

THE CHURCH PENSION FUND

www.cpg.org

OVERVIEW

The Church Pension Fund (CPF), an independent agency of The Episcopal Church incorporated by a special act of the New York State Legislature in 1914, provides pension and related benefits to clergy and lay employees of The Episcopal Church. Because the Clergy Pension Plan is mandated by the canons of the church, retirement and related benefits for those ordained are our primary focus. Since its inception, CPF has paid out over \$3 billion in benefits for clergy, their surviving spouses and dependent children.

With the authorization of General Convention, the Church Pension Fund oversees a number of affiliated companies, including Church Life Insurance Corporation, The Episcopal Church Medical Trust, the Church Insurance Companies¹, Church Publishing Incorporated and CREDO Institute Inc., to serve Episcopal clergy and lay employees and their families, as well as Episcopal churches and institutions. Collectively known as the Church Pension Group (CPG), we provide pension benefits and services, retirement planning, life and disability insurance, health benefits, property and casualty insurance and book and music publishing including the official worship materials of The Episcopal Church.

At General Convention, CPF provides data and feedback to the cognate Church Pension Fund Committees. Resolutions considered by the Pension Fund Committees are presented to both the House of Bishops and the House of Deputies.

To provide additional information to the church and to more fully discuss many of the subjects presented here, we will disseminate a comprehensive *Report to General Convention* in June 2009.

This Blue Book Report describes a number of major areas of focus over the past three years, including:

- Governance;
- Review of the Past Triennium;
- Benefit Enhancements since 2006; and
- Updates on our work in regard to the Resolutions CPG was asked to address by the 75th General Convention.

The core of our mission is always before us: *to fulfill our fiduciary responsibility by serving the clergy, lay workers, dependents, parishes, dioceses and other institutions in The Episcopal Church through the provision of pensions and other benefits and services that will contribute to their lifetime economic, physical, emotional and spiritual well-being.*

¹ "The Church Insurance Companies" means, collectively, The Church Insurance Agency Corporation, The Church Insurance Company, The Church Insurance Company of New York, and The Church Insurance Company of Vermont.

The Current Church Pension Fund Board of Trustees

Terms Ending in 2009

The Very Rev. M. L. Agnew, Jr.
Dean (retired), St. Mark's Cathedral
Bullard, Texas

James E. Bayne
Manager (retired), Benefits Finance and Investment
Exxon Mobil Corporation
Dallas, Texas

Sheridan C. Biggs
Partner (retired), Price Waterhouse
Quaker Street, New York

David L. Brigham
Partner, Manchester Capital Management
Weston, Vermont

The Rev. Carlson Gerdaud
Canon to the Primate and Presiding Bishop (retired)
New York, New York

The Rt. Rev. Gayle E. Harris, D.D. (Vice Chair)
Bishop Suffragan of Massachusetts

The Rt. Rev. Robert H. Johnson, D.D.
Bishop of Western North Carolina (retired)
Asheville, North Carolina

Canon Joon D. Matsumura
Comptroller (retired), Diocese of Los Angeles
Yorba Linda, California

Virginia A. Norman
Treasurer, Iglesia Episcopal Dominicana
Santo Domingo, Dominican Republic

David R. Pitts (Chair)
Chairman and CEO
Pitts Management Associates, Inc.
Baton Rouge, Louisiana

The Rt. Rev. V. Gene Robinson, D.D.
Bishop of New Hampshire

The Rt. Rev. Wayne P. Wright, D.D.
Bishop of Delaware

Terms Ending in 2012

The Rev. A Thomas Blackmon
Rector, Christ Episcopal Church
Covington, Louisiana

The Rev. Dr. Randall Chase, Jr.
Acting President, Episcopal Divinity School
Cambridge, Massachusetts

Barbara B. Creed, Esq.
Of Counsel, Trucker Huss, APC
San Francisco, California

Vincent C. Currie, Jr.
Administrator, Diocese of the Central Gulf Coast
Pensacola, Florida

Deborah Harmon Hines, Ph.D.
Associate Vice Chancellor
University of Massachusetts Medical School
Worcester, Massachusetts

The Rt. Rev. Peter James Lee, D.D. (Vice Chair)
Bishop of Virginia

The Rt. Rev. Claude E. Payne, D.D.
Bishop of Texas (retired)
Salado, Texas

Diane B. Pollard
Independent Benefits/Human Resources Consultant
New York, New York

Quintin E. Primo III
Chairman and CEO, Capri Capital Partners LLC
Chicago, Illinois

Katherine Tyler Scott
Managing Partner, Ki ThoughtBridge LLC
Indianapolis, Indiana

Cecil Wray, Esq.
Partner (retired), Debevoise & Plimpton
New York, New York

The Very Rev. George L. W. Werner, D.D.
Dean Emeritus, Trinity Cathedral
Sewickley, Pennsylvania

Elected by the CPF Board of Trustees

T. Dennis Sullivan
President and CEO, The Church Pension Fund
New York, New York

GOVERNANCE

Governance of the Church Pension Fund is provided by a 25-member Board of Trustees which consists of 24 trustees elected by General Convention and the CPF President, who is elected by and serves at the pleasure of the board. Governance of the affiliate companies is provided by their respective boards of directors, the memberships of which include both CPF trustees and additional directors with specific industry expertise, with oversight provided by the CPF Board of Trustees.

Thus, the Trustees of the Church Pension Fund play vital roles both in the governance and oversight of Church Pension Fund affairs and the Church Pension Group's complex businesses.

The Work of the CPF Board of Trustees

The CPF Trustees make significant policy decisions affecting investment strategy and policy, pension benefits and CPG services. They provide governance and oversight of the management of a broad and varied consortium of businesses. They are responsible for the oversight and stewardship of CPG assets totaling \$8.3 billion as of December 31, 2008. Of the many aspects of the Church Pension Group organization, investment management, pension policy, health benefits strategy and property and casualty insurance are among the most challenging; they are also among the most complicated business areas in America today. As they address the complex issues of the pension fund and affiliated companies, recognizing the need for compassion and flexibility while ensuring fiscal accountability, the trustees have the challenge of balancing sometimes-conflicting social and fiduciary responsibilities.

The CPF Board of Trustees is enriched by the presence of lay and ordained leaders, as well as experienced investment managers, attorneys, accountants, healthcare experts and business and financial professionals. It is essential to bring to the board's deliberations the most expert and thoughtful advice available to The Episcopal Church.

The Election Process and the Current CPF Board

As set out in the church canons, General Convention deputies will elect 12 trustees, selecting from the slate of nominees proposed by the Joint Standing Committee on Nominations.

The following eight trustees: the Very Rev. M.L. Agnew, Jr., Sheridan C. Biggs, David L. Brigham, The Rev. Carlson Gerdau, the Rt. Rev. Gayle E. Harris, Canon Joon D. Matsumura, Virginia A. Norman and David R. Pitts are retiring from the CPF Board in 2009, having faithfully served the two consecutive six-year terms allowed under General Convention rules; four trustees are eligible and have agreed to stand for reelection; and the twelve trustees elected in 2006 will continue to serve, as will CPF President and CEO T. Dennis Sullivan.

REVIEW OF THE PAST TRIENNIUM

The past three years have been ones of positive change and growth. During this triennium, the investment performance which drives our work has been exemplary in both positive and negative financial market environments. Benefits for clergy and lay beneficiaries have been enhanced in significant ways. The population we serve continues to grow. The products and services we offer the church have been improved and expanded. The management team was significantly reorganized to better align CPG's organizational structure with its mission and strategy. And much progress was made on a number of important initiatives undertaken in support of the church.

Financial Position

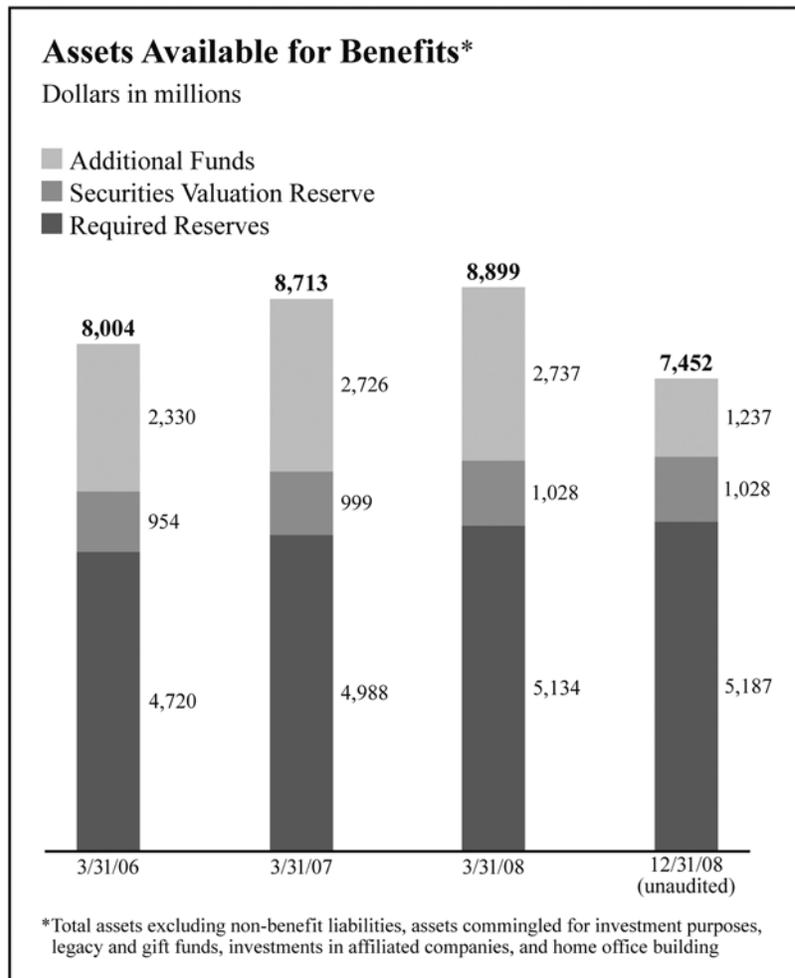
The Church Pension Fund's investments have done significantly better than those of most institutional investors during the past triennium. While the Church Pension Fund's assets have been impacted by the recent financial crisis and the decline in equity markets worldwide, the Fund has performed better than its market benchmark and better than most institutional investors. As shown in the exhibit on the following page, as of December 31, 2008, the Fund's Assets Available for Benefits stood at \$7.452 billion as compared to just over \$8 billion at March 31, 2006. Assets Available for Benefits are comprised of three elements: Required Reserves, which are the dollars

required for paying pension and other benefit obligations; the Securities Valuation Reserve, which is an amount held as a provision against the possibility of a significant loss of value in the investment portfolio; and Additional Funds, which are assets available for benefits in excess of both the Required Reserves and the Securities Valuation Reserve.

