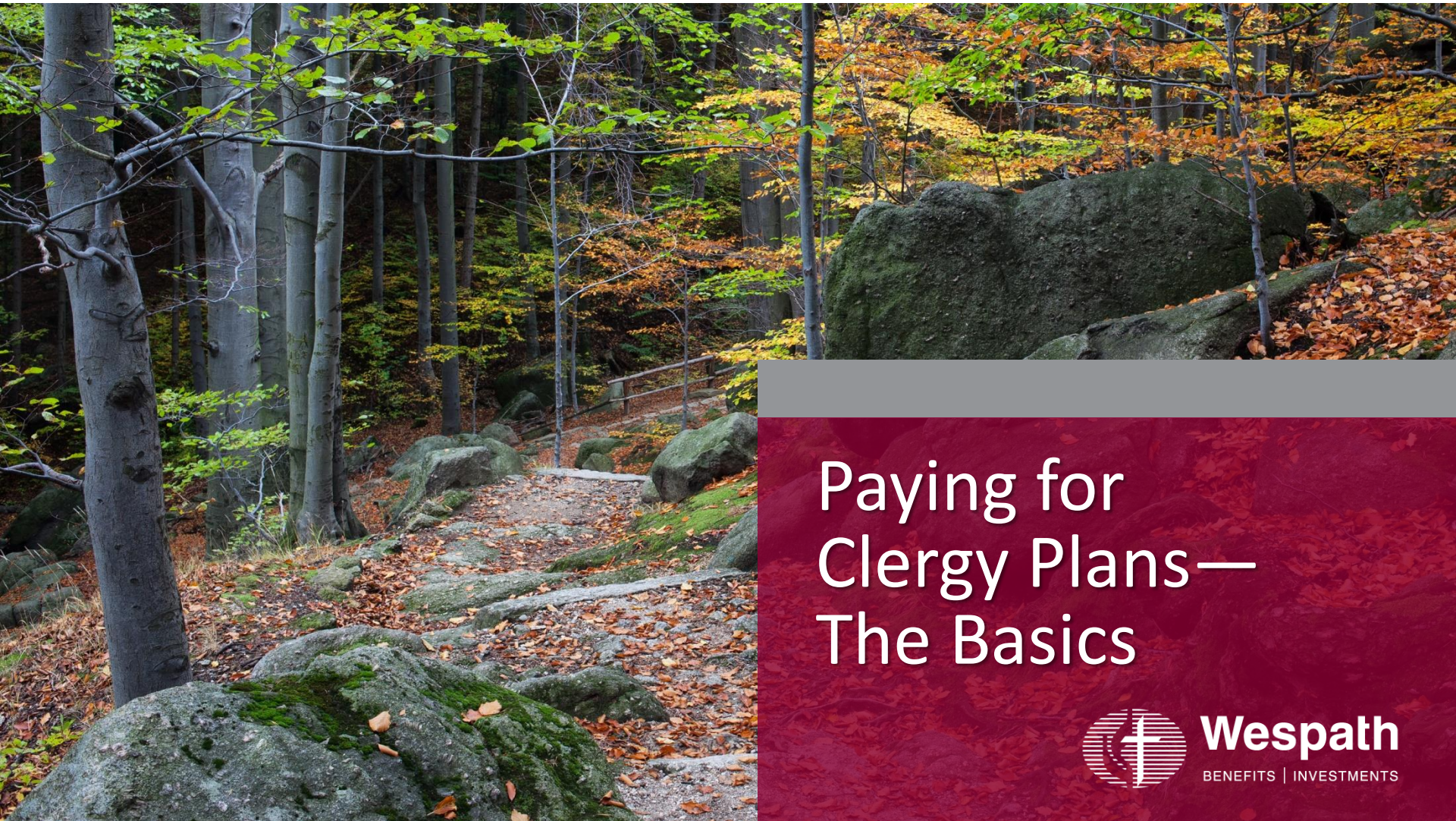
Quadrennial Benefits Conference

Navigating the Path 2016



Paying for Clergy Plans—The Basics

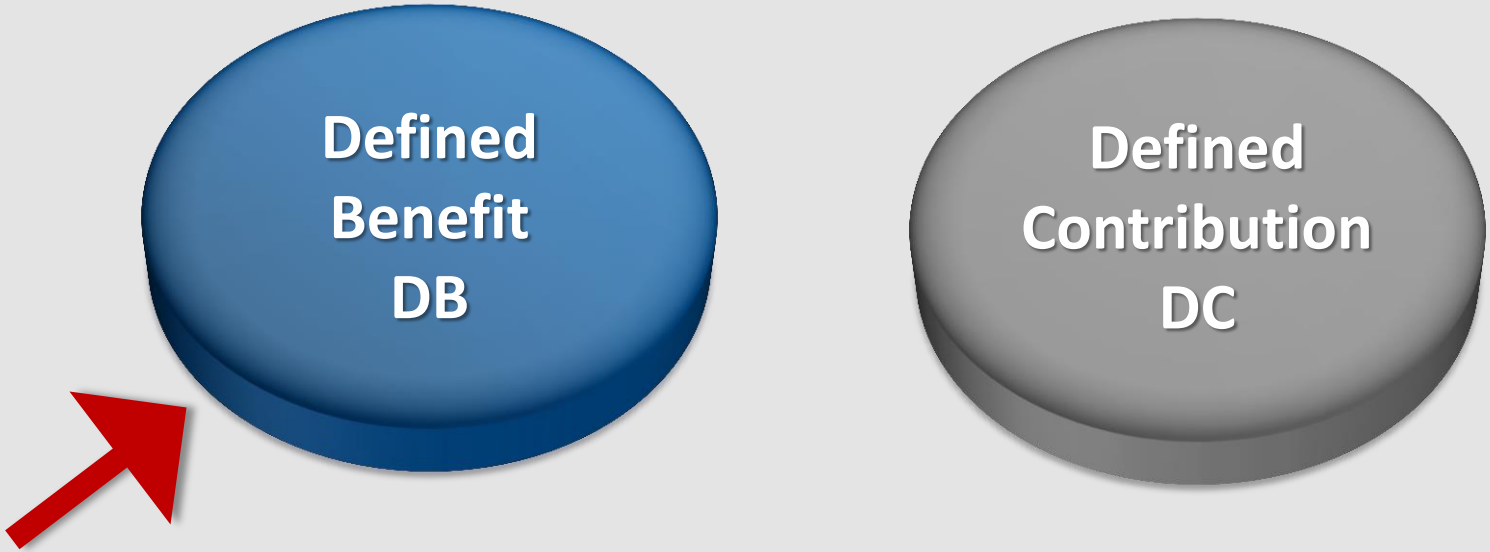
Wespath

BENEFITS | INVESTMENTS

Agenda

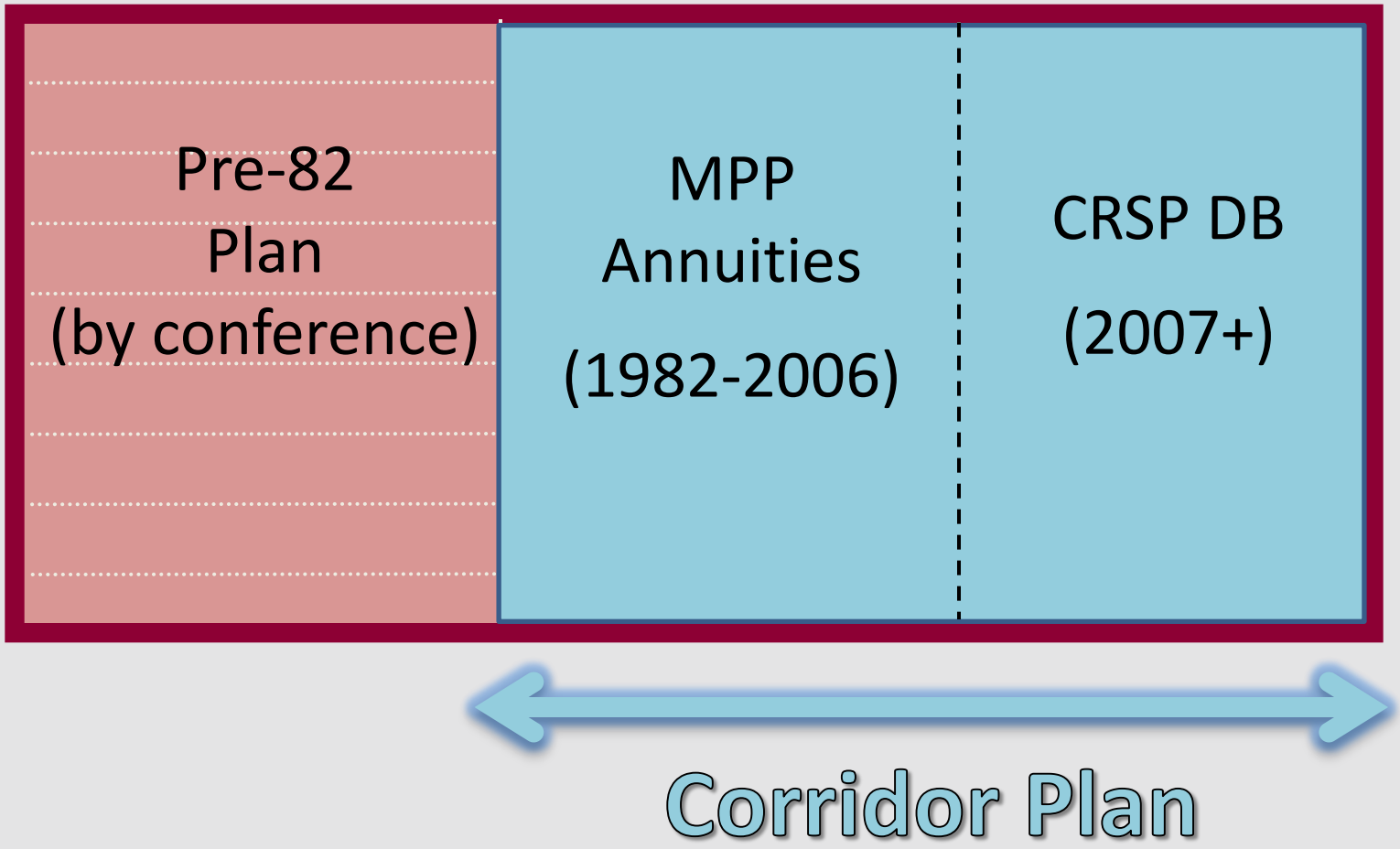
- Pension Plan Basics
- Actuarial Basics
- Pre-Funding Pension Benefits
- Valuation Results
- Budgeting

