

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 \$2.3 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 workers 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 works closely with the Church Pension Fund Committee, a legislative committee of General Convention. Resolutions considered by the Pension Fund Committee 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 send a comprehensive Report to General Convention to all bishops and deputies in May 2006.

This Blue Book Report describes several major areas of focus over the past three years, as well as a proposed church-wide healthcare benefits feasibility study.

- Governance
- Review of the Past Triennium
- Benefit Enhancements since 2003
- Formation of the First Comprehensive Denominational Publishing Arm of the Church
- Church-wide Healthcare Benefits Feasibility Study

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, and The Church Insurance Company of Vermont.

The Current Church Pension Fund Board of Trustees

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The Rt. Rev. V. Gene Robinson, D.D.

Bishop of New Hampshire

The Rt. Rev. Wayne P. Wright, D.D.

Bishop of Delaware

Elected by the CPF Board of Trustees

T. Dennis Sullivan

President, The Church Pension Fund

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 assets totaling \$7.6 billion and a combination of companies that has a cash flow of over \$400 million a year. 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 often balance sometimes conflicting social and fiduciary responsibilities.

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

Three trustees – Amy L. Domini, the Rt. Rev. Chilton R. Knudsen, and Arthur K. Kusumoto – are retiring from the CPF Board in 2006, having faithfully served the two consecutive 6-year terms allowed under General Convention rules; 9 trustees are eligible and have agreed to stand for reelection; and the 12 trustees elected in 2003 will continue to serve, as will CPF President T. Dennis Sullivan.

Review of the Past Triennium

The past three years have been ones of growth and change. Two major transitions in leadership – from the Rt. Rev. Herbert Thompson, Jr. to David Pitts as CPF Board Chair in September 2003, and from Alan F. Blanchard to T. Dennis Sullivan as CPG President in June 2004 – were smooth and positive, with the outgoing officers being celebrated for their significant contributions and the incoming officers being received with joyful anticipation of their skills and expertise.

During this triennium, the investment performance which drives our work has been exemplary. Benefits for clergy and lay beneficiaries have been enhanced in numerous ways. The population we serve continues to grow. The products and services we offer the Church have been improved and expanded. And Morehouse Publishing and Living the Good News became part of Church Publishing Incorporated.

Leadership Transition

During this triennium, the three esteemed officers of the Church Pension Fund Board – the Rt. Rev. Herbert Thompson, Jr. (Chair), the Very Rev. Noreen P. Suriner (Vice Chair), and Vincent C. Currie, Jr. (Vice Chair) – completed their twelve years of service to the Board. In September 2003, board leadership passed to three respected church leaders: David R. Pitts (Chair), the Rt. Rev. Gayle E. Harris (Vice Chair), and the Rt. Rev. Peter James Lee (Vice Chair).

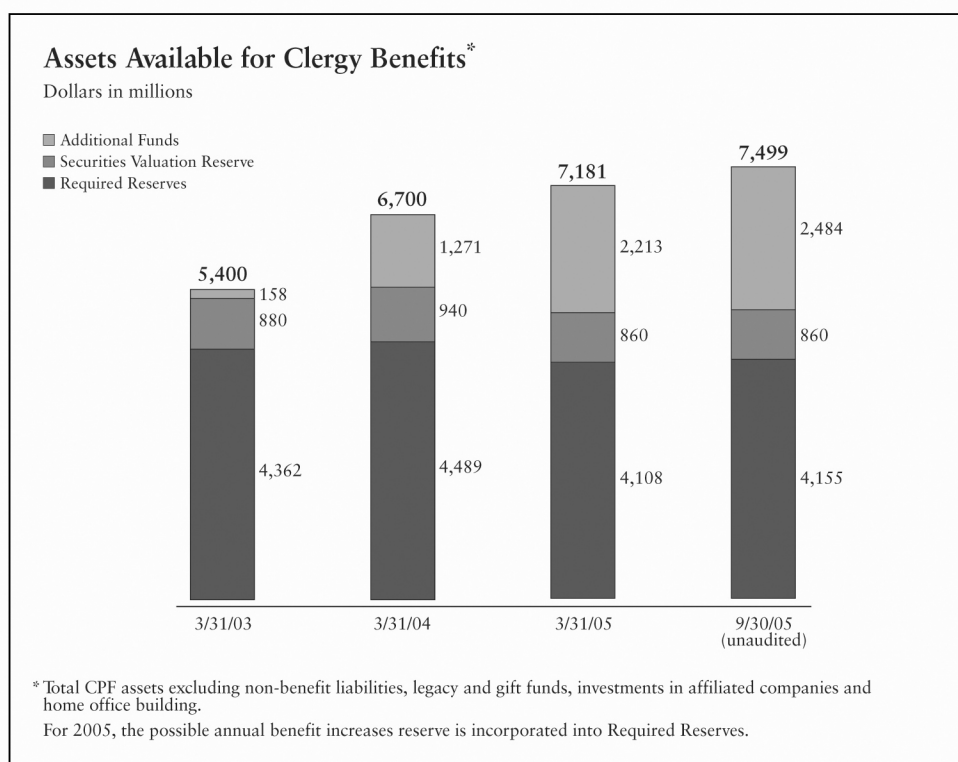
After 13 productive years at the helm of the Church Pension Group, Alan F. Blanchard retired in June 2004. Alan's contributions to enriching the lives of plan participants were wide-ranging. In addition, his creation of CPF's remarkable investment team ultimately resulted in the nearly quadrupling of the fund's assets and the launch of an extensive program of benefit enhancements for active and retired clergy, surviving spouses, and lay employees.