We have been, and will continue to be, in communication with beneficiaries on a regular basis, updating them on the financial condition of the Fund via individual letters, information posted on the CPG website, and upcoming CPG publications such as *Perspective*.

The Church Pension Fund was notified in early 2008 by the State of New York Insurance Department (the “Department”) that the annual audited financial statements for all retirement systems and pension funds under its review will be required to be prepared based on U.S. generally accepted accounting principles (“GAAP”) instead of the current accounting practices prescribed or permitted by the Department. The Church Pension Fund agreed with the Department to adopt this change for the year ended March 31, 2009.

Results for the fiscal year ended March 31, 2009, will be available at General Convention in July and will also appear in the *Church Pension Group 2009 Annual Report*.



COMPREHENSIVE REVIEW OF CLERGY PENSION PLAN

For almost a year, the Retirement Programs Committee of the CPF Board of Trustees and the staff of the Retirement Programs and Services department of the Church Pension Group have been preparing for and engaging in a comprehensive review of the Clergy Pension Plan. After a thorough interview process that included a number of major human resources firms, we engaged the services of Towers Perrin, a highly-respected benefits consulting firm, to assist us in the review. Since Towers Perrin works with the pension plans of a large number of organizations outside the church, we believed that they could provide a fresh and unbiased perspective on how well the Clergy Pension Plan serves Plan participants in the domestic and non-domestic dioceses of The Episcopal Church.

While the board and staff believe that the Clergy Pension Plan is a good plan, we wanted to know how it compares with other retirement plans—not only those of other religious organizations but those in the corporate world as well. In addition, we wanted to ensure that the Clergy Pension Plan provides our beneficiaries with a retirement that is not just “adequate” but “comfortable.”

The work done by Towers Perrin was multifaceted. First, they engaged in conversations with both staff and trustees in individual and group settings. Then, with staff participation, they developed and circulated surveys that were distributed to active clergy, retired clergy, surviving spouses and the bishops of the non-domestic dioceses, and conducted focus group discussions during several Planning For Tomorrow conferences. Using what was learned during those interviews, surveys and focus groups, they assisted the staff and trustees in the development of a set of Guiding Principles by which the Clergy Pension Plan—and any future enhancements to that Plan—could be measured. A set of “comparator organizations” was identified so that we could measure our plan against other organizations’ pension plans to see how we compared. Finally, Towers Perrin developed a set of proposals for possible Plan improvements.

The review of the Clergy Pension Plan yielded some interesting learnings:

- Our Plan produces a high “replacement ratio” compared with the plans of other organizations. In other words, the retirement benefits provided by the Clergy Pension Plan generally return to clergy who have served a 30-to-40-year career a high percentage of the amount they were earning just before retirement. It is important to note, however, that compared to the other organizations in the comparator group, the compensation of our clergy population is at a lower level. Therefore, despite the higher replacement ratio, our population is actually receiving a lower pension benefit in real dollars than are beneficiaries in many of the comparator organizations.
- Our retired beneficiaries say that they are “comfortable,” but this appears to be an “anxious” comfort, as they also report being worried about their financial future, especially in regard to increasing medical costs, future housing costs, having enough income once they cease working in retirement and leaving adequate resources for a surviving spouse.
- Conversation in the focus groups in particular revealed that there is a sensitivity toward a perceived inequality in the Plan—those who have earned a higher level of income during their working years enjoy a higher pension benefit in retirement, while those who served in smaller and less financially viable settings receive a lower pension benefit, despite earning the same number of years of credited service. Focus group participants and survey respondents suggested that any future increase in the pension benefit calculation should be done in such a way that the lower-compensated clergy would get a proportionally larger increase, thus continuing our practice of moving toward reducing the disparity among clergy beneficiaries.
- The most anxious group of beneficiaries is that of the surviving spouses, particularly those whose clergy spouses died during active service. For this group, the combination of survivor pension and life insurance does not seem to produce enough income to render these beneficiaries “comfortable.”
- There are a variety of needs among the retiree population, and more flexibility in the Plan could be helpful. For example, some retired clergy are concerned about future escalating medical costs. Others are concerned about significant future housing costs. Some are worried about entry fees into long term care facilities, or the cost of long term care insurance. Still others are concerned about providing adequate

financial support for a surviving spouse in the future. An enhancement to the Plan, which would provide funds that could be used for a variety of purposes, could be a positive addition.

- Members of the clergy who retired early or under disability are concerned with the cost of medical insurance prior to reaching age 65, at which time Medicare and the Medicare supplement programs are available to them.
- Seminary debt service has precluded many clergy who were ordained in the last 20 years from saving for retirement.
- The seven-year Highest Average Compensation (HAC), part of the retirement calculation, does not conform to industry standards. A computation based on five years is more normative.
- In regard to the non-domestic dioceses, a single approach probably is not effective.

Non-Domestic Dioceses

Within the context of the review of the Clergy Pension Plan, Towers Perrin studied average income levels of the general populations of Province IX and other non-domestic dioceses. In addition, they became familiar with and reported the descriptions of the government-provided pension and medical benefits for each country. CPG staff members studied the income levels of clergy in the various non-domestic dioceses. Staff also visited nearly all of the countries to discuss a possible church-wide denominational health plan, and via personal meetings with bishops, staff and clergy in the various dioceses, learned about the effectiveness, or lack thereof, of the government-sponsored programs.

In personal conversations, staff members heard concerns in some non-domestic dioceses about minimum pensions and concerns in others about the level of clergy compensation. We learned that some non-domestic dioceses have very good retiree medical programs, while others need additional assistance in this area. While we understand there are significant needs in the non-domestic dioceses, we also believe that we need to learn more.

To that end, CPG staff held a meeting with the bishops of Province IX just after their provincial meeting in late October 2008, to learn much more about the individual and collective needs of our Plan participants in the various dioceses. Plans to meet with representatives from the other non-domestic dioceses are being developed, as well. From these meetings we hope to develop a strategy for the education of clergy in regard to Plan benefits, the training of administrative staff and a listening process so that we can become more familiar with and responsive to the needs of the dioceses located beyond the U.S. mainland.

Going Forward

In addition to its regular meeting in June 2008, the Retirement Programs Committee of the CPF Board also held full-day meetings in April, May and July of 2008, during which the report from Towers Perrin was received, survey results were reviewed and the effects of possible future benefit enhancements were studied. Actuaries from Buck Consultants calculated the effect of specific benefit enhancements on the Required Reserves, as well as the impact of those enhancements on the retirement benefits of clergy and surviving spouses. The changes and enhancements that the Committee considered directly correspond to the needs identified by the review of the Clergy Pension Plan; they also conform to the Guiding Principles identified at the beginning of the study.

At the September 2008 meeting of the CPF Board of Trustees, the Retirement Programs Committee recommended several enhancements to the Clergy Pension Plan. As a result, the Board approved an increase in the life insurance benefit provided through the Clergy Pension Plan, effective January 1, 2009, from two times Total Compensation with a maximum of \$50,000 to four times Total Compensation with a maximum of \$100,000 for eligible clergy who have not yet retired, and from two times Highest Average Compensation (HAC) with a maximum of \$30,000 to four times HAC with a maximum of \$50,000 for eligible retirees. The Board also approved dedicating \$7 million for benefit increases for the non-domestic dioceses, the specific benefits to be determined following the consultation with the non-domestic dioceses.

Recent market downturn has precluded consideration of further enhancements at this time. When conditions improve and it is prudent to do so, further enhancements will be evaluated.

BENEFIT ENHANCEMENTS SINCE 2006

Our responsibility is to provide retirement and related benefits to the clergy and lay employees of our church. Blessed with sufficient resources, the Board of Trustees has approved increased benefits during this triennium. Highlights of these enhancements follow. The summary below does not offer a full description of the plans, for which you need to refer to the actual plan documents.

Cost-of-Living Increases

The clergy and lay defined benefit pension plans seek to maintain the purchasing power of pension benefits. Therefore, although not obligated by Plan rules, the CPF Board has approved cost-of-living-related adjustments to the monthly benefits for retired clergy and surviving spouses participating in the Clergy Pension Plan, dependent children receiving a benefit from that Plan and retired lay employees participating in the lay employees' defined benefit retirement plan, in each of the last three years consistent with the cost-of-living increase announced by Social Security. In addition, for 2007 and 2008, the Board approved a supplementary increase of \$10 per month for retired clergy, surviving spouses and lay defined benefit retirees in order to give proportionately more to those with the lowest benefits.

Increase in Life Insurance Coverage

Effective January 1, 2009, the Clergy Pension Plan life insurance benefit was increased for all current and future eligible retirees and for all eligible active clergy participating in the Plan, in order to provide greater support to surviving spouses, especially those whose clergy spouses die in active service. For current and future retirees, life insurance coverage was increased from two times Highest Average Compensation with a maximum of \$30,000 to four times Highest Average Compensation with a maximum of \$50,000. For eligible clergy who have not yet retired, life insurance coverage was increased from two times Total Compensation with a maximum of \$50,000 to four times Total Compensation with a maximum of \$100,000.

Medicare Supplement Plans

The Church Pension Fund has long provided a subsidized supplement to Medicare². The Episcopal Church Medical Trust modernized the post-65 retiree Medicare supplement plans in 2003, and introduced the Comprehensive and Premium Plans, which were later supplemented by the Plus Plan. Thus, retirees can now choose from three plans to meet their healthcare needs and financial resources. This program continues to provide benefits supplemental to Medicare's coverage for hospital stays, physician visits, lab work, annual physicals and prescription drugs. And, although the plans have been continually improved—hearing and travel benefits were added for all plans and additional benefits were added to the Comprehensive Plan—there had been no cost increase to retirees for these plans prior to 2008.

Despite the addition of government funding for the inclusion of prescription drugs, as well as administrative savings and group purchasing savings via Medco, it became necessary to increase the per-month cost of the three plans for 2008, primarily because of medical and prescription drug price inflation and the high usage of prescription drugs. However, the Church Pension Fund increased its subsidy of the post-65 retiree Medicare supplement from \$235 per member per month to \$250, thus *fully* covering the cost increase of the Comprehensive Plan while mitigating the cost increases of the Premium and Plus Plans.

