



Conference Forum—April 2019



Wespath

BENEFITS | INVESTMENTS

Benefit Plan Design and the Road to Implementation

Agenda

- Review of Proposed DC Plan
- DC Plan Distribution Phase
- The Road to Implementation
- Proposed CPP Plan Changes





Review of Proposed DC Plan

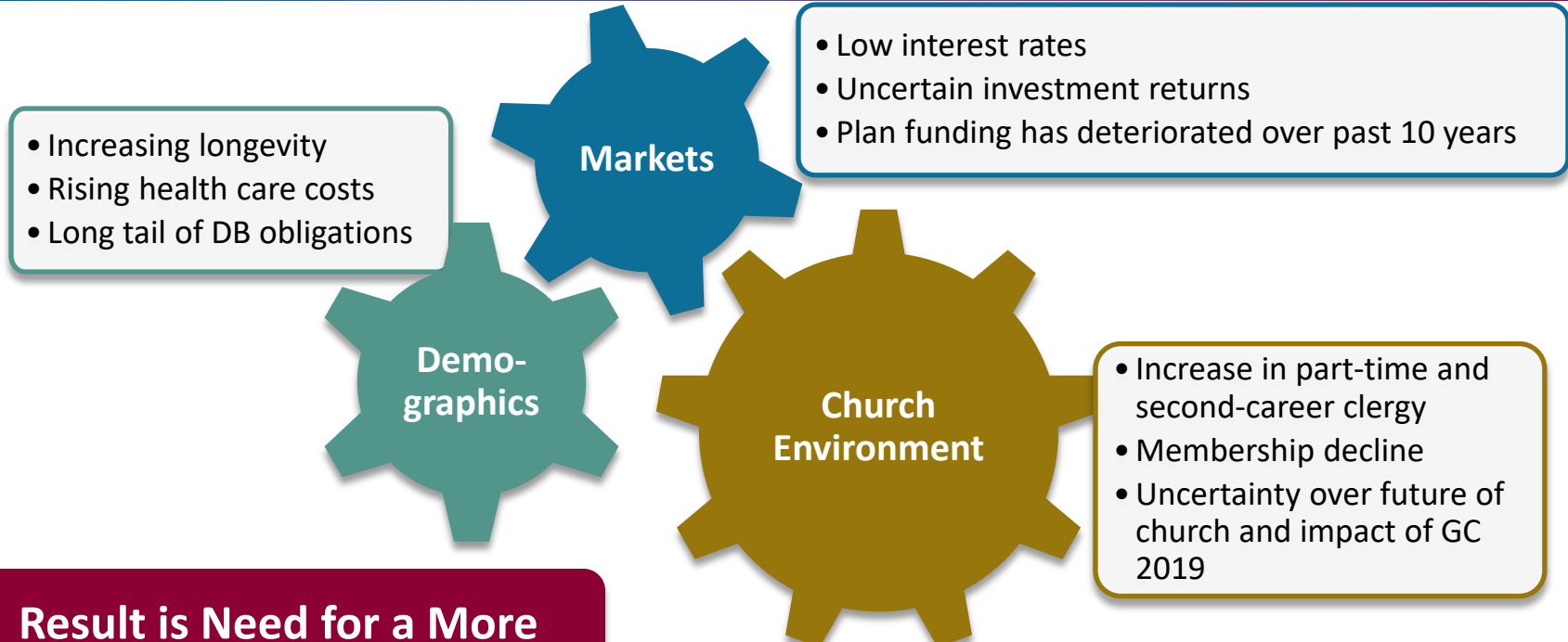
Proposed Change

Account-Based Retirement Plan

- Based on stakeholder feedback, DC Only plan is the appropriate design for the future UMC
- Only long-term, sustainable option considering changes in church
- Effective date: January 1, 2023



Environment for Existing Pension Plans

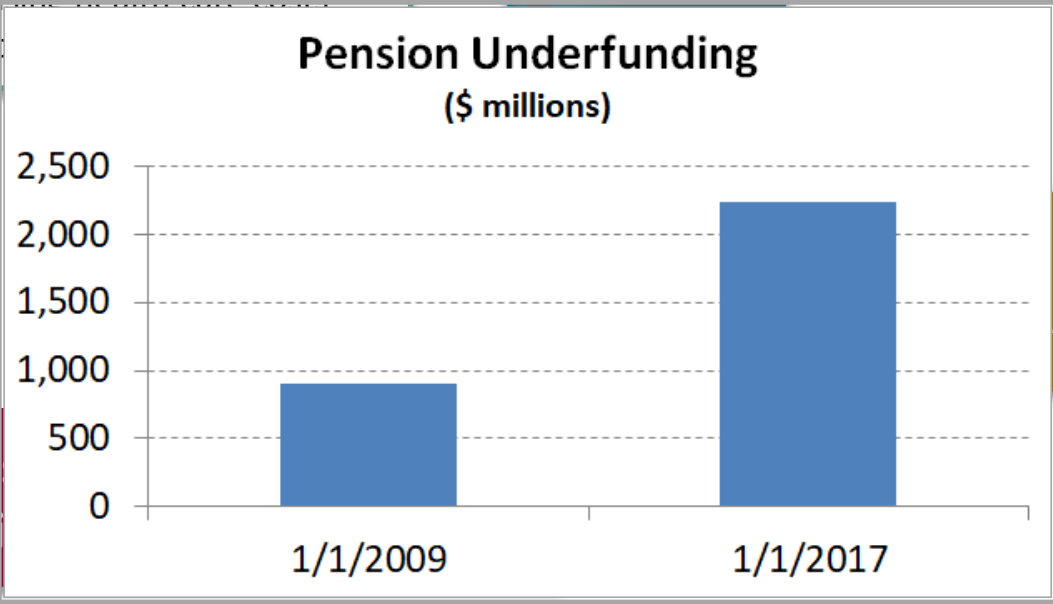


Environment for Existing Pension Plans



- Increasing longevity
- Rising health care costs
- Low interest rates

- Low interest rates
- Uncertain investment returns
- Plan funding has deteriorated over past 10 years



- Increase in part-time and second-career clergy
- Membership decline
- Uncertainty over future of church and impact of GC 2019

