



AUMCPBO and NAACT—September 2019



Wespath

BENEFITS | INVESTMENTS

Benefits Liability Update

Agenda

- January 1, 2019 Valuation Results
- Post Retiree Medical Update
- Bishops' Summary Letter





Valuation Results

Actuarial Valuation

Actuarial valuation presents the plan's:

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



Actuarial Valuation—Items Impacting Results

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



Actuarial Valuation—Asset Returns

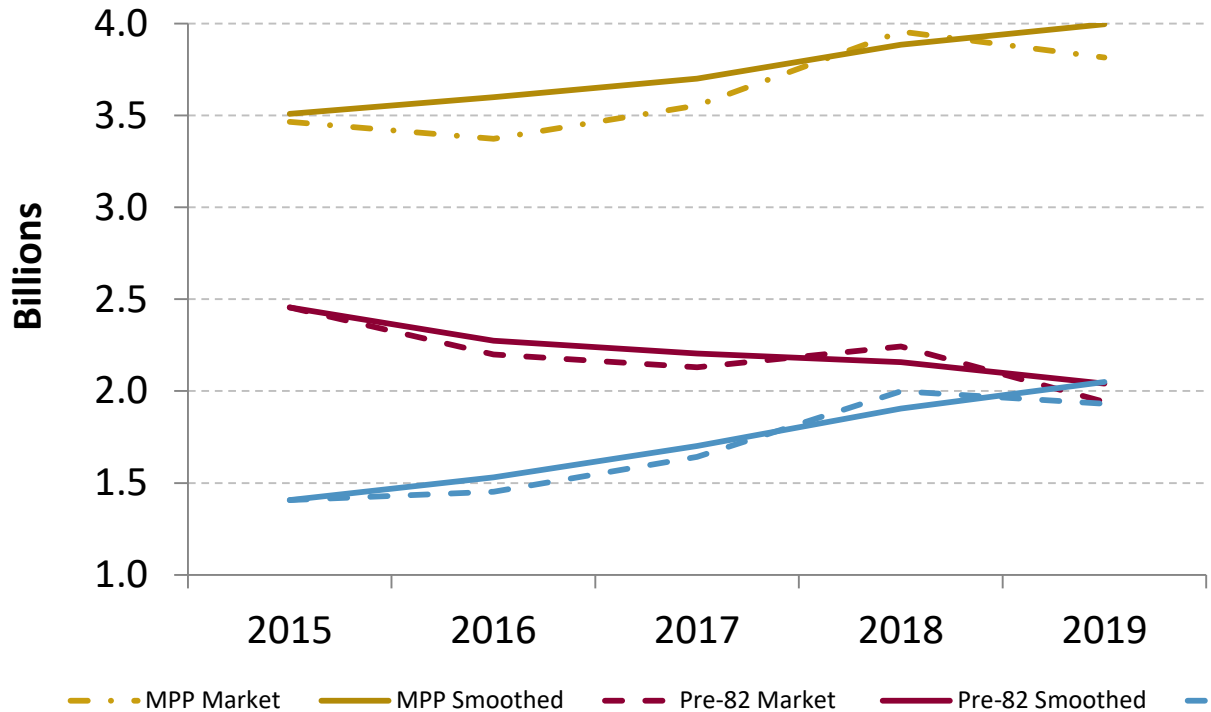
		2017 Returns		2018 Returns	
	% In Equity	Actual	Expected	Actual	Expected
CRSP DB	65%	17.980%	7.000%	-6.140%	7.000%
MPP Annuities	40%	12.110%	6.250%	-2.490%	6.000%
Pre-82	57%*	17.200%	6.625%	-5.690%	6.500%

* The Pre-82 % in Equity was 61% in 2017

Actuarial Valuation—Asset Smoothing

- Actuarial gains and losses on assets recognized incrementally in smoothed assets over five 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 five years following the gain or loss
- Smoothed asset value—not allowed to go **below 80%** or **above 120%** of the market value of assets

Actuarial Valuation—Asset Smoothing



- Smoothed assets will not always be above (or below) market assets
- Their relative position would be based of the recent economic activity
- Smoothed assets were below market assets in 2018 but above market in 2019

Actuarial Valuation—Types of Valuations

- **Funding valuation**

- Based on long-term assumptions
- Discount rate based on expected return on assets

