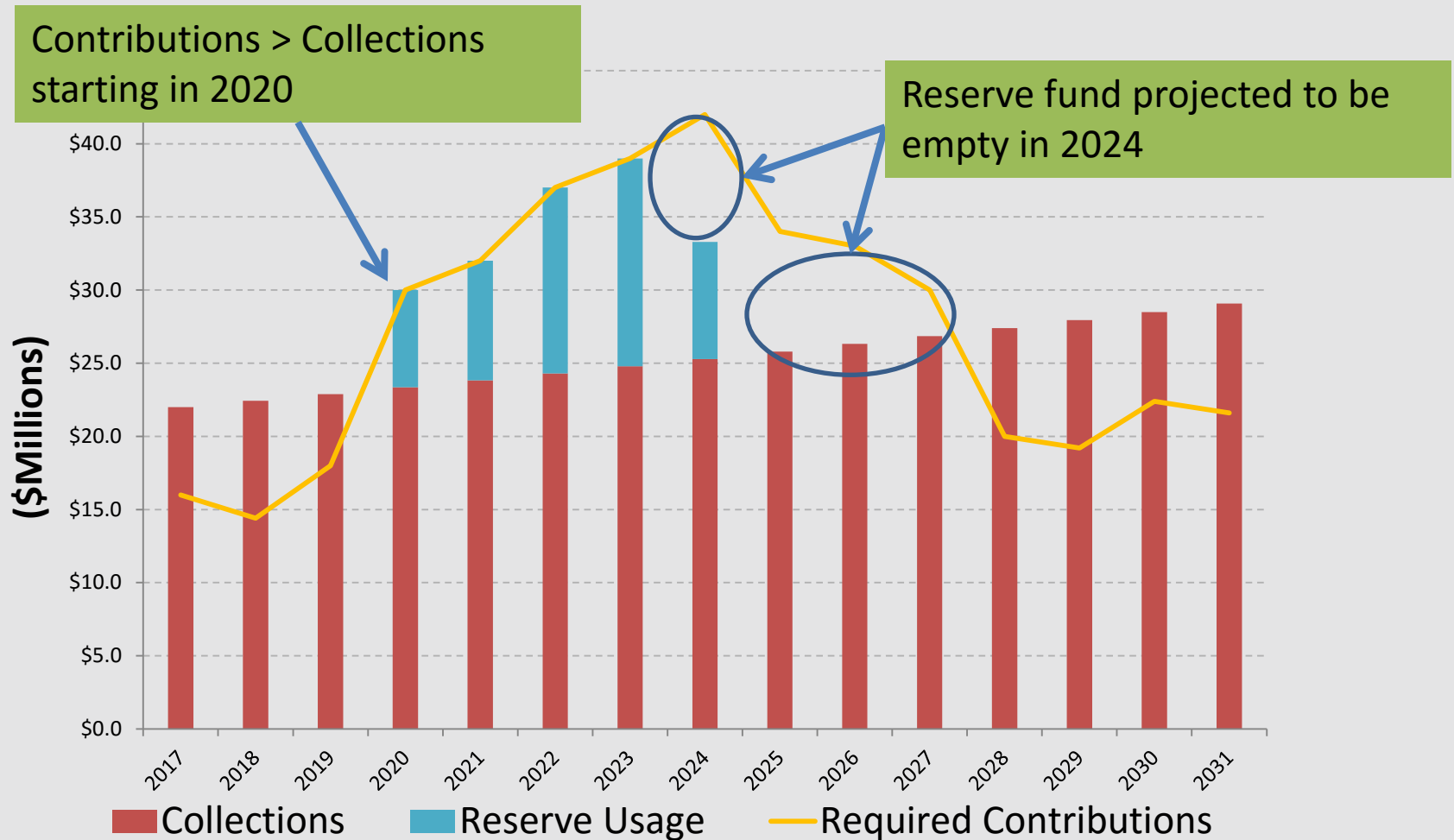
Analysis Success Criteria

- Based on current **apportionment levels**, are **reserves** sufficient to cover the impact of poor asset returns for **15 years** in a **10th percentile scenario**?
- If not, how much would **apportionments** need to increase to cover the shortfall?