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Flexi

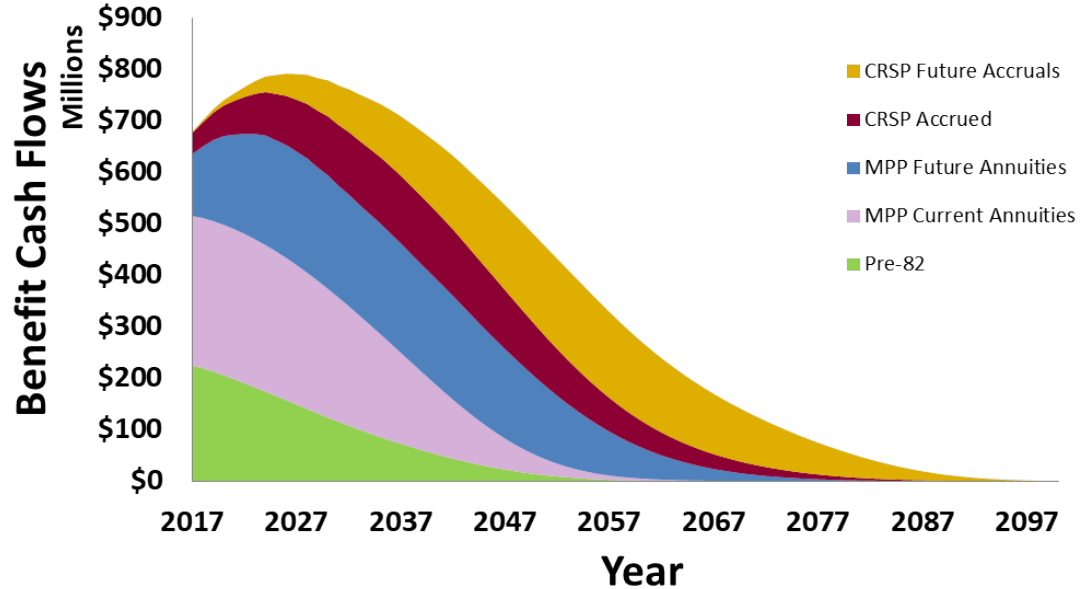
Environment for Existing Pension Plans

- Increasing longevity
- Rising health care costs
- Long tail of DB obligations



- Low interest rates

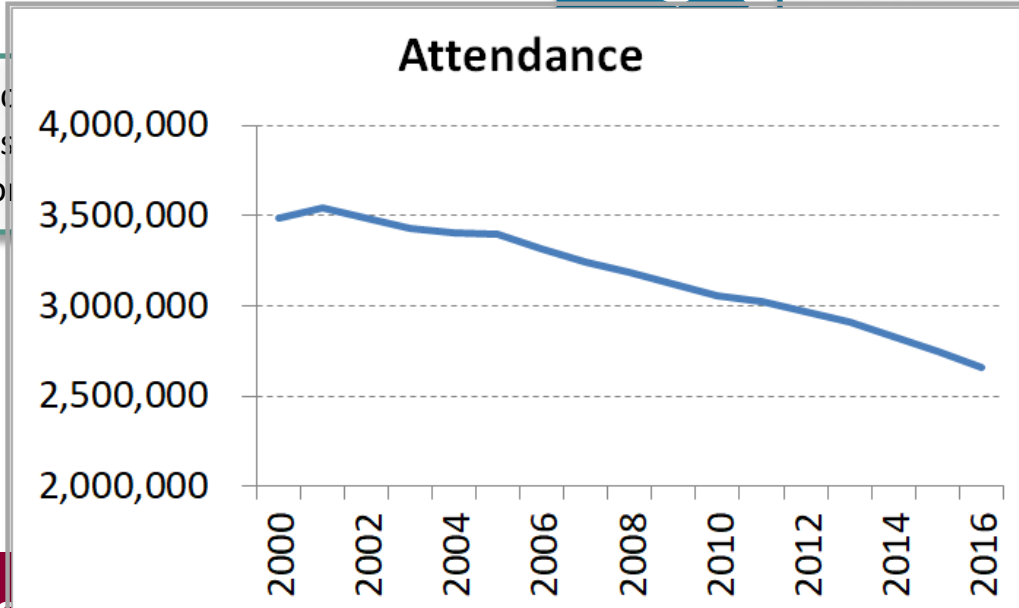
CRSP DB, MPP Annuities and Pre-82



**Result is Need for a More
Flexible and Sustainable P**

Environment for Existing Pension Plans

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- Lo



- Low interest rates
- Investment returns
- Investment returns as deteriorated over past 10 years

- Increase in part-time and second-career clergy
- Membership decline
- Uncertainty over future of church and impact of GC 2019

Result is need for a more
Flexible and Sustainable Plan

Proposed DC Only Plan: January 1, 2023



**Maintain connectionalism;
help lower-paid clergy**

Flat-dollar contribution
("equalizer")

\$140 per month



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

Pay-dependent
contribution

3% of pay



**Promote participant
engagement and savings**

Matching
contribution

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

** Exceptions apply for recent seminary graduates*

Proposed DC Only Plan: Simple Formula

Contribution Type/Feature	Common in Corporate Plans
Flat percentage of pay (3%)	Yes
Matching contribution (up to 4%)	Yes
Flat dollar amount (equalizer)	No
Participant contributions	Yes
Automatic Features	Yes

No complicated vesting schedule

Accelerated Match for Clergy with Debt*

- Recent seminary graduates often have significant debt and low starting pay
 - \$70,000 average debt according to recent studies
- Recent graduates may be unable to contribute 4%
 - Consequence is loss of full match
- Plan design offers a more accessible match for recent graduates*
 - Accelerated match of **\$2.00 per \$1.00** match on up to **2%** of pay

*Available for up to 10 years from attainment of provisional status









Accelerated Match for Clergy with Debt

- Accelerated match does not result in meaningful increase of cost to conferences
 - Maximum match is 4% of pay in either scenario
 - Marginal cost increase only in the sense that some would otherwise not receive full match
- However, accelerated match lessens likelihood of recent graduates losing out on match
 - Personal contributions larger than 2% would still be recommended (e.g., via automatic enrollment feature in plan)



Current Clergy Contributions

	CRSP-eligible only	All clergy
Average Clergy contribution rate (excluding 0% rates)	5.67%  5.75%	6.01%  6.04%
Average Clergy contribution rate (including 0% rates)	4.66%  4.72%	4.43%  4.48%
Percentage of clergy not contributing to UMPIP	17.8%  18.0%	26.3%  25.8%

Small number on left is as of end of 2017; large number on right is as of end of 2018

Auto Enrollment and Auto Escalation

“Automatic Features” Defined:

- **Auto Enrollment**

Plan participants not currently contributing are automatically enrolled at a level that would earn full matching contributions

- Participant can choose to opt out

- **Auto Escalation**

Plan participants’ contribution levels are automatically increased every year until they reach a pre-determined level

- Participants can choose to override contribution level



Automatic Features—Importance in Design

- Matching contributions increase from 1% to 4%
 - More plan sponsor contributions to potentially miss out on when not making own contributions
- Getting participants engaged is key to the plan's success
- Automatic Features will help protect clergy who are less engaged
 - Automatic enrollment: Get participants contributing
 - Automatic escalation: Increase savings rate incrementally over time

**Reminder: Automatic Features don't change participant options.
They merely change which option is the default.**

Automatic Features and UMPIP

Participants must have the option to make elective deferrals



Plan must be mandatory

Automatic Features are essential to drive engagement



Annual Conferences must act as plan sponsor

In new plan:

Clergy will make personal contributions to CRSP rather than UMPIP
Require automatic features in CRSP

Auto Enrollment: Findings

3

Conferences added
auto-enrollment
as of 1/1/2019

Only
7.2%

chose
lower contribution

6

Conferences added
auto-enrollment
as of 1/1/**2018**

3.60% to 4.33%

Increase in avg. contrib.
(1,445 participants)

39.4% to 5.6%

Decrease in
clergy not contributing

4.45% to 5.46%

Increase in avg. contrib.*

*includes 3 with auto-escalation in 2019

Auto-Escalation: Findings

3

Conferences had
auto-escalation
as of 1/1/2019

821

participants

6.05% to 6.65%

Increase in avg. contrib.