For the 2009 plan year, costs increased by \$15 per person per month for each of the plans: Comprehensive, Plus and Premium. However, the Church Pension Fund again increased its subsidy from \$250 per member per month to \$265 per member per month. The effect of this increased subsidy means that for retirees with 20 or more years of credited service, the cost of the Comprehensive Plan is fully covered, those with 10 to 20 years of credited service receive a slightly reduced subsidy and the 2009 premiums of retirees who have selected the Plus or Premium plan remained the same as in 2008.

² Although not obligated by Plan rules, we hope to continue to provide similar post-retirement assistance in the future; however, we cannot make “forever” promises.

The Medical Trust added enhancements to its plans for 2009, thus making this benefit even more valuable for our retirees. The \$10 network co-pay for an annual eye examination was eliminated. A third, free cleaning was added to the dental benefits, up from two a year. Retirees now have access to two exceptional support programs: the Employee Assistance Program (EAP) managed by CIGNA Behavioral Health and a member advocacy program managed by Health Advocate.

The EAP covers a vast array of family and personal services and CIGNA's licensed clinicians assist members with information, educational materials, resources, referrals and ongoing support. EAP services are available 24 hours a day, 7 days a week, through the CIGNA Behavioral Health web site or by phone.

Health Advocate helps members navigate and facilitate medical and administrative issues in the healthcare system, such as problems with claims, finding doctors and hospitals, eldercare issues and scheduling appointments with hard-to-reach specialists. Eligible employees and their spouses, dependent children, parents and parents-in-law are covered by this service.

Increase in Clergy Retiree "Allowed Earnings"

For those clergy who continue to serve the church through temporary or part-time employment during retirement, the annual earnings limit was increased to \$30,500 in 2007; \$31,500 in 2008; and \$32,000 for 2009.

Non-Domestic Clergy

Iglesia Episcopal Puertorriqueña (IEP) returned to the Church Pension Fund effective April 1, 2007. While Puerto Rico is a commonwealth of the United States, it operates under a separate tax code. Effective April 1, 2007, IEP began participating in the Non-Qualified Plan which parallels the Clergy Pension Plan in terms of benefits provided.

As noted earlier, Towers Perrin studied average income levels of the general populations of Province IX and other non-domestic dioceses within the context of the review of the Clergy Pension Plan, and CPG staff made visits to and studied benefits issues in regard to Province IX.

During this process, at its September 2008 meeting, the CPF Board approved setting aside \$7 million for benefit increases for non-domestic dioceses and is currently studying recommendations regarding how these increases might best be effective. In October 2008, CPG staff held a benefits consultation in Guayaquil, Ecuador to meet with the bishops of Province IX and learn much more about the individual and collective needs of the Plan participants in the various dioceses.

Lay Participants

The Church Pension Fund administers two pension programs for lay employees of The Episcopal Church: The Episcopal Church Lay Employees' Retirement Plan (a defined benefit plan) and The Episcopal Church Lay Employees' Defined Contribution Retirement Plan. Together, the two Plans provide a wide array of benefit options that cater to the lifestyles of our participants pre- and post-retirement.

The lay employees' defined benefit plan was established in 1980 and currently provides benefit coverage for 1,442 active participants and 1,125 retirees. The Plan provides a defined monthly benefit to retirees based on years of service and final average compensation. Cost-of-living increases have been granted each of the past three years for those who are receiving a monthly benefit from the Plan. A pre-retirement survivor benefit is provided to eligible spouses of active participants who die on or after attaining early retirement age. Active participants who are under age 72 are eligible for a death benefit equal to twice the participant's annual compensation, with a maximum benefit of \$50,000. Considered the more traditional of the two Plans, the lay employees' defined benefit plan was recently updated to provide a more comprehensive benefit arrangement for participants. For active participants the Plan now provides more portability when transferring between employers within the church. In addition, the vesting provisions under the Plan have been updated so that the accrued benefits for terminated members are no

longer forfeited if they return to the Plan within a 30-year period and earn at least five years of vesting service prior to retirement. The definition of earnings was amended to include overtime, bonus and severance.

Unlike the defined benefit plan, The Episcopal Church Lay Employees' Defined Contribution Retirement Plan provides retirement benefits based on the market value of the participant's account at retirement. The Plan currently provides individual retirement accounts to 5,542 active participants, with employers and employees making regular contributions, and also administers pensions to 112 retired participants. Under the DC Plan, participants may contribute the maximum determined by the IRS annually, providing they have satisfied the requirements set by the IRS. A wide range of investment options are available, providing a full range of asset opportunities. Benefit features include hardship distributions, loan availability and possible withdrawal for disability situations for participants who meet the eligibility requirements. In addition, the Plan allows terminated participants the options of taking a partial distribution or annuitizing portions of their accounts.

The CPF Board of Trustees continues its discernment of benefit enhancement opportunities, especially mindful of the needs of those who serve in ministries with lower compensation.

SERVING OUR PARTICIPANTS EVERY DAY

The Church Pension Fund provides pension and related benefits for clergy, their eligible surviving spouses or other named beneficiaries and dependent children. Clergy benefits include monthly pension benefits, a Christmas benefit, a disability retirement benefit, a lump sum death benefit, a resettlement benefit, a pre-retirement survivor benefit, a short-term disability benefit, life insurance and a Supplement to Medicare. CPF also provides defined benefit and defined contribution pension plans to lay employees, and offers health benefits, life insurance and retirement savings plans for lay employees and clergy. Over the past three years, the Church Pension Fund and its affiliated companies have continued to expand and improve the services and products we provide to individuals and institutions of The Episcopal Church.

Below is a brief description of each of the affiliate companies.

Church Publishing Incorporated (CPI) was founded in 1918 and is headquartered in New York. CPI is an official publisher of worship materials and resources for The Episcopal Church, as well as a multifaceted publisher and supplier to the broader ecumenical marketplace. Book publishing imprints include *Church Publishing*, *Morehouse Publishing* and *Seabury Books*. Additional CPI divisions include *Morehouse Church Supplies*, a provider of church supplies, ecclesiastical furnishings, vestments and more, which is located in Harrisburg, PA; and *Morehouse Education Resources*, which produces lectionary-based curriculum, faith formation programs and e-publishing resources and services, and is located in Denver, CO. Recently, CPI became the sole provider of *Godly Play* materials.

Since 1922, **Church Life Insurance Corporation** (Church Life) has provided essential life insurance protection and retirement savings products to the clergy, lay employees and families of The Episcopal Church. Church Life provides life insurance protection to all eligible active and retired Episcopal clergy through the group life plan sponsored by the Church Pension Fund. In addition, more than 90% of Episcopal dioceses choose to provide group life and disability insurance to their employees through Church Life. It also provides a group annuity, the guaranteed interest investment option available in both The Episcopal Church Lay Employees' Defined Contribution Plan and The Episcopal Church Retirement Savings Plan, a 403(b) plan. For members seeking life insurance protection and retirement savings products on an individual basis, Church Life offers an array of term and whole life insurance plans, deferred and immediate annuities and Roth and traditional IRA products.

Since 1929, **The Church Insurance Companies** have provided the broadest property and casualty insurance available to Episcopal churches and institutions. This group of companies consists of the Church Insurance Agency Corporation (CIAC), the Church Insurance Company of Vermont (CIC-VT), the Church Insurance Company of New York (CIC-NY) and the Church Insurance Company. CIAC provides non-claim client services for all companies, as well as access to insurance products of outside product partners (e.g., Liberty Mutual for

workers compensation insurance). CIAC representatives visit over 3,000 client locations each year and publishes a popular risk management e-newsletter, *The Good Steward*. Two captive insurance companies—CIC-VT and CIC-NY—provide insurance to eligible institutions using a captive insurance structure that is more cost-effective and flexible than any alternative. Most core activities are performed in Bennington, Vermont, where CIC-VT is headquartered. A meeting of diocesan participants is held in Vermont each year to gather ideas and suggestions from clients and to introduce new initiatives. These companies also fund periodic, professional valuations for all insured properties and a diocesan-endorsed program (the Episcopal Safety Program) to inspect churches and identify and correct hazards before they turn into claims. While Episcopal churches and other institutions are able to purchase their property and casualty insurance from any insurer they choose, 78% of them choose to buy it from the Church Insurance Companies.

The Episcopal Church Medical Trust (Medical Trust) is funded by a Voluntary Employees' Beneficiary Association (VEBA) and offers an extensive selection of health plan options to meet the unique needs of clergy, lay employees and retirees of The Episcopal Church. The Medical Trust works with world-class healthcare partners, who offer in-network access to 98% of covered Episcopal employees nationwide through a variety of self-funded preferred provider, managed care and indemnity plans, along with mental health, vision and dental care plans. The Medical Trust currently provides medical coverage for more than 8,300 active and 6,600 retiree families, and dental care for 6,000 active and retiree families. In the last three years, the Medical Trust added 11 dioceses to the plans for a total of 78, up from 67 dioceses in 2006. The Medical Trust's personalized service model, flexibility, commitment to wellness education and billing and administrative support, as well as the seamless transition to retirement, ensures that employees and retirees of the church can focus on their mission, confident that their healthcare needs are being effectively managed.

CREDO Institute, Inc. (CREDO) is a not-for-profit corporation headquartered in Memphis, Tennessee. The CREDO mission is to provide opportunities for people to examine significant areas of their lives—spiritual, vocational, financial and health—and to discern prayerfully the direction of their vocation as they respond to God's call in a lifelong process of practice and transformation. This wellness benefit consists of an eight-day conference and is offered to clergy and lay employees who are enrolled in a Church Pension Fund retirement plan. Each conference includes 30 participants randomly selected from the Church Pension Fund database. Following several pilot conferences designed specifically for lay employees, conferences for this population were initiated in 2008. CREDO conducts 30 conferences per year, which are tailored for six different audiences: CREDO I, CREDO II, Lay Employees, Bishops I, Bishops II and Spanish. From its first pilot conference in 1997 through June 2009, over 4,570 priests and deacons, 130 bishops, and 300 laity will have participated in 184 conferences. CREDO Institute, Inc. also serves as a collaborative alliance, providing resources for Episcopal leadership and wellness programs. Through collaborative partnerships CREDO Institute serves as the lead agency for the national-level Fresh Start program and provides the administrative and operational resources for the College for Bishops. In addition, CREDO Institute is engaged in significant research initiatives in the areas of identity, the emotional health of clergy, clergy families, bishops/spouses and ordained women.