- **Market valuation**

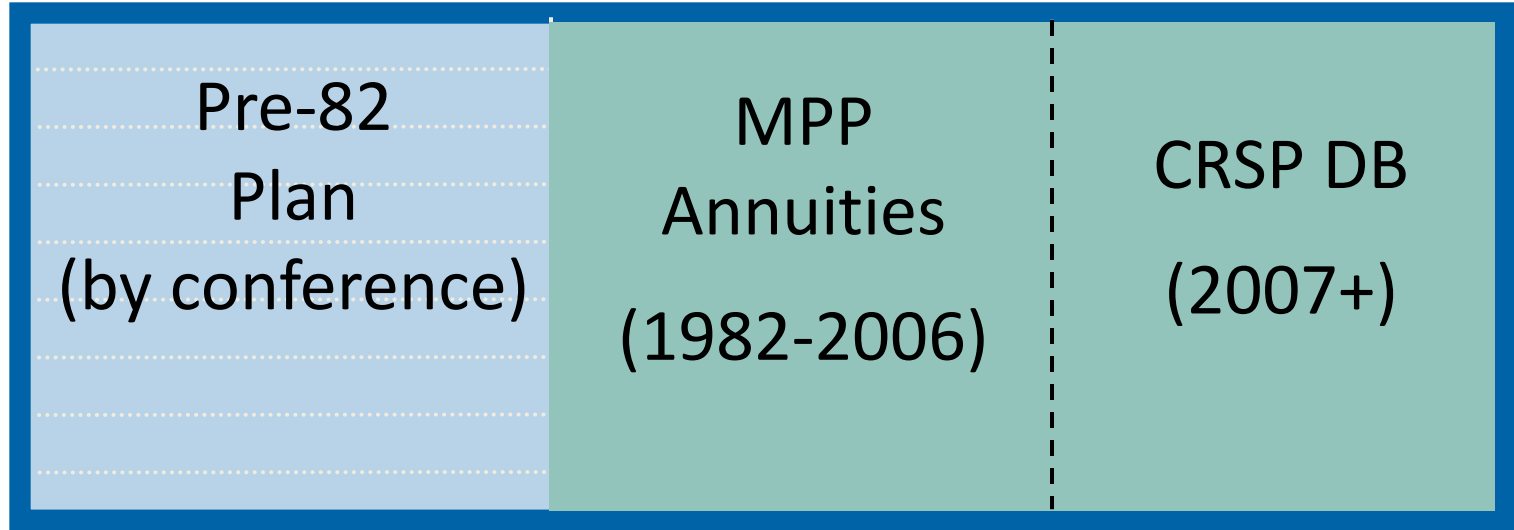
- Based on current market conditions
- Discount rate based on current corporate bond yields



Discount Rates

	2018 Discount Rates		2019 Discount Rates	
	Market	Funding	Market	Funding
CRSP DB	3.58%	7.000%	4.20%	7.000%
MPP Annuities	3.31%	6.000%	3.97%	6.000%
Pre-82	3.21%	6.500%	3.88%	6.375%

Valuation Results for Clergy DB Plans



MPP: Ministerial Pension Plan
CRSP: Clergy Retirement Security Program

Corridor Plan

Corridor Funding



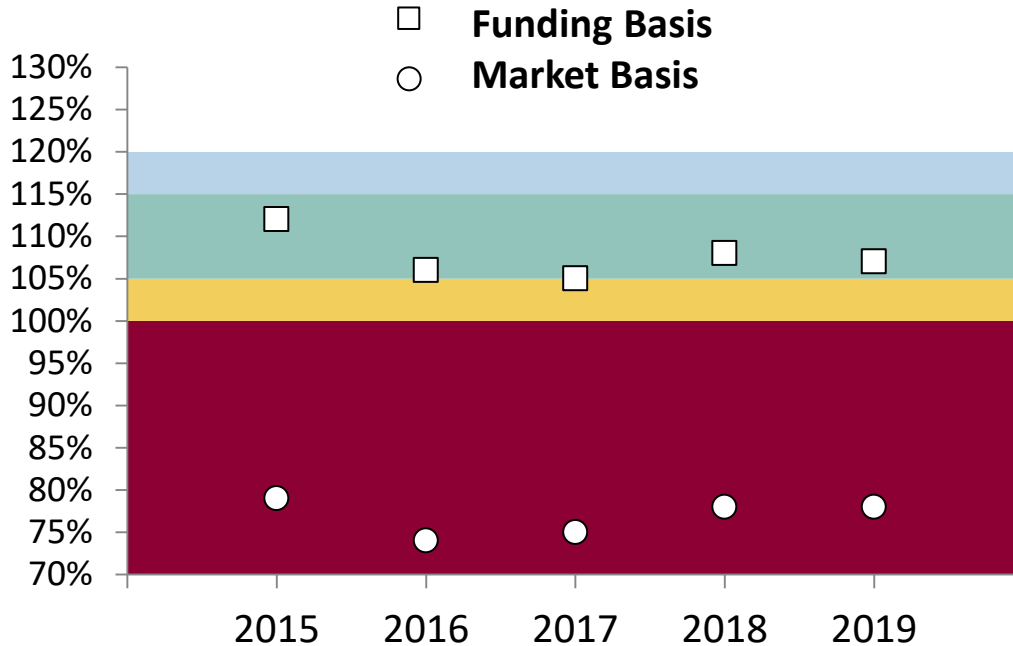
Corridor Funding Guidelines

Market Basis Funded Ratio	Funding Basis Contribution Method	MPP Annuities Equities
120% +	None	10%
115-119.9%	Reduced	20%
105 – 114.9%	Normal Cost ¹	30% – 40%
100 – 104.9%	Normal Cost ¹	40%
Under 100%	Normal Cost ¹ Plus Payment on Unfunded Liability on a Funding Basis	40%

- **Market Funded Ratio** – determines which colored corridor will be used
- **Contribution Method** – dictates how the contribution would be calculated
- **Equities** – establishes the equity allocation for the portfolio of assets that back the MPP Annuities

¹ Normal cost reflects the cost of current benefit accruals and applies only to CRSP DB.