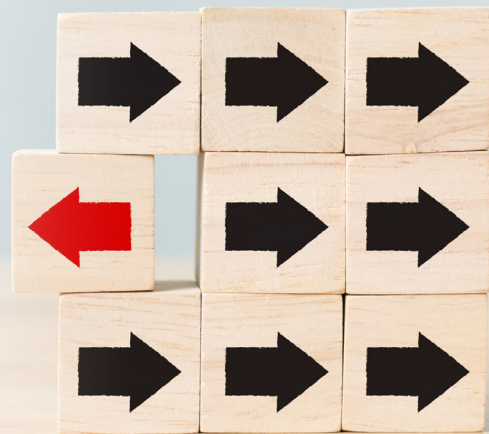
AUMCPBO 2018 Menti-meter Results

What concerns do you have regarding mandatory automatic enrollment for clergy?



General Conference 2019

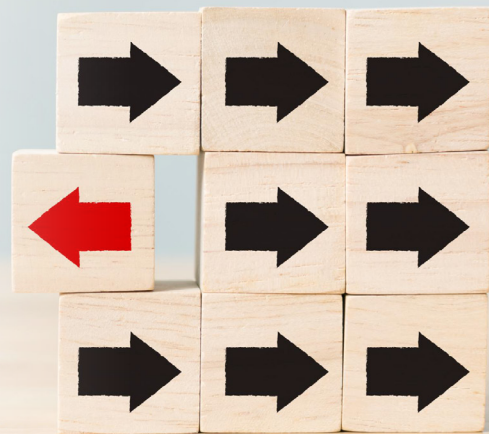
- Potential disruption following GC2019
- Traditional Plan legislation could lead to church departures
 - Church disaffiliation petition (90066) passed*
 - Petition authorizing annual conference departures (90041) did not pass



*Constitutionality of petition 90066 will be determined in April 2019

General Conference 2019

- Church departures could lead to annual conference mergers
 - Complex reassignment of liabilities
- Need for more flexibility / portability
- Move to DC in 2023 won't help legacy liabilities, but would mitigate complexity down the road



Proposed Change in Plan Type

Wespath believes that a changing society and Church will necessitate a substantial change to the retirement plan, meaning a shift from a traditional pension to an account balance type plan, in the near future. Disruptive changes to the Church after GC2019 increase the need for the transition.

Traditional Pension Plan



Account Balance Type of Plan

DC Plan for the Future

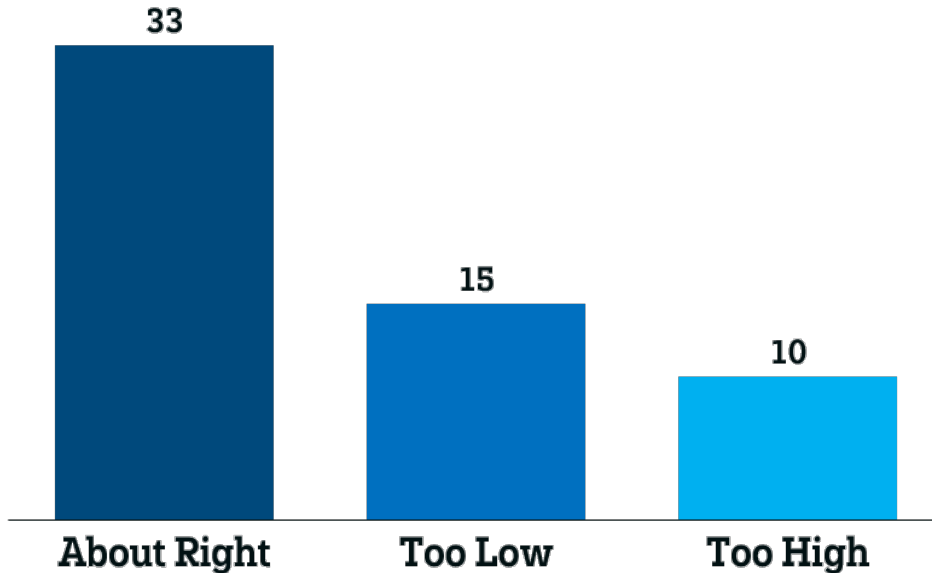
- Administrative simplicity
- Sustainability
- Alleviate liability burdens on the future Church



Cost of Proposed DC Plan

AUMCPBO 2018 Mentimeter Results

How do you feel about the total contribution level of ~9.5% of compensation?

