The Trustees of the Church Pension Fund

CONTENTS

I. STUDY OF PROPOSED CANONICAL CHANGES

Term of Office of Trustees

An amendment to the recommendation of the Standing Committee on Church Structure (A-25) that Canon I.7.2 dealing with the terms of office of the Trustees of The Church Pension Fund be amended requested that the Board of Trustees report its views to the 66th General Convention.

Discussion

Since the Constitution has been modified to allow intervals between General Conventions to be less than three years, the Standing Committee on Church Structure has recommended that the Canon governing the term of office of Trustees be amended to allow for elections of Trustees should General Convention regularly meet every two years or every year in the future. The Commission recommends that, instead of six year terms with a maximum of two consecutive terms (12 years), that the term be twice the interval between Conventions with a maximum of 12 consecutive years of service for any Trustee.

The complexities of the Fund and the fiduciary responsibilities placed on the Trustee of The Church Pension Fund necessitates a term which allows for orientation, time for productive service, and continuity in the governance of the Fund. The present six year term does that, and at the same time, a limitation of two terms assures a reasonable turn-over in Board membership. Standing for re-election after six years provides for accountability to the General Convention without unduly subjecting the Fund to pressures arising from volatile issues not directly related to its operation. The present triennial election provides two classes of 12. With no change in Canon I.7.2 except for one providing transition, biennial Conventions would elect three classes of 8, or an annual Convention would elect 6 classes of 4 each.

At present there are no actual plans for the reduction of the time between Conventions to less than three. Should any Convention fix the interval at two years or one year, the appropriate changes could be recommended to the Trustees at that time and amendment to Canon I.7.2 made and implemented at the following Convention.

Recommendation

The Trustees appointed an *ad hoc* committee to study the terms of Trustees. After examining and discussing several alternative schemes, the Trustees voted not to recommend any changes to Canon I.7.2 at this time to General Convention.

Participation of Non-stipendiary Deacons in Fund

Resolution B-46 calls for a study of Canon 7, Title I, with respect to a possible amendment to permit a non-stipendiary deacon to seek Pension Fund protection if he or she is not benefited in a secular occupation.

Discussion

Although non-stipendiary deacons, along with those ordained at 60 and over, are the only ordained clergy excluded from participation in the Fund, any ordained Minister not receiving compensation as a result of employment by a Church unit or in extension of the ministry of the Church may not actively participate in the Fund. From the inception of the Fund its membership has been limited to clergy employed and compensated by the Church. Special arrangements have been made to allow the continuance of participation on a voluntary basis by clergy doing extra-church ministry, provided their work is deemed to be an extension of the ministry. The Pension Reform Act (ERISA) as now in effect does not allow Church plans to cover secularly employed clergy — to maintain their exclusion from government regulation.

Deacons ordained under Title III. Canon 10, Sec. 10 are non-stipendiary. Other deacons enjoy the same provisions as apply to priests and bishops under the rules of the Fund.

If the non-stipendiary clergy could participate in the Fund on a voluntary basis, the assessments would need to be paid out of their personal funds, and would not be exempt from taxation. In recent years, provision has been made by legislation for retirement benefit protection for those not covered by regular pension plans, by means of establishing Individual Retirement Accounts; and for the self-employed Keogh Plan accounts or Individual Tax-deferred Annuities, Income used to pay for these plans is tax exempt.

In summary, elimination of the exclusion of non-stipendiary deacons from Canon 7 would not affect their participation in the Fund since they receive no compensation for services to the Church. If they were permitted to participate and to pay personal contributions, on a hypothetical compensation base approved by the Trustees, it could jeopardize the present exemption of the Fund from ERISA regulations.

Recommendation

For the reasons given above, it does not appear advisable to eliminate the present exclusion in Canon 7.

II. ACTUAL CHANGES IN CANONS

Participation of Women Deacons Ordained Before June 1, 1971

Resolution B-118 amended Canon III.26.7 to allow for the inclusion of women deacons ordained prior to June 1, 1971, in The Church Pension Fund.

Action

The rules of the Fund were changed to allow women deacons ordained prior to June 1, 1971, who are under the age of 60, and who are employed by the Church or in extension of ministry after January 1, 1977, to participate in The Church Pension Fund.