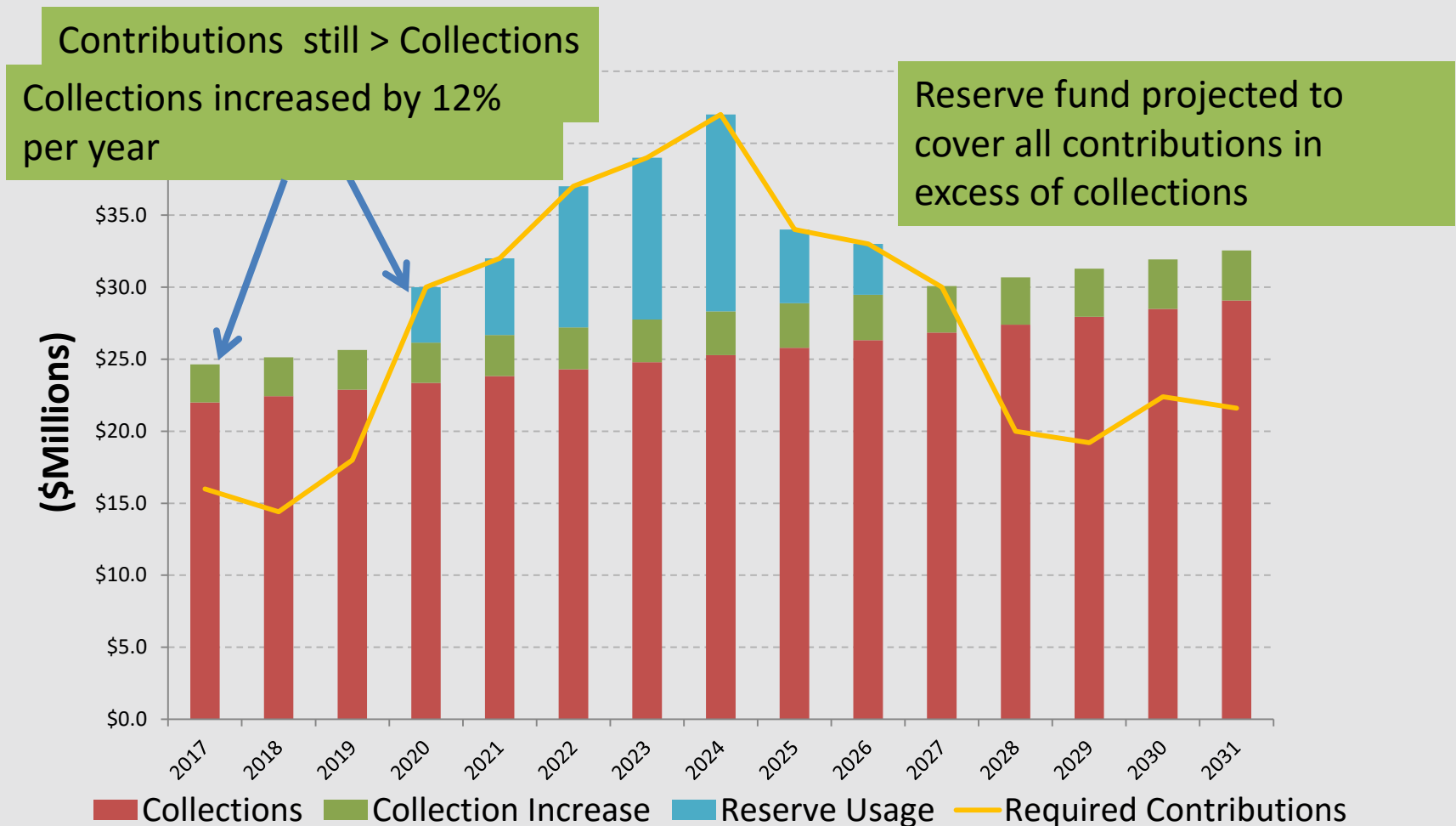
Outlands Conference

Sample Output—10th Percentile Scenario



Outlands Conference Sample Output

10th Percentile Scenario and Increase in Collections



Outlands Conference–Next Steps



Recommendations from Output

- Reserves not sufficient to cover contributions in a very poor asset return scenario based on current collection levels
- Churches cannot afford a sudden 12% increase in collections
- Announce plan to increase collections 2% per year for next 4 years, and then repeat study in 2020 to reassess