Corridor Funding Results



As of 1/1/20129

- Corridor Funding is in the red corridor
 - combined CRSP-DB and MPP Annuities market basis funded ratio of 78%
- Combined funding basis funded ratio is 107%

¹ Normal cost reflects the cost of current benefit accruals and applies only to CRSP DB.

Corridor Plan Funded Ratio

Funded Ratio—Funding Basis

	January 1, 2018	January 1, 2019
CRSP DB	109%	107%
MPP Annuities	108%	108%
Combined	108%	107%

Contributions based purely on Normal Cost: \$95 million for 2020, \$93 million for 2021

Corridor Plan Funded Ratio

Funded Ratio—Market Basis

	January 1, 2018	January 1, 2019
CRSP DB	68%	67%
MPP Annuities	85%	85%
Combined	78%	78%

Pre-82 Funding

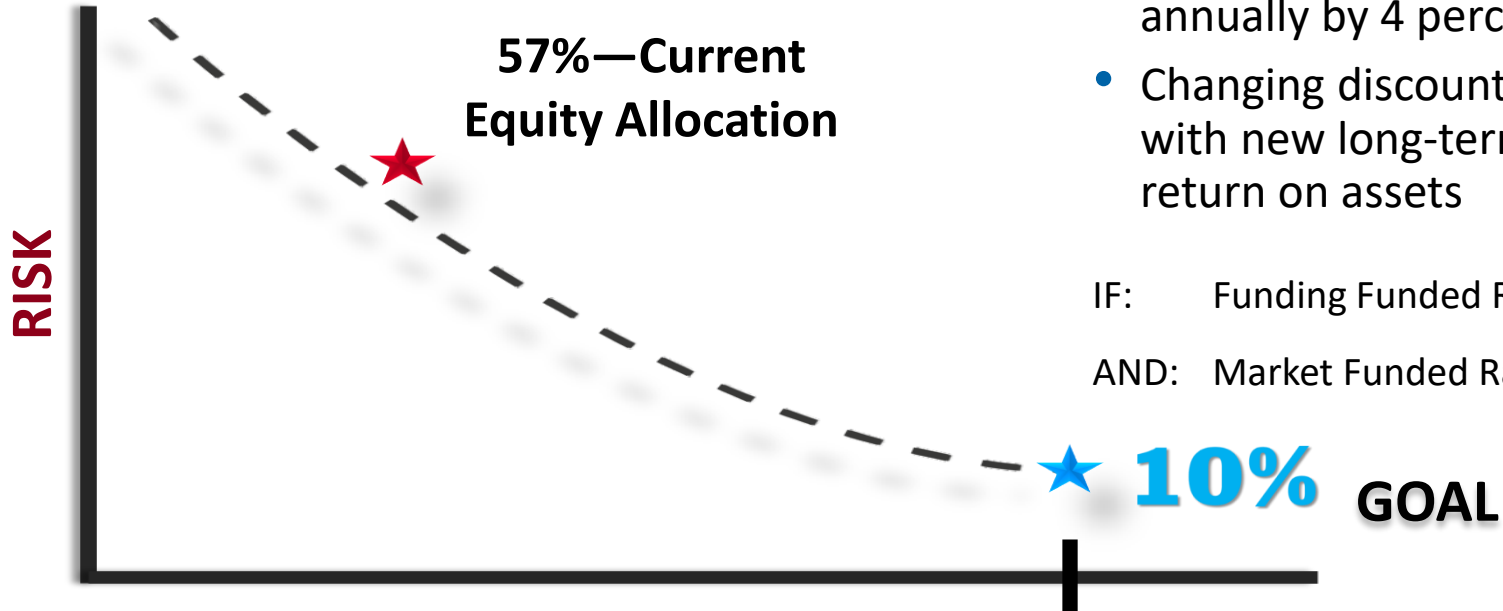


Reflecting Additional Contributions

- Additional contributions made before July 1 will be reflected in valuation report
 - Calculated future contributions will reflect the additional amounts made this year
- Additional contributions made on or after July 1 will not be reflected in valuation report
 - Will be included in next year's valuation



Pre-82 Plan Glide Path



De-risk plan by annually

- Reducing equity risk exposure annually by 4 percentage points
- Changing 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 2019