Defined Benefit vs. Defined Contribution

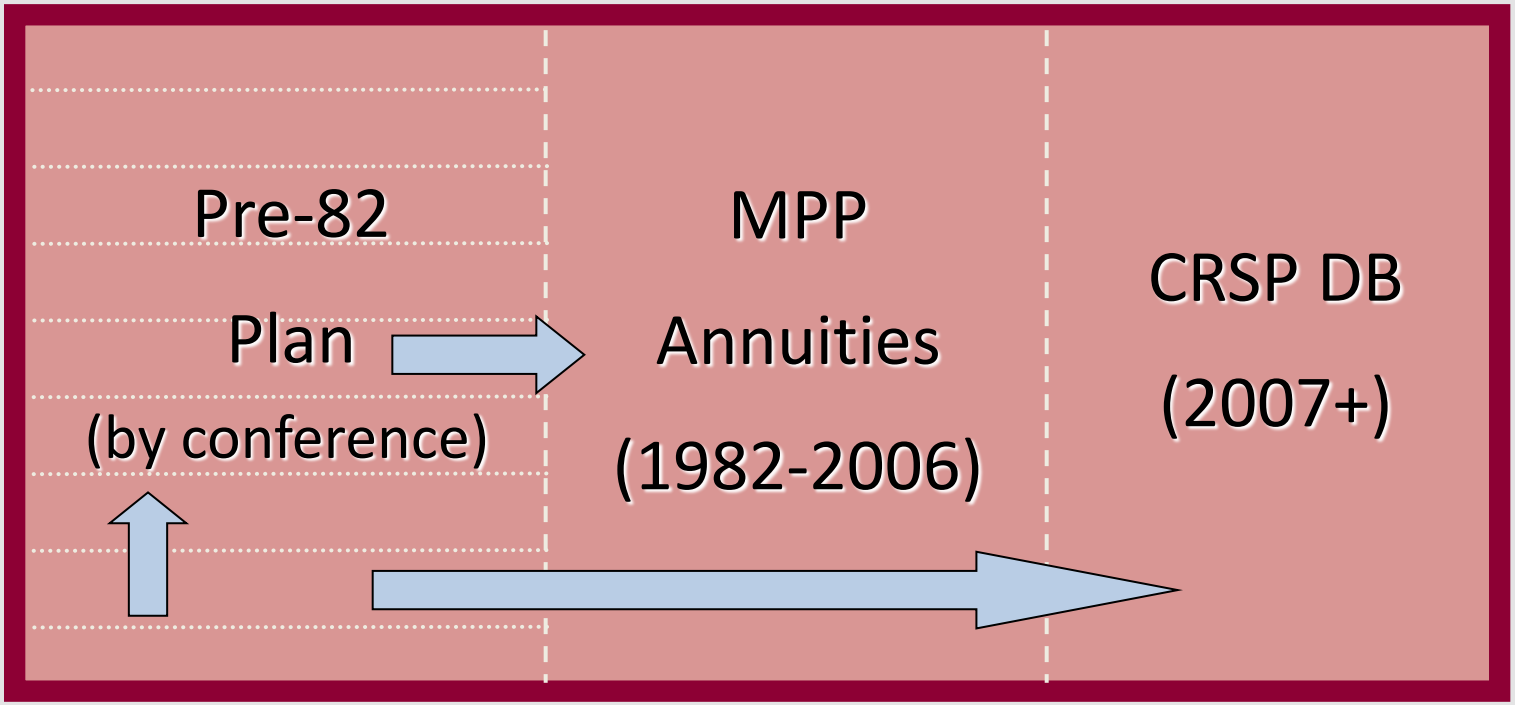


The clergy plans we're discussing today are **DB PLANS**, not DC plans

Clergy DB Plans

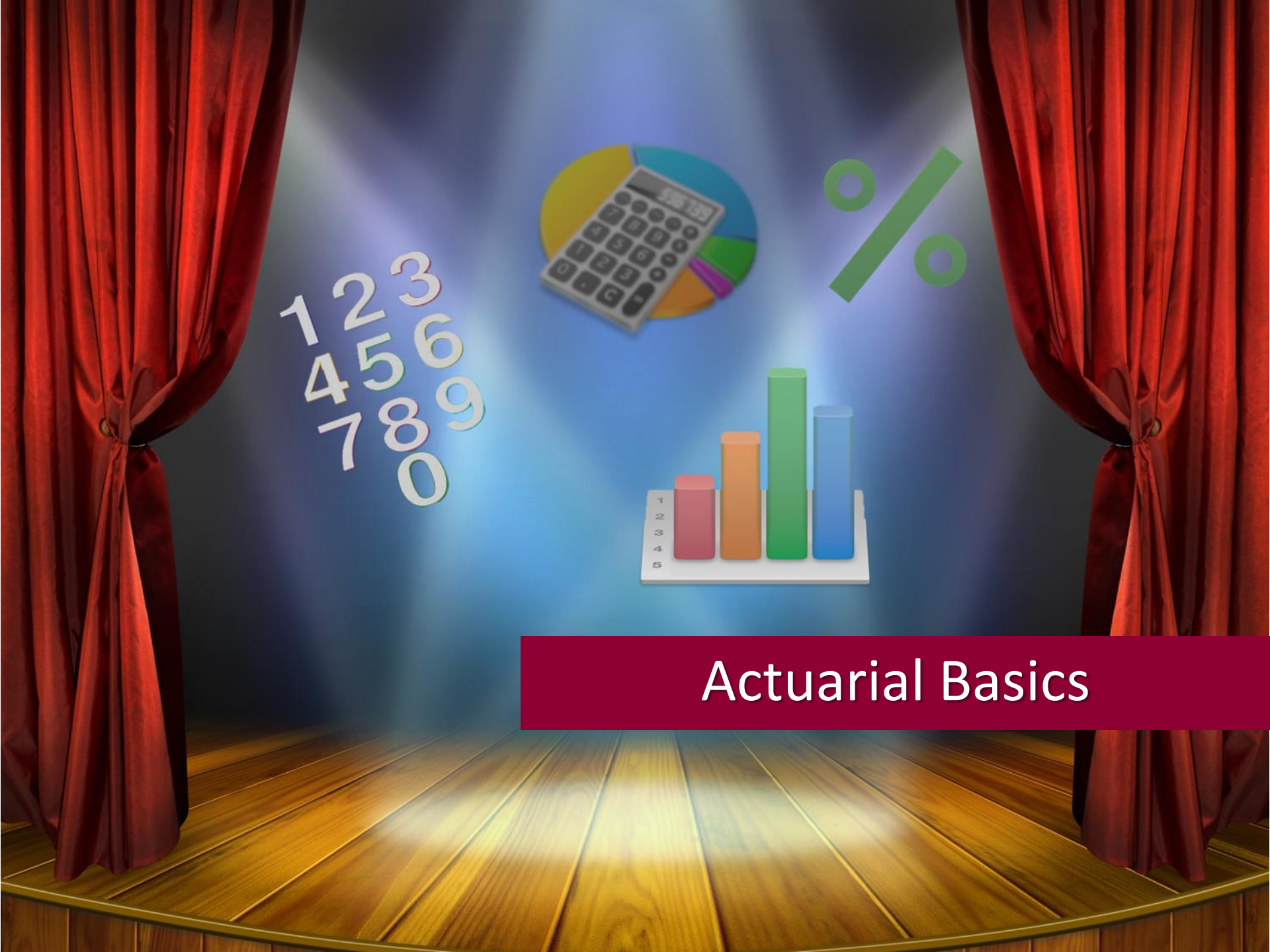


Clergy DB Plans



Money can move within the red lines

(Swaps and Redirections)



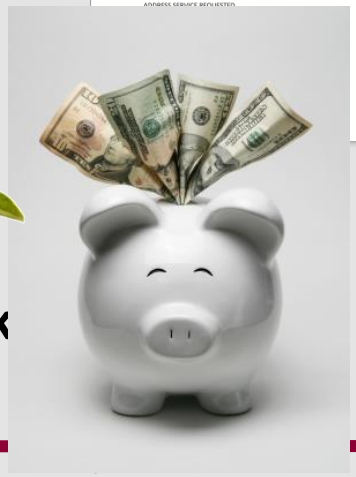
Actuarial Basics

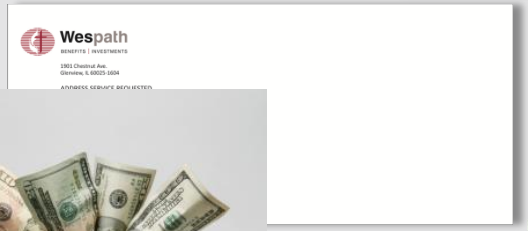
DB Basics

Actuarial Basics

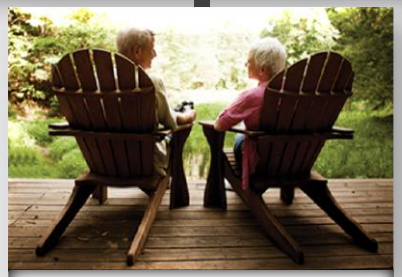
How much will savings earn?

1% x DAC x Service = Retirement





TODAY



RETIREMENT

DEATH

Actuarial Valuation

- 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**
  - Assets / Liability
- **Contribution**