Outlands Conference

Considering Asset Allocation

- Committee or board also considered being more aggressive with asset allocation
 - Would increase expected asset return, possibly making up the reserve shortfall
 - Would also increase investment risk
 - Investment Risk = expected asset volatility
 - Investment Risk = potential for asset losses
- Committee or board voted not to invest more aggressively
 - Not surprising given their conservative risk tolerance

Background: Flipside Conference



- Identical to Outlands Conference
- Except: Flipside Conference has an **aggressive risk tolerance**
- Flipside Conference repeats the same study but based on a **50th percentile scenario**

Flipside Conference—Results

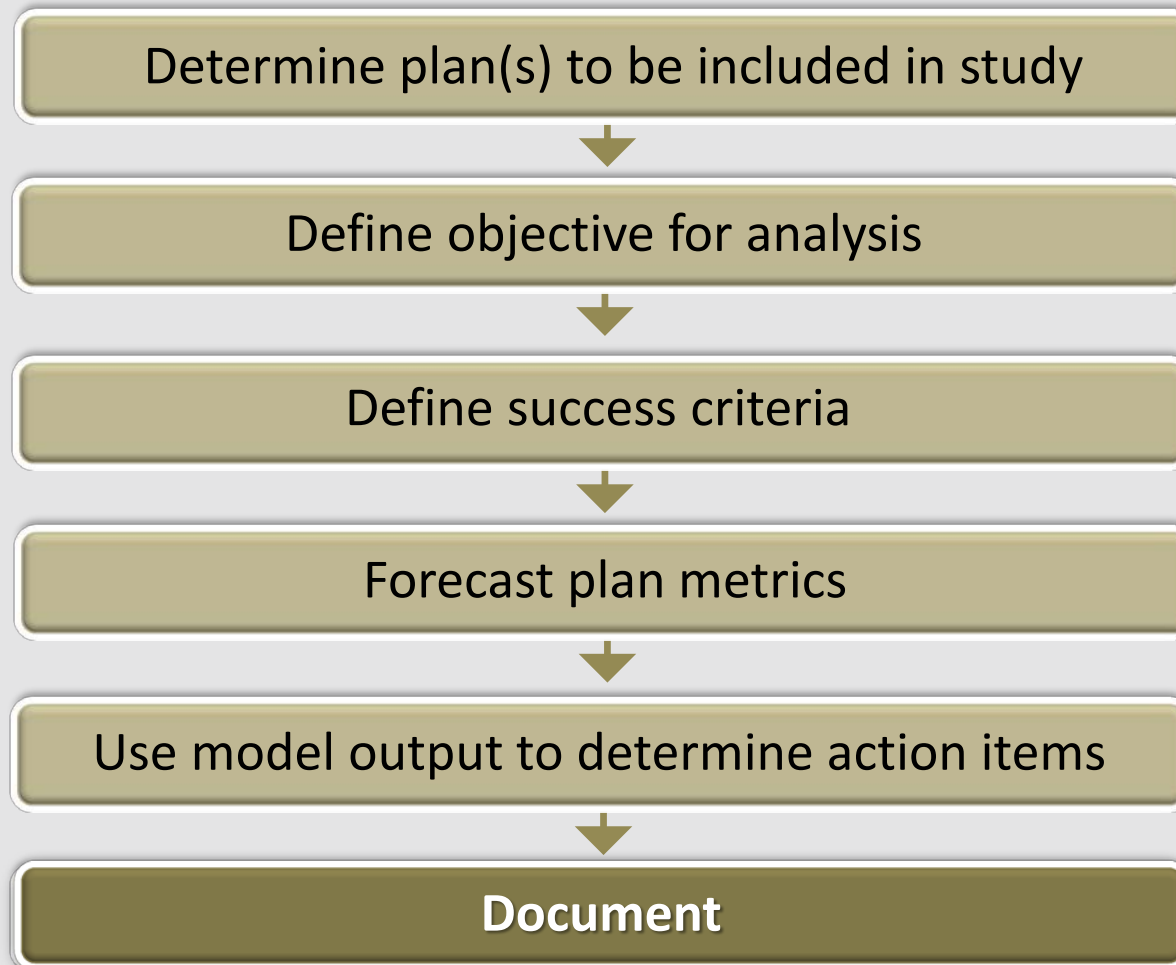
Analysis Findings

- Reserves are sufficient to cover contributions in a 50th percentile scenario
- \$10 million projected to remain in reserve account after 15 years