The exhibit below provides a summary of the clients served and services provided by CPF and each of the major affiliates.

The Church Pension Fund and Affiliated Companies Services and Clients		
The Church Pension Fund		
Clergy Pension Plan	18,420	} 31,210
Lay DB and DC Retirement Plans	12,790	
Church Publishing Incorporated		
Church Publishing, Morehouse Publishing, Seabury Books, Morehouse Church Supplies, Morehouse Education Resources		
Books in print	698	
Individual customers	68,228	
Institutional customers	50,478	
Church supplies	570	
Curriculum products	1,090	
E-products	29	
Church Life Insurance Corporation		
Group insurance policy insureds	21,835	
Individual insurance policies	2,281	
Annuities	3,900	
Disability insureds	4,338	
The Church Insurance Companies		
Total number of churches and other Episcopal institutions protected through the Church Insurance Companies	7,289	
The Episcopal Church Medical Trust		
Clergy		} 23,164
Not-yet-retired	3,108	
Retired and surviving spouses	5,413	
Lay employees		} 23,164
Not-yet-retired	5,204	
Retired	1,201	
Family members covered	8,238	
<i>As of October 31, 2008</i>		

CPG also serves the church through the provision of a variety of risk management tools and programs. The *Safeguarding* program, a training and education series aimed at preventing sexual abuse, exploitation and harassment, was significantly expanded during this triennium.

SAFEGUARDING PROGRAM EXPANDED

Some Background

In 2004, The Church Pension Group introduced *Safeguarding God's Children*, a video-based training and education program to prevent and respond to child sexual abuse, especially in church programs and activities. CPG trained over 400 people as trainers of this program and dioceses have gone on to train hundreds of additional trainers. In partnership with The Nathan Network, CPG also introduced the *Model Policies for the Protection of Children and Youth from Abuse*. These two resources assisted dioceses and congregations in complying with 2003 General Convention Resolution B008 requiring dioceses to have child sexual abuse prevention policies and training programs. *Safeguarding God's Children* has been used throughout the church, including non-domestic dioceses, in both English and Spanish, to train several hundred thousand people.

New Online Training Also Available

To extend the reach and convenience of child sexual abuse prevention training, CPG now offers *Safeguarding Online*, the web-based version of *Safeguarding God's Children*. Over 45 dioceses are actively using the program with an additional 25 dioceses in the process of implementing it or considering it.

Two New Adult Programs Target Sexual Exploitation and Sexual Harassment

The Church Pension Group received requests from many people and groups in the church for new training materials and policies on sexual exploitation of adults and sexual harassment in the workplace. The 2006 General Convention adopted Resolution A156, which required both dioceses and congregations to have policies and training programs on these topics. To assist dioceses and congregations in complying with this Resolution, CPG developed and introduced two training and education programs: *Safeguarding God's People: Preventing Sexual Exploitation in Communities of Faith* and *Safeguarding God's People: Preventing Sexual Harassment of Church Workers*. By the end of 2008, CPG had trained over 200 people from more than 65 dioceses as trainers of these programs. These programs are now available in English from Church Publishing Incorporated, and the Spanish versions will be available later in 2009.

Adult Model Policies Introduced

In partnership with The Nathan Network, CPG also developed and introduced *Model Policies for the Prevention of Sexual Exploitation of Adults* and *Model Policies for the Prevention of Sexual Harassment of Church Workers*.

CPG RESPONDS TO RESOLUTIONS OF THE 75TH GENERAL CONVENTION

The Church Pension Group was asked to respond to a number of important Resolutions of the 75th General Convention. The following is a summary of our actions in regard to each of them. For expanded information about our work in regard to these Resolutions, please refer to our *Report to General Convention*, to be disseminated to the church in June 2009.

RESPONSE TO RESOLUTION A125: EMPLOYMENT POLICIES AND PRACTICES TASK FORCE

Some Background

Resolution A125 of the 75th General Convention authorized and requested the Church Pension Group to undertake the first comprehensive research study of Episcopal Church lay employees. The findings of that study, highlights of which appear below, supported the work of the church's Task Force to Study Employment Policies and Practices and the Feasibility Study Group's feasibility study, both headed by the Office for Ministry Development at The Episcopal Church Center, regarding whether pension benefits for lay employees should be made compulsory and be administered by a single provider. The Task Force's report, along with a proposed Resolution and canonical change, were presented to and approved by the Executive Council of The Episcopal Church at its meeting in October 2008, and the Resolutions and canonical change were endorsed by the CPF Board of Trustees at their November 2008 meeting.

The Church Pension Group’s research study of lay employees took over a year to complete. First, a confidential lay employee census was sent to every Episcopal congregation in the U.S.; Episcopal dioceses and institutions were also surveyed. We then selected The Gallup Organization, a well-known and respected research firm, to conduct an individual survey of all lay employees, including those identified through the census, and all lay employees whom we had in our records because they have a CPG product. We also publicized the availability of the survey through the church’s diocesan administrators and via the CPG web site in an attempt to invite all of the church’s lay employees to participate. We wanted to ensure that every voice was heard. In addition, we conducted a study of lay employees in non-domestic Episcopal dioceses.

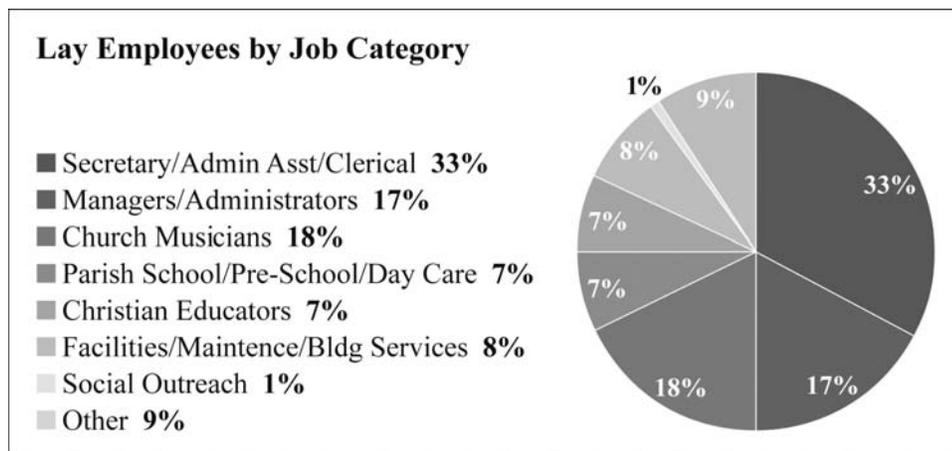
We also looked at comparable employees in other sectors to see if Episcopal Church lay employees differ significantly from their peers. We researched pension benefits provided by other denominations and not-for-profit employers and reviewed retirement plan documents from dioceses and congregations that do not provide lay employee retirement plans through the Church Pension Group.

The full report of the *Comprehensive Lay Employee Study* is available at www.cpg.org. What follows is an overview of the findings.

Demographics, Employment Conditions and Compensation

The data collected from the employer census and individual lay employee survey revealed much about the lay employees serving the domestic dioceses and congregations of The Episcopal Church. Key findings include:

The majority of the lay employees are responsible for some form of congregational administration. Lay employees occupying secretarial, administrative assistant or clerical positions account for 33% of the total lay employee workforce. 18% of lay employees are church musicians; 7% work in a parish school, pre-school, or day care; and 7% are Christian educators. Diocesan employees make up approximately 5% of the lay employee workforce, while social outreach employees, facilities workers and “other” account for the remainder.



Of the lay employees responding to the survey, 54% have worked for their employer for five years or longer. The lay employees were almost evenly split between those working 20 hours or more per week and those working fewer than 20 hours per week.

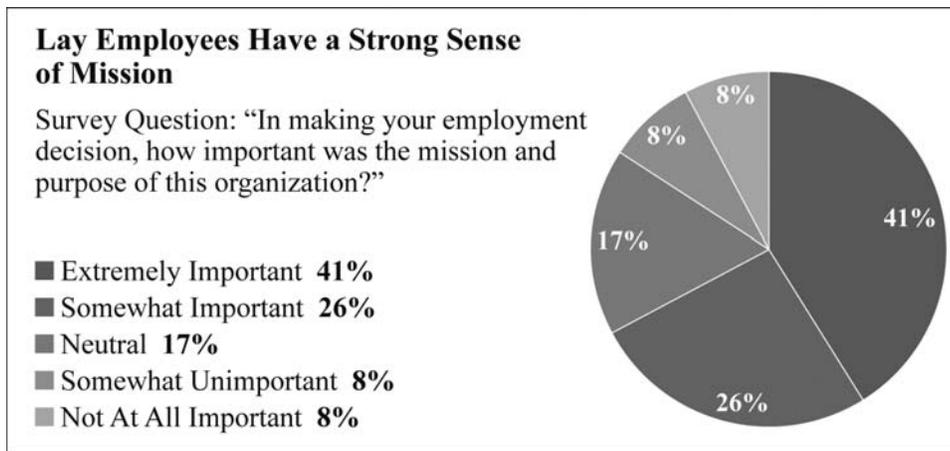
A majority of the respondents reported that they had a written job description (73%), but of those who did, only 27% stated that their job description was up to date. Further, approximately 43% of the respondents felt that their roles and responsibilities were unclear at least part of the time. Finally, only 38% reported that they had received a formal performance appraisal or annual review in the twelve months prior to responding to the survey.

Compensation averaged \$50,300 for all lay employees working 40 or more hours per week; \$37,800 for those working 30 to 39 hours per week; and \$17,600 for those working 20 to 29 hours per week. Average compensation for Episcopal church male lay employees exceeded that of Episcopal church female lay employees in all employment classifications except diocesan employees and church musicians.

The average age of all lay employees is 53. Approximately 72% of the lay employees are female, with an average age of 49. The majority of the lay employees (approximately 68%) are either married or partnered.

A Strong Sense of Mission

Survey findings indicate that lay employees have a strong sense of mission. 58% of lay employees are Episcopalians, and 43% of lay employees said they were members of the congregations in which they were employed. 52% of lay employees took a pay cut to work in the church, and only 26% received a pay increase. Most lay employees indicated they were happy with those they work with and highly value the time flexibility their jobs afford them to fulfill other commitments.



