RECOMMENDATION 9 – Pension Liability

CONFERENCE BOARD OF PENSIONS
PENSION LIABILITY PROPOSAL

The 2019 General Conference of the United Methodist Church passed provisions whereby an annual conference could charge a departing local church a portion of the overall pension liability of the annual conference. The General Conference left it up to annual conferences to determine what that share should be. In response, the Conference Board of Pensions of the South Georgia Annual Conference has considered the matter, and provides this report and recommendation. We note that <u>no payment is due from any church that remains in the South Georgia Conference</u>; this recommendation would only apply to churches that choose to disaffiliate under the provisions passed by the General Conference and our South Georgia Conference.

WHAT IS A PENSION LIABILITY?

A pension is a promise to provide funds at a future date (usually after retirement). There are two basic kinds of pensions; *defined benefit* and *defined contribution*.

- A *defined benefit* plan promises a set benefit upon retirement. Most defined benefit plans promise a set amount per year, or per month (they "define" the "benefit"). Our current Pre-'82 plan is a defined benefit plan. As of 1/1/2018, we promise those with years under the Pre-'82 plan an annual defined benefit of $674 per service year. A pastor who retired with 35 years of service in the Pre-'82 plan has an annual pension of $23,590 ($674 x 35).
- A *defined contribution* plan promises to hold and invest funds contributed to your account, and provide you access to those funds upon retirement (think 401.(k)). Our CRSP-DC is a defined contribution plan. The church contributes up to 3% of the pastors' plan compensation (salary + housing) annually to the plan (the "defined" amount is the 3% "contribution"). There is a promise to prudently manage those funds on behalf of the pastor until retirement, then to provide the pastor access to those funds with continued management until the funds are exhausted.

The promise of a pension creates a *liability* – there is an amount that will be required at some future date. The plan also has assets to offset those liabilities (typically the amount put into the plan now and in the past). If the promises of payment are more than the amount invested, there is an unfunded liability.

Defined contribution plans do not create an unfunded liability, by their design. The only promise is to prudently manage the funds contributed and return them to the participant. There is no stated or implied promise that those funds will accumulate to any specific amount, nor last for any particular period of time.

WHAT IS AMOUNT ON WHICH PENSION IS CALCULATED?

In the United Methodist Church, pension is based on "Plan Compensation" (salary + housing), since the parsonage or housing allowance is a significant part of the pastor's overall compensation. Where a parsonage is provided, Plan Compensation uses 125% of salary to appropriate the value of the parsonage. Where a housing allowance is provided in lieu of a parsonage, Plan Compensation adds the housing allowance to the salary.

WHO IS REPONSIBLE FOR THE PENSION LIABILITY?

The pension plans of the United Methodist Church make the annual conference responsible for the pension liabilities relating to the service of the clergy in the annual conference. There is no practical way to make each local church responsible for the pension, since pastors move from church to church over the course of their ministry. The annual conference can more easily track a pastor's ministry over their career.

Of course, the annual conference has no funds except what local churches in the conference provide. The annual conference charges local churches the amount needed to meet the pension needs. Our annual conference has chosen to direct bill the pension to the local church for the pastor(s) appointed to the church, during their time of service.

IF LOCAL CHURCHES PAY THE PENSION, WHY IS THERE A LIABILITY?

The amount charged to local churches is an estimate of what will be needed. But like all estimates, it is, at best, an educated guess, not a certainty. A pension liability exists in defined benefits plans for two reasons: longevity and investment risk.

There is a risk that claimants on the pension plan could live longer than expected. Actuaries have developed sophisticated mortality tables to model the longevity of any population. Still, these are just models, and actual experience can vary. As longevity increases (a good thing), the amount required to fully pay out pensions also increases. If investment earnings do not provide that increased amount, then the plan sponsor must provide the funds.

There is also a risk that the invested funds will not earn the amounts expected. If investment earnings fall below expectations over a period of time, more funds must be injected into the plan to assure the promises made can be kept. As an example, in 2008 and 2009 the market dropped drastically, and the amounts invested in the MPP pension plan (for service 01/01/1982 – 12/31/2006) fell below the amount needed to guarantee the payments over the projected life of the participants. Our annual conference had to invest an additional $535,142 into MPP in 2011 to make up the investment losses. We made similar payments of $200,000 into CRSP and $671,858 into Pre-'82 in 2011 for the same reason that year.

WHY SHOULD A DEPARTING CHURCH PAY A PENSION LIABILITY FEE?