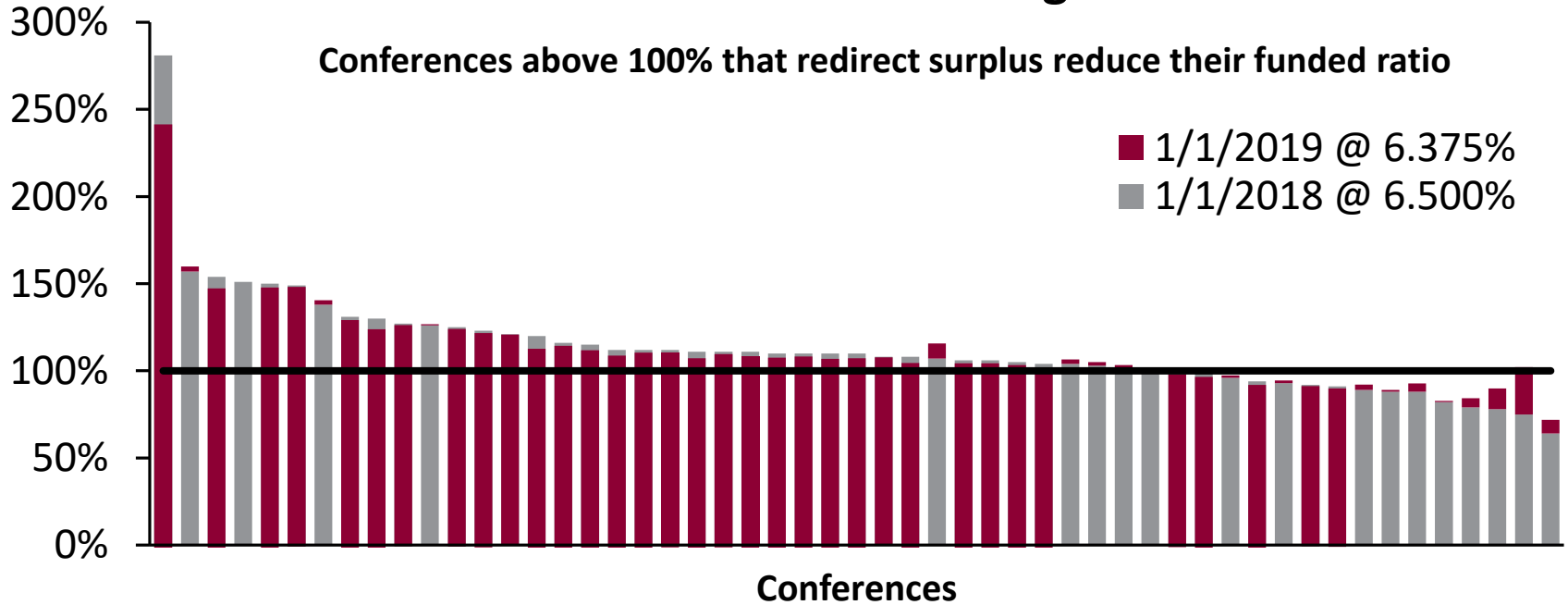
Equity allocation—**drop from 57% to 53%**

Discount rate for January 1, 2019 liabilities—
drop from 6.500% to 6.375%

Funding Change in Pre-82 Plan

Funded Ratio* —Funding Basis

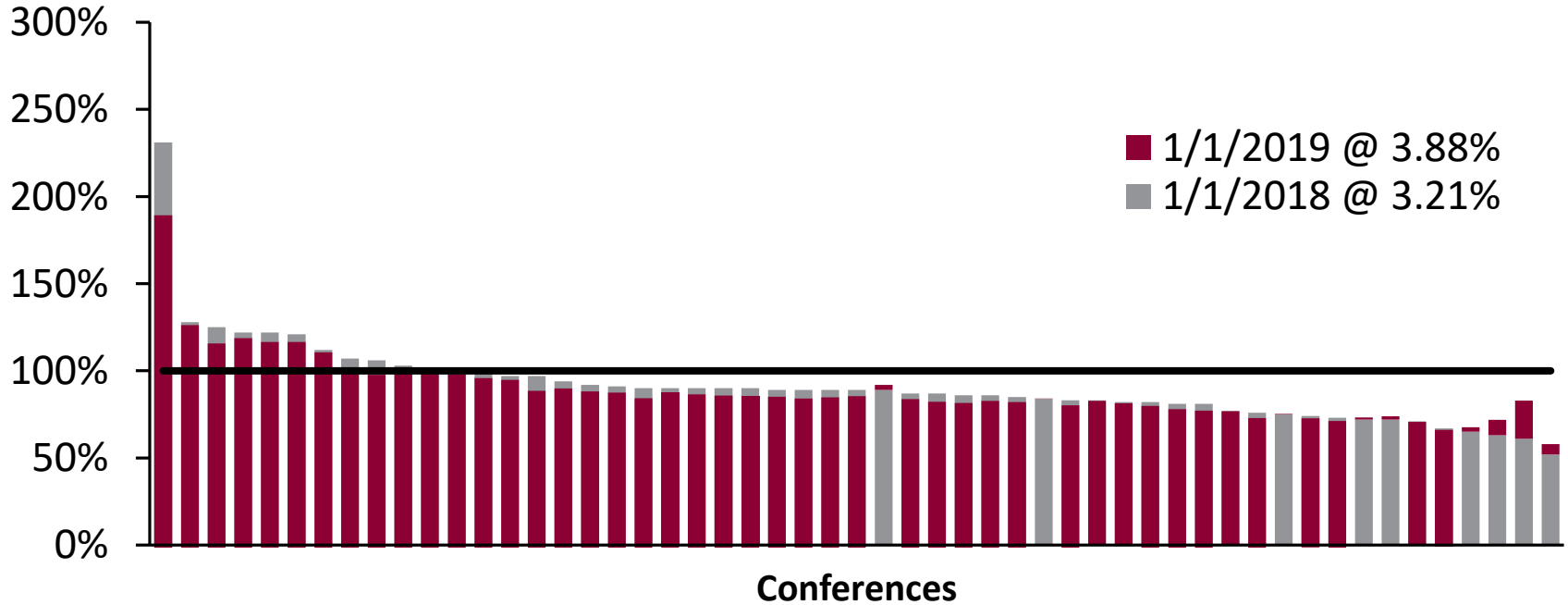
Conferences above 100% that redirect surplus reduce their funded ratio