Benefits Vary By Employer and Number of Years and Hours Worked, but Many Have No Benefits

Findings indicate that approximately 30% of the lay employees working in congregational settings who meet the eligibility criteria of the 1991 General Convention Resolution D165(a)—the intent of which was to provide pensions to lay employees working 1,000 hours or more per year—do not receive the lay pension benefits contemplated by that Resolution more than 15 years after its passage.

Approximately 93% of diocesan employees who work 20 or more hours per week and who have been employed for a minimum of one year have employer-provided pension benefits. In contrast, only 70% of lay employees who work 20 or more hours per week in a congregational setting and who have been employed for a minimum of one year have employer-provided pension benefits.

Further, while the compliance rate with the 1991 Resolution D165(a) increases based on the hours a lay employee works per week, even at the highest level—40 hours or more per week—approximately 18% of the lay employees who have been employed by a congregation for a minimum of one year are not provided lay pension benefits.

When we segment the population of lay employees employed by congregations who have pension benefits by their tenure and hours worked, we find that only 29% of the lay employees who have been employed for less than four years and who are working between 20 and 29 hours per week have lay pension benefits. While the percentage increases for longer-tenured lay employees who work between 20 and 29 hours per week, only 50% of the employees whose tenure exceeds 20 years are provided lay pension benefits.

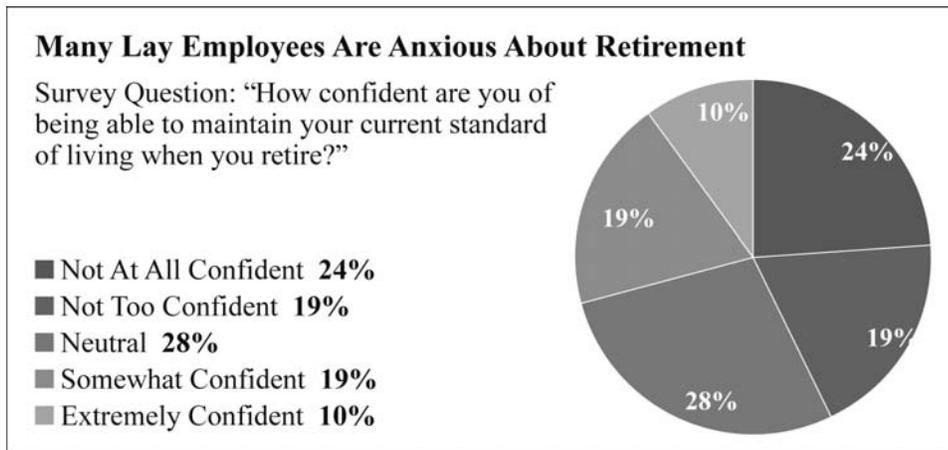
Census data reveals that parish school, pre-school and day care lay employees of the church who work 20 or more

hours per week and who have worked for the church for more than one year are also underserved with regard to lay pension benefits. Only 58% of these lay employees are provided pension benefits.

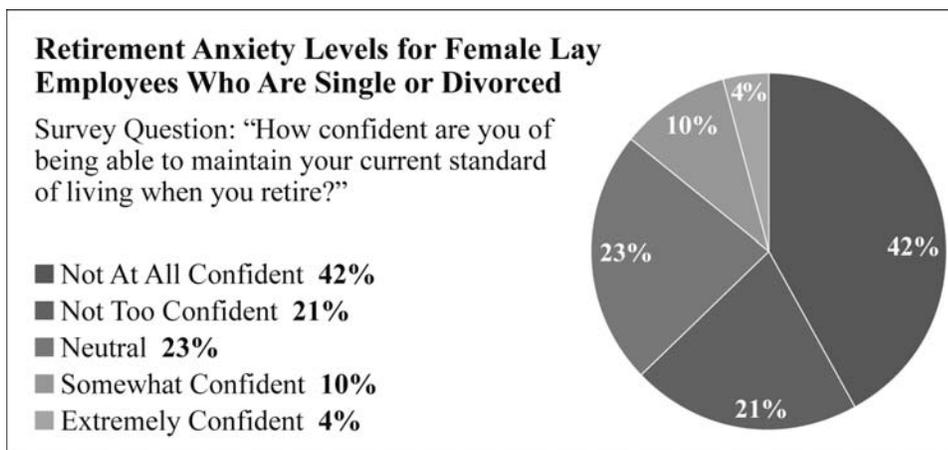
77% of male lay employees who work 20 or more hours per week in congregational settings have lay pension benefits. However, only 68% of female lay employees who work 20 or more hours per week in congregational settings have lay pension benefits. When combined with the fact that 72% of the lay employees are female, it indicates a tendency to under-provide pension benefits to the lay employees of The Episcopal Church.

Lay Employees Are Understandably Anxious About Retirement, Women Are Especially Concerned

As previously stated, approximately 72% of all lay employees are female; of these, about 68% are married or partnered. Notwithstanding the importance placed on their spouse’s or partner’s pension plan, 42% of the married or partnered female lay employees are not confident that they will be able to maintain their current standard of living in retirement.



Additionally, among single and divorced female lay employees, 63% do not believe they will be able to maintain their current standard of living in retirement. When one also considers that women spend, on average, 11.5 years away from work while caring for children or elderly parents and that the majority of married women will outlive their husbands, which may result in a reduction in household income, the plight of the female lay employee who has a limited or no employer-provided pension benefit becomes even more problematic. It is important to note that this data was gathered prior to the economic climate of 2008, in which many individuals were anxious about their retirement funds.



CONCLUSIONS

Full descriptive profiles of the responding lay employees in the various employment classifications, together with illustrative graphs, are included in the *Comprehensive Lay Employee Study*. That study also includes information about pension benefits provided to lay employees of non-domestic Episcopal dioceses, other denominations and not-for-profit organizations, as well as a review of retirement plan documents from sources other than the Church Pension Group.

The following conclusions can be drawn from the information contained in the *Comprehensive Lay Employee Study*:

- The Episcopal Church has a highly motivated group of lay employees with a strong sense of mission and service to the church.
- There is a high level of anxiety about the future, particularly among those who rely most on the church for retirement income. These include many single, divorced and widowed women, a group that, in the wider population, is most likely to experience poverty in old age.
- This anxiety about the future negatively affects lay employees' sense of satisfaction with and engagement in their work.
- Lay employees value the church as a work environment that provides a sense of flexibility and that has people in it who care about them personally.
- In terms of the formal structures of employment, such as the correct assignment of employees into exempt and non-exempt from overtime compensation classifications, the creation or updating of job descriptions and annual performance evaluations, the record of the church as a whole is poor.
- These weak formal employment practices of the church gradually erode the sense of mission and joy that lay employees receive from their work.
- Lay employee pension benefits are already provided to the employees in 80% of the domestic dioceses and to 67% of the employees working for the largest domestic congregations through one provider—the Church Pension Group.
- A review of the plan documents and the summary plan descriptions that were submitted by the dioceses and congregations that are not participating in a Church Pension Group lay pension plan did not reveal any significant features that are not already part of the Church Pension Group's lay pension plans.
- The lay pension plans sponsored by other providers by-and-large comply with the provisions of Resolution D165(a) of the 70th General Convention.
- Mandating lay employee pension benefits through the passage of a canon will allow The Episcopal Church once again to assume a leadership role among the other major Christian denominations in the United States.
- The estimated average annual cost to provide lay pension benefits for those lay employees who currently do not have these benefits ranges from \$34.00 to \$12.00 per pledging unit, depending on the size of the congregation. The average annual cost across the church is approximately \$20.00 per pledging unit.
- The average annual cost to provide lay pension benefits for those lay employees who currently do not have these benefits is less than 1% of the church's operating revenue.
- The Church Pension Group's *Report to General Convention*, to be distributed in June 2009, will contain expanded information about the study.

We welcome your feedback and questions. Contact Linda Puckett at (800) 223-6602 x6260; lpuckett@cpg.org.

RESPONSE TO RESOLUTION A147: CHURCH-WIDE HEALTHCARE FEASIBILITY STUDY

Some Background

In the face of rapidly rising healthcare costs, as well as justice issues surrounding healthcare benefits for active church employees, the 75th General Convention passed Resolution A147, which authorized CPG to undertake a healthcare coverage feasibility study and to report the findings and recommendations to the 76th General Convention in July 2009. That study, which took nearly three years to complete, was conducted under the leadership of the CPF Board's Healthcare Coverage Feasibility Study Advisory Group, headed by David R. Pitts, Chair of the CPF Board. Under the oversight of that group, the project team conducted extensive research and data analysis.

The primary objective of this study was to conduct comprehensive research regarding the provision and funding of employee healthcare benefits throughout The Episcopal Church. Healthcare benefits for clergy and lay employees working in the church today are provided through a *voluntary* program. At present, there is no binding General Convention Resolution or canon, requiring dioceses, congregations or official agencies of the church to provide such benefits to their employees. At the time of this writing, more than 75% of domestic dioceses offer employer group health benefits through The Episcopal Church Medical Trust (the Medical Trust).

CPG proposed to focus the study on at least two options: (1) improve cost-containment and administration while leaving the current voluntary system in place and (2) to study the feasibility of a denominational health plan for The Episcopal Church. The study considered the present employee healthcare benefits offered by Episcopal employers, the needs of clergy and lay employees and the available financial resources to fund these benefits.

The research and analysis make it clear that the voluntary program now in place across the church should be replaced with a single denominational health plan. The successful formation and management of The Denominational Health Plan requires the full participation of all dioceses, congregations and official agencies of the church.

Significant Advantages of Denominational Health Plan Include Meaningful Cost Savings

The establishment of the denominational health plan will achieve a number of objectives:

- The first is an estimated savings of \$134 million to the church in the first six-year period by leveraging The Episcopal Church's aggregated size for the large scale purchasing of healthcare benefits through the Medical Trust which will serve as the sole plan sponsor of healthcare benefits for dioceses, congregations and official agencies of The Episcopal Church.
- Second, it balances the church's financial constraints with the cost of providing adequate employee healthcare benefits.
- Third, it addresses equity in coverage between clergy and lay employees who are regularly scheduled to work 1,500 or more hours per year.
- Fourth, it provides for diocesan/group level control so that dioceses, agencies and institutions have the flexibility to make decisions about healthcare benefits that reflect local polity and preferences.
- Finally, it provides access for all eligible³ employees, according to the rules of the Medical Trust, of participating employers to purchase healthcare benefits at a group rate, even if their employers are not required by canon to fund any portion of the cost of coverage.