Pension liability is accrued as pastors serve churches. Each local church has a share of the overall pension liability, for the service of the church's pastors over the years. As long as the churches of the annual conference remain together, they can be called upon to help "fill in the gap" whenever a shortfall is discovered. (In 2010, all of the churches contributed to the funds we had to pay for the shortfall in the MPP account mentioned above).

If a church leaves the annual conference, the pension liability for the pastors which served that church over the years remains. Should a need arise to put additional funding into the pension, the departed church is no longer part of the group that has to come up with the funds. The remaining churches would be responsible for shouldering the departed church's share as well as their own shares. This is an unfair burden to leave to others.

The departing church is asking the churches that remain to assume the departing church's share of the overall pension liability. In the commercial world, the rate a commercial insurer would charge to assume such a liability would be 110% of the actual liability.

In addition, we believe that departing churches will want to assure the stability of pension promises made to the pastors who faithfully served them in past years.

WHO IS PROTECTED BY PAYING A PENSION LIABILITY FEE?

Ultimately, it is the pastors and their dependents that are protected. Pension liability funds are set apart to meet pension liability needs. The annual conference cannot use those funds for other purposes. They help guarantee that the pension promises made to faithful pastors and their spouses can be kept, even if one or more of the churches that pastor served is no longer part of the annual conference.

HOW IS THE PENSION LIABILITY FOR THE SOUTH GEORGIA ANNUAL CONFERENCE DETERMINED?

There are three pension plans currently in effect for pastors who have served in the South Georgia Annual Conference:

- The Pre-'82 Plan covers years of service up to 12/31/1981.
- The Ministerial Pension Plan (MPP) covers years of service between 1/1/1982 and 12/31/2006.
- The Clergy Retirement Security Program (CRSP) covers years of service since 1/1/2007.

Each plan has its own assets and liabilities. The assets and liabilities for each plan relating to the years of service within the annual conference are used to calculate any overall pension liability. The liabilities are re-calculated each year, to keep abreast of changes relating to investment earnings or losses, deaths, and years of service earned.

As of Jan 1, 2018 (the most recent calculation), the South Georgia Conference has these liabilities:

Ministerial Pension Plan (MPP)	$ 11,458,379
Clergy Retirement Security Plan (CRSP-DB)	$ 18,234,710
Pre-'82 Plan	$ (3,149,614)
Total	$ 26,543,474

HOW DO ALL THESE PLANS WORK FOR A PASTOR?

Multiple pension plans can be confusing. Many pastors have years of service under one or more plans. A church with many pastors over the years would have partial liability in each pension plan. For example:

- Pastor A entered the conference in 1959. He retired in 2001. He has 22 years of service in the Pre-'82 plan, and 19 years of service under MPP. He retired before CRSP began in 2006, so he has no years of service under that plan.
- Pastor B entered the conference in 1986, and served until retirement in 2016. Pastor B has no years of service under the Pre-'82 plan. He has 18 ½ years under MPP, and 8 ½ years under CRSP.
- If Pastor A and Pastor B both served Wondrous UMC in Grand City, GA, Wondrous UMC would share responsibility for their pension during the years each served as Wondrous UMC's pastor – meaning Wondrous UMC would have some liability under all three pension plans.

WHO DECIDES WHAT A DEPARTING CHURCH SHOULD PAY?

The Conference Board of Pensions (CBOP) determined that this is a matter for the entire annual conference to decide. While the CBOP recommends a formula, we believe every church should have a say in the matter.

The Conference Board of Pensions considered a variety of different ways to calculate a local church's portion of the overall conference liability:

1. *Use Current Apportionment Formula.*
   We presently have a formula, voted on and approved by our churches, that assesses a share of overall conference responsibilities to each church. We could use that same formula to assess a share of future pension liability.
2. *Develop A Formula Based On Church Salary As A Portion Of Overall Conference Salaries.*
   Since 1982, the liability is mostly based on salaries paid. We could spot 5 or 10 salary points and calculate what percentage of the overall conference salary that year each church paid. Averaging those percentages would come up with a share for each church of the overall liability.

3. *Develop A Formula Based On Current Pension Payments Or Current Salary.*
   Our current billing has an amount based on what the church is able to pay their current pastor. We could decide this is an appropriate evaluation of a church's ability to pay, and assess the liability based on this factor.
4. *Divide Up Equally By Number Of Churches.*
   We could determine each church gets the same share, so divide 1 church by the number of churches in annual conference (586), and each church's share is roughly 0.175% of overall liability.
5. *Divide Up Equally By Number Of Members.*
   We could determine that to give each church an "equal" share, we should calculate the share per member. So each church's membership divided by AC membership gives the percentage of the church's share. There were 107,602 members on 12/31/18. One divided by the total membership is .0000092935, so a church of 100 members would get .00092935 of the overall conference liability.