* Assuming no change in Past Service Rate (PSR)

Funding Change in Pre-82 Plan

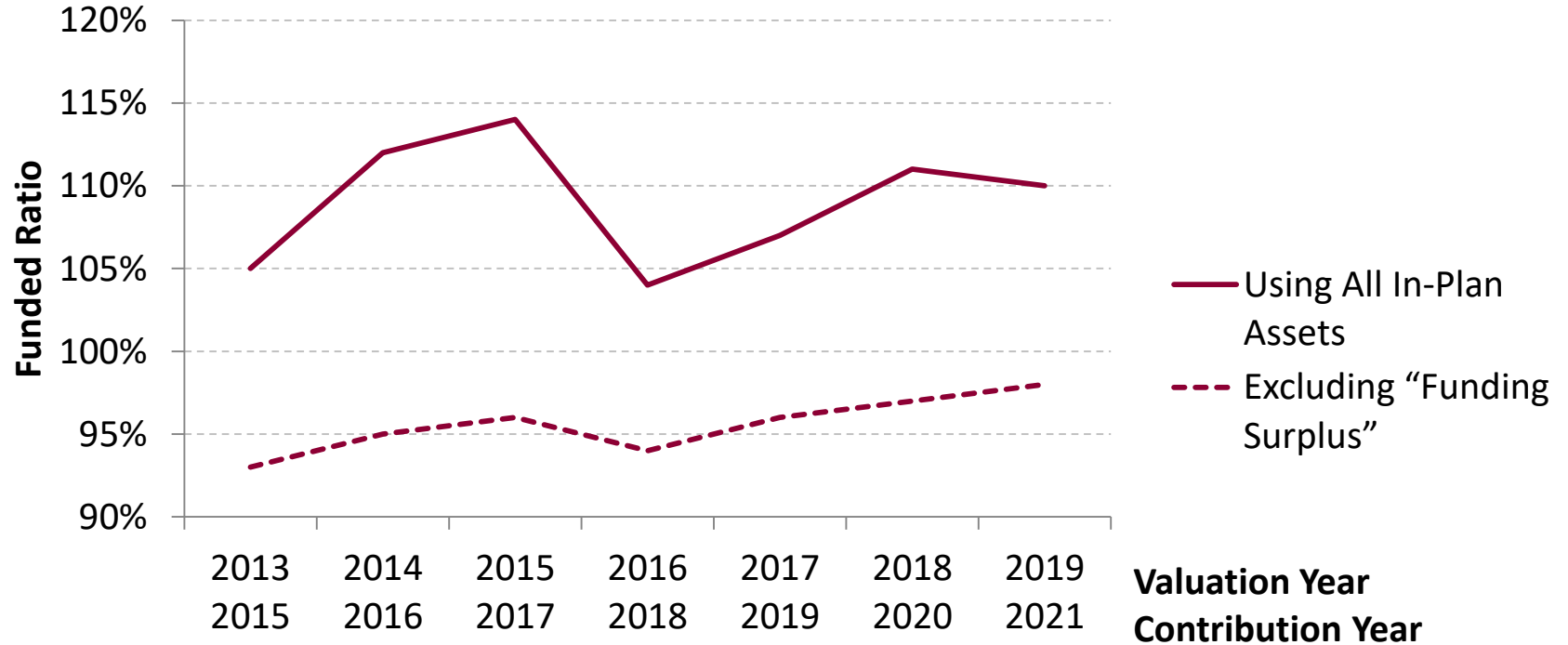
Funded Ratio*—Market Basis



* Assuming no change in Past Service Rate (PSR)

Valuation Results Pre-82 Funded Ratio

History—Funding Basis



New Reporting Standards



ACTUARIAL STANDARDS BOARD

New Reporting Standards: Risk ASOP

ASOP 51

Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions

Category: Pension

Effective Date: November 01, 2018

Status: Adopted

All contribution-related actuarial valuation reports must include:

- Commentary on various risk factors
- Relevant sensitivity information

No requirement to provide guidance on the management or reduction of risk

New Section in All Valuation Reports

Includes information on:

- Financial Risks
 - Investment
 - Discount rate
 - Contribution
- Demographic Risks
 - Longevity
 - Plan maturity
- Other Risks