³ Currently, the guidelines of The Episcopal Church Medical Trust generally provide that those hourly employees routinely scheduled to work 20 or more hours per week and all salaried employees are eligible.

PROPOSAL FOR THE DENOMINATIONAL HEALTH PLAN OF THE EPISCOPAL CHURCH

Diocesan/Group Level Control, Choice, and Benefit Plan Options

The Medical Trust will provide an operational framework within which each diocese will have the ability to make decisions as to plan design options offered, minimum cost-sharing guidelines, the provision of domestic partner benefits, and the participation of schools, day care facilities and other diocesan institutions (other than the diocese itself and its congregations) in the denominational health plan, subject to the rules of the Medical Trust.

▪ **Plan Design Options**

The Medical Trust will offer a variety of benefit plan options, equal or similar to what each *Participating Group* (diocese, group or official agencies) presently offers. The options will include Preferred Provider Organization (PPO) plans with a variety of deductibles, co-insurances and office co-payments and Health Maintenance Organization (HMO) plans. The plan options will also include at least one High Deductible Health Plan/Health Savings Account (HDHP/HSA) benefit plan. The Medical Trust will offer these plans using a number of national product partners including BlueCross/BlueShield, Aetna, United Healthcare, CIGNA, Kaiser, Group Health and a minimal number of regional managed care plans. Pharmacy benefits will be administered by Medco under a multi-denominational contract currently in place.

Annually, each diocese will be provided with a list of plans, equal or similar to what each diocese currently accesses, and rates available in its geographic area. From this list each diocese, in consultation with its congregations, can choose to offer one or more of the available plans for its congregations and their employees. Participating groups will be able to change offerings on an annual basis, and each employee will be able to add or change his/her benefits coverage annually, as well, through the open enrollment process.

▪ **Cost-Sharing**

Each diocese will need to adopt a policy for cost-sharing. Some dioceses may decide that congregations will be required to pay 100% of the premium cost, while others may decide that employees who work 1,500 or more hours per year should pay a portion of the premium cost. The policy will determine the minimum amount that a congregation must contribute towards the monthly premium cost of healthcare benefits for those clergy and lay employees working 1,500 hours or more per year. The contribution requirements will be the same for both clergy and lay employees within a participating group, who work 1,500 or more hours per year. Congregations wishing to contribute more towards the premium cost for their employees may do so, as long as all clergy and lay employees working 1,500 or more hours per year in the congregation are treated in like manner. Equity in cost-sharing must be completed by December 31, 2012.

▪ **Domestic Partner Benefits**

Participating groups will determine whether or not to offer domestic partner benefits. Domestic partner benefits will be administered in accordance with the 1997 General Convention Resolution C024.

▪ **Schools, Day Care Facilities and Other Diocesan Institutions**

The Medical Trust will establish a process by which dioceses will, on an annual basis, adopt a policy as to whether or not schools, day care facilities and other diocesan institutions must participate in the denominational health plan. The diocesan policy will apply to employees of said schools, daycare facilities and institutions who would otherwise be required to participate in the plan. The policy will provide that qualified clergy and lay employees working for these employers are treated in like manner. If a diocese does not require participation by these institutions, voluntary access is available.

Employers Required to Participate in the Denominational Health Plan

All domestic U.S. dioceses, including Puerto Rico and the Virgin Islands, will be required to participate in the denominational health plan. The study of non-domestic dioceses (Colombia, Convocation of Churches in Europe, Dominican Republic, Ecuador Central, Ecuador Litoral, Haiti, Honduras, Micronesia, Taiwan and Venezuela) has occurred through data collection and meetings with their diocesan representatives during spring 2008. Efforts to create a Province IX benefits council for all employee benefits are currently underway with Province IX leadership.

Within each diocese all cathedrals, congregations, missions and chapels will also be required to participate. As of the 2007 parochial data, 7,055 entities are in this category.

The Resolution also requires the participation of official ecclesiastical organizations or bodies (subject to the authority of the General Convention). These organizations are defined as The Domestic and Foreign Missionary Society, the Church Pension Fund, Episcopal Relief and Development, Forward Movement, The General Theological Seminary and the Archives. Any other societies, organizations or bodies in the church may participate on a voluntary basis.

Employees Required to Be Offered Benefits

- **Clergy**

Employers subject to the requirements of the denominational health plan must offer and agree to pay for a portion, as determined by the diocesan/group cost-sharing policy, of the health benefits premium costs for clergy who are regularly scheduled to work at least 1,500 hours per year for one or more Episcopal Church employers and receiving a W-2. There are an estimated 5,900 active clergy in this category, of which an estimated 1,000 have medical coverage through sources outside of The Episcopal Church, e.g., spousal coverage, Tricare, Medicare, etc. (Note: Non-stipendiary clergy and retired clergy serving in congregations are eligible but not required to participate.) Other eligible clergy working fewer than 1,500 hours per year may participate on a voluntary basis if their employer chooses to participate in the denominational health plan. Any policy regarding employer cost-sharing for clergy working fewer than 1,500 hours per year may be determined by the diocese, congregation or agency employer.
- **Diocesan and Congregational Lay Employees**

Dioceses and congregations must offer and agree to pay for a portion, as determined by the diocesan/group cost-sharing policy, of the health benefits premium costs for lay employees regularly scheduled to work at least 1,500 hours per year for one or more Episcopal church employers receiving a W-2. An estimated 6,950 lay employees are in this category and approximately 4,450 (65%) are covered through their Episcopal employer. 2,150 (31%) have medical coverage through sources outside of The Episcopal Church, e.g., spousal coverage, Tricare, Medicare, etc., and an estimated 350 (4%) of them have no medical benefit coverage (uninsured). Other eligible lay employees, working less than 1,500 per year, may participate on a voluntary basis if their employer chooses to participate in the denominational health plan. Any policy regarding employer cost-sharing for lay employees, working less than 1,500 hours per year, may be determined by the employer.
- **Lay Employees of Official Ecclesiastical Organizations or Bodies**

Official ecclesiastical organizations must offer and agree to pay for a portion, as determined by the group cost-sharing policy, of the health benefits premium costs for lay employees regularly scheduled to work at least 1,500 hours per year for one or more Episcopal Church employers and receiving a W-2. There are an estimated 1,400 employees in this category who have medical coverage through Episcopal Church sources. Other eligible lay employees, working fewer than 1,500 hours per year, may participate on a voluntary basis if their employer chooses to participate in the denominational health plan. Any policy regarding employer cost-sharing for lay employees, working fewer than 1,500 hours per year, may be determined by the organization.
- **Lay Employees of Any Other Societies, Organizations or Bodies in the Church**

Other societies, organizations or bodies in the church may offer health benefits to their employees on a voluntary basis through the denominational health plan.

Employees May Waive Coverage

Clergy and lay employees who have health benefits through approved sources will be allowed to waive coverage under the denominational health plan (“opt out”) and may choose to maintain their healthcare benefits through

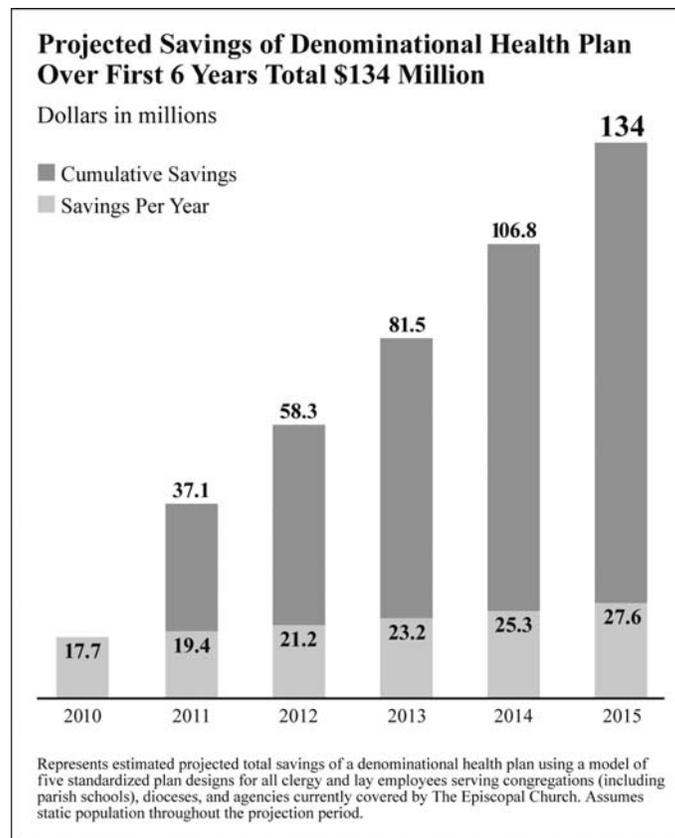
the approved source. Approved sources will be fully defined. Examples include coverage through a spouse's or partner's employment, military service benefits through Tricare or coverage from a previous employer.

Establishing an Advisory Group

The Resolution requires the Church Pension Fund to establish a committee or advisory group, selected from participating employer groups and employees, to meet with the denominational health plan management. The advisory group shall receive an annual report of the status of the denominational health plan.

\$134 MILLION IN SAVINGS TO THE CHURCH IN FIRST SIX-YEAR PERIOD

The economics of the U.S. healthcare environment require that purchasers strive for economies of scale, as larger groups yield lower unit costs. Conservative actuarial estimates demonstrate that, under the mandated denominational health plan, the potential first-year savings to the church of the fully implemented plan are estimated to be least 10%, or approximately \$17.7 million, for Episcopal clergy and lay employees who are currently provided healthcare benefits, three-year cumulative savings of \$58.2 million, and six-year cumulative savings of \$134 million.



DENOMINATIONAL HEALTH PLAN BASED ON EXTENSIVE RESEARCH

Since the last General Convention, comprehensive data was gathered from dioceses, congregations (cathedrals, congregations, missions and chapels) Episcopal agencies and other sources to further the church's understanding of the current healthcare benefits situation in The Episcopal Church. An in-depth evaluation was performed regarding the church's current approach to providing employee healthcare benefits and past, current and projected costs, collecting data on healthcare benefits, demographics, policy, compensation, budget information, awareness and opinions.

Episcopal employers and clergy and lay employees were extensively polled throughout the study process through a formal census, multiple surveys and data collection requests, and in-person presentations, focus groups and group discussions. Responses and data were received from 95 dioceses, 3,000 congregations and more than 8,000 clergy and lay employees.