III. STUDY OF PENSION PLAN FOR LAY EMPLOYEES

Lay Pension Plan

Resolutions B-77, B-83, B-88, B-214, request that the Board of Trustees of The Church Pension Fund study and report to the 66th General Convention as to the feasibility, from the standpoint of legal and other considerations, of the adoption of a mandatory Church pension plan for lay employees of the Church.

Discussion

In late 1977, The Church Pension Fund's Consultants prepared a questionnaire which requested information of all Church units regarding lay workers. These questionnaires included such questions as number of lay employees, hours of work per year, annual salary, date of birth, marital status, date of employment, and whether a lay plan was presently maintained. Over 8,000 questionnaires were mailed, and some 3,700 responses were made relating to approximately 4,000 lay employees, of which more than half were part time. Certain inherent difficulties were encountered in this process. Specifically, with only about half of the questionnaires returned, it could not be determined whether or not those Church units who failed to respond did in fact have any lay staff or staff plan. The other issue was whether or not the responses would represent a reasonably accurate cross-section of all lay workers in the Church. Nevertheless, the data was given to an actuarial consulting firm for further study and the formulation of a lay pension plan which would be appropriate for consideration by the Trustees and by General Convention. This study was then submitted to a number of life insurance companies for further review and for their suggestions as to how an appropriate lay plan could be administered by the Church Life Insurance Company.

Action

A complete recommendation for the consideration of the General Convention is appended to this report.

IV. STUDY OF BENEFIT CHANGES

Increase in Formula Benefits

Two resolutions call for the study of the feasibility of increasing the benefits for future pensioners. Resolution B-78 requests that an increase in the formula benefit from 1.25% to 1.50% be examined. Resolutions B-77, B-80, B-184, and B-212 request that a study be made of the feasibility of maintaining the present level of pension benefits with a reduced number of years of credited service.

Discussion

Although approaching the situation from different directions, both resolutions effect the percentage factor used to calculate the formula benefit which under current rules is 1.25%, and applies uniformly to all years of credited service. That factor has been increased as funds became available over the last several years: 1968 - 1.1%, 1972 - 1.2% and 1976 - 1.25%. These improvements in the formula benefits were along with other needed benefit improvements such as increases for those already retired on pensions.

The following tabulation shows the annual pensions, expressed as a percentage of the Highest Average Compensation for ten consecutive years resulting under the present rules, under Resolution B-78, and under Resolutions B-77 et al.

Years of credited service at retirement	**Present rules**	**Resolution B-78**	**Resolutions B-77 et al**
(A)	(B)	(C)	(D)
22	27.5%	33.0%	33.0%
26	32.5%	39.0%	39.0%
30	37.5%	45.0%	45.0%
34	42.5%	51.0%	50.0%
38	47.5%	57.0%	50.0%
40	50.0%	60.0%	50.0%
44	55.0%	66.0%	50.0%

Because of the incomplete wording of Resolution B-77 *et al,* we have had to assume that their intent is to provide a pension of 50% of HAC for 33-1/3 or more years of credited service, based on a pension rate of 1.5% for each year of credited service up to 33-1/3 years. The figures shown in column (D) of the table have been computed on this assumption. All of the column (C) figures are based on a pension rate of 1.5% for each year of credited service, and are therefore exactly 20 per cent greater than the corresponding figures shown in column (B). Translated into costs, based on estimates made by our consultant, the Resolution B-78 proposal, if implemented, would increase the existing liabilities for the age pensions, early pensions, disability pensions, and spouse pensions that are to be funded for the active clergy group by about $95,000,000. The cost of the Resolution B-77 proposal would also be large, but somewhat less than the cost of the Resolution B-78 proposal. The Resolution B-77 proposal produces a benefit improvement of less than 20% for those retiring 34 to 39 years of credited service, no improvement for those retiring after exactly 40 years of credited service, and a benefit reduction for those retiring with more than 40 years of credited service. Apart from its cost, moreover, the Resolution B-77 proposal is clearly inequitable and would tend to create great and justifiable resentment on the part of many clergy who do serve the Church for 40 or more years.

It may be argued that the present assessment rate could be increased to raise the necessary monies to provide one of the suggested benefit formula improvements. The Trustees believe that the Church, in spite of its remarkable record of supporting the 18% rate, would not support a higher rate. The Trustees must accordingly rely on the

Fund having greater than anticipated earnings in the future in the securities markets to justify the grant of further increases in benefits from time to time.