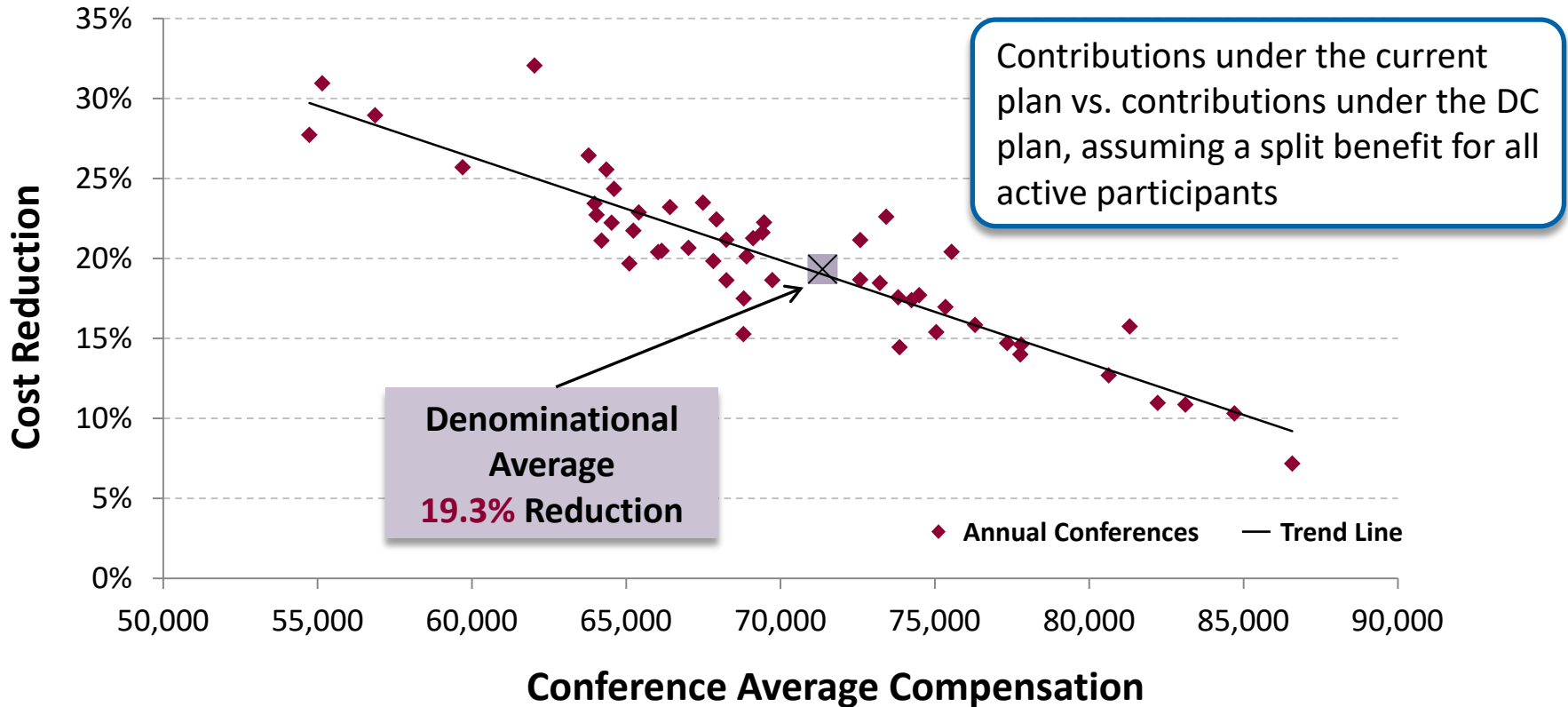


Cost of Proposed DC Plan

- Total cost of ~9.5% vs. current cost of ~11%
- If cost considered too high, recognize that there are savings to all conferences
- If cost considered too low, annual conference has options



Cost Impact on Conferences and Churches



Eligibility in Proposed DC Plan

- Currently, conferences may choose whether to cover part-time appointments less than 100% but at least 50%
- Wide variety exists of what benefits conferences offer to part-time clergy
- Proposed DC plan does not change current eligibility provisions

Full-Time / Part-Time Clergy Benefit Types

- Not all part time clergy participate in CRSP

	75%	50%	25%	<25%
Conferences not covering part-timers for CRSP	10	20	All (per plan terms)	All (per plan terms)

- Clergy could move between FT and PT status
- Under proposed plan design, all clergy will receive the same type of retirement benefit: DC



DC Plan Distribution Phase

Primary Risks in DC Payout Phase

Investment Risk

Payouts from Retirement Account

Longevity Risk

Social Security

Age 65

Death

Note: Payouts are in constant dollars (i.e., without cost-of-living increases)

Distribution: Overarching Objectives

Important/ Desired

- Emphasize retirement income for retiree and spouse
- Maximize lifetime income
- Minimize income volatility
- Minimize longevity risk

Less Important/ Less Desired

- Money left to heirs
- Ability to access money for non-retirement income purposes

LifeStage Solution Suite

- Optimizes asset allocation and payout choices for participants
 - LifeStage Investment Management (LSIM) for actives
 - LifeStage Retirement Income (LSRI) plus LSIM for retirees
- LSIM widely used (~80%) by participants
 - Mandatory for MPP in accrual phase for actives
 - Default option for Defined Contribution portion of existing plans (CRSP DC and UMPIP)
- LSRI utilized 28% in 2017 retirements
 - LSRI is **not** the default

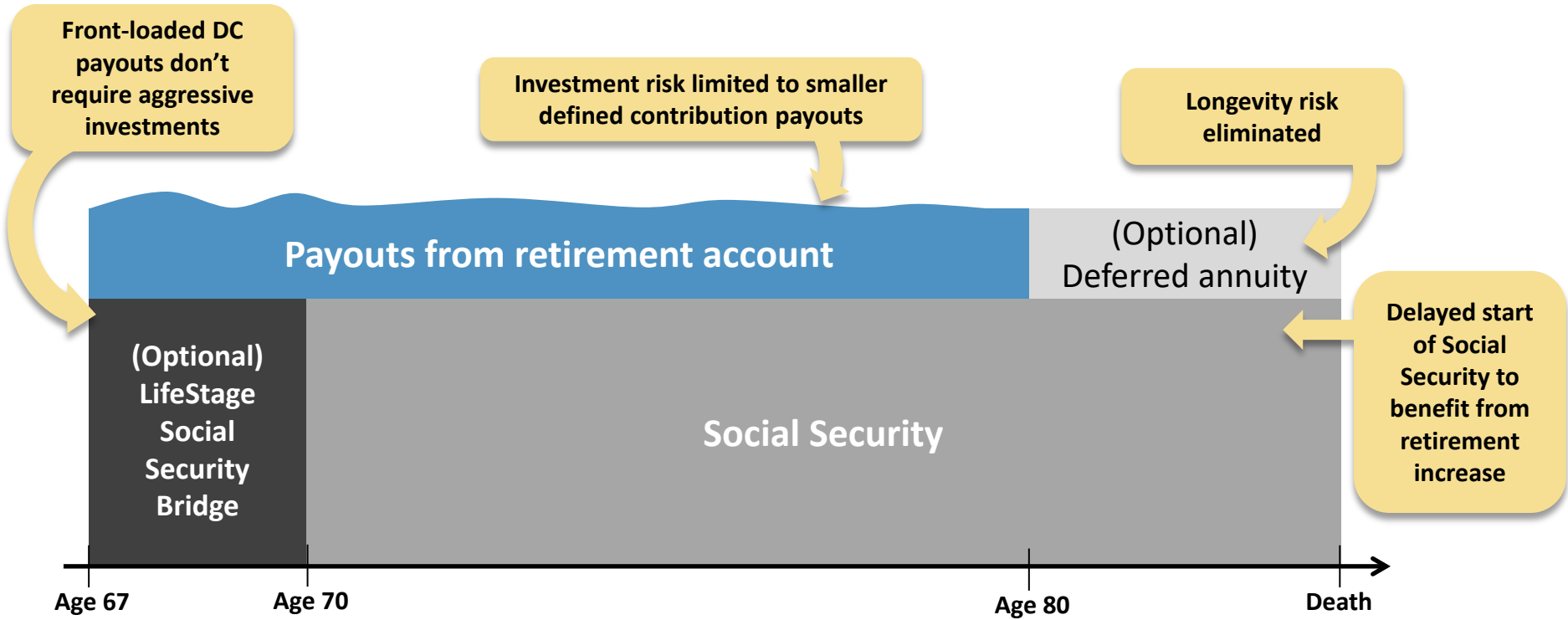


LSRI Mechanics

- Considers account balance, age and risk tolerance
- Calculates monthly payment amount
 - Set with a high likelihood of lasting an entire lifetime
- Establishes payment safety zones (guard rails)
 - Range of payments where no adjustment is needed
- Annually adjusts payment amounts
 - **Expected returns:** Increases payment amounts with inflation
 - **Lower guard rail hit:** Increases payment amount
 - **Upper guard rail hit:** Suspends COLA or (if severe) reduces payment



Proposed Enhancement



Picture shows payouts in constant dollars (i.e., without cost-of-living increases)

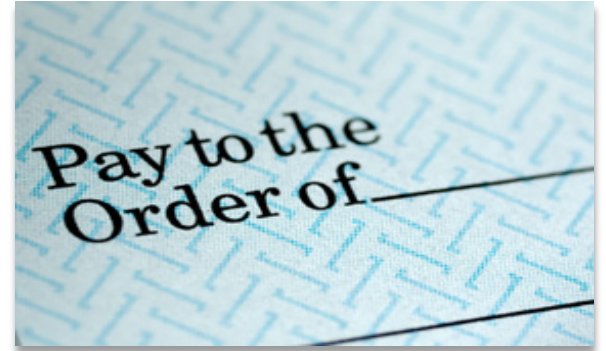
Social Security Bridge

- Deferring Social Security has benefits
 - Raises the Social Security benefit level
 - Increases the portion of late retirement income from a DB source
- Voluntary deferral of Social Security should be facilitated by using the LifeStage Social Security Bridge (“Bridge”)
- If chosen, the program will pay out higher amounts to replace the lost Social Security income in the early years of retirement.