Additionally, throughout 2007 and 2008, the project team traveled extensively to conduct more than 30 focus and feedback groups with more than 1,100 clergy and lay employees to learn their perspectives about eligibility, cost-sharing, plan design and the proposed model and resolution. Overall, results show a common theme among participants' responses, including:

- The denominational health plan for The Episcopal Church should include clergy and lay employees;
- The ultimate goal should be coverage for all employees, but, due to cost, this may not be possible; however, all eligible employees should have the ability to purchase healthcare benefits;
- At a minimum, church employers should offer and contribute to the cost of healthcare benefits for employees working 1,500 or more hours per year;
- In conjunction with consultants and actuaries, the project team began analyzing this abundance of data at the close of 2007 and their analysis continued throughout 2008; and
- Findings of that extensive data analysis, in conjunction with direct input from church employers and employees, were used to formulate the recommendation being made to the General Convention.

THE PRESENT SITUATION IN THE EPISCOPAL CHURCH

As mentioned earlier, more than 75% of domestic dioceses offer employer group health benefits through the Medical Trust. The Medical Trust was created in 1978 by the Church Pension Fund Board of Trustees to provide healthcare benefits to active and retired church employees. It is funded by a Voluntary Employees' Beneficiary Association (VEBA), an IRS 501(c)(9). Dioceses make annual determinations regarding voluntary participation in the Medical Trust. In addition, in most dioceses, congregations are not required by diocesan canon or diocesan policy to participate in the diocesan-sponsored health benefits program. Parishes may or may not participate in the Medical Trust, even if the diocese does. Lastly, within each congregation, employees also are voluntary participants in the Medical Trust. For example, in some congregations, the clergy may participate in the Medical Trust while the lay employees obtain healthcare benefits under a separate policy with a different provider.

INHERENT SHORTCOMINGS EXIST WITHIN THE CURRENT DECENTRALIZED AND VOLUNTARY APPROACH:

- First and foremost, the voluntary system, by its nature, fails to capitalize on the church's size and scale and, therefore, the church loses leverage with health insurance carriers.
- Second, it increases claims volatility by fragmenting the church into multiple risk pools, some as small as 15 employee households.
- Third, congregations with younger and presumably healthier employees often leave the diocesan health plan in order to obtain lower premium rates. This causes dioceses, congregations and other church institutions, which typically have an employee base older than the average U.S. workforce, to pay much higher rates or even to be rejected by private sector insurers.
- Fourth, the current voluntary system leaves clergy and lay employees subject to inconsistent eligibility rules and benefit plans designs that vary diocese by diocese and sometimes congregation by congregation.
- Finally, the current approach puts an undue administrative burden on the church and fails to address inherent justice and equity issues.

THE COST OF PROVIDING HEALTHCARE BENEFITS CONTINUES TO RISE

Spending for healthcare benefits for employees of The Episcopal Church continues to rise at an alarming rate. It is anticipated that in 2008 the amount paid by The Episcopal Church as an employer for employee healthcare benefits will have increased by 10.5%. Total spending on employee healthcare benefits by domestic U.S. congregations, dioceses and official agencies of The Episcopal Church in 2008 is projected to be \$133.7 million or \$10,237 per employee. Total annual spending on employee healthcare benefits in 2008 is projected to represent approximately 10% of the Plate and Pledge. Left unchecked, spending on employee healthcare benefits is expected to increase at similar levels for the next two trienniums, reaching \$250.4 million in 2015, or potentially 15% of projected Plate and Pledge. (Projected Plate and Pledge assumes a growth rate of 2.5% for the years 2009-2015.)

Approximately 44% of congregations do not have “benefit-eligible” staff. These congregations typically have a part-time or supply priest, and the research indicates the congregation contributes 50% or less of the cost of healthcare benefits for the priest. Many of these congregations share a priest, e.g., via yoked congregations or cluster ministries, and the cost of providing healthcare benefits is shared across the congregations or is paid for by the diocese. (It is important to note that while the congregation may employ a part-time priest, the priest serving these congregations may be working more than 30 hours per week by virtue of working in multiple congregations.)

Transitional-, program- and resource-sized congregations account for only 25% of the total number of Episcopal congregations. However, 50% of full-time clergy and as much as 60% of full-time lay employees are working in these churches. It is no surprise that these larger congregations have large line items in their budgets for employee healthcare benefits and are eager to find means to contain the rising cost of these benefits.

Coverage Picture is Complex, with Significant Differences between Clergy and Lay Employees

The analysis of the data presents a complex picture of healthcare benefits coverage. The research indicates that 87% of clergy are working full-time, and that of those full-time clergy approximately 83% are receiving their healthcare benefits through The Episcopal Church as their employer. The remaining 17% are covered by their spouses, a former employer or through some government program. More than two-thirds of clergy have elected for family coverage provided through their Episcopal employer. The vast majority of these clergy receive healthcare benefits at little to no cost.

The situation for lay employees is markedly different. Only one-third of lay employees are full-time, and of those approximately 64% receive their healthcare coverage through their Episcopal employer. A significant research finding is that 3% of full-time lay employees indicate that they are uninsured. As compared to clergy, only one-third of lay employees have elected family coverage provided through their Episcopal employer. The data also shows that 50% of lay employees are paying more than half of the cost for their healthcare benefits coverage.

Situation in Non-Domestic Dioceses is Complex; Country-by-Country Solutions Needed

The completed in-depth study and research regarding healthcare in non-domestic Episcopal dioceses has led to a new appreciation of the enormity of the task facing The Episcopal Church as it seeks to provide adequate employee healthcare benefits, especially to employees working in these different countries.

Several of the non-domestic dioceses (e.g., Ecuador, Colombia, and Venezuela) have national healthcare programs. However, the situation in these countries is complicated, and the presence of a national healthcare system does not guarantee that clergy and lay employees have access to adequate healthcare. In fact, analysis reveals that clergy and lay employees are often without access to adequate healthcare services despite the availability of these national health insurance programs. The problem is compounded by the fact that the cost of even the most basic private healthcare insurance plan typically exceeds the ability of the congregations and/or dioceses to provide it.

Many issues and concerns have arisen from this research, and the Church Pension Fund is actively engaged with the bishops and leadership of non-domestic dioceses to develop meaningful recommendations that can assist them in addressing their employee healthcare benefit needs.

We welcome your feedback and questions. E-mail us at dhpstudy@cpfg.org. We hope you will also refer to the Church Pension Group's *Report to General Convention*, which will be distributed in June 2009 and will contain expanded information about the denominational health plan.

RESOLUTION FOR RECOMMENDATION TO THE 76TH GENERAL CONVENTION

RESOLUTION A177 DENOMINATIONAL HEALTH PLAN

- 1 *Resolved*, the House of _____ concurring, That this church establish The Denominational Health Plan of this
2 church for all domestic dioceses, parishes, missions, and other ecclesiastical organizations or bodies subject to the
3 authority of this church, for clergy and lay employees who are scheduled to work a minimum of 1,500 hours
4 annually, in accordance with the following principles:
- 5 1. The Denominational Health Plan shall be designed and administered by the Trustees and officers of
6 The Church Pension Fund, following best industry practices for comparable plans;
 - 7 2. The Denominational Health Plan shall provide that, subject to the rules of the plan administrator,
8 each diocese has the right to make decisions as to plan design options offered by the plan
9 administrator, minimum cost-sharing guidelines for parity between clergy and lay employees,
10 domestic partner benefits in accordance with General Convention Resolution 1997-C024 and the
11 participation of schools, day care facilities and other diocesan institutions (that is, other than the
12 diocese itself and its parishes and missions) in The Denominational Health Plan;
 - 13 3. The Denominational Health Plan shall provide benefits that are comparable in coverage to those
14 benefits currently provided by the domestic dioceses and parishes of this church;
 - 15 4. The Denominational Health Plan shall provide equal access to health care benefits for eligible clergy
16 and eligible lay employees;
 - 17 5. The Denominational Health Plan shall provide benefits through The Episcopal Church Medical
18 Trust, which shall be the sole plan sponsor for such benefits and continue to be operated on a
19 financially sound basis;
 - 20 6. The Denominational Health Plan shall have a church-wide advisory committee that is representative
21 of the broader church and appointed by The Church Pension Fund, and such church-wide advisory
22 committee shall receive an annual report about the status of The Denominational Health Plan;
 - 23 7. For purposes of this Resolution, the term “domestic” shall mean ecclesiastical organizations and
24 bodies located in the United States, including the Dioceses of Puerto Rico and Virgin Islands;
 - 25 8. The Church Pension Fund shall continue to work with the Dioceses of Colombia, Convocation of
26 American Churches in Europe, Dominican Republic, Ecuador Central, Ecuador Litoral, Haiti,
27 Honduras, Micronesia, Taiwan and Venezuela to make recommendations with respect to the
28 provision and funding of healthcare benefits of such dioceses under The Denominational Health
29 Plan; and
 - 30 9. The implementation of The Denominational Health Plan shall be completed as soon as practicable,
31 but in no event later than by the end of 2012; and be it further
32

33 *Resolved*, That Canon I.8 shall be amended as follows:
34 **Sec. 1.** The Church Pension Fund, a corporation created by Chapter 97 of the Laws of 1914 of the State
35 of New York as subsequently amended, is hereby authorized to establish and administer the clergy
36 pension system, including life, accident and health benefits, of this Church, substantially in accordance
37 with the principles adopted by the General Convention of 1913 and approved thereafter by the several
38 Dioceses, with the view to providing pensions and related benefits for the Clergy who reach normal age
39 of retirement, for the Clergy disabled by age or infirmity, and for the surviving spouses and minor
40 children of deceased Clergy. *The Church Pension Fund is also authorized to establish and administer the*

41 *denominational health plan of this Church, substantially in accordance with the principles adopted by the General*
42 *Convention of 2009, with the view to providing health care and related benefits for the eligible Clergy and eligible lay*
43 *employees of this Church, as well as their eligible dependents.*

44
45 **Sec. 3.** For the purpose of administering the pension system, The Church Pension Fund shall be entitled
46 to receive and to use all net royalties from publications authorized by the General Convention, and to
47 levy upon and to collect from all Parishes, Missions, and other ecclesiastical organizations or bodies
48 subject to the authority of this Church, and any other societies, organizations, or bodies in the Church
49 which under the regulations of The Church Pension Fund shall elect to come into the pension system,
50 assessments based upon the salaries and other compensation paid to Clergy by such Parishes, Missions,
51 and other ecclesiastical organizations or bodies for services rendered currently or in the past, prior to
52 their becoming beneficiaries of the Fund. *For the purpose of administering the denominational health plan, The*
53 *Church Pension Fund shall determine the eligibility of all Clergy and lay employees to participate in the denominational*
54 *health plan through a formal benefits enrollment process, and The Church Pension Fund shall be entitled to levy upon and*
55 *collect contributions for health care and related benefits under the denominational health plan from all Parishes, Missions,*
56 *and other ecclesiastical organizations or bodies subject to the authority of this Church with respect to their Clergy and lay*
57 *employees.*

RESPONSES TO OTHER RESOLUTIONS OF THE 75TH GENERAL CONVENTION

RESPONSE TO RESOLUTION A083: CLERGY RESIGNATION AGE

The 75th General Convention asked the Office for Ministry Development (OMD), in collaboration with the Church Pension Fund, to coordinate a study of the optimum mandatory resignation age for clergy, along with the implications for pension benefits, and to report back to the 76th General Convention.

