

Quadrennial
Benefits
Conference



Paying for Clergy Plans— The Basics



Wespath
BENEFITS | INVESTMENTS

Agenda



Pension Plan Basics



Actuarial Basics



Pre-Funding Pension Benefits



Valuation Results



Budgeting

Defined Benefit vs. Defined Contribution

Pension Plan Basics



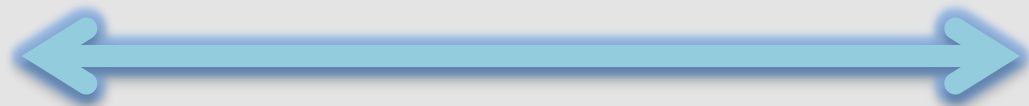
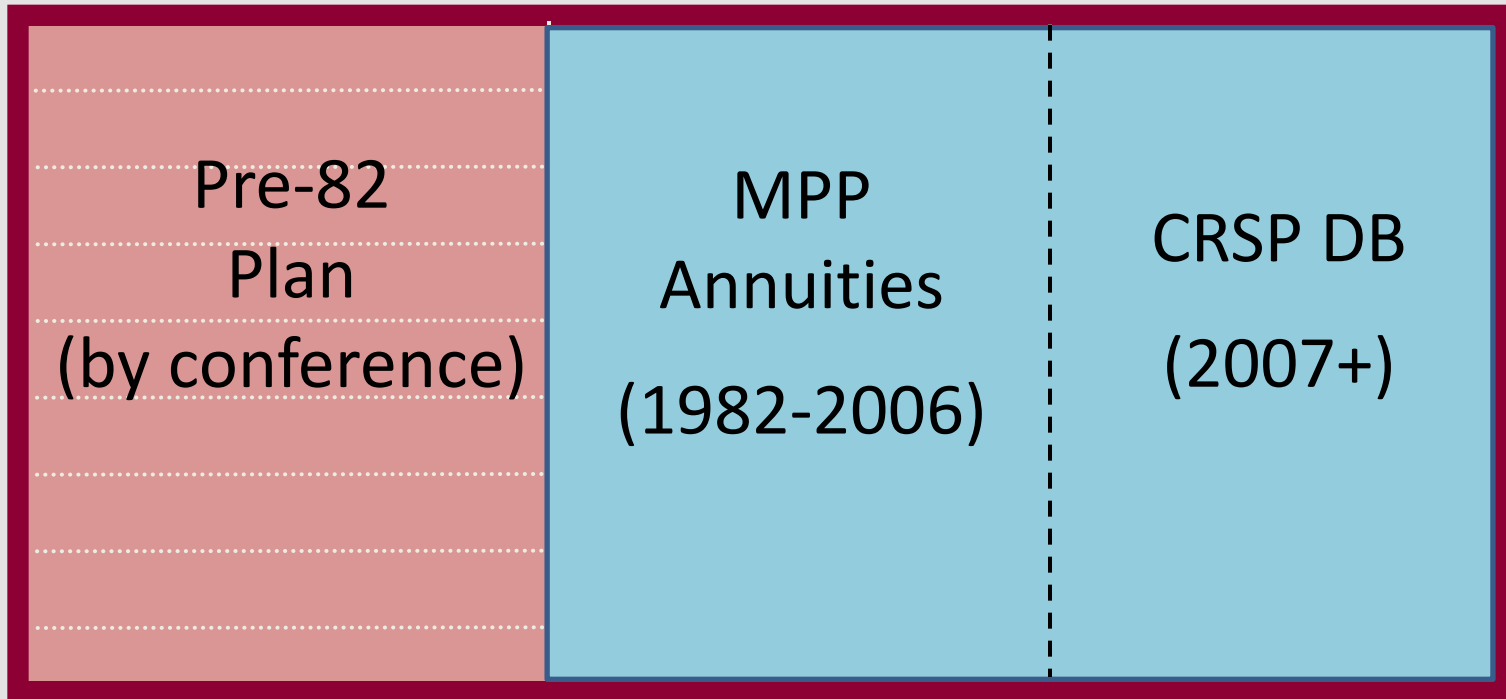
Defined
Benefit
DB



Defined
Contribution
DC

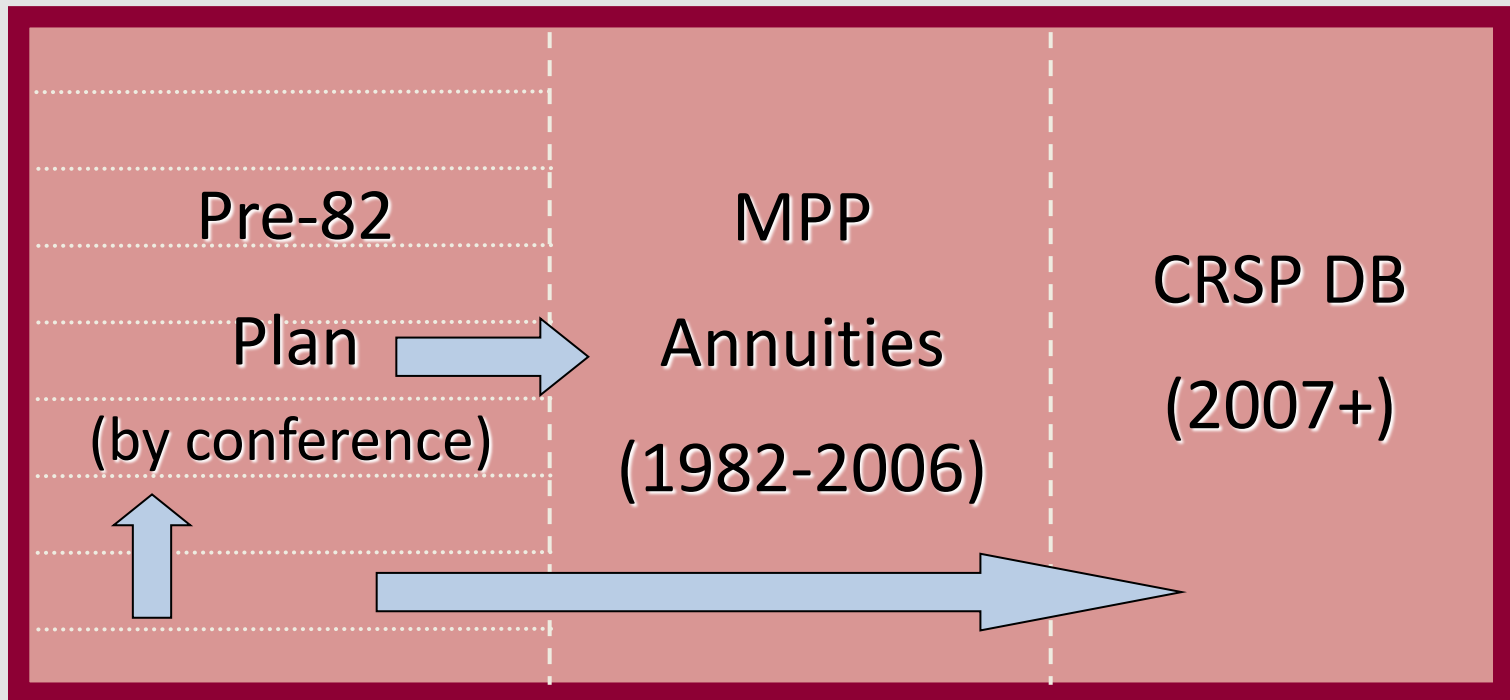
The clergy plans we're discussing today
are **DB PLANS**, not DC plans