Deferred Annuity

- An annuity bought today that makes payments in the future
 - No payments made if death occurs prior to payment start date
- More affordable than regular annuities
- Provides
 - Longevity protection
 - Peace of mind
 - More freedom to spend in the early retirement years



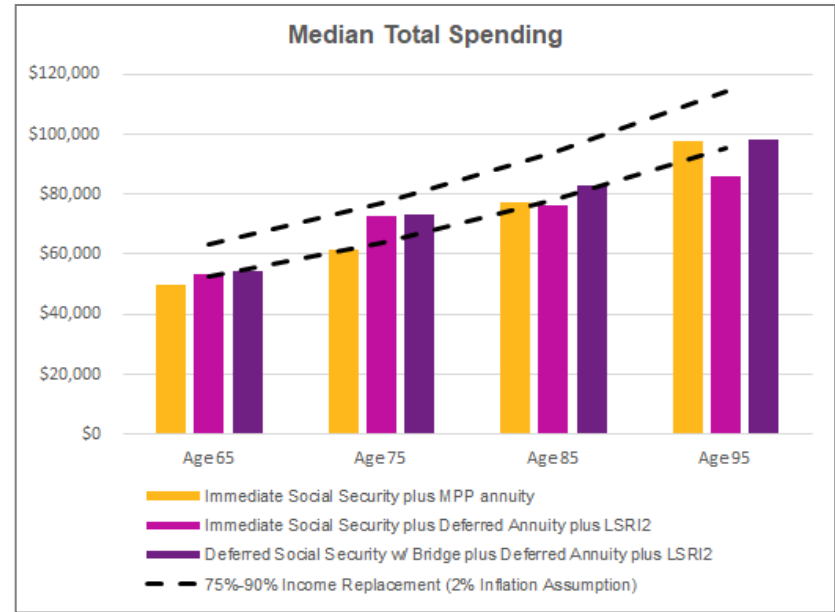
LifeStage Managed Payout Segment

- Target payout intended to smoothly flow into the deferred annuity commencement
- Payouts capped prior to commencement of deferral annuity
 - Good years saved to mitigate bad years



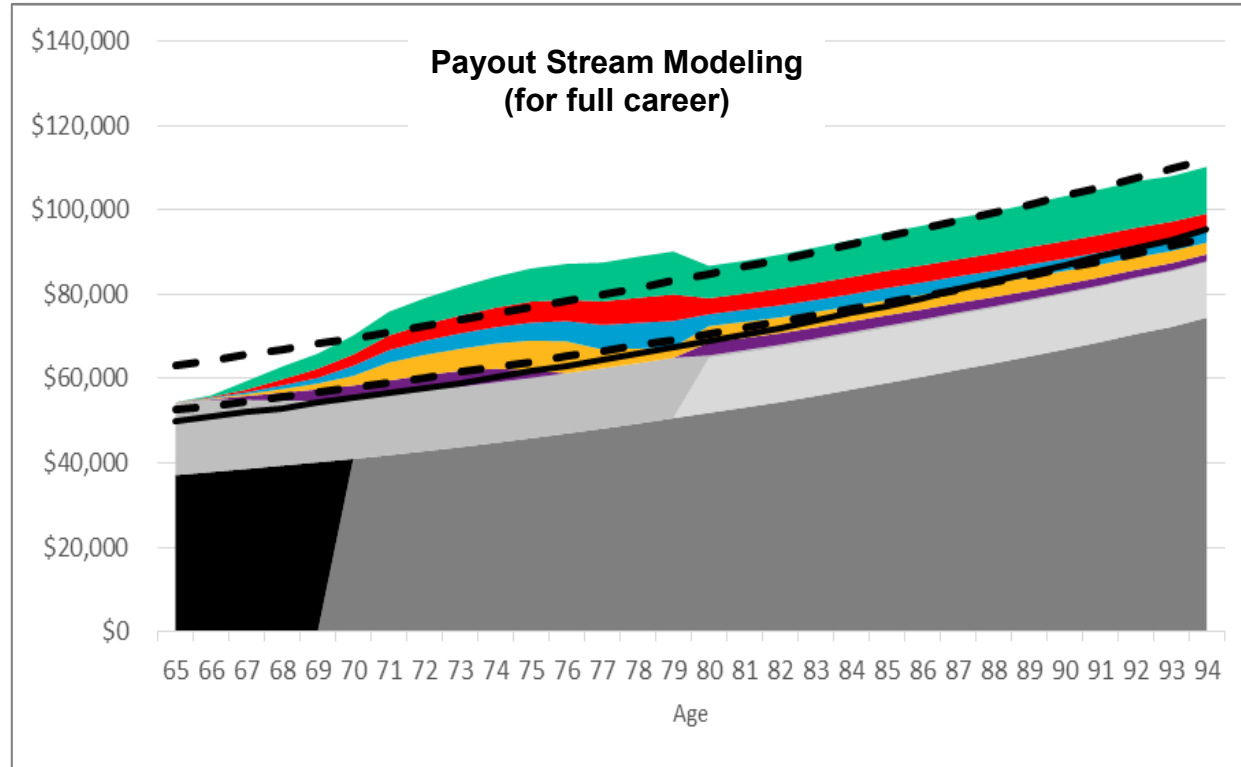
Income Comparison (DAC Level)

- Income achieved via proposed LifeStage managed payout mechanism compares favorably to income produced using MPP annuitization
- Use of (optional) Social Security Bridge achieves better longevity protection



Conclusion: Proposed DC plan in conjunction with new LifeStage managed payout program produces sufficient income level for “average” full career scenario

LifeStage Managed Payout Program



Median Social Security	95 th LSR
Deferred Annuity	76 th LSR
Median Bridge	50 th LSR
	25 th LSR
Immediate Annuity + SS	5 th LSR
	1 st LSR

Model achieves

- Reasonably smooth income pattern
- Income within target range at most ages in majority of outcomes

Mandatory vs. Optional Features

The Wespath Board is still debating the pros and cons of mandating some of the LifeStage features