OUR RECOMMENDATION

Because the pension liability was accrued based on salaries paid over a span of years, the Conference Board of Pensions recommends that a local church's share of the overall pension liability be determined using the church's salary amount(s) over the years as the main component. As far as practical, we will use the same methods used by Wespath in calculating pension liability. The CBOP recommends using a variation of #2 above.

DEVELOP A FORMULA BASED ON CHURCH PLAN COMPENSATION (SALARY + HOUSING) AS A PORTION OF OVERALL CONFERENCE SALARIES.

- We will spot seven data points: 1990, 1995, 2000, 2005, 2010, 2015 and 2019. These will represent pension liability accrued over a span of pastors.
- We will use the most recent actuarial figures from Wespath to determine the overall conference pension liability.
- Using the Statistical Tables, we will calculate the salary + housing for appointed clergy at each church in those years, and determine what percentage that is of combined salary + housing for all churches still in existence. For 2019 and 2015, we will use actual housing when it is provided in lieu of parsonage. For all other years and when a parsonage is provided, we shall add 25% of salary for the housing figure (the same method used by Wespath in calculating pensions), except we will use 20% for 1990, as that is the percentage Wespath used in 1990.
- If churches have merged, we will use the highest plan compensation figure in those years before the churches merged.
- We will average those percentages to get a decimal for the church over those seven data points.
- We will then multiply the conference's overall share of the pension liability by that number to arrive at the church's portion of the overall liability. Liabilities shall be figured for each pension plan separately. If no conference liability exists, then no fee shall be charged.
- A church shall pay their share of the liability in full before exiting the annual conference.
- The Conference Board of Pensions shall keep funds received in execution of this policy in a separate fund, which shall be restricted for use only in meeting pension obligations. These funds shall be invested with Wespath, and placed in the Multiple Asset Fund.
- If a departed church returns to the annual conference, they shall be due a rebate on funds paid in execution of this policy at the time they departed, less any funds paid to cover pension obligations. Investment earnings and losses shall be calculated as of the date of re-entry, and the pro-rata share refunded to the church within 6 months of its re-entrance to the annual conference.

CAN YOU GIVE AN EXAMPLE OF WHAT THIS WOULD COST A CHURCH?

Yes. We did a sampling with fifteen churches. We divided them into 5 groups, based on average worship attendance: Very Small (avg. below 20), Small (avg. below 75), Medium (avg. in the100s), Large (avg. in the 200s) and Big (avg. in the 400s). Based on an accumulated current MPP liability of $11,458,379.00 and an accumulated CRSP-DB liability of $18,234,710.00, we apply the decimal as follows:

Church	*Attendance*	*Decimal*	*MPP Liability*	*CRSP Liability*	*Total Liability*
A	7	.0011994394	13,743.63	21,871.43	35,615.06
B	11	.0001992585	2,283.18	3,633.42	5,916.60
C	20	.0009727890	11,146.58	17,738.52	28,885.11
D	40	.0010383779	11,898.13	18,934.52	30,832.65
E	50	.0020008289	22,926.26	36,484.53	59,410.49
F	65	.0024115265	27,632.18	43,973.49	71,605.67
G	132	.0028440316	32,587.99	51,860.09	84,448.08
H	146	.0048751121	55,860.88	88,896.25	144,757.13
I	162	.0036101986	41,367.02	65,830.92	107,197.95
J	233	.0059458476	68,129.77	108,420.80	176,550.58
K	253	.0034279632	39,278.90	62,507.91	101,786.81
L	270	.0036993699	42,388.78	67,456.94	109,845.72
M	418	.0073325353	84,007.51	133,688.42	217,695.93
N	469	.0060902642	69,784.55	111,054.20	180,838.75
O	483	.0049285267	56,472.93	89,870.25	146,343.18

As the above table shows, the amounts vary widely. *The cause of the variance is the salaries paid to pastors over the years*, not the current attendance. While the various possible methods would all result in differing amounts for local churches, they really just change how the total is divided. The overall liability does not decrease by changing the formula for dividing it among our churches. Your Conference Board of Pensions recommends a formula that divides the liability on the same basis the liability was created – based on pastoral compensation.

NOTE WELL: NO CHURCH HAS TO PAY THESE AMOUNTS UNLESS THEY WISH TO DISAFFILIATE from our Annual Conference. We truly do believe that we are now and should remain "alive together in Christ."

With that assurance, we respectfully submit this proposal.

Mr. Marc A. Reid, Chair, Conference Board of Pensions
Dr. Derek W. McAleer, Director of Administrative Services