Clergy DB Plans



Corridor Plan

Clergy DB Plans



**Money can move within the red lines
(Swaps and Redirections)**

1 2 3
4 5 6
7 8 9
0

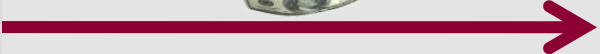


Actuarial Basics

DB Basics

Actuarial Basics

How much will savings earn?
 $1\% \times \text{DAC} \times \text{Service} = \text{Retirement}$



TODAY



RETIREMENT



DEATH

Actuarial Valuation

Actuarial Basics

- Because of these unknowns, assumptions are made to calculate future benefit payments and assets
- An actuary makes these assumptions and performs these calculations
- An actuarial valuation is:
 - A best guess of future plan benefit payments and assets
 - Performed annually for each clergy DB plan, as of January 1 by Wespath's team of actuaries

Actuarial Valuation

The actuarial valuation presents the plan's:

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

Actuarial Valuation— Items Impacting Results

Actuarial Basics



- Asset performance
- Census data
- Key liability assumptions
 - Discount rate
 - Mortality table
- Type of valuation

Actuarial Valuation—Asset Performance

Actuarial Basics

- Asset performance impacts the asset value
- The higher the plan's assets, the better funded the plan, and generally the lower the contributions due
- Example:

	Assets	Liability	Funded Ratio
1/1/2015	\$10,000	\$11,000	91%

Actuarial Valuation—Census Data

Actuarial Basics

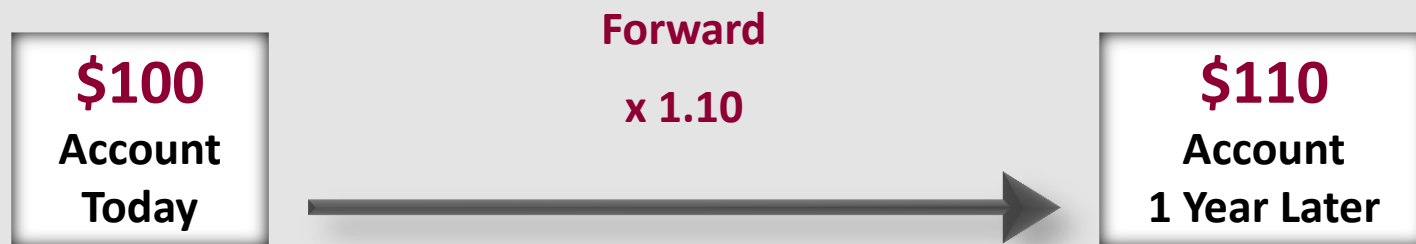
- Collected for all participants entitled to benefits from plan
 - Those receiving benefits AND those with accrued future benefits
- Information needed to estimate future benefits
 - E.g., birth date, gender, service, benefit amount, form of annuity
- Wespath pulls January 1 census data in March from Benefits Access



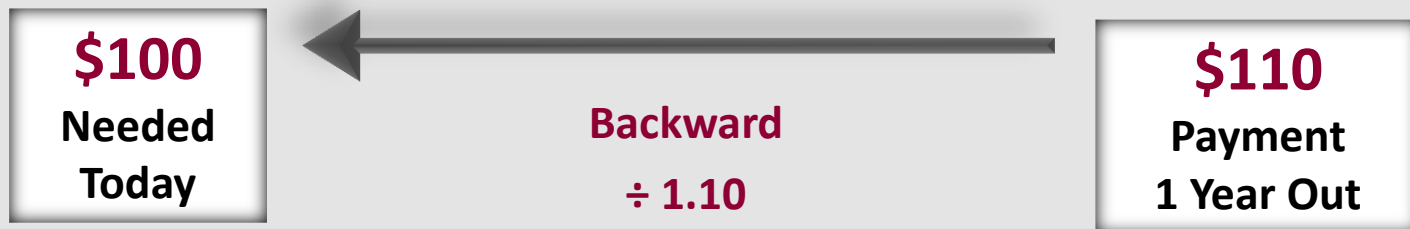
The screenshot shows the Wespath Benefits Access login page. The header is blue with the Wespath logo (a cross inside a circle) and the text "Wespath BENEFITS | INVESTMENTS". Below the header is a white banner with a home icon and the text "Welcome to Benefits Access". The main content area is divided into two columns. The left column is titled "Log In" and contains a "User Name" input field, a "Password" input field, and a "Log In" button. Below the input fields are links for "Change Password", "Forgot Password?", and "Forgot Password?". The right column is titled "Announcements" and contains two entries. The first entry is dated "01/03/2014" and is titled "Help Desk" with the text "If you need your password res are available from 8:00 a.m. t". The second entry is dated "01/30/2015" and is titled "Online Security" with the text "Wespath Benefits and Investm and continually monitor indust".

Actuarial Valuation—Discount Rate

Interest rate = 10%



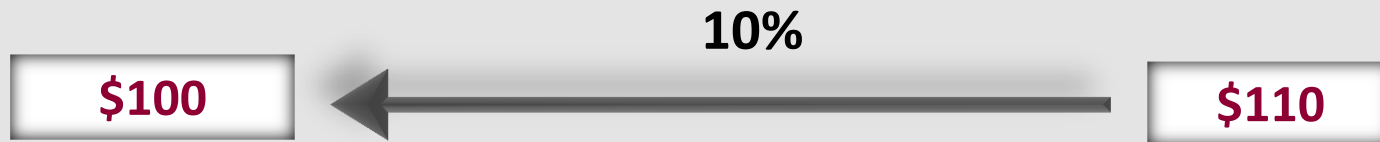
Discount rate = 10%



LIABILITY

Actuarial Valuation—Discount Rate

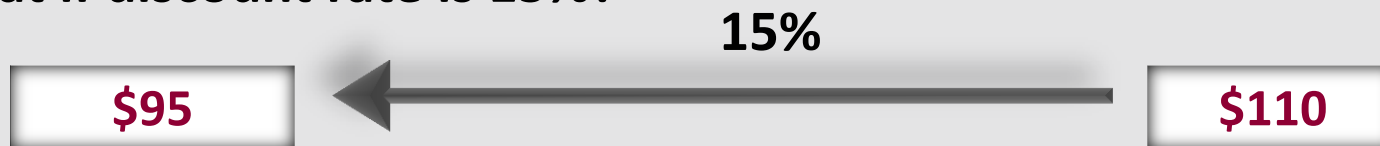
Actuarial Basics



What if discount rate is 5%?



What if discount rate is 15%?