Action

Responding to a favorable financial condition the Trustees did increase benefits for the now active clergy in addition to granting an increase to the current beneficiaries as of March 1, 1979. The Lump Sum Death Benefit Resettlement Allowance was established whereby a new retiree receives a special lump sum allowance equivalent to 3 months benefit, not to exceed $3,600. The Trustees do not feel an increase in the benefit formula is feasible at this time. However, a periodic review of the formula will continue to be made.

Increase of Pensions

Resolutions B-82 and D-2 request that The Church Pension Fund increase pension payments to the retired clergy to more "livable" levels and review the possibility of such increase annually.

Discussion

The Trustees are aware that the changing economic climate, especially in regard to cost of living, has increasingly eroded the pension benefits provided by the Fund, and by all other retirement plans. As a result, regular reviews of the Fund's financial condition are made with an eye toward increasing benefits when feasible. These reviews are conducted against a background of annual valuations and are necessarily based on actuarial cost estimates.

Since its inception in 1917, The Church Pension Fund's Trustees have continually followed a fiscal policy whereby sufficient assets, in the form of reserves, be available to cover the anticipated future costs of guaranteed benefits for both retired clergy and active clergy.

To this end, actuarial valuations are prepared as required by the N.Y. State Insurance Department, to determine the Fund's current liabilities for those presently in receipt of benefits and also project the cost of providing benefits to prospective retirees and their families.

Each time that benefit increases are extended to those on the rolls, the Fund incurs an additional liability. For example, the last two increases granted to pensioned clergy and pensioned widows had a total cost of nearly $20,000,000. Consequently, improvements to existing pensions are voted only when it is anticipated that future assessments income and investment gains will fully fund the added liability in a reasonably short period of time without impairing the benefit rights of our 8,200 active Ministers and their families.

Under other retirement schemes, such as Social Security, and other governmental plans, which operate on a "pay-as-you-go" funding basis, provisions have been made for the annual cost of living increases. Under such schemes current income is used to meet current outgo and very little thought is given about the long range cost implications to the tax payers who support these plans. Were the Trustees to move in this direction, the funded reserves held for our active Ministers and their families would sooner or later have to be invaded for the benefit of pensioners. Moreover, the Trustees would lose their discretionary control over authorizing benefit improvements and in the long run, future beneficiaries might have to be given smaller pensions than those contemplated under the present rules.

While the resolutions note that pensions should be raised to more "livable" levels, benefits from the Fund are directly related to clergy compensation, and as compensations rise, pensions similarly do. The Trustees recognize that in the past clergy salaries were relatively low and acting in a prudent manner, have voted some twenty improvements in benefits in the Fund's sixty-two year history, or on the average one every three years. A recent study prepared by the Fund's Consultant reveals how the average monthly pensions payable have increased since 1968:

Type of Benefit	1968	1979	% Increase
(a) Regular age pensions	231	338	74%
(b) Early retirement pension	N/A	299	N/A
(c) Disability pensions	231	350	52%
(d) Surviving spouse pensions	130	194	49%

Action

Responding to favorable expectations and recognizing the adverse effect that inflation has impacted on benefits from The Church Pension Fund, especially for lower paid clergy, the Trustees voted an increase in monthly pensions payable effective March 1, 1979 in an amount equal to 8% of the first $300 of the existing monthly benefit and 6% of the next $300 monthly benefit.

Additionally, the Trustees will continue to monitor the results of the annual actuarial valuations, and hope to continue to vote further improvements whenever feasible.

Divorced Wives of Clergy

Resolution C-26 requests the Trustees to study the feasibility of making provision for the former spouses of clergy at the Minister's death and to either make recommendations to General Convention or take such actions as they deem appropriate.

Discussion

The surviving spouse's benefit, where applicable, is paid only to the eligible legal widow or widower at the time of the death of a Minister. To provide a benefit to a former spouse would call for the creation of a new class of beneficiaries. Both the question of providing the funds for, and the legality of, such a benefit proved to be a stumbling block for a number of years.

It is now a fact that ordained clergy do become divorced and that most remarry. A study made by the Fund showed that the number of clergy divorces in the last five years to be between 75 and 100 per year. The number is likely to increase in the future.

Under the rules in effect prior to 1977, a Minister could elect to assign to a former wife a part of his retirement benefit while he lived, elect an option at his retirement under which he reduces his own pension to provide after his death a pension benefit to a former spouse, and to name the former spouse as beneficiary for the Lump Sum Death Benefit. These elections were subject to approval by the Trustees.