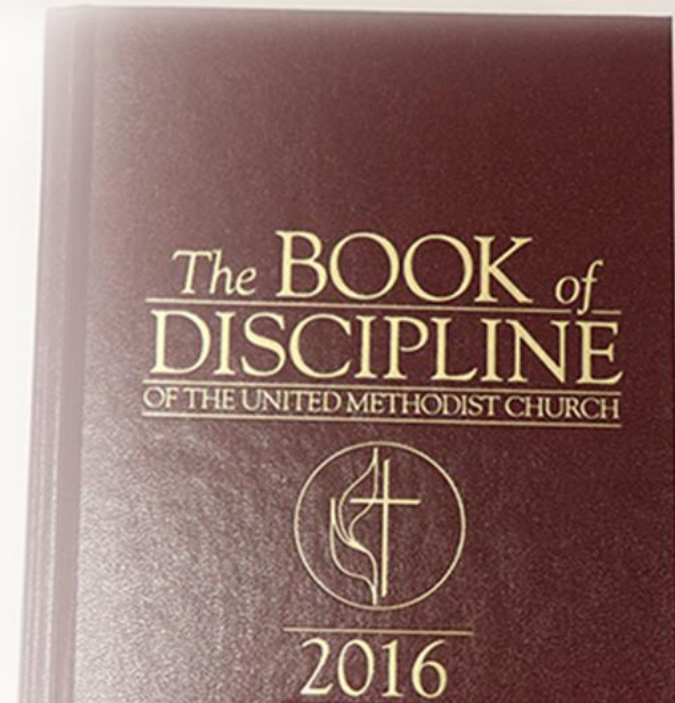
Post Retirement Medical Update

Book of Discipline Requirements—Conferences

- Conference must provide access to Medicare supplement and prescription drug plans
- Annual conferences are not required to sponsor retiree medical plans or provide funding
- Conferences must have a generally accepted financial valuation of retiree medical liabilities completed every two years

Book of Discipline Requirements—Wespath

- Review and provide opinion on the comprehensive benefit funding plans
- Provide a quadrennial report to General Conference concerning the long-term pension and retiree medical liabilities of the denomination

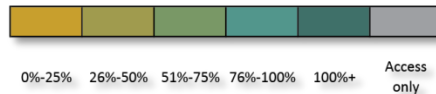
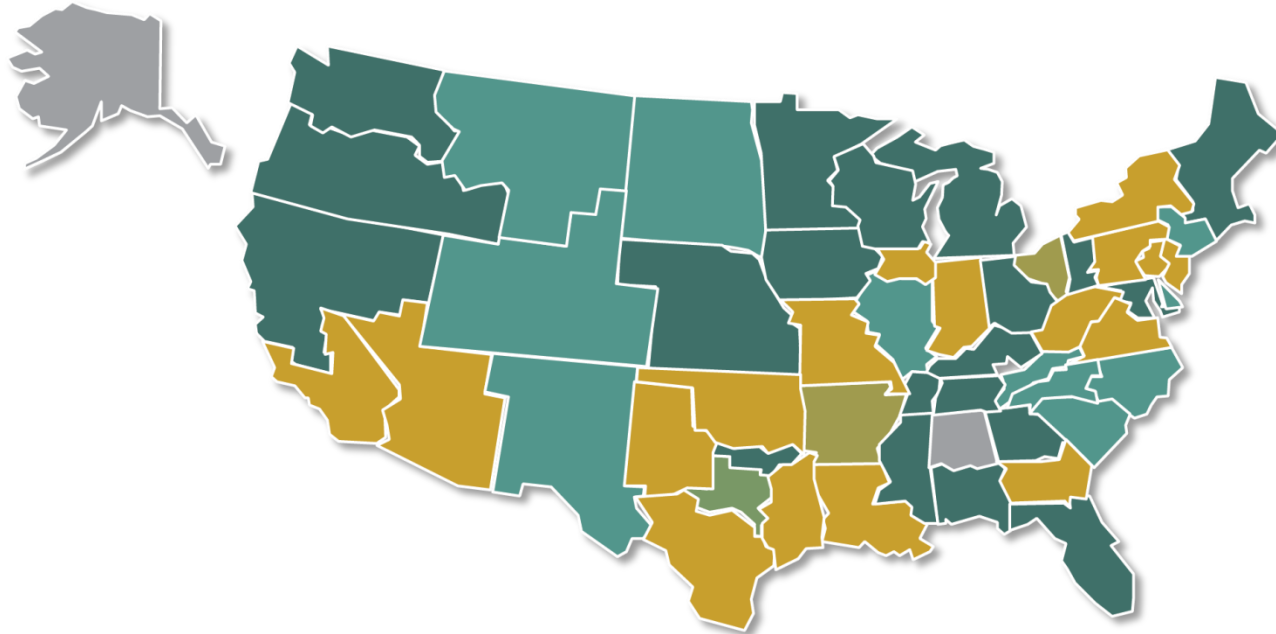


Retiree Medical Funding Level Findings

- Significant reduction of accumulated conference liabilities over the last 10 years
- Improved funding status partially due to:
 - Plan design changes
 - Cost sharing shifts
 - Eligibility changes
 - Increased asset reserves available for retiree medical



Retiree Medical Funding Levels



- Preview of funding levels based on:
 - CBFP data
 - Conversations with conference staff
- Will be updated as more conferences complete their CBFP



Bishops' Summary Letter

Bishops' Summary Letter

- Summarizes key information about each conference's clergy defined benefit (DB) plan
- New section added regarding post retiree medical (PRM)
- Will be released to Bishops in late October