Actuarial Valuation—Mortality Table

Actuarial Basics

- We don't know how long each participant will live, so we use a mortality table assumption
- The longer a participant lives, the more benefits paid, the higher the liability for that participant
- Example of mortality improvement impact:
 - **Mortality assumption A:** 65-year-old expected to live to age 80
 - **Mortality assumption B:** 65-year-old expected to live to age 85

Actuarial Valuation— 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



Pre-Funding Pension Benefits

Balance Equation

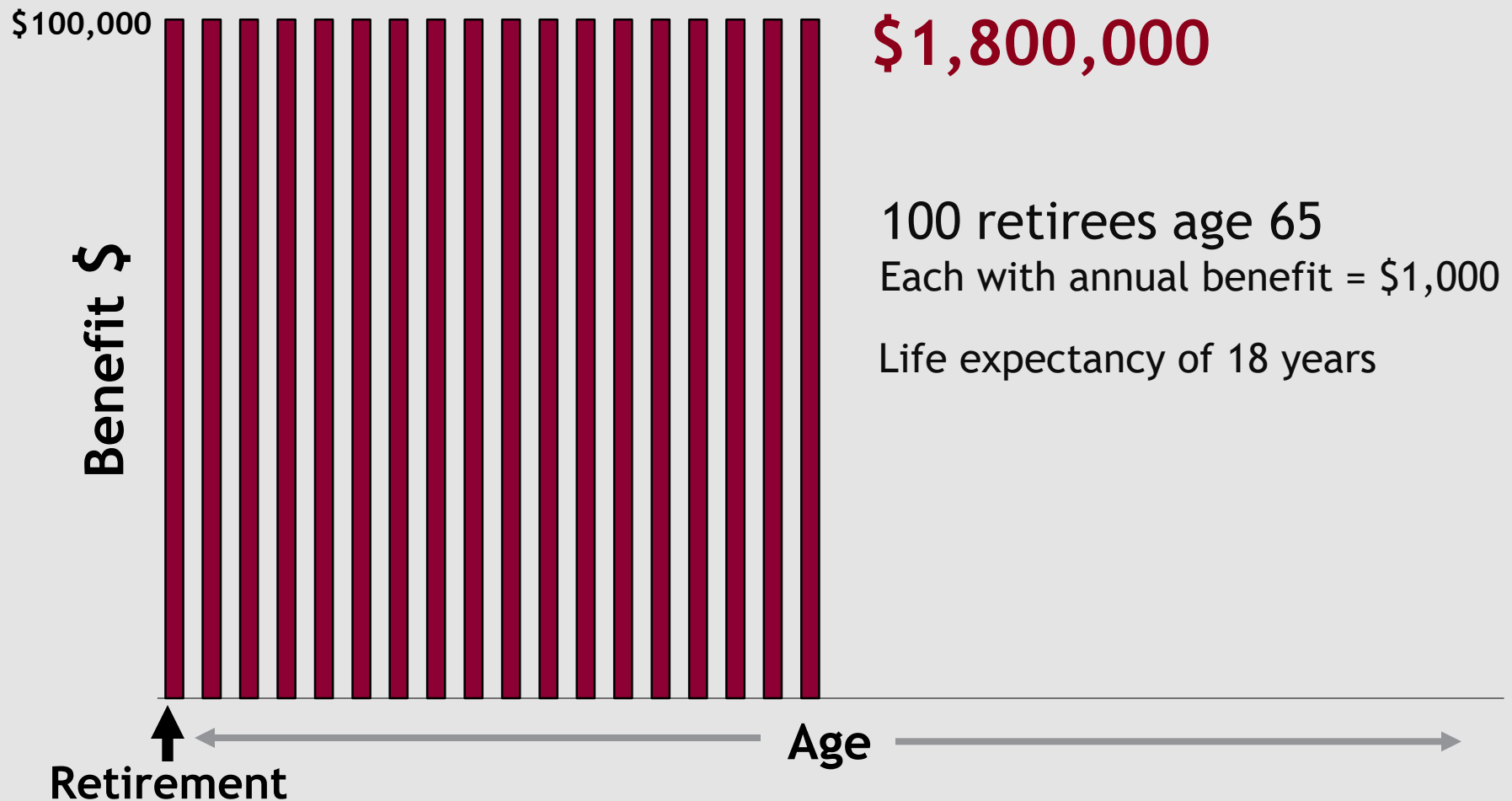
Pre-Funding Pension Benefits

Benefits Paid = Contributions + Interest Earned



Liability Calculation—Benefit Payments

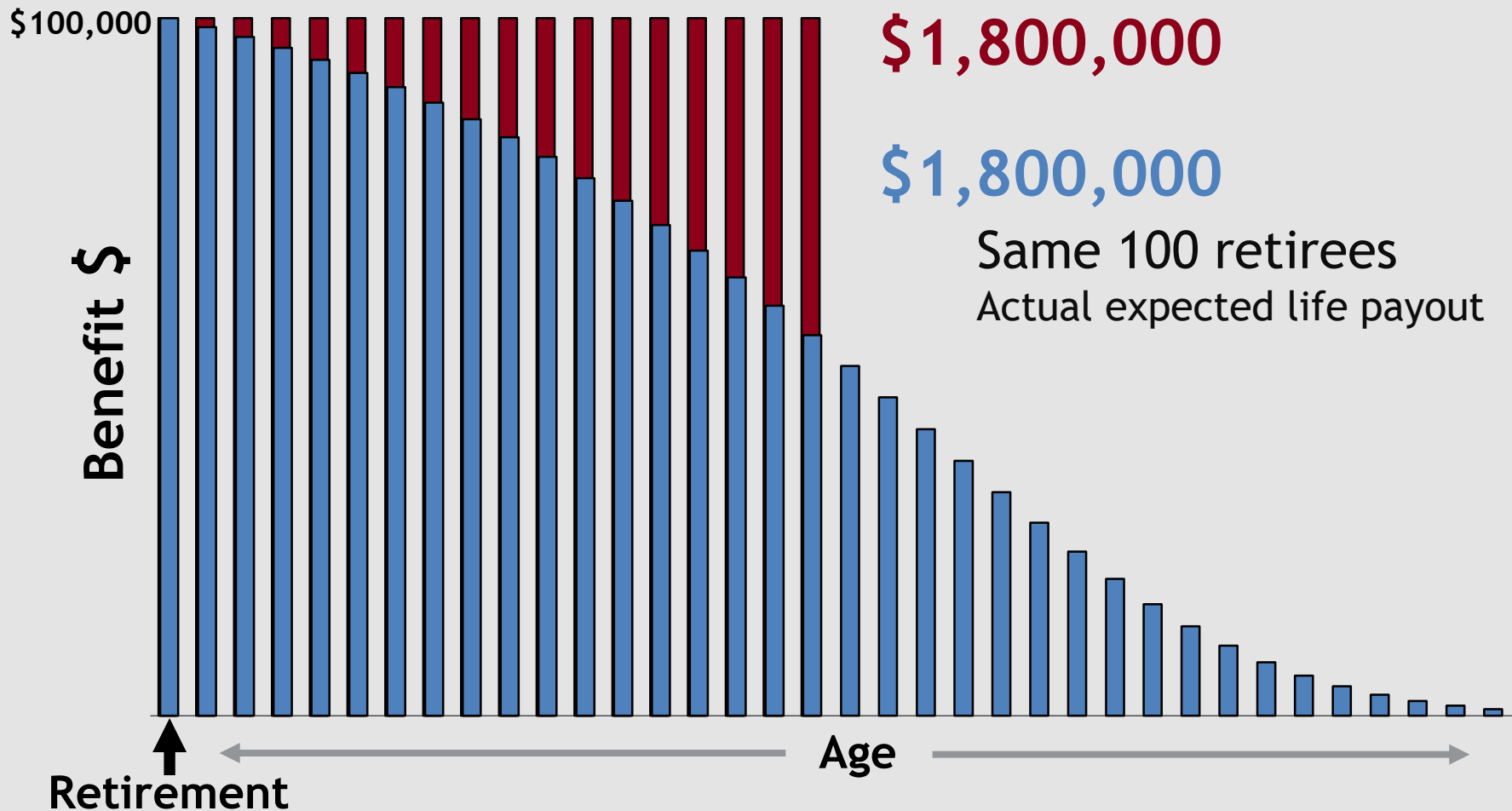
Pre-Funding Pension Benefits



Liability Calculation—Benefit Payments

Add Mortality