Recommendation

- Reallocate \$5 million of surplus for another use
- Plan to repeat study in 5 years or after a 10% asset drop

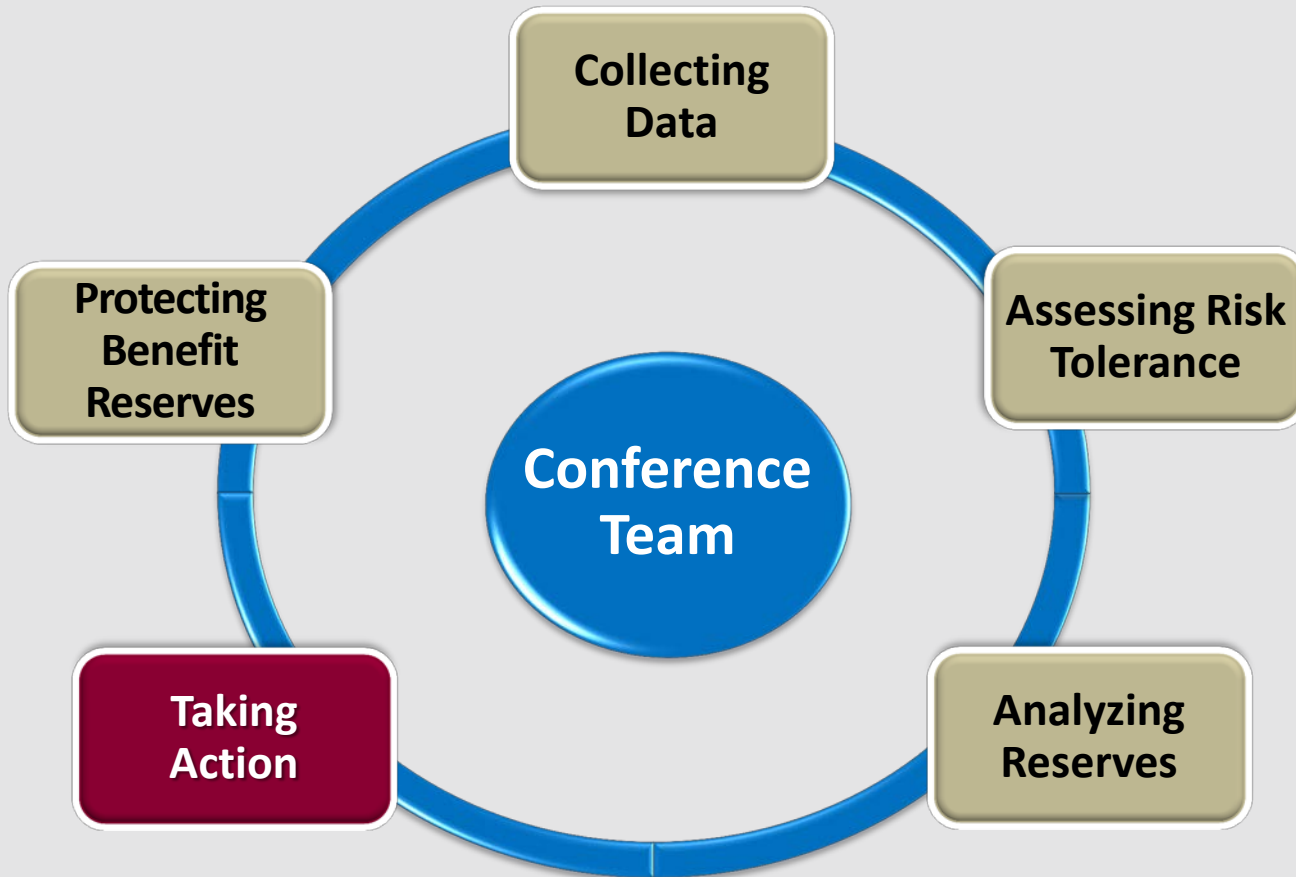
Steps to Analyze Reserves



Documenting

- Include in documentation:
 - Team members
 - Objectives of the study
 - Decisions made
 - Philosophy behind the decision
 - Schedule for revisiting this analysis
 - Any additional analysis that the team recommends
- Communicate to the relevant stakeholders (e.g., CBOP, investment committee, etc.)
- Store in an accessible place