In early May 2008, an initial meeting was held at the offices of the Church Pension Fund to begin to consider this topic. In attendance were clergy (bishops and priests), lay leaders of the church, two gerontologists and staff from OMD and CPF. A second meeting was held in October 2008—this one attended mainly by retired priests, bishops and staff. Some of the relevant data that was discussed included:

- The Constitution and Canons of the church provide that the Presiding Bishop and all other bishops, deacons and priests shall resign their offices upon attaining age 72, although priests may continue to serve in the position from which they resign for one year at a time if they receive permission from the Ecclesiastical Authority of the diocese;
- Normal retirement for clergy in the Clergy Pension Plan is age 65, with options to begin receiving pension benefits as early as age 55 being available for certain qualified people;
- Pension plan rules allow work in the church after retirement within certain compensation limits, which are prescribed annually but prohibit continuing service in the same position in which the cleric is serving at the point of retirement without a special exception granted by the Committee on Ecclesiastical Offices Held by Beneficiaries. Clergy may work for a non-Episcopal entity with no imposed compensation limit;
- At age 72, any compensation limits imposed by the Church Pension Fund are lifted;
- Increasing the mandatory retirement age would not have a negative impact on the Clergy Pension Plan. In fact, it would increase the number of assessments coming into the Fund and typically pay a retirement benefit to a cleric for a shorter period of time, thus having a possible positive impact on the Fund;
- In today's workforce, older citizens continue to contribute to the effective functioning of many businesses;
- Having a mandatory retirement age provides a means of offering aging clergy who are no longer effective the opportunity to step down gracefully from a position without controversy; and
- A mandatory retirement age also enhances the opportunities for advancement of younger clergy to some desirable positions in the church.

Participants in both meetings considered three possibilities: (1) increasing the mandatory retirement age to 75; (2)

removing the mandatory retirement age altogether and (3) leaving the mandatory retirement age at 72. The consensus of both groups was to leave the mandatory retirement age at its current level (72), noting that work after that age continues to be possible with the permission of the Ecclesiastical Authority of any diocese and that limits on the amount permitted to be earned after retirement for work within The Episcopal Church are removed at age 72.

RESPONSE TO RESOLUTION A121: CPF: AN INSTRUMENT OF MISSION

The Church Pension Fund was asked to continue its efforts to establish an appropriate formula for pensions which would meet the needs of clergy in the non-domestic dioceses where compensation for service has been limited by standards and costs of living.

A comprehensive review of the Clergy Pension Plan was undertaken in 2007 and 2008 and, within the context of that study, information was acquired concerning average compensation of clergy compared with average compensation of the population at-large in the various countries served by The Episcopal Church. In addition to surveying the bishops of the non-domestic dioceses, the staff of the Church Pension Fund began making visits to try to identify what the needs are regarding compensation and benefits. This included a meeting in Ecuador with all of the bishops and the Council of Province IX. In September 2008, the CPF Board set aside \$7 million for benefit enhancements for the non-domestic dioceses of The Episcopal Church and will determine the exact nature of the enhancements based on the results of the needs assessment, which is continuing as of the writing of this report.

RESPONSE TO RESOLUTION A140: WOMEN CLERGY RETIREMENT NEEDS

This Resolution affirmed the work of the Church Pension Fund in considering ways to respond to the particular needs of ordained women as they approach retirement and asked that CPF consult with the Committee on the Status of Women to further the work.

Since the 75th General Convention, the staff of the Church Pension Fund has been working with the Committee on the Status of Women and CREDO Institute, Inc. to develop and distribute a survey of clergy women with the purpose of clarifying the needs and the status of that particular group. The survey was distributed in December of 2008 and preliminary results are expected to be reflected in the Church Pension Group's *Report to General Convention*.

RESPONSE TO RESOLUTION B003:CHURCH PENSION FUND AND CHAPLAINS TO THE RETIRED

The 75th General Convention expressed appreciation to CPF for the initiative to develop a network of diocesan chaplains to the retired clergy, spouses and surviving spouses, and encouraged every diocese of the church to make provision to support and enhance this ministry.

Throughout the triennium, the good work of the Chaplains' network has continued and 82 dioceses are currently involved in the ministry. In April 2007, the Church Pension Fund hosted the first national meeting of the chaplains to retired clergy, spouses and surviving spouses in Chicago and annual provincial meetings of the chaplains, funded by CPF, continue. A second national meeting of chaplains is expected to take place in 2010.

RESPONSE TO RESOLUTION D048: EQUITABLE BENEFITS FOR SMALL CHURCH WORKERS

This Resolution asked the Church Pension Fund to investigate the formula for awarding years of credited service for participants receiving part-time compensation.

In the follow-up work done by the Church Pension Fund staff, efforts were made to examine whether or not the current formula for calculating benefits for part-time employees could be adjusted to more accurately reflect the level of service provided by clergy compensated for part-time work. The CPF staff had initial discussions with the Retirement Programs Committee of the CPF Board of Trustees to allow the board to discern an appropriate response to this request, and the staff continues to consider the various options. It may seem to some that the simple solution would be to grant a full year of credited service to everyone who works for a full calendar year,

regardless of his or her level of full- or part-time service or compensation. However, within the Clergy Pension Plan, a number of auxiliary benefits are granted based on credited service—the Resettlement Benefit and the Medicare Supplement Program to name two—and an increase in the number of recipients of these benefits adds substantially to the Fund’s liabilities. In addition, a change in the way the Fund calculates credited service would necessitate a change in the technology by which the Clergy Pension Plan is administered. As of this writing, conversation between the Church Pension Fund and the Standing Commission for Small Congregations is in progress, and work continues to assure equitable benefits for all clergy.

RESPONSE TO RESOLUTION D057: PRIORITIES FOR STANDING COMMISSION ON SMALL CONGREGATIONS

The 75th General Convention asked the Standing Commission for Small Congregations to work with The Episcopal Church Center staff to develop and offer opportunities for leadership training in Small Church Ministry, and asked the Commission for Small Congregations to continue conversations with CPF regarding compensation and benefit issues for clergy and lay participants in the Church Pension Fund serving small congregations. As noted above, conversation continues between the CPF and the SCSC, and the work of CPF regarding the status of lay employees in The Episcopal Church as well as the equitable benefits for Small Church Workers honors the spirit of this Resolution.

RESPONSE TO RESOLUTION D065: FAMILY LEAVE PENSION WAIVER

This Resolution asked the Church Pension Fund Board of Trustees to study the feasibility of a Family Leave Pension Waiver policy for clergy taking time off to care for family members, with the result of the study to be reported to the 76th General Convention. CPF was asked to consider the possibility of granting family leave time—in much the same way that it now grants credited service for those engaging in graduate study—for new biological or adoptive parents functioning as primary caregivers or those who, because of a change in circumstance (age, illness, new diagnosis), need to become the primary caregiver of a family member.

During this triennium, in addition to the survey being conducted with the Committee on the Status of Women and CREDO Institute Inc., the staff of the Church Pension Fund has also considered the ramifications of granting credited service for family leave time to clergy. In addition, the maternity benefit granted to Clergy Pension Plan participants, which is delivered through the short-term disability program funded by CPF, has been reviewed. Over the course of their next meetings, the Retirement Programs Committee of the CPF Board of Trustees will consider the work that the staff has done in regard to the impact of granting credited service for clergy who take time off for family leave issues, including the financial ramifications to the Fund. In addition, the Committee will also consider extending the amount of maternity leave granted under the short term disability benefit and make a recommendation to the board, if appropriate, regarding this issue.

Further information about this study will be reported in the Church Pension Group’s *Report to General Convention*.

RESPONSE TO RESOLUTION D075: STUDY OF RETIREMENT BENEFITS OF ORDAINED OVERSEAS CLERGY

The 75th General Convention asked the Church Pension Fund to study the retirement benefits of members of the clergy originally ordained in another Anglican jurisdiction who have become participants in the Clergy Pension Plan and to make a report with recommendations to the 76th General Convention.

The rules of the Clergy Pension Plan do not permit service earned in another part of the Anglican Communion to be transferred into the Plan. Doing so without collecting the accompanying pension assessments would have a negative financial impact on the Fund. However, there are several options for those who serve in The Episcopal Church, whether or not they transfer their canonical residence to The Episcopal Church:

- A cleric living and serving for compensation in the domestic dioceses of The Episcopal Church but who is not canonically resident in the church may enroll in The Episcopal Church Retirement Savings Plan (RSVP), a 403(b) retirement plan. The cleric’s employer may contribute the 18% assessment on that cleric’s behalf, and the cleric may choose the investment options and receive an amount at retirement based on the investment performance of the individual’s plan.

- A cleric who is in the process of being received into The Episcopal Church may have his or her employer contribute 18% of Total Compensation to the Clergy Pension Plan for up to one year prior to reception.
- The employer of a cleric who has transferred canonically into The Episcopal Church and who is remunerated at a minimum level of \$200 per month for three consecutive months MUST pay assessments on that cleric's Total Compensation. This includes an assessment for the cleric residing in church-owned housing.

The CPF staff has created a resource sheet that outlines the options available to clergy and employers of clergy who have served non-domestic jurisdictions prior to serving The Episcopal Church. The information is available through Nelida Rivera or Bruce Woodcock in the International Relations department of the Church Pension Fund.