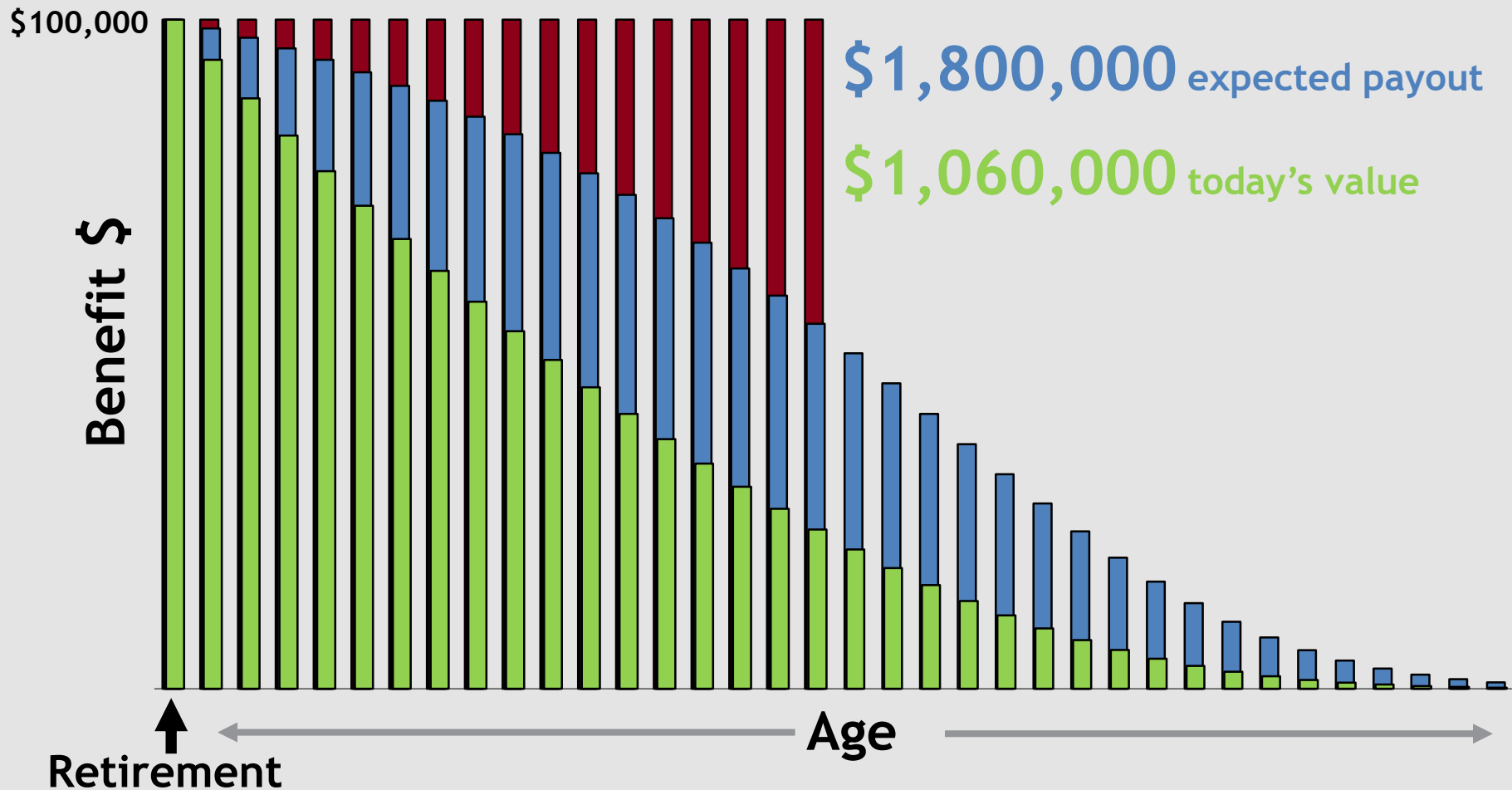
Pre-Funding Pension Benefits



Liability Calculation—Benefit Payments

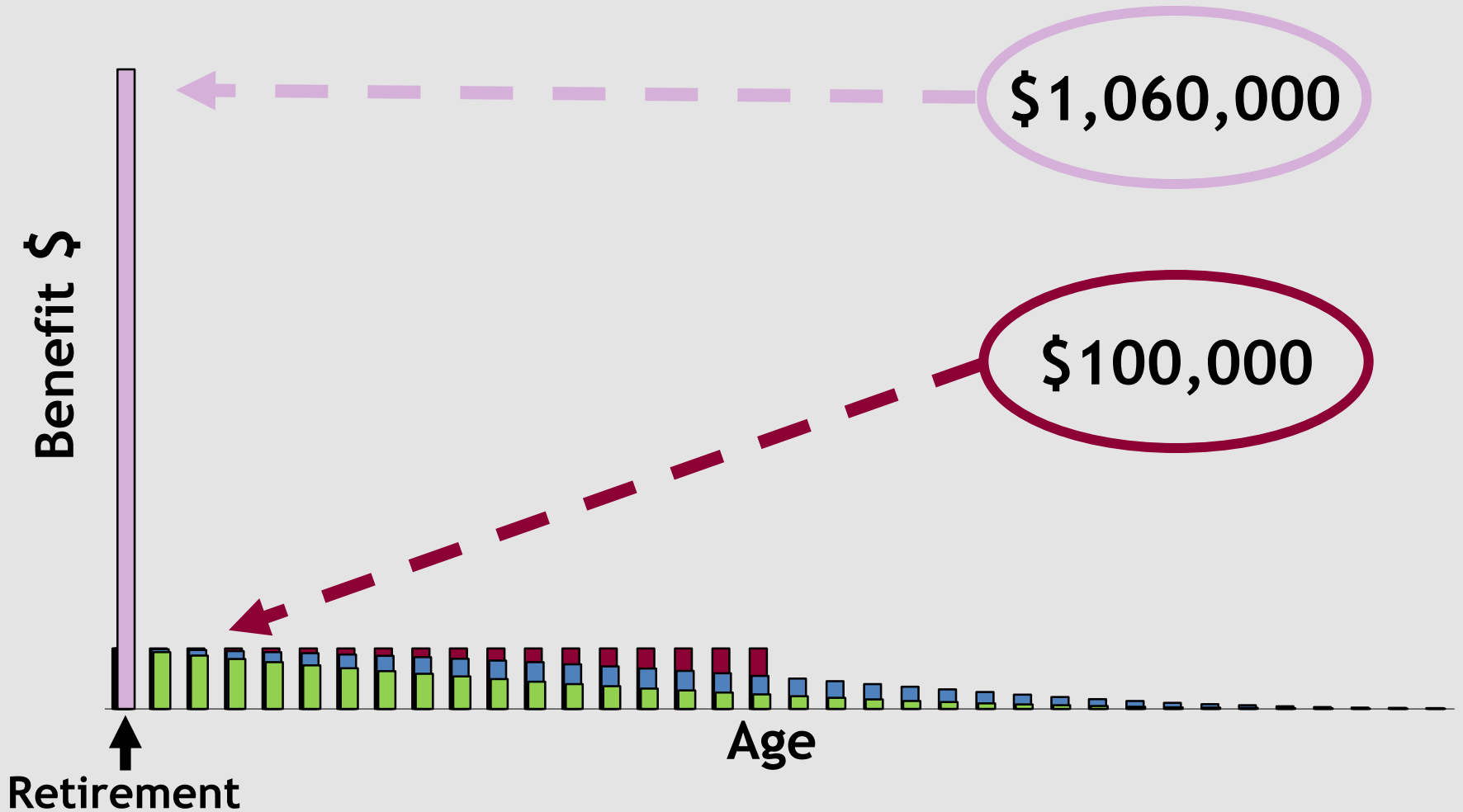
Add Investment Earnings

Pre-Funding Pension Benefits



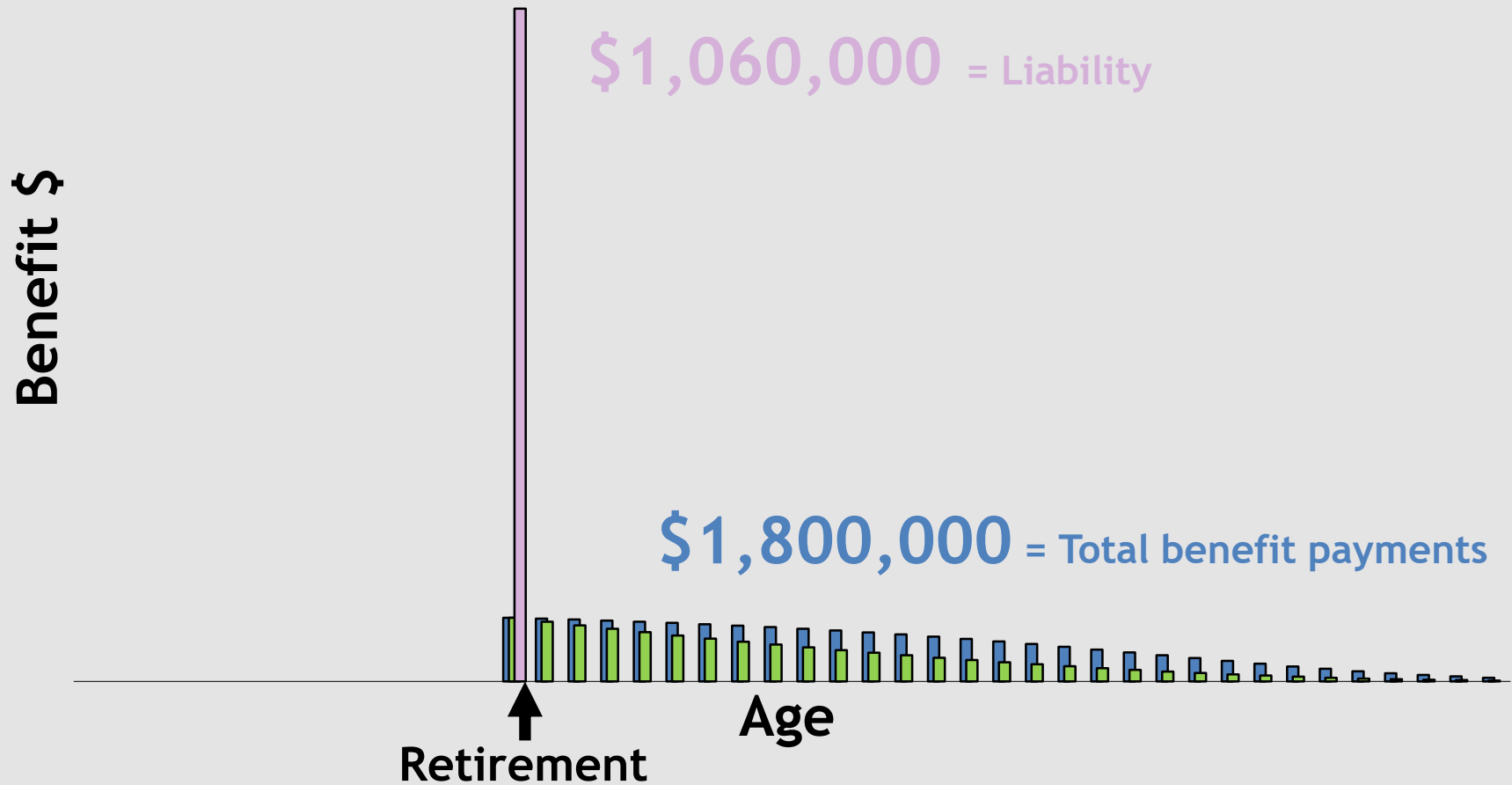
Liability

Pre-Funding Pension Benefits



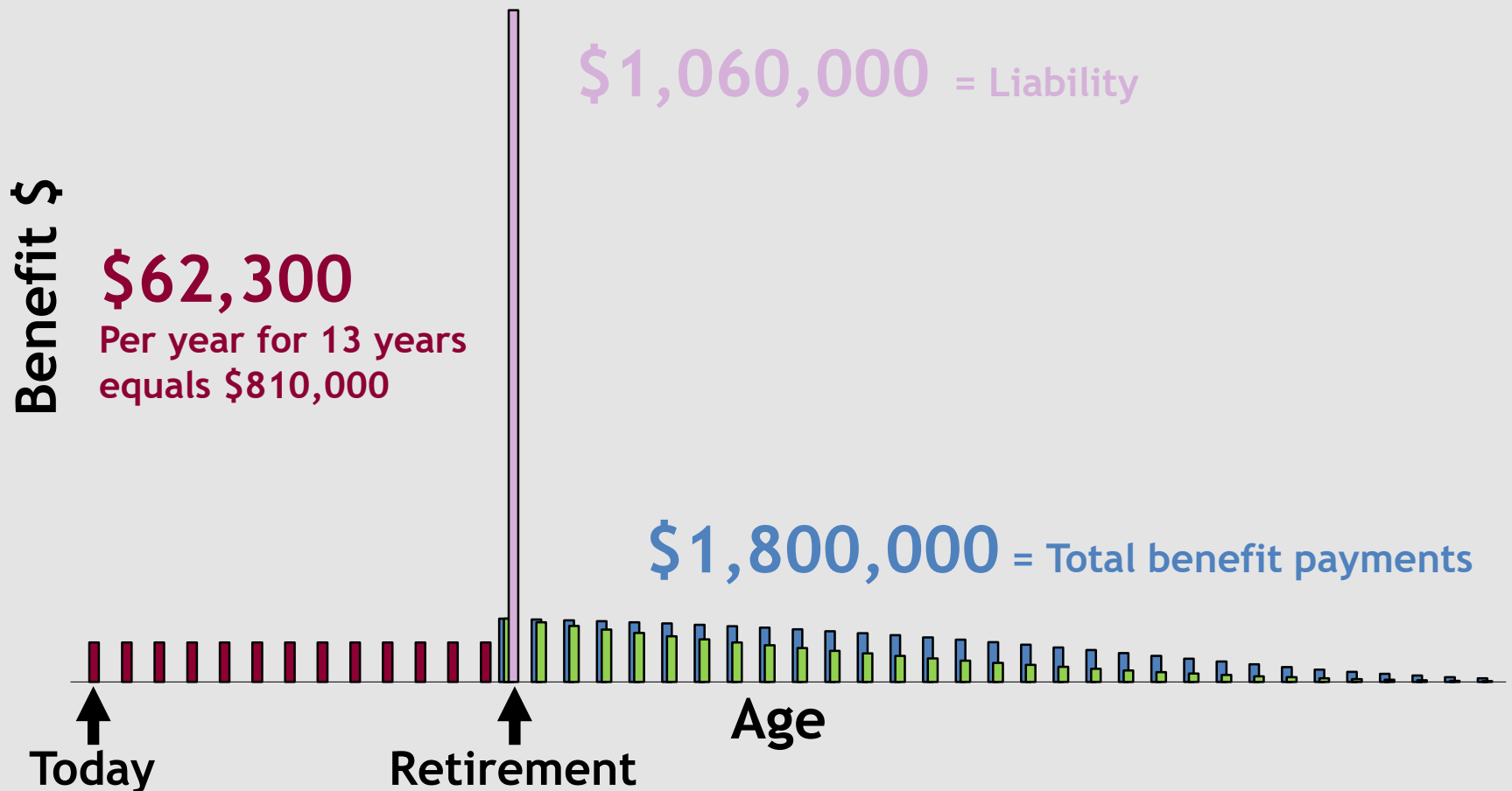
Liability

Pre-Funding Pension Benefits



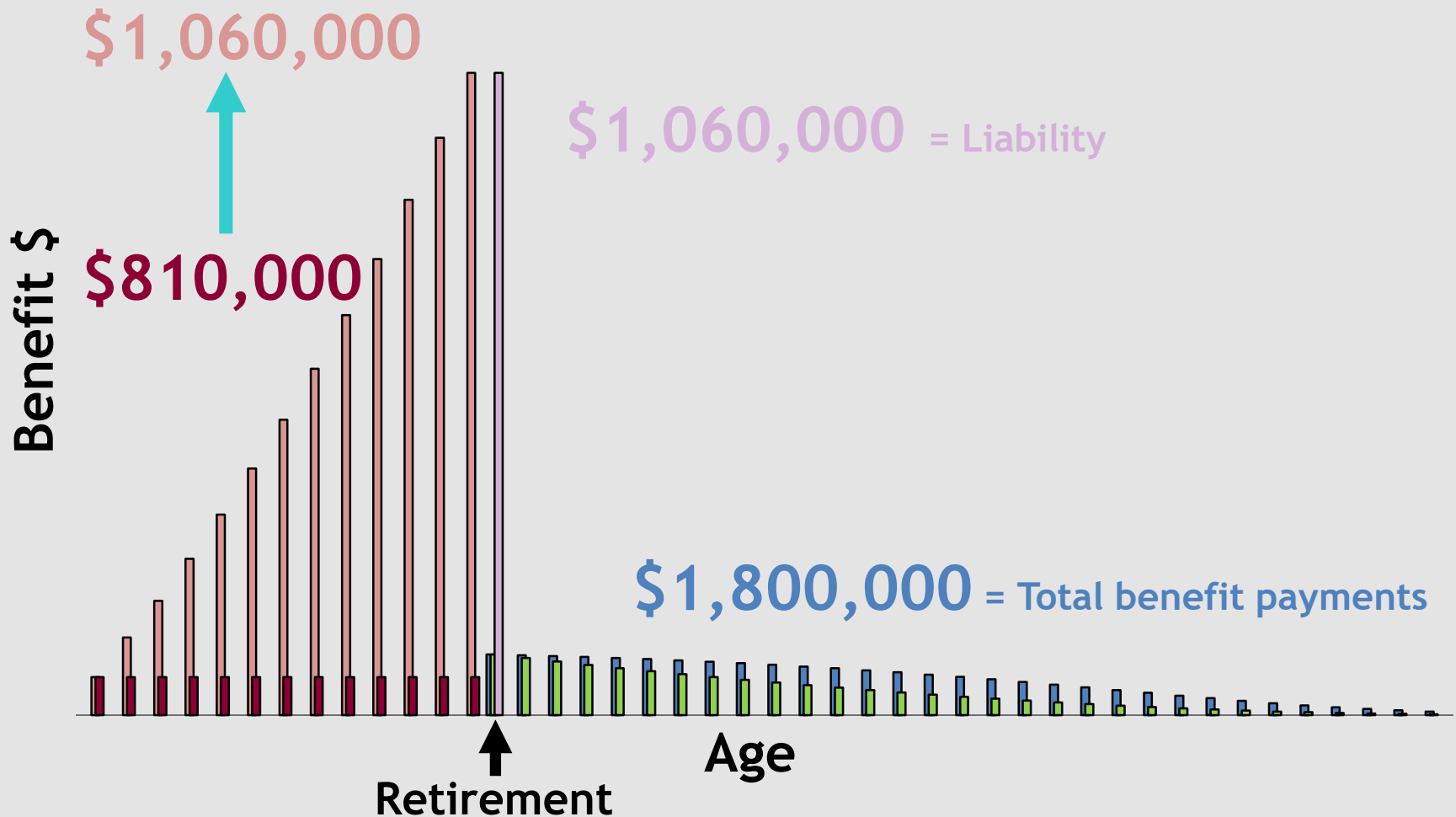
Contributions

Pre-Funding Pension Benefits