Importance of Communication

- The new plan will have to come with robust participant communication
- Information and decision support tools will be available to help participants:
 - Invest prudently
 - Increase lifetime income
 - Protect against longevity risk





The Road to Implementation

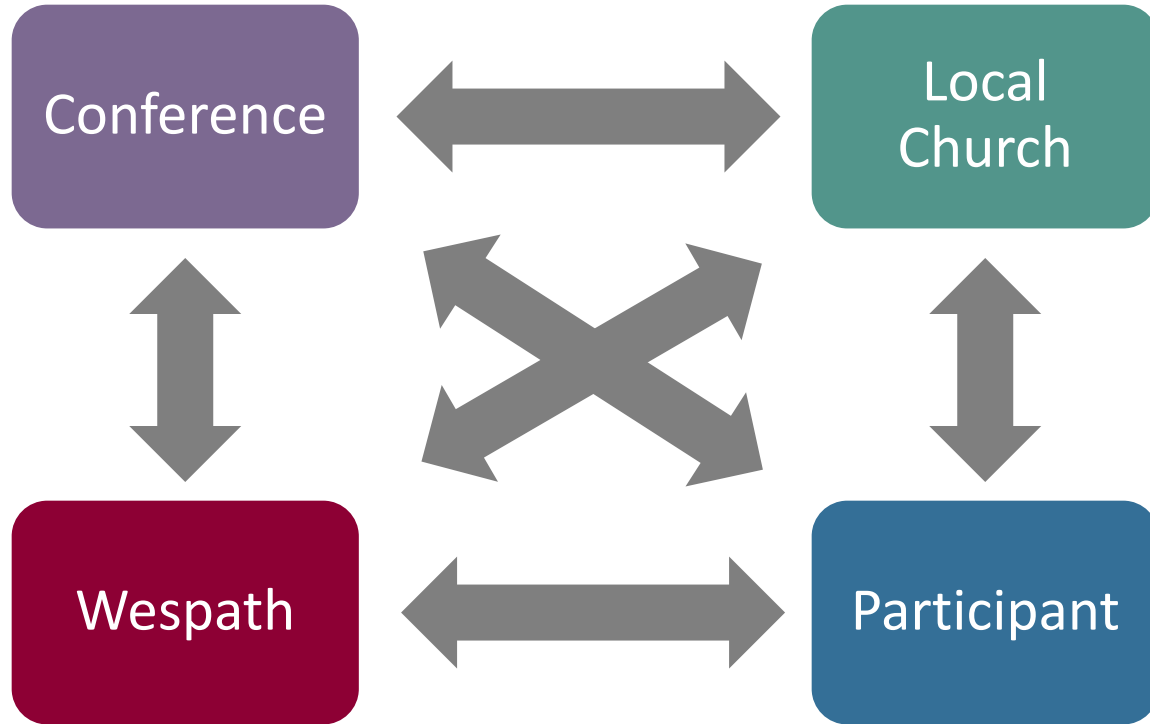
Key Questions

What will be different?

What will have to change?

How does it impact the Conference?

The Relationships Between Stakeholders



The situation is not the same for all conferences

- Plan Sponsorship
- Billing and Remittance
- Arrearages and legal responsibility

Current State—Differences Between Conferences

Billing for CRSP DB

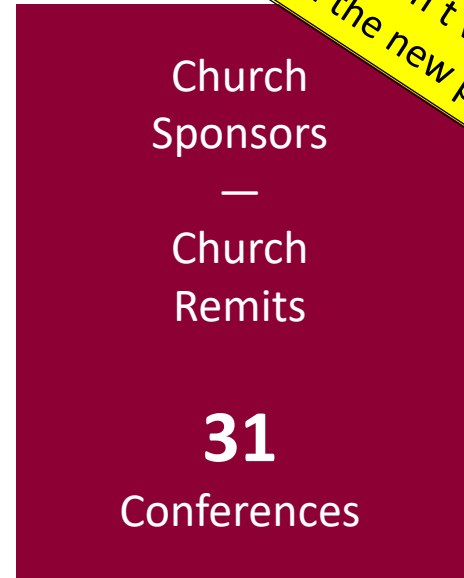
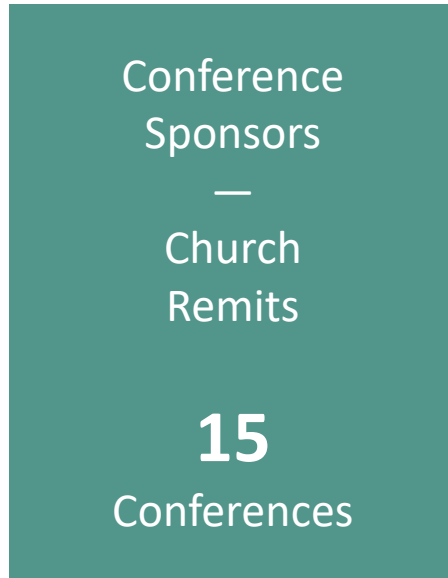
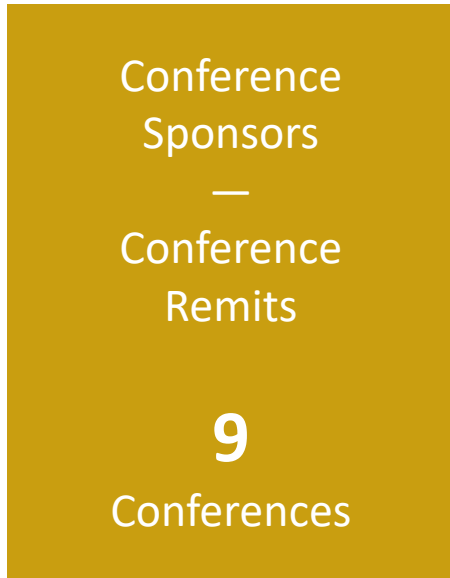
- Majority use direct billing
 - Some charge a percent of pay
 - Some charge a flat amount regardless of compensation
- Some charge for benefits as part of apportionments

Billing for CRSP DC

- Most bill flat 3% (2% non-contributory + 1% match) regardless of participants' actual deferrals
- Some bill based on participants' actual deferrals

Current State—Differences Between Conferences

UMPIP Sponsorship



*This won't work
with the new plan*

Current State—Differences Between Conferences

Arrearages

- Problems with arrearages vary widely
- Some have virtually no issues, others have sizable amounts
 - Across apportionments and direct billed expenses (pension & others)

Current State vs. Future State

If you currently...	You'll be able to in the future...
<ul style="list-style-type: none">• Apportion for CRSP	<ul style="list-style-type: none">• Apportion for the new plan
<ul style="list-style-type: none">• Charge a % of pay	<ul style="list-style-type: none">• Charge a (lower) % of pay
<ul style="list-style-type: none">• Charge a flat amount for CRSP-DB, combined with % of pay for CRSP-DC	<ul style="list-style-type: none">• Charge a flat amount for equalizer, combined with % of pay for rest
<ul style="list-style-type: none">• Charge churches for clergy elective deferrals in UMPIP	<ul style="list-style-type: none">• Charge churches for clergy elective deferrals in new plan
<ul style="list-style-type: none">• Have churches remit payments for elective deferrals directly to Wespath	<ul style="list-style-type: none">• Have churches remit payments for elective deferrals directly to Wespath

What options aren't captured in the table above?