Bishops' Summary Letter—Section 1

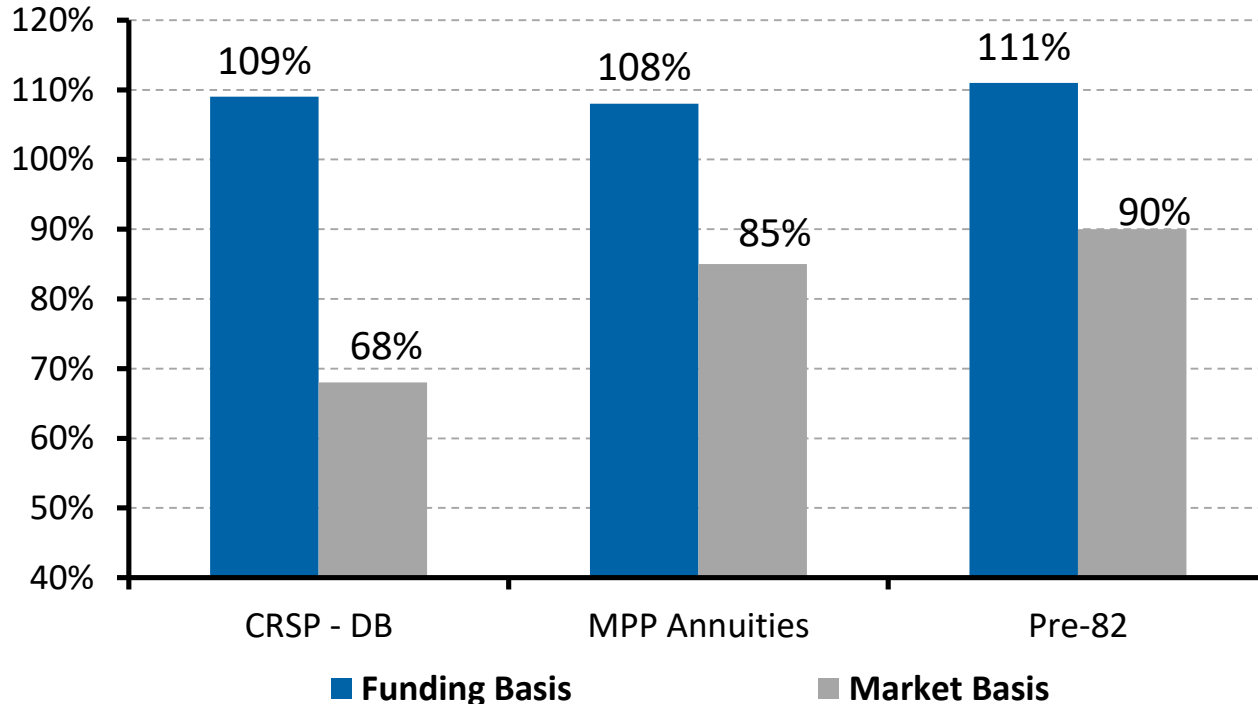
Defined Benefit Pension Summary –2019

Conference Contribution Details	2020	2021
Conference CRSP DB Contribution	\$1,606,140	\$1,554,780
Conference MPP Annuities Contribution	0	0
Conference Pre-82 Contribution	<u>1,004,307</u>	<u>560,515</u>
Total Conference Contribution	\$2,610,447	\$2,115,295