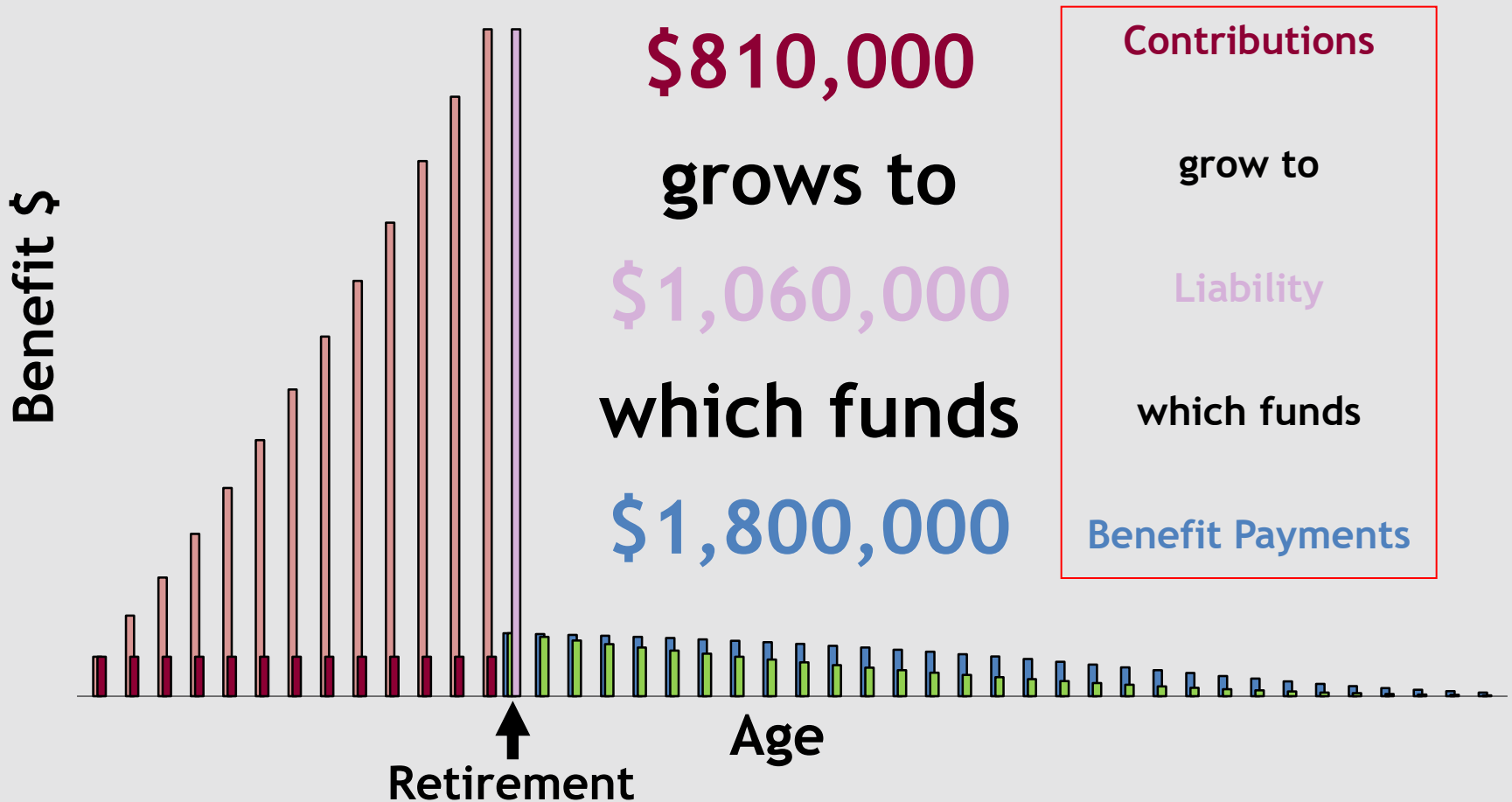
Pre-Funding Pension Benefits

Pre-Funding Pension Benefits



Pre-Funding Pension Benefits

Pre-Funding Pension Benefits



Valuation Results



Asset Returns

Valuation Results

	2014 Returns		2015 Returns	
	Actual	Expected	Actual	Expected
CRSP DB	4.10%	7.00%	-2.56%	7.000%
MPP Annuities	4.64%	6.25%	-0.80%	6.250%
Pre-82	4.10%	6.75%	-2.50%	6.625%

CRSP DB and MPP Annuities