Actuarial Valuation—Items Impacting Results

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

Actuarial Valuation—Asset Performance

- 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%

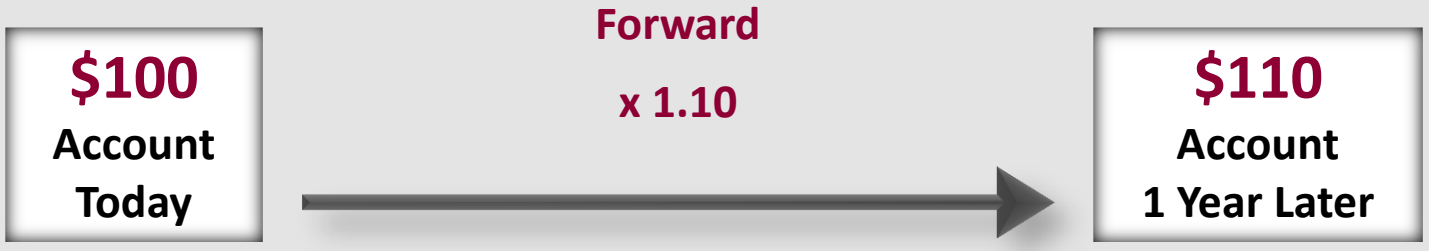
Actuarial Valuation—Census Data

Actuarial Basics

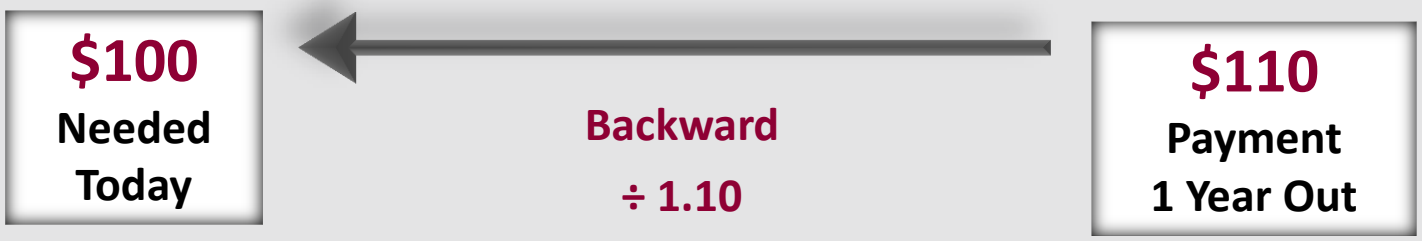
- Collected for all participants entitled to benefits from plan
  - Those receiving benefits AND those with accrued future benefits
- Information needed to estimate future benefits
  - E.g., birth date, gender, service, benefit amount, form of annuity
- Wespath pulls January 1 census data in March from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