These provisions did not satisfactorily solve the problem. Still the limitation of canon law regarding who may receive benefits prevented payments to a divorced spouse who was no longer legally a dependent. Further, the Trustees felt that the cost of a new benefit, even if the canon were changed, should not be charged to the Fund as a whole, but to the divorced Ministers. They also felt that the full survivor benefit of the new lawful spouse should not be impaired.

Action

Effective December 1, 1977, the rules of the Fund were changed to allow a Minister at the time of divorce to elect to make a permanent reduction in his own pension accrued to that time and thereby provide a survivor benefit for his divorced spouse. This election is not compulsory, and is not subject to the approval of the Trustees, but to the legal settlement procedure at the time of divorce. The cost of such provision is carried by the Minister and relates to the period of time the former spouse was married to the Minister during his active service. Should the Minister remarry, the second spouse would receive a surviving spouse benefit on the same basis as if he or she had been the only spouse. The Trustees believe this to be an equitable solution to a difficult problem and do not contemplate any further action.

V. INCREASE OF ASSESSMENT INCOME

Clergy Contributions

A resolution requests an investigation of the principle and advisability of allowing clergy to pay personal contributions to the Fund, at a fixed proportionate rate, in order to improve their present Fund benefits.

Discussion

The clergy has never been required to make any contribution to the Fund based on compensation received as employees of Church units. This resolution suggests that instead of increasing the existing church-wide assessment rate to pay for increase in benefits requested by the clergy, that an additional assessment be charged to the clergy. It would be possible to amend The Church Pension Fund rules to allow for such contributions, but it would probably have to be on a voluntary basis. However, whether mandatory or voluntary the monies thus raised would have to be kept in separate individual accounts and each individual contributor would have the right to decide just how his contributions would be applied at the time of his retirment or prior death.

An informal questioning of clergy indicated some interest in a voluntary but not mandatory plan. Many are facing financial difficulties at present compensation levels and, even though they would like to improve their future benefit, are unable to afford it on a perennial basis.

Unfortunately, personal contributions are not tax deductible under present tax law. There are other means for augmenting retirement income on a voluntary basis that do provide tax benefits.

Action

The Trustees have concluded that no recommendation should be made to permit personal clergy contributions since such contributions would not be tax-sheltered. The purchase of a tax deferred annuity would seem more advantageous, and general information in this regard will be made available to the clergy.

Increasing Assessment Base

Resolution B-87 requests that The Church Pension Fund include a factor of 30%, rather than 25% of cash salary and utility allowances in the determination of housing for pension assessment purposes. Does this proposal specifically exclude the present alternative of "actual cash" in lieu of pensions?

Discussion

The General Convention of 1976 requested that the Trustees study the feasibility of increasing the housing figure in computing clergy compensation from 25% of cash salary and utilities to 30%. For several years, the concept of eliminating the separate utility category of compensation and combined utilities and housing as a percentage of cash salary has been under discussion. It was finally decided not to pursue such a change since the net effect would be to penalize clergy in the lower salary brackets. Basing utilities on percentage of cash salary would, in this case, result in a figure lower than what is actually being paid for utilities except when a cash housing allowance is provided. In the case of those in the higher brackets, it is likely that in many situations, the utility percentage would exceed the actual utility payments.

The resolution from the General Convention does not call for an elimination of an absolute utility figure, but rather for an increase in the percentage used to calculate housing costs. If implemented, this could be very nearly equivalent to 18.9% assessment rate, and with the increase applied mainly for the benefit of the higher paid clergy. There is question as to whether or not the parishes and missions could, reasonably, bear the burden of such an increase. Moreover, such an indirect increase in assessments tends to deny to the Trustees the discretion they now have of meeting specific needs out of the monies generated by an increase in assessments.

It has been suggested that, should the Church be willing to absorb an increase in the assessment rate, the rate ought to be increased directly, with the understanding that the Trustees would utilize the additional assessment income to accumulate retirement housing funds on an individual basis for all present and future active Ministers.

Action

After reviewing the resolution, and in light of the above considerations, the Trustees voted to maintain the present formula of cash salary, plus utilities, plus 25% of salary and utilities for calculating compensation.