Valuation Results

Funded Ratio—Funding Basis

	January 1, 2015	January 1, 2016
CRSP DB	111%	108%
MPP Annuities	112%	105%
Combined	112%	106%

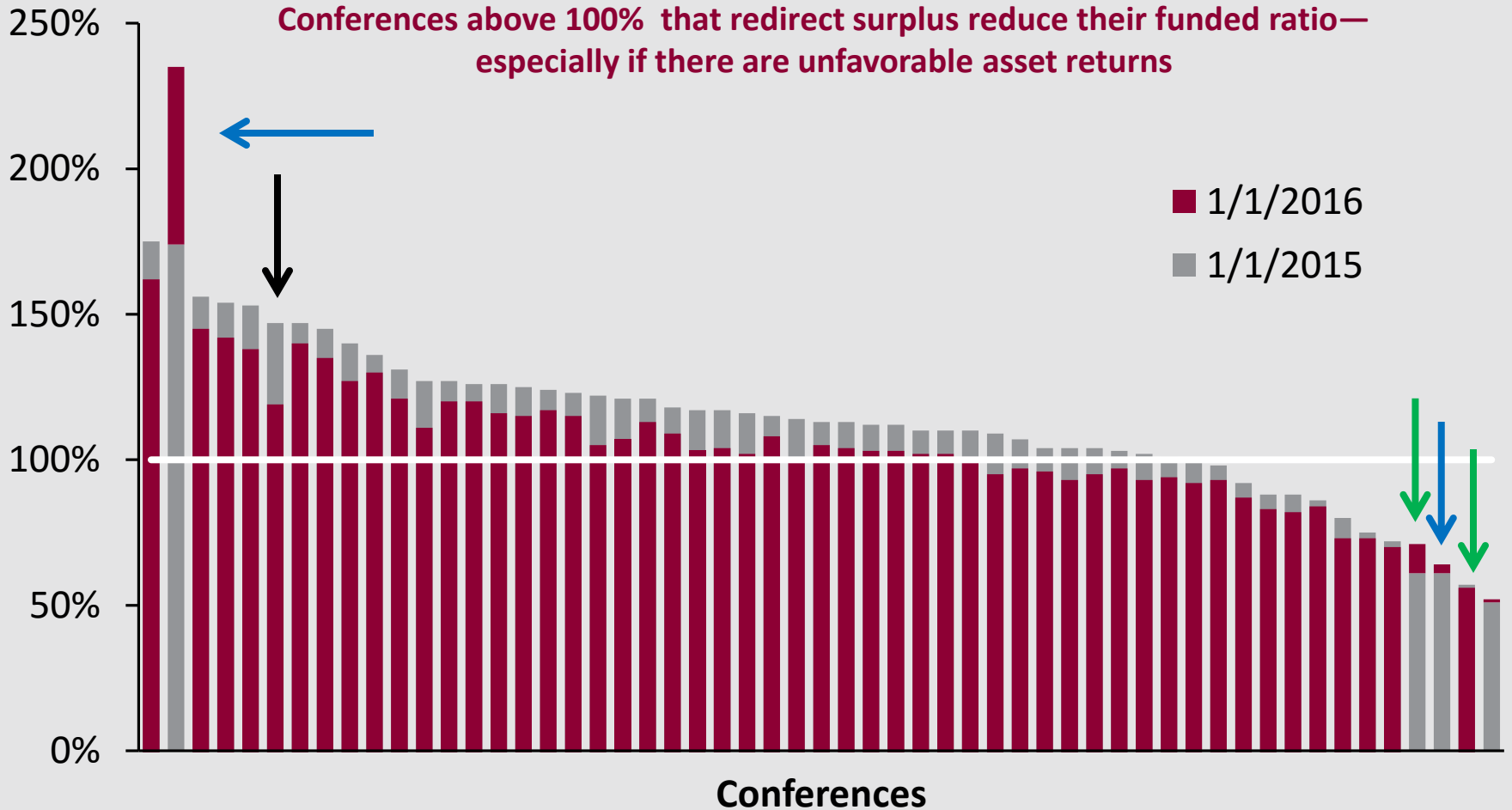
Note: 2016 reflects new mortality assumptions and asset smoothing

Pre-82 Plan

Valuation Results

Funded Ratio* —Funding Basis

Conferences above 100% that redirect surplus reduce their funded ratio—especially if there are unfavorable asset returns