The Path to Defining Reserve Levels

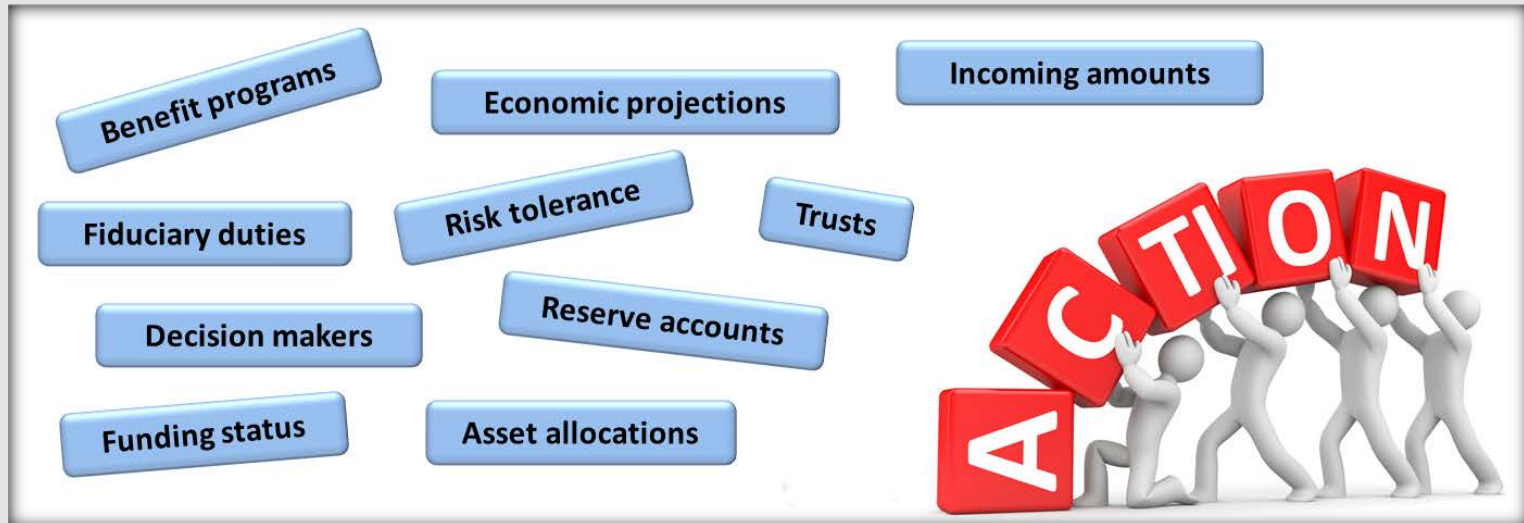


A black and white photograph of a wooden signpost. The signpost is a weathered wooden post with a sign attached. The sign is a rectangular piece of wood with a pointed right side, pointing towards the right. The words "NEXT STEPS" are carved into the sign in a bold, sans-serif font. The background is a cloudy sky. The overall tone is motivational and forward-looking.

**NEXT
STEPS**

Taking Action

Taking Action



Review of our steps so far
Inventory of relevant information
Where do we start?

Taking Action



High level assessment

Who are the decision makers

On whose behalf are you acting?

What are your duties?

What restrictions apply

Decision making process

High Level Assessment



High level assessment

Who are the decision makers

On whose behalf are you acting?

What are your duties?

What restrictions apply

Decision making process

High Level Assessment

What is your conference's situation?