- **Conference-specific DB pension contribution requirements for 2020 and 2021**

Bishops' Summary Letter—Section 2

Based on January 1, 2019 Valuation Results



- DB Funded Ratios
- Denominational
- Shown on both a market and funding basis

Bishops' Summary Letter—Section 3

Pre-82 funding
plan liability:
\$80.5M

2020 PSR:
\$716.00

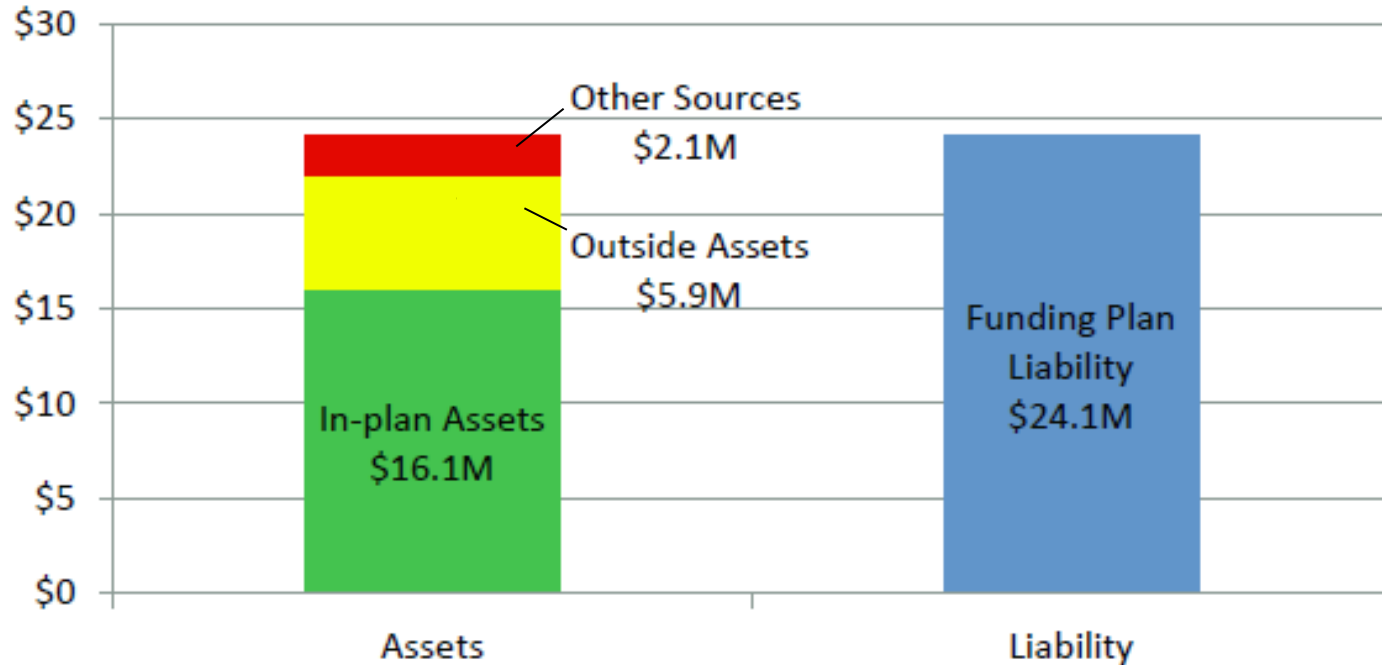
Contingent
annuitant
percentage:
75%

Participants
covered:
at least
75% FTE

- Conference's Pre-82 plan liability on a funding basis with future PSR increases
- Compares conference's Pre-82 PSR elections to other conferences
- Compares conference's Pre-82 surviving spouse percentage to other conferences
- Compares conference's CRSP DB elections to other conferences

Bishops' Summary Letter—Section 4

XYZ Conference—2020 Pre-82 Funding Plan Sources



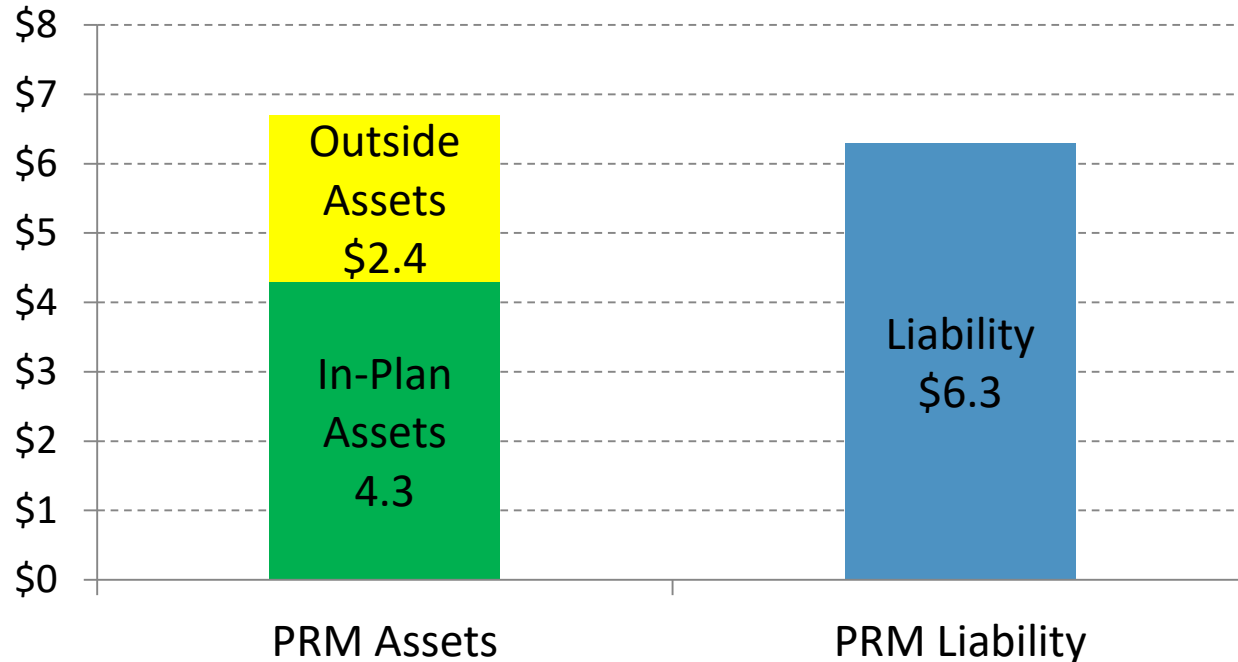
- **“In-Plan Assets”**
—held in the plan trust
- **“Outside Assets”**
—designated for Pre-82 benefits on the 2019 CBFP
- **“Other Sources”**
—future incoming money

Bishops' Summary Letter—Section 5

- While not connectional, PRM liabilities are significant
- Conferences should plan on having assets to support those liabilities
- CBOs were surveyed to determine content to share with Bishops
- PRM information obtained from CBFPs and additional conference reporting

Bishops' Summary Letter—Section 5

XYZ Conference—2019 PRM info



- **“In-Plan Assets”**
—held in the plan trust
- **“Outside Assets”**
—designated for PRM benefits on the 2019 CBFP
- **“Other Sources”**
—other reserves



Summary

Summary

- For the Clergy DB plans:
 - 2018 lower than expected asset returns - weakened the funded position
 - Underfunded Pre-82 conferences are moving closer to fully funded on a funding basis and Corridor remains above 100% funded on a funding basis
- Post Retirement Medical Programs
 - Large number of conferences moved to more cost effective approaches
 - Funding levels have improved
- Bishops' Summary Letters will be sent in late October
 - Provide high-level summary of valuation results and CBFP information
 - Will include PRM data



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