Actuarial Valuation—Discount Rate

Interest rate = 10%

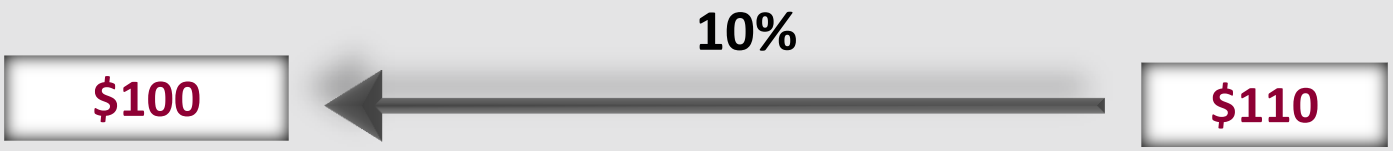


Discount rate = 10%

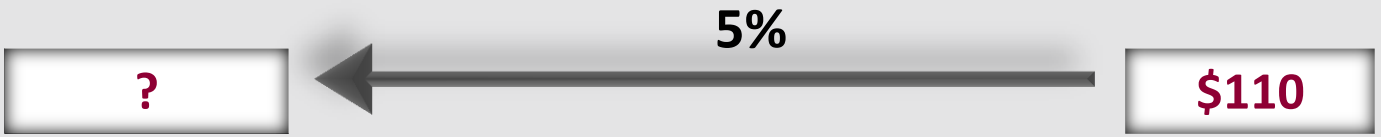


LIABILITY

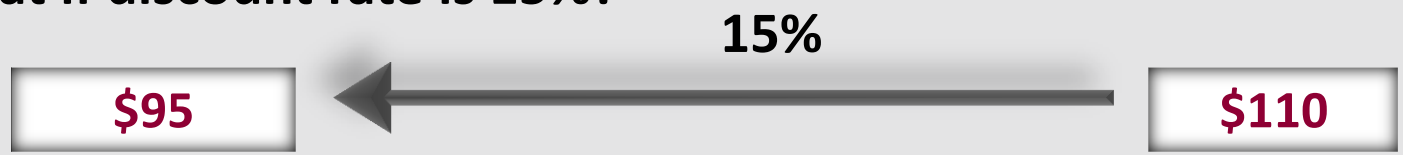
Actuarial Valuation—Discount Rate



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

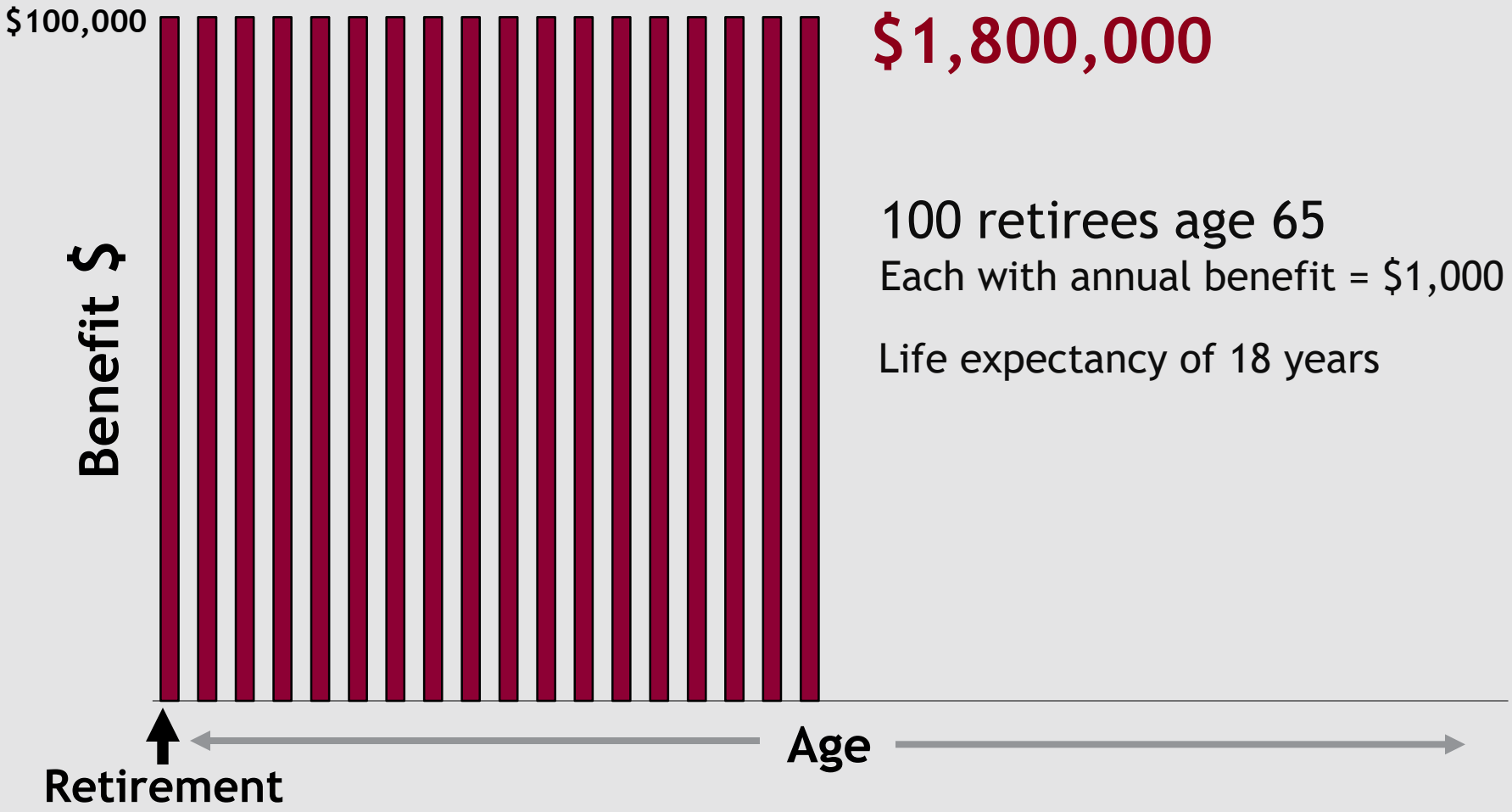
Balance Equation

Pre-Funding Pension Benefits

Benefits Paid = Contributions + Interest Earned