Plans well funded, reserves good	Plans underfunded, reserves good
Plans well funded, reserves low	Plans underfunded, reserves low

**Do you have enough
in reserves?**

High Level Assessment



Opportunities to use reserves for other conference purposes—many considerations

- Tolerance for risks your conference faces
- Economic projections
- Conference revenue
- Benefit programs' future
- Restrictions on accounts, if any

High Level Assessment



Underfunded plans, low reserves

- Different focus?
- Improving funding and reserve levels
- Asset allocations across reserves
- Future of various benefit plans?

Decision Makers



High level assessment

Who are the decision makers

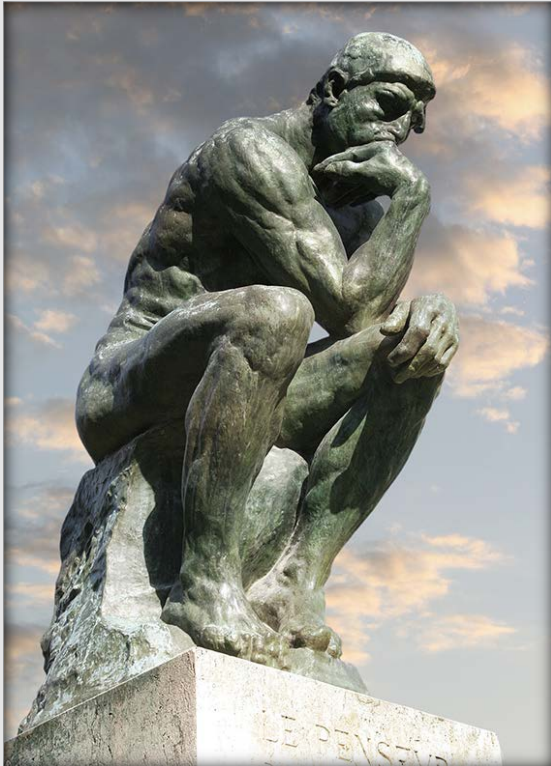
On whose behalf are you acting?

What are your duties?