Pre-82 Funded Ratio History— Funding Basis

Valuation Results

Valuation Year	Contribution Year	Funded Ratio Using All Assets	Funded Ratio Excluding “Funding Surplus”
2010	2012	108%	92%
2011	2013	113%	93%
2012	2014	106%	93%
2013	2015	105%	93%
2014	2016	112%	95%
2015	2017	114%	96%
2016	2018	105%*	95%*

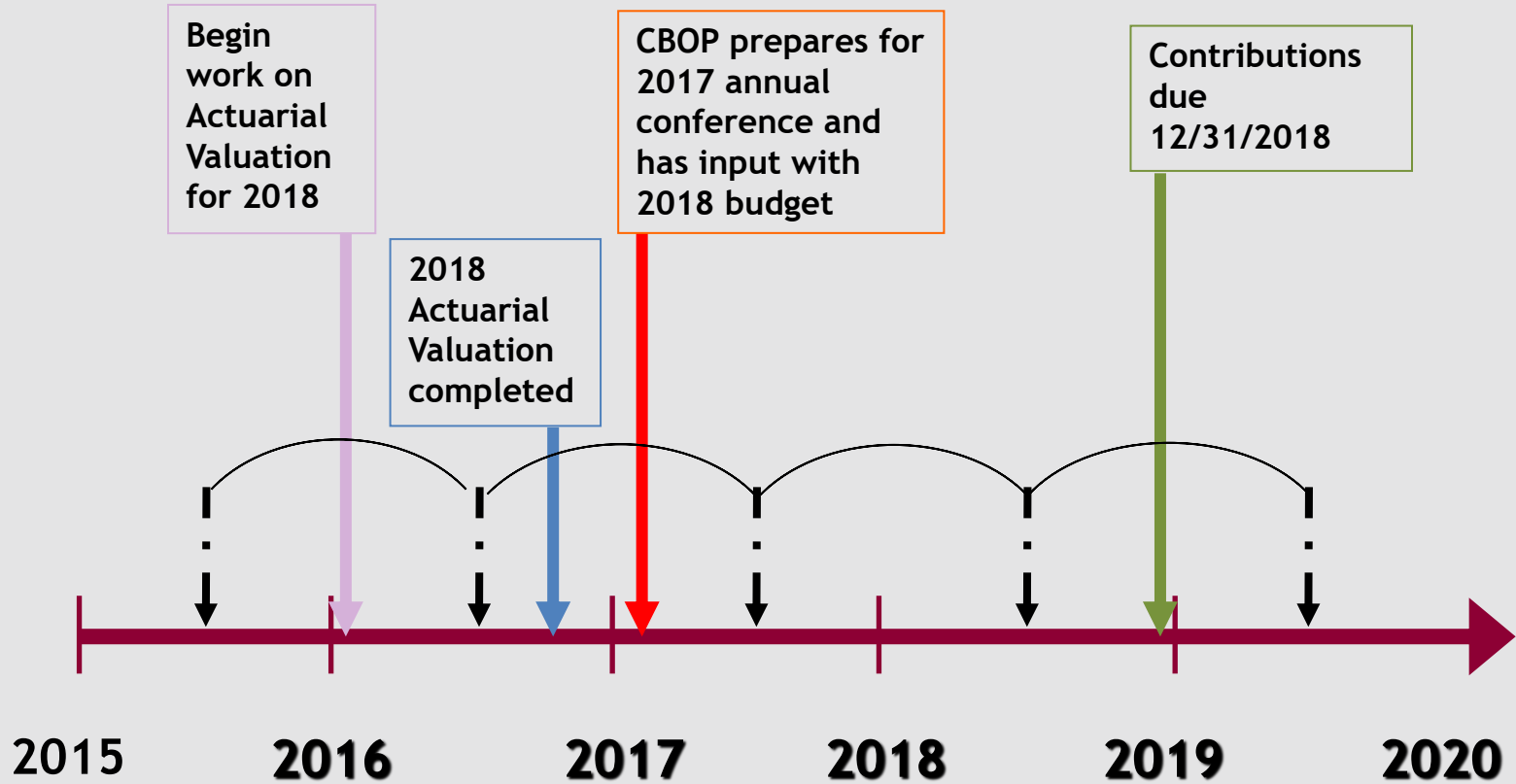
*Assumes no change in Past Service Rate (PSR)



Budgeting

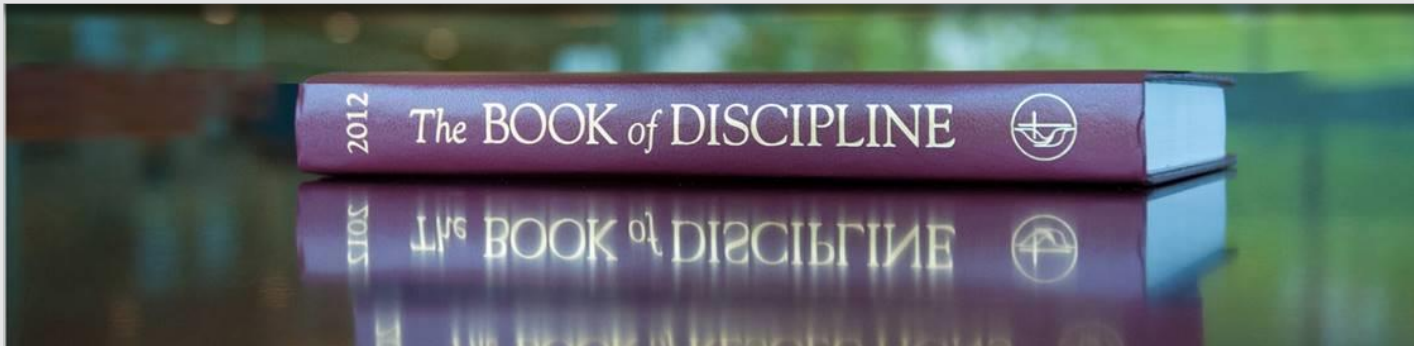
Conference Budget Timeline—2018

Budgeting



Comprehensive Benefit Funding Plan (CBFP)

Budgeting



***The 2012 Book of Discipline* ¶ 1506.6 states:**

“Each conference shall develop, adopt, and implement a formal comprehensive funding plan or plans for funding all of its benefit obligations.”

Pre-82 portion of CBFP is required prior to increasing benefit levels (along with pre-funding any unfunded liability)

Comprehensive Benefit Funding Plan

Budgeting

- Comprehensive Benefit Funding Plan contains:
 - Listing of programs
 - Liability information
 - Estimate of future contribution requirements
 - Assets assigned to those liabilities
 - Future funding sources

Recap

- Clergy DB plans
 - ✓ Pre-82
 - ✓ MPP Annuities
 - ✓ CRSP DB
- Actuarial Valuation
 - ✓ Assets
 - ✓ Liability
 - ✓ Funded Ratio
 - ✓ Contribution
- Items Impacting Valuation Results
 - ✓ Asset Performance
 - ✓ Census Data
 - ✓ Assumptions
 - ✓ Type of Valuation

Recap

- **Benefits Paid = Contributions + Interest Earned**
 - ✓ Prefunding allows more time for interest to be earned
- **2016 Valuation Results**
 - ✓ Clergy DB plans are over 100% funded on a Funding Basis
- **Budgeting**
 - ✓ Valuation timing facilitates the UMC budgeting cycle

Questions?





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