Liability Calculation—Benefit Payments

Pre-Funding Pension Benefits



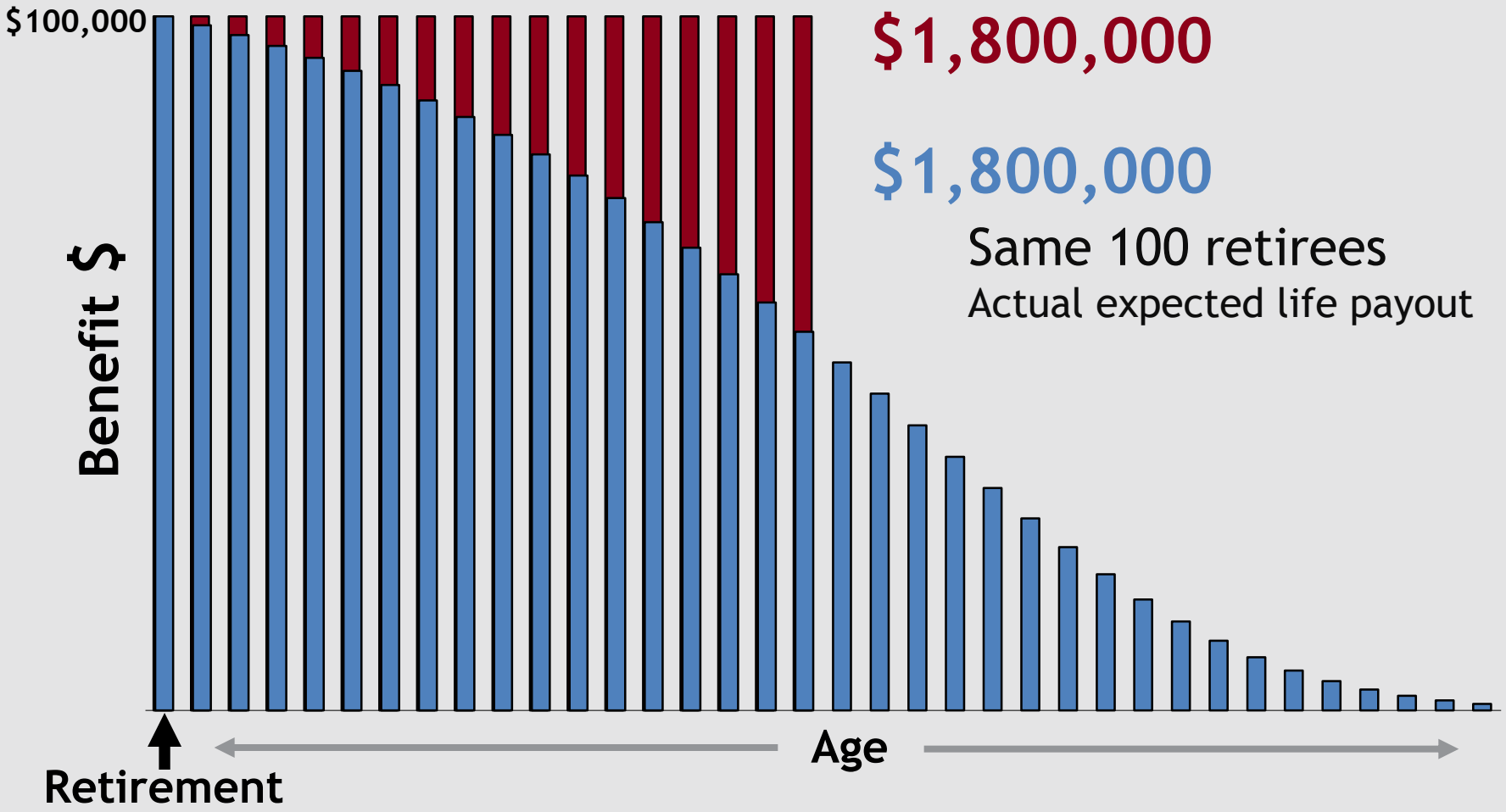
$1,800,000

100 retirees age 65
Each with annual benefit = $1,000

Life expectancy of 18 years

Liability Calculation—Benefit Payments
Add Mortality

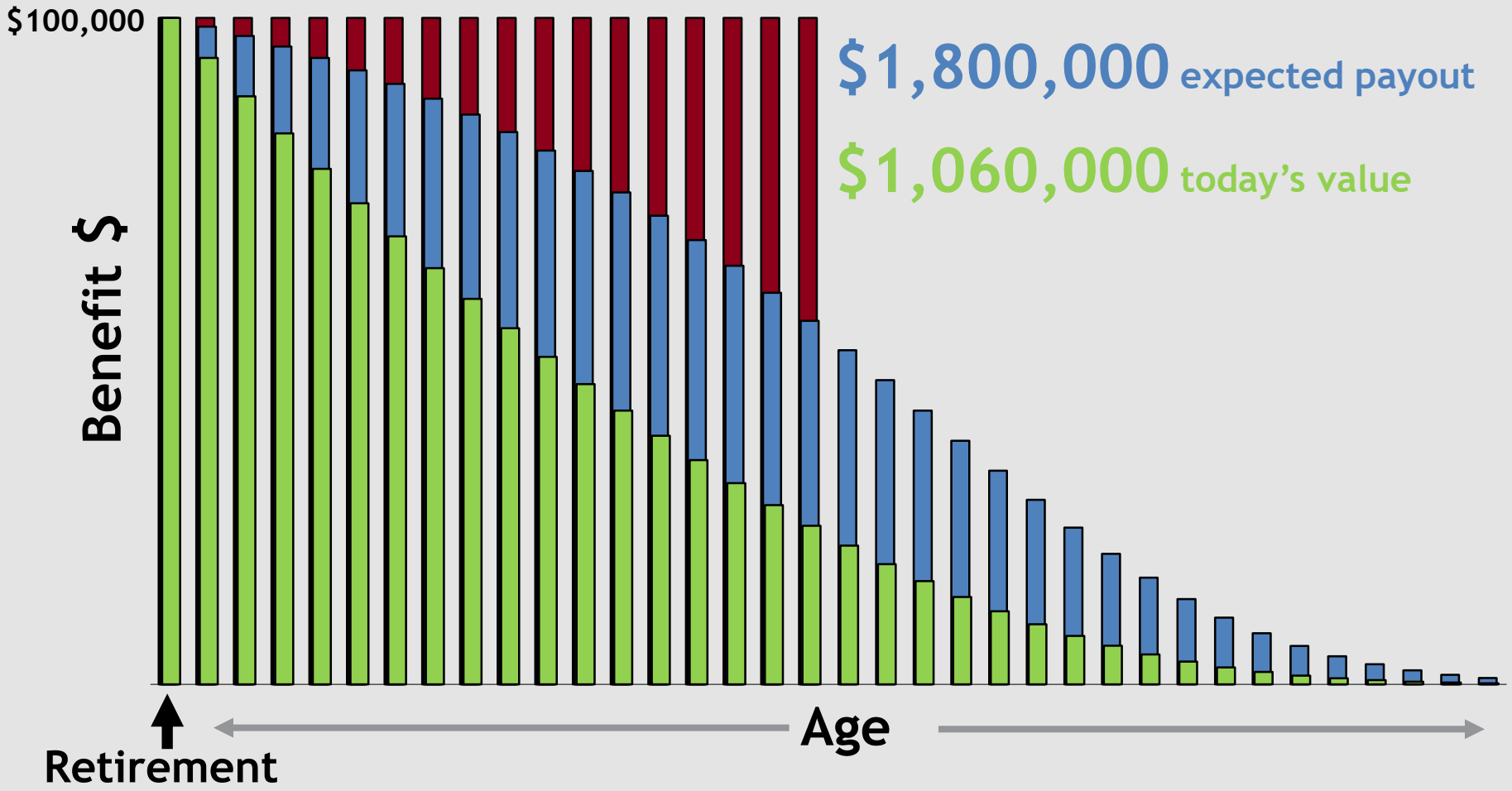
Pre-Funding Pension Benefits



Liability Calculation—Benefit Payments

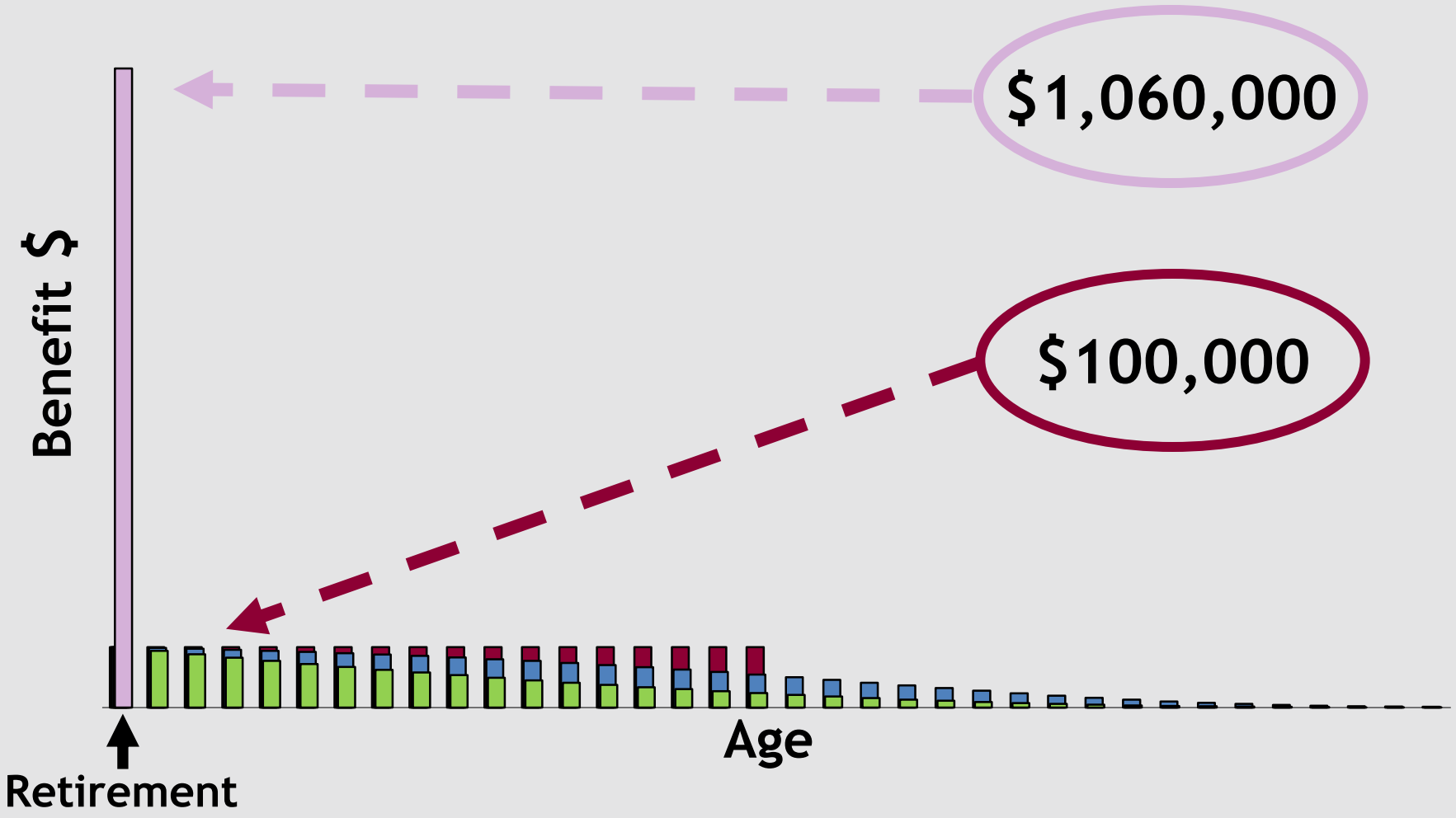