What restrictions apply

Decision making process

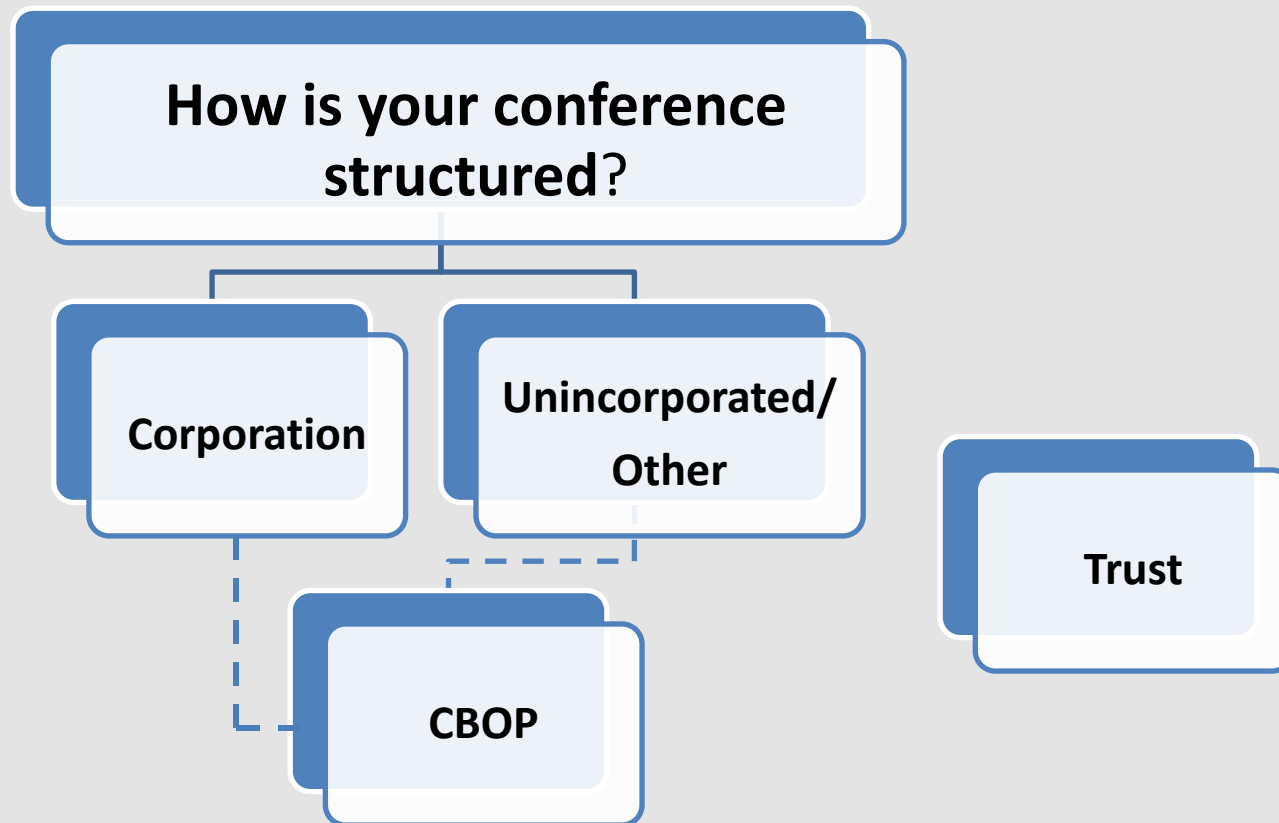
Decision Makers



Decision Time

- Who are the decision makers?
 - Are there different groups depending on different accounts?
 - Are there different groups depending on structure of organization?

Decision Makers



On Whose Behalf Are You Acting?



High level assessment

Who are the decision makers

On whose behalf are you acting?

What are your duties?

What restrictions apply

Decision making process

On Whose Behalf Are You Acting?

- Answer may depend on the reserve account
- Structure of organization
- Plan trust or other written trust?
- Could a “constructive trust” exist?



What Are Your Duties?



High level assessment

Who are the decision makers

On whose behalf are you acting?

What are your duties?

What restrictions apply

Decision making process

What Restrictions Apply?



High level assessment

Who are the decision makers

On whose behalf are you acting?

What are your duties?

What restrictions apply

Decision making process

What Restrictions Apply?



- If not plan/trust assets, what other documents apply that restrict/govern use of reserves?
- Can those specified purposes be changed, and how?
 - Consistent with your duties?
- Constructive trust

What Restrictions Apply?

- Which accounts have the most flexibility?
 - Which have most flexibility?
 - Can purpose be changed?
- What is the best use of those funds (for those on whose behalf you are acting)?
 - Fiduciaries must consider all relevant information

Decision Making Process



High level assessment

Who are the decision makers

On whose behalf are you acting?

What are your duties?

What restrictions apply

Decision making process

Decision Making Process

Thorough Process Ensures the Best Outcome

Document the process and decisions, including consideration of all relevant information and issues

- Who are the appropriate decision makers?
- To whom are their duties owed?
- What are the risks the conference faces?
- What is the risk tolerance of the decision makers?
- What restrictions apply to the accounts?
- What has been recommended, if anything?
- What policies/guidelines apply to the accounts?

Decision Making Process

Document the process and decisions, including consideration of all relevant information and issues

- Can intended uses be changed if duties can be satisfied?
- The future needs of the benefit programs vs. the other needs of the conference?
- Are there other options available (e.g., loans)?
- Have the economic projections and incoming revenue been considered under each option?
- How has each fiduciary duty been satisfied?
- How is the decision in alignment with any governing documentation (e.g., bylaws, investment policies, resolutions)?

Decision Making Process

Document the process and decisions, including consideration of all relevant information and issues

- If reserves are redeployed to other uses, how is the conference's overall asset allocation impacted?
 - May need to “rebalance” in accordance with investment policy and risk tolerance
- How has the decision-making process and ultimate decision been documented?
- How has the decision been communicated to stakeholders?
- Retain necessary documentation on the decision, consistent with records retention policy

The Path to Defining Reserve Levels





Protecting Reserves

Protecting Reserves

- Generally, more protection = less flexibility
- Contribute assets to Pre-82 plan
 - Assets held by Wespeth for exclusive benefit of plan participants and beneficiaries
- Establish an irrevocable trust
 - Assets held and used exclusively for a named purpose

Protecting Reserves



- Buy liability insurance
 - Protect conference from large judgments
- Deposit money into a deposit account
 - Withdrawal requests made only by authorized individuals
 - Courts or internal claimants could force a withdrawal