The image features a dark blue background with a grid of lighter blue, rounded rectangular cells. Two speech bubbles are overlaid: a light teal one on the left and a dark red one on the right, overlapping the teal one. The text 'LET'S' is in the teal bubble and 'TALK' is in the red bubble.

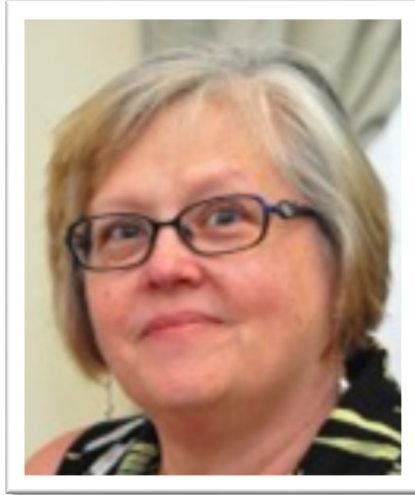
LET'S

TALK

Panel Discussion



Kathy Mitchell
Indiana



NancyJo Fielding
Eastern PA



Sally Truglia
New York



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Where We Are Going

Implementation of new plan affords opportunities

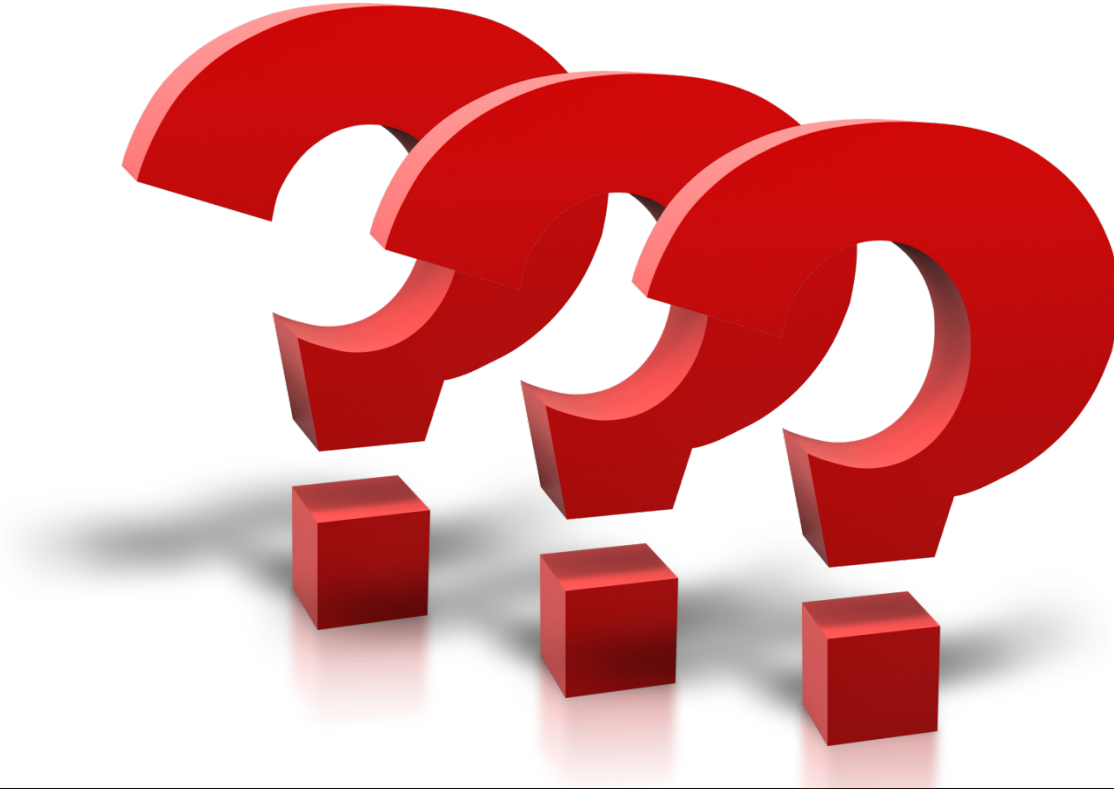
- More self-service
 - Deferral elections
 - Investment choices
- More automation
 - Contribution management

**We know this
will be a change.**

We will work with
all conferences
to make it happen.

Successfully.

Mentimeter Questions





Proposed CPP Plan Changes

Proposed Changes

Long Term Disability Benefits

- Conference Grant Elimination
- Imputed Social Security Disability Insurance (SSDI) Offset

Death Benefits

- Active Death Benefit Amounts
- Retiree Death Benefit Amounts
- Child Death Benefit Notification