Add Investment Earnings

Pre-Funding Pension Benefits



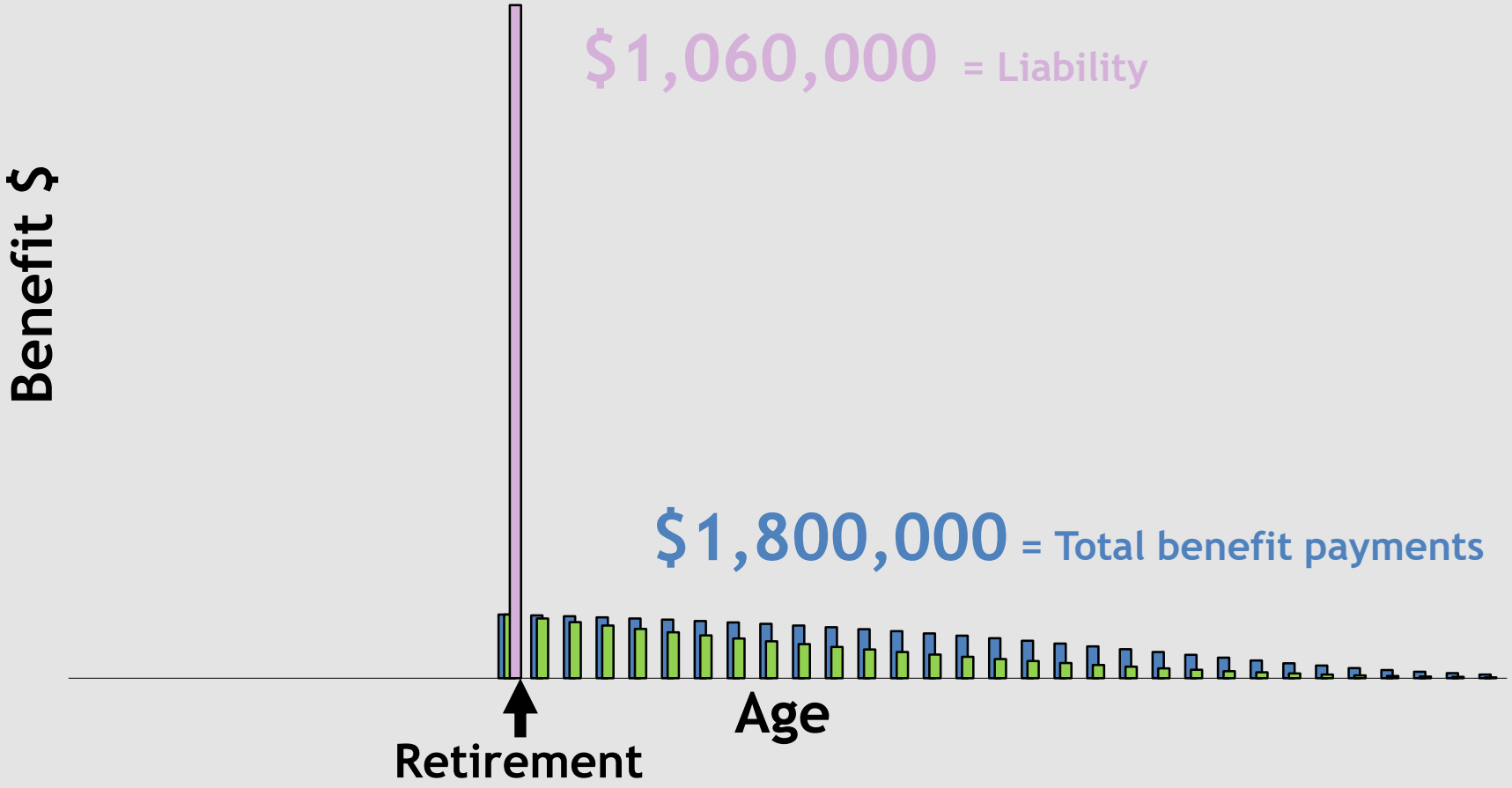
Liability

Pre-Funding Pension Benefits



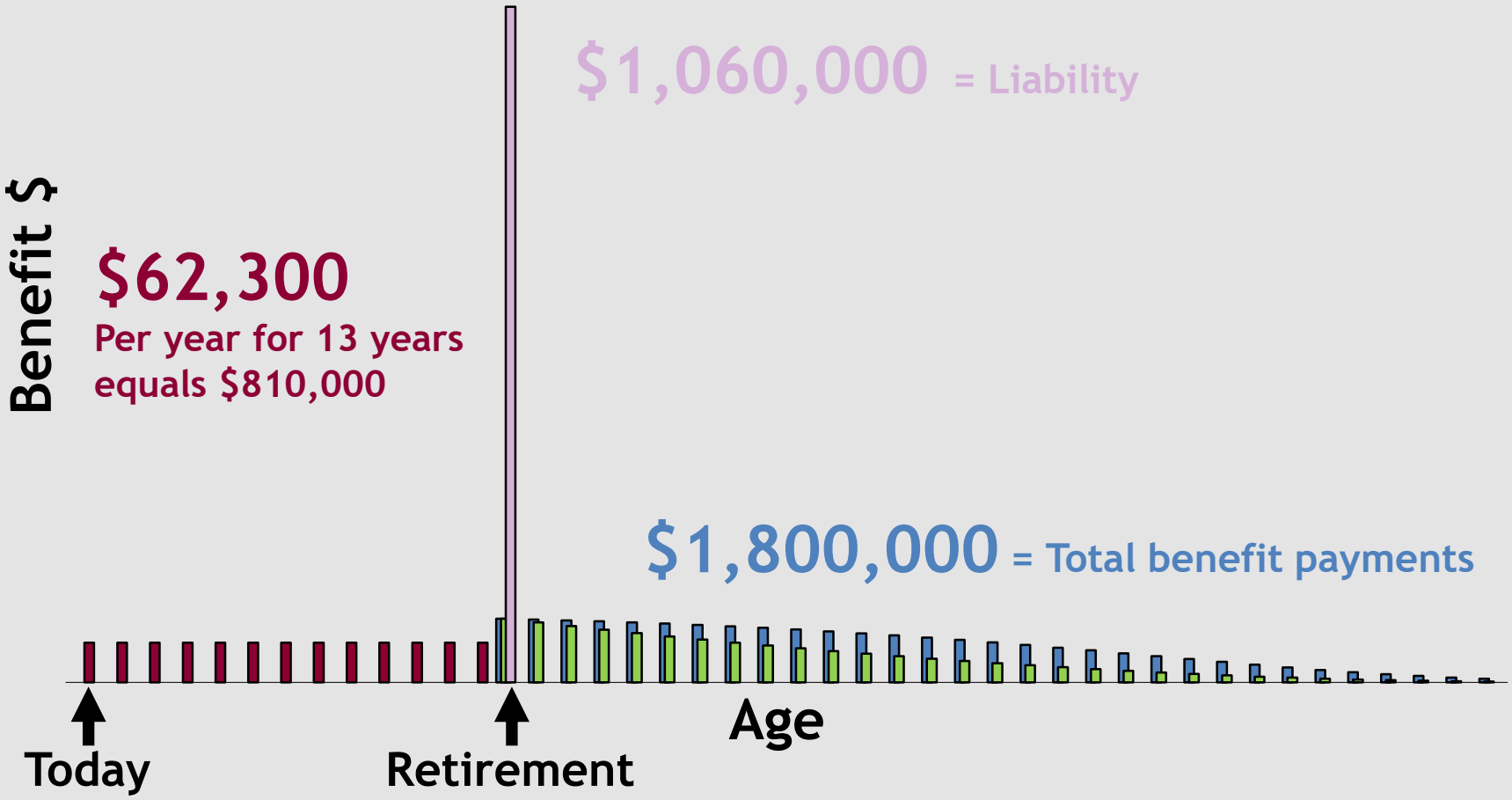
Liability

Pre-Funding Pension Benefits



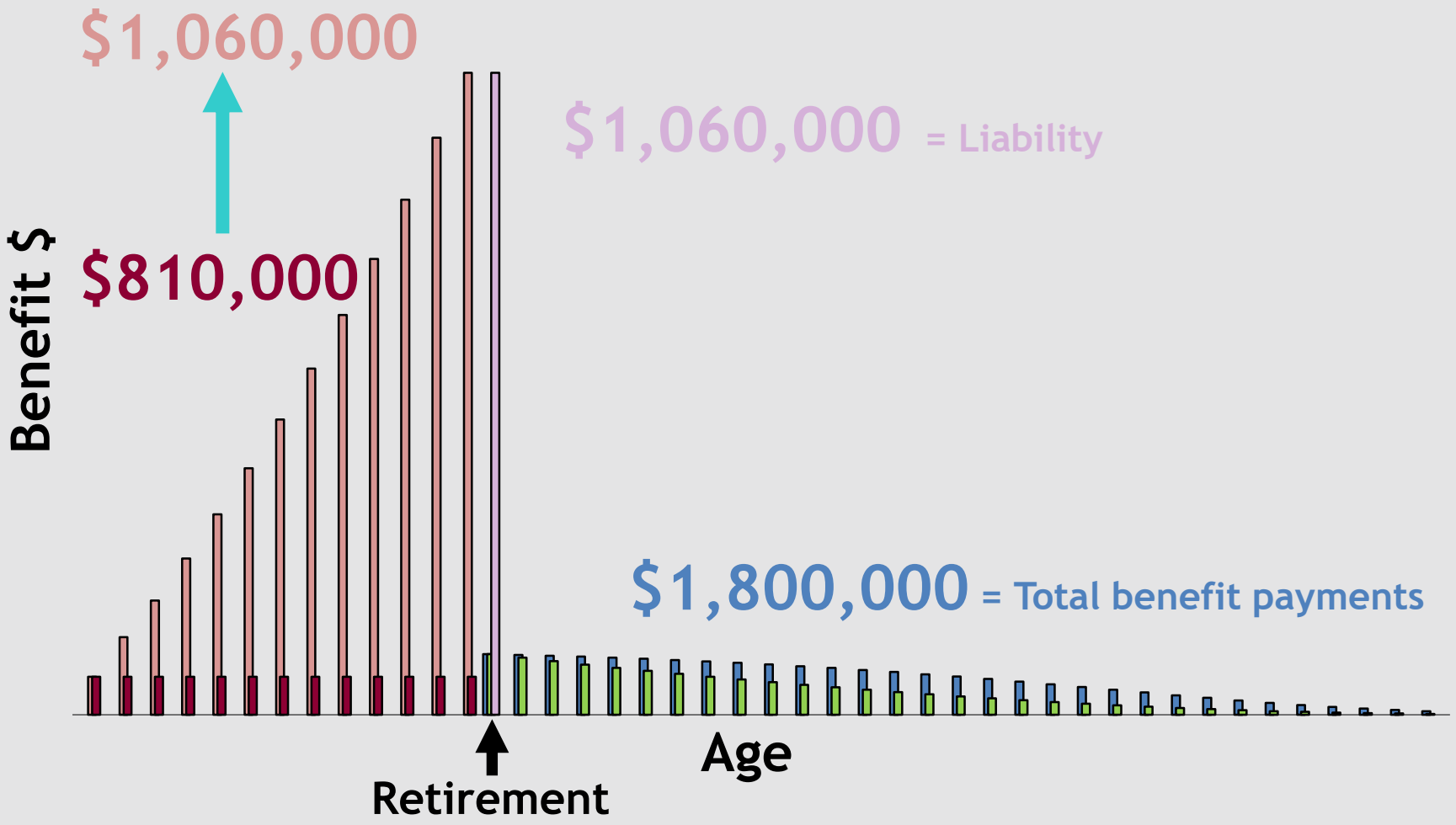
Contributions

Pre-Funding Pension Benefits



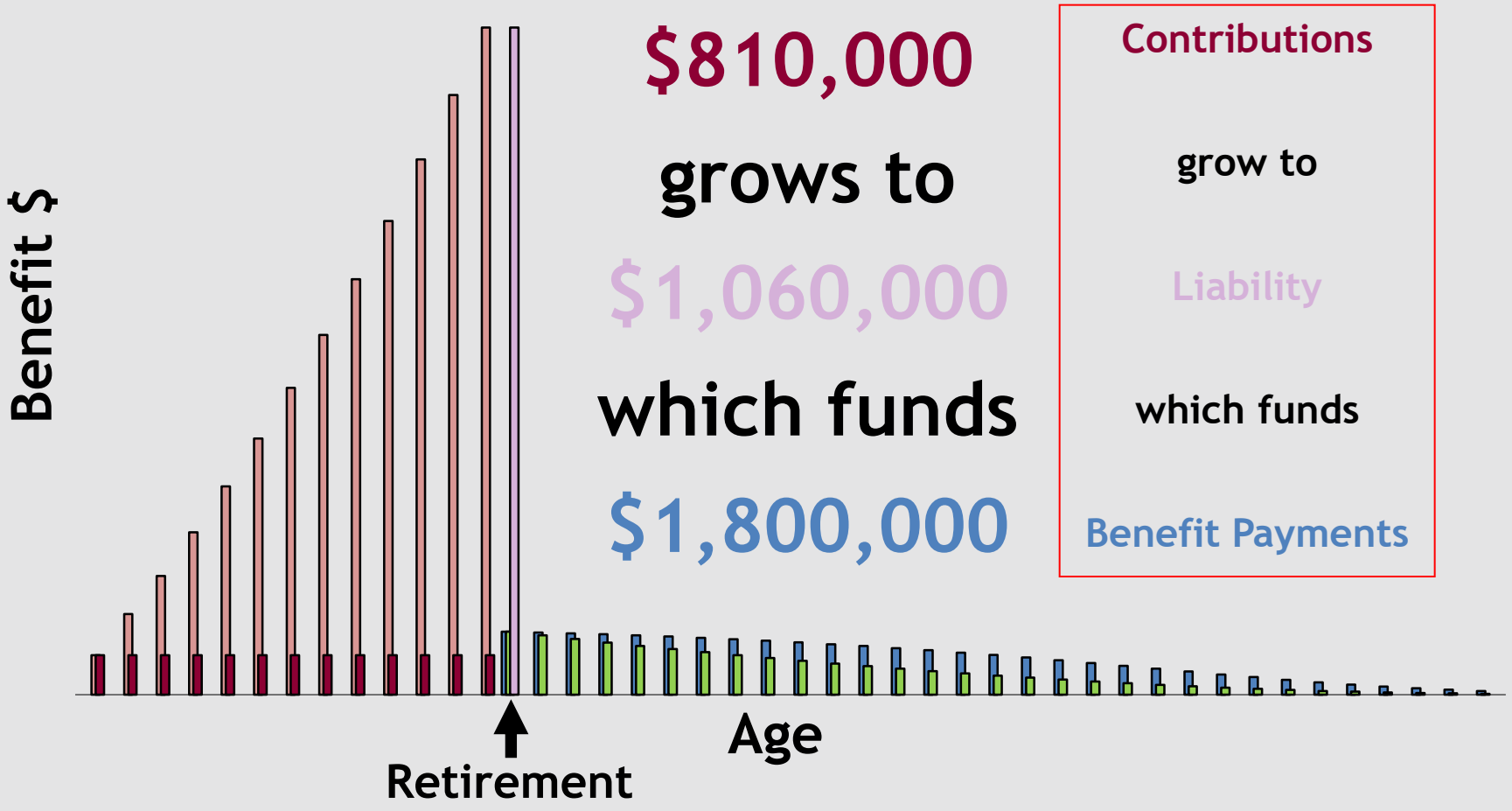
Pre-Funding Pension Benefits

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