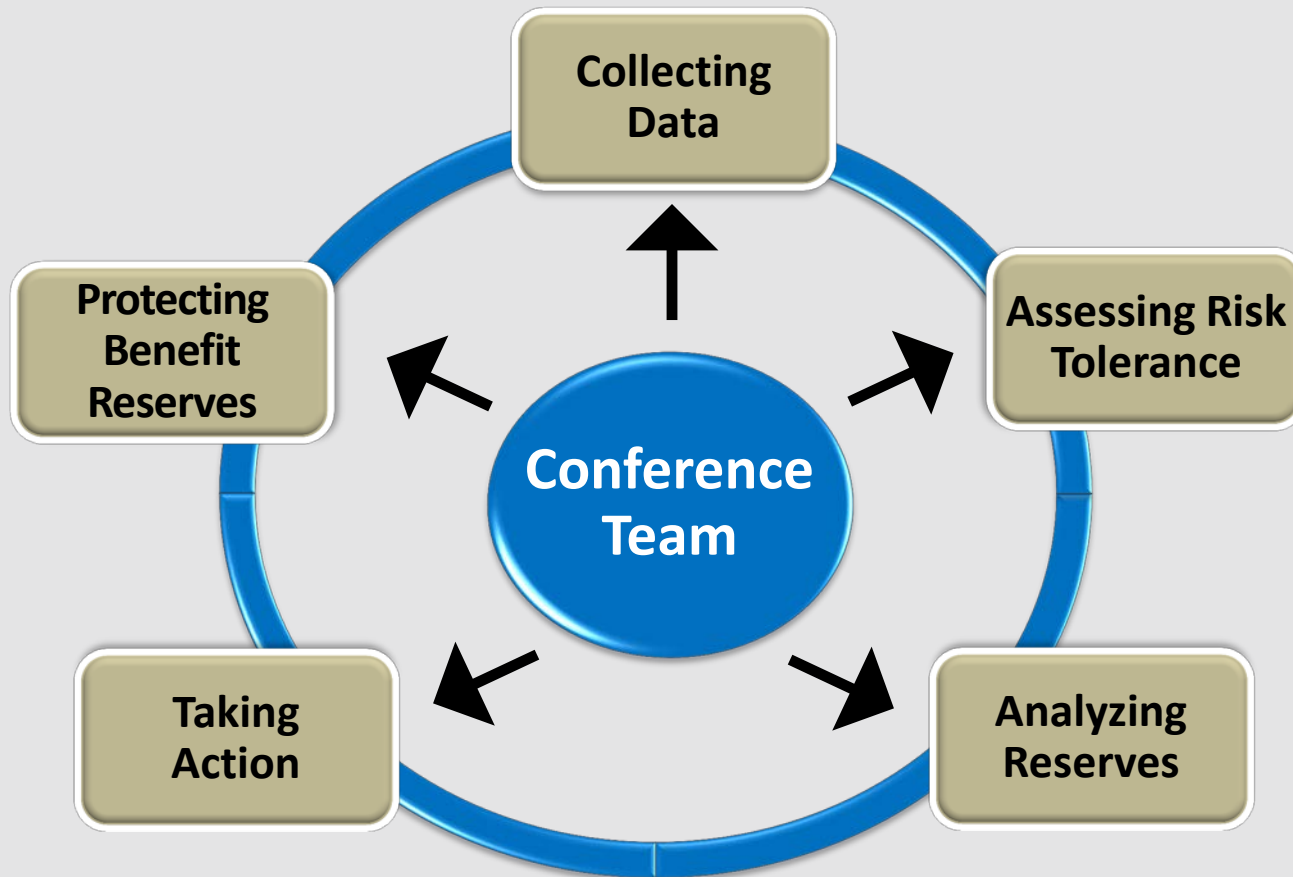
Protecting Reserves

- Separately incorporate the CBOP
 - Benefits assets may be out of reach to some
 - Piercing the corporate veil
- Create a financial reserve or budget item to set money aside for benefit plan purposes
 - Could be modified in the future
(not much protection)

Where Do We Go From Here?



The Path to Defining Reserve Levels



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Wespath

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