Voluntary Transition Program

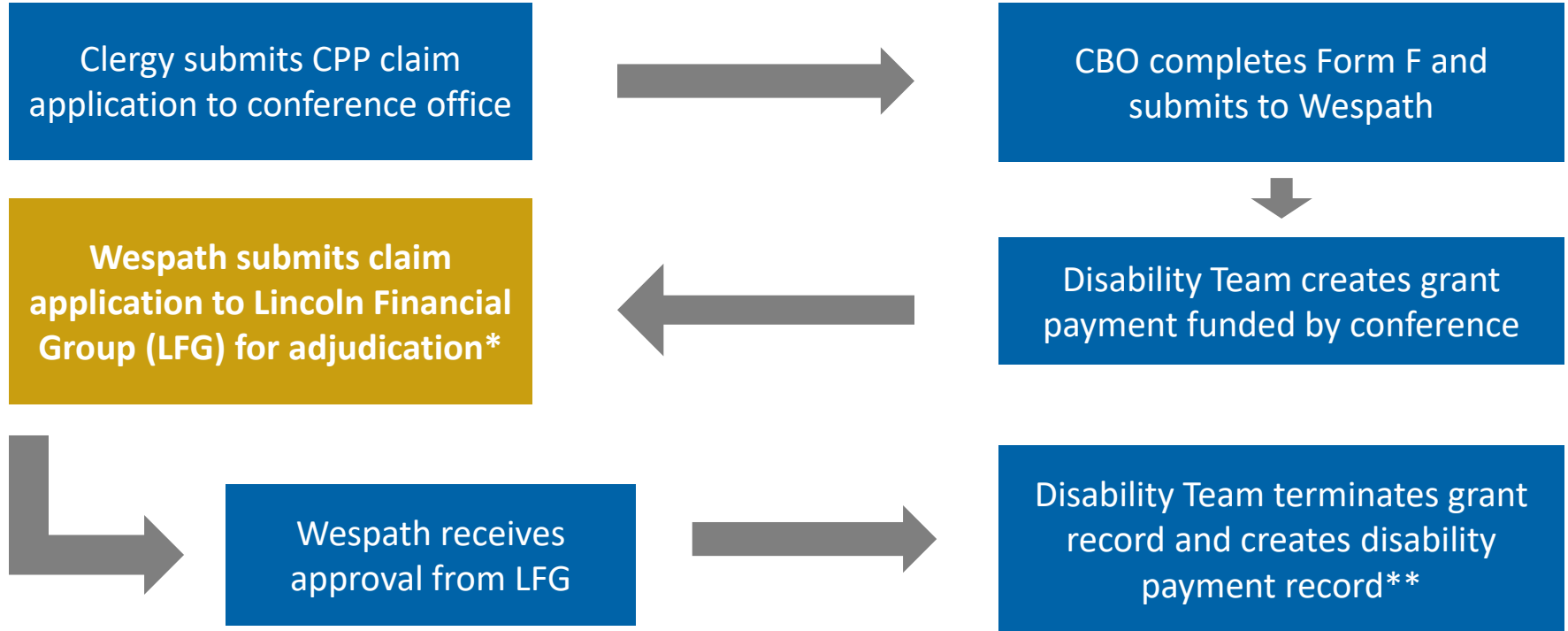


Long Term Disability Benefits

CPP Disability Conference Grants

- Recent audit of all CPP disability benefit payments highlighted errors in the COLA increases
- COLA errors occurred only for participants who had a conference grant paid prior to the CPP disability benefit
 - Some conferences provide a grant to participants while the CPP claim is being adjudicated; *CPP reimburses conference if the claim is approved*
 - Adjudication is typically 60-90 days
- Experience reveals that conference grants add complexity to internal processes and yield errors in disability benefit payments

Disability Claim Process Overview



*Approximately 60-90 days ** Payment is terminated once a participant returns to work, retires or is no longer medically disabled

Conference Grant Recommendation

Eliminate Conference Grants

- Begin disability benefits immediately; paid from CPP
 - Eliminates potential taxability inconsistencies between conference funded amount (i.e. grant) vs. disability payments
 - traditional grants are reported on 1099-MISC while disability benefits are reported on W2s
 - Eliminates future risk of COLA errors in the benefit payment
- Require physician certification
 - Participant's physician certifies that the condition is expected to be disabling for at least 6 continuous months
 - Minimizes possibility for this program to be used for short-term disabilities

Imputed Social Security Disability Offset at 12 Months

Current Benefit

Imputed (hypothetical) offset is placed on LTD benefit at 12 months for all participants who have not opted out

Approved by General Conference 2012

- Wespath had difficulty recovering a retroactive SSDI award (overpayment)

Proposed Change

Waive imputed offset at 12 months for participants working with Doherty, Cella and Kane* or other approved SS advocacy vendor through Liberty Mutual

Rationale

- Doherty recoups overpayments within 14 days of receipt of retroactive award
- Wespath recovers overpayment quicker

* Social Security advocacy lawyers provided through Liberty Mutual

The image shows a blue grid background with handwritten mathematical formulas in black ink. The formulas include:

- $\int_a^b F(u, u, \dots)$
- $F = \frac{Gm_1m_2}{d^2}$
- $F = \frac{Gm_1m_2}{c d^2}$
- $A \times = \lambda \times \sum^n$
- $\int_a^b F(u, u, \dots)$
- $\sum^n + 1 = 2$

CPP Death Benefits

Death Benefit Proposals

- Make all death benefits (active and retiree) equal
 - Flat-dollar amounts are greater than the percentage of DAC in most instances
- Increase flat dollar amounts 2% annually
- Indexed benefit should round down to nearest \$50 increment
 - Consistent with rounding rule for equalizer

Death Benefit Amounts

Death Benefit Amounts Equal Regardless of Status

	Actives			
	Current		Proposed	
	2018	2020	2018	2020
	DAC	DAC	Flat	Flat
Participant	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
Spouse	\$ 14,040	\$ 14,530	\$ 15,300	\$ 15,918
Surv. Spouse	\$ 10,530	\$ 10,897	\$ 10,500	\$ 10,924
Child	\$ 7,020	\$ 7,265	\$ 8,160	\$ 8,490

	Post-2012 Retirees			
	Current		Proposed	
	2018	2020	2018	2020
	Flat	Flat	Flat	Flat
Participant	\$ 20,400	\$ 20,400	\$ 20,400	\$ 21,224
Spouse	\$ 15,300	\$ 15,300	\$ 15,300	\$ 15,918
Surv. Spouse	\$ 10,200	\$ 10,200	\$ 10,500	\$ 10,924
Child	\$ 8,160	\$ 8,160	\$ 8,160	\$ 8,490

	Pre-2013 Retirees		
	Current		Proposed
	2018	2020	2020
	DAC	DAC	Flat
Participant	\$ 21,061	\$ 21,794	\$ 21,224
Spouse	\$ 14,040	\$ 14,530	\$ 15,918
Surv. Spouse	\$ 10,530	\$ 10,897	\$ 10,924
Child	\$ 7,020	\$ 7,265	\$ 8,490

Indexing Formula Example

	Projected 2020 Benefit Amount	2021 (2% Increase, Unrounded)	2021 (With Rounding Down to Nearest \$50)
Retired participant	\$21,224	\$21,648	\$21,600
Spouse of active/retired participant	\$15,918	\$16,236	\$16,200
Surviving spouse of active/retired participant	\$10,924	\$11,142	\$11,100
Child of active/retired participant	\$8,490	\$8,659	\$8,650

Child Death Notification Alignment

Current Practice

Death certificate is required upon the death of a child

Proposed Change

Allow the plan sponsor to provide notification or a death certificate upon the death of a child

Rationale

- Death certificate can take weeks to be issued
- Plan Sponsor notification form allows Wespath to process the death benefit quicker and more efficiently
- Aligns current practice for notification of death of participant, spouse or surviving spouse



Voluntary Transition Program

Voluntary Transition Program

Current Benefit

Current plan sunsets on December 31, 2020

Proposed Change

Sunset the plan in 2028

Rationale

- Low utilization since 2013 implementation
- General Conference can approve a sunset earlier than 2028 if needed

Voluntary Transition Program as of April 1st

Number of Conferences	Average Age	Average Years of Service	Average Payout (1x)	Male/ Female
25	49	16	\$30,500	46/12

2013	2014	2015	2016	2017	2018	2019
4	7	17	7	8	13	2



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AUMCPBO Menti-meter Results

What should be Wespath's top priorities to ensure a successful transition?



Clergy Hired in Past 10 Years

	% of Total Hired	Avg. Age at Hire	Med. Age at Hire	Avg. Comp at Hire	Med. Comp at Hire	% FT / % PT	Avg. % Clergy Contrib.
Elders / Full Members	33%	37	34	\$38,692	\$42,000	95%/5%	4.3%
Deacons	6%	41	40	\$32,078	\$38,097	75%/25%	4.2%
Local Pastors	61%	47	49	\$25,460	\$22,500	40%/60%	2.4%

Data above is based on clergy dates of hire, for hires from past 10 years
 Compensation for part-time clergy is not annualized