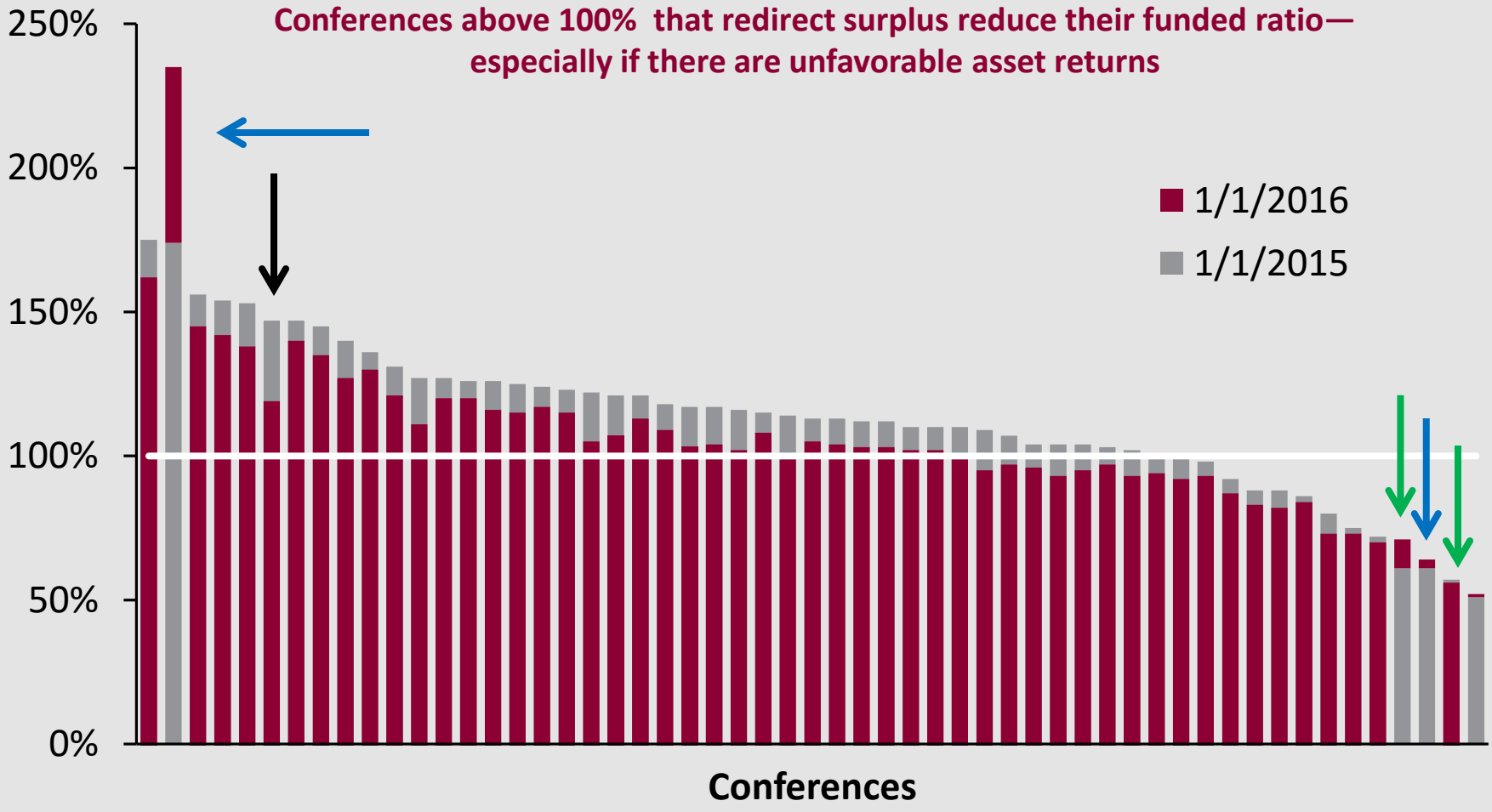
	January 1, 2015	January 1, 2016
CRSP DB	111%	108%
MPP Annuities	112%	105%
Combined	112%	106%

Note: 2016 reflects new mortality assumptions and asset smoothing

Pre-82 Plan

Valuation Results

Funded Ratio*—Funding Basis



*Assuming no change in Past Service Rate (PSR)

Pre-82 Funded Ratio History—Funding Basis

Valuation Results

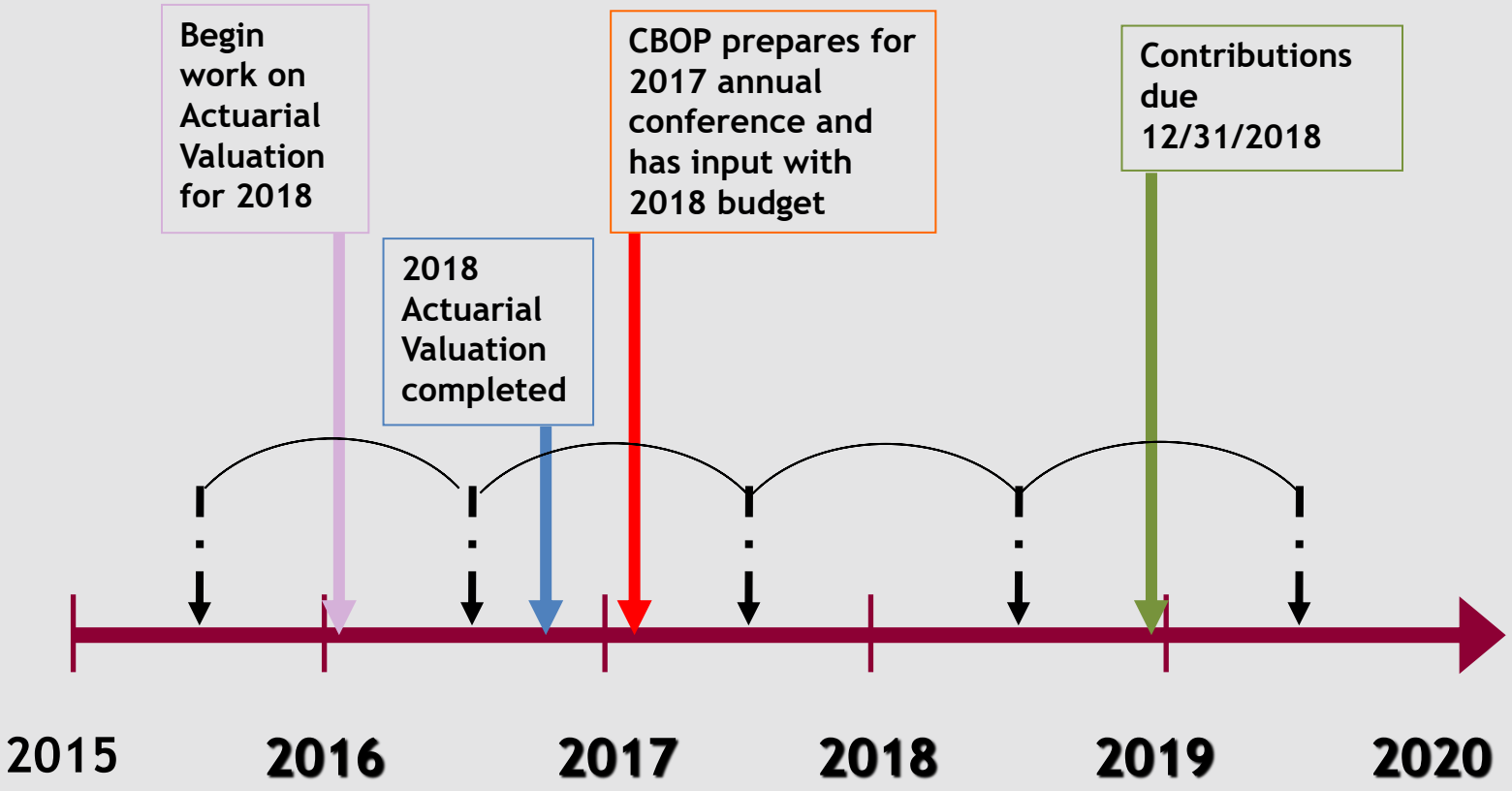