VI. APPENDIX

A National Pension Plan For Lay Employees of the Episcopal Church

The following is a summary of a Plan of Benefits which has been developed for submission by the Trustees to General Convention. In developing this Plan, it has been recognized that some guaranteed level of maximum investment return is important where no initial assets exist as the Plan begins. This is only a summary and the final plan document would determine the actual administration of the Plan.

Summary of Proposed Pension Plan for Lay Employees

I. Future service plan — 1.1% of earnings multipled by number of years of employee's participation under Plan; average annual total earnings during the last ten consecutive years preceding retirement.

II. Normal retirement age — 65.

III. Early retirement — employee may elect early retirement on any date within 10 year period of normal retirement; actuarially reduced pension.

IV. Late retirement — available with regular accrual of benefits after normal retirement date.

V. Eligibility and participation — employee enters Plan on effective date of employer's participation, provided he has completed one year of service; must be hired prior to age 60; future entrants enter Plan on the first day of the month after having met one year service requirement.

VI. Death benefit — none, except as provided in VII.

VII. Pre-retirement spouse's benefit — provided if employee has met the requirements for early retirement and has been married for at least one year; in determining spouse's benefit, years of credited service will be the larger of ten or the actual number of years credited; benefit equal to the benefit the spouse would have been entitled to had employee retired early and elected an option under which 50% of his retirement benefit would have continued to his spouse after his death; payable for lifetime of surviving spouse.

VIII. Normal form of retirement pension — for married employees: joint and 50% to spouse; for unmarried employees: benefits in an unreduced amount for life.

A) Optional forms of retirement pension: Married employees may choose unreduced pension with no continuing benefits to spouse. Any employee may choose joint and complete or partial to survivor named, or a ten years certain and continuous option, or other alternative options.

IX. Disability benefit — in determining disability benefit, years of credited service will be the larger of ten or the actual number of years credited; disability must be total and permanent; benefit equal to 100% of accrued benefit at rate of disability.

X. Vesting — 100% after 10 years of service; all years of service credited for vesting purposes.

XI. Plan to meet ERISA (Pension Reform Act) standards, though not initially to be under government regulation of ERISA.

XII. Initial funding rate — 8% of salary.

XIII. Plan administrator — Church Life Insurance Corporation.

The Plan is designed to serve a basic program of pensions for lay employees initially. It is hoped that benefits may be improved further in future years.

In addition, it is likely that many parishes or other Church employees will wish to provide credit for years of service before the inception of the Plan and/or increase the standard 1.1% to a higher level. This may be done through the Church Life Insurance Corporation and tailored to the particular situation. For example, retirement benefits for a long-time employee could be increased by purchasing sufficient annuity to provide 1.1% of present salary for each year of previous sevice. Or the 1.1% could be increased to 1.25% by paying more than the 8% funding of the basic plan into an annuity plan with Church life.

The Plan administrator will be the Church Life Insurance Corporation, a wholly owned affiliate of The Church Pension Fund. It will operate apart from The Church Pension Fund, which by charter and canon is limited to clergy. The Plan will be self funded, protecting The Church Pension Fund's exclusion from ERISA and its assets.

Resolution

Whereas, the Church has long felt the need to provide adequate pension protection for its lay employees; and

Whereas, The Church Pension Fund, at the request of the 65th General Convention of 1976 has conducted a study indicating the need for a churchwide pension plan for lay employees of the Church; and

Whereas, The Church Pension Fund, through its affiliate, the Church Life Insurance Corporation, will be offering a National Pension Plan for Lay Employees of the Episcopal Church beginning January 1, 1980; be it therefore

Resolved, **the House of Bishops concurring, That the General Convention endorses the National Pension Plan for Lay Employees of the Episcopal Church, and urges all units of the Church employing lay people to participate in this plan.**

This report is submitted to the House of Deputies Committee on The Church Pension Fund and to the 66th General Convention by order of the Board of Trustees of the Fund.

Respectfully submitted,

The Rt. Rev. J. Milton Richardson
Chairman of the Board of Trustees

Robert A. Robinson
President and Trustee

FOR THE TRUSTEES

June 28, 1979

Resolution

Resolved, **the House of Bishops concurring, That the "Report of the Trustees of The Church Pension Fund to the 66th General Convention on Matters Referred by the 65th General Convention of 1976" in the form annexed hereto be accepted by title and printed in the Journal of the 66th General Convention.**