Valuation Year	Contribution Year	Funded Ratio Using All Assets	Funded Ratio Excluding "Funding Surplus"
2010	2012	108%	92%
2011	2013	113%	93%
2012	2014	106%	93%
2013	2015	105%	93%
2014	2016	112%	95%
2015	2017	114%	96%
2016	2018	105%*	95%*

*Assumes no change in Past Service Rate (PSR)

Budgeting

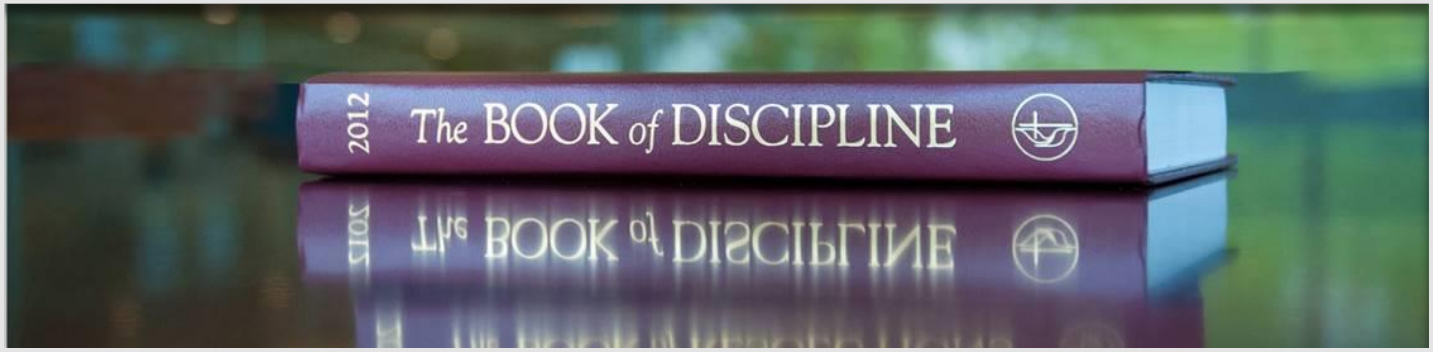
Conference Budget Timeline—2018

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?

Wespath

BENEFITS | INVESTMENTS