The CPF Board elected T. Dennis Sullivan as CPG's new President. Dennis Sullivan is a distinguished business and investment professional whose career has included significant responsibility for investments, finance and administration in the for-profit, not-for-profit, and government sectors. He brings extensive financial and investment leadership experience to the Church Pension Group. Dennis's previous positions include Financial Vice President of the Andrew W. Mellon Foundation, President and Chief Investment Officer of Princeton University Investment Company, and Chief Financial Officer of the New York Public Library. He has also worked with J.P. Morgan Securities, and served as Secretary of Finance for the State of Delaware, and Executive Director of the Municipal Assistance Corporation for the City of New York. He holds a BA (Phi Beta Kappa) from Princeton University and an MA from Oxford University, England.

Financial Position

The Church Pension Fund's investments have done significantly better than those of most institutional investors during the past triennium. Although the stock market decline of 2002-2003 resulted in a 10% decline in the fund's assets to \$5.4 billion at March 31, 2003, investment results rebounded strongly in 2004 and 2005. As shown in the exhibit on the facing page, as of December 31, 2005, the fund's Assets Available for Benefits stood at \$7.6 billion. 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.

Results for the fiscal year ended March 31, 2006 will be available at General Convention in June, and will also appear in the Church Pension Group 2006 Annual Report to be distributed in August.



Serving Our Participants in Times of Special Need

In formulating benefit enhancements, products, and services, the CPF Board and staff seek to address the needs of the various segments of our constituents – the retired, the not-yet-retired, surviving spouses, and churches and institutions. We also strive to serve our participants one person or institution at time, respecting their individual needs and appreciating that one size does not fit all. In times of trouble, the board and staff try to be responsive to special circumstances, recognizing that we are all members of the same community of faith.

The past two years saw an unusual number of hurricanes strike the United States, causing an unprecedented amount of damage and destruction. The Church Pension Group, through its affiliates, provides property insurance to many of the churches affected, healthcare benefits to clergy and lay employees in most of the areas, and pension coverage to all of the clergy and many of the lay employees. Because of this connected set of products and services, CPG was able to act immediately to help relieve short-term needs, and to collaborate with the most severely affected dioceses to address long-term needs and concerns.

The quality and rapidity of assistance provided by Church Insurance of Vermont (CIC-VT) under difficult circumstances during 2004 was widely recognized, including a letter of gratitude from the Presiding Bishop. In both 2004 and 2005, because of our standing as a property insurance carrier and our concern for the Church, our claims managers were able to go immediately to affected areas to assess the damage and find ways to help. Just after Katrina hit New Orleans, for example, Property Claims Manager John Webster traveled the city in an RV in the company of a police escort, checking the state of every church we insure and offering assistance. CIC-VT personnel did similar work in other affected areas, too. In addition, we were able to use long-standing relationships with Church Restoration Group (a highly regarded restoration company) and ServiceMaster to bring direct and immediate assistance to churches we insure, while many churches insured by other companies were still waiting. CIC-VT assisted 258 churches damaged by hurricanes in 2004, and 148 reported so far for 2005. Hurricane-related claim payments and reserves totaled \$11.8 million in 2004 and will significantly exceed that amount for 2005.

Working closely with each affected diocese, CPG immediately deferred collecting payments of assessments, life insurance premiums, health benefit charges, and property insurance premiums from parishes and dioceses most severely affected by Katrina and Rita, and assured them that all benefits would continue without regard to payment for the time being. And because some retirees might have had trouble accessing their money as a result of mail delivery interruptions and temporary bank closures, we empowered dioceses to advance money to any cleric and lay retiree with the need for funds related to benefit checks. The CPF Trustees have adopted policies that permit the complete forgiveness, for up to 18 months, of pension assessments in situations where congregations have been destroyed or dispersed. In the case of Katrina, this will alleviate payments for some 30 to 40 clergy.

In addition, CPG collaborated with the Office of the Presiding Bishop, CREDO Institute Inc., the Office of the Bishop Suffragan for Chaplaincies, and ERD in sponsoring *Weathering The Storms*, an expense-paid conference held on January 4-7. Nearly 220 bishops, clergy and diocesan staff members and their families from dioceses ravaged by the Gulf Coast hurricanes, including the Dioceses of Louisiana, Mississippi, Texas, Western Louisiana, Southwest Florida and the Central Gulf Coast attended this unique outreach effort.

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, short- and long-term disability benefits, life insurance, and a Supplement to Medicare. CPF also provides defined benefit and defined contribution pension plans to 9,300 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. The following are but four examples.

We responded to the 2003 General Convention Resolution B008 mandating training in child sexual abuse prevention for churches, dioceses, institutions and schools by developing *Safeguarding God's Children*, a program that includes professionally-produced videos and extensive training materials in English and Spanish. To further assist Episcopal institutions in responding to this resolution, CPG developed Model Policies and Procedures, created in cooperation with the Nathan Network, industry experts, and several involved groups in the Church, which are provided to Episcopal institutions without cost.

We responded to a need voiced by the Church for access to long term care insurance by arranging for an Episcopal Church Group Contract, available for purchase by individuals through Prudential Insurance Company of America.

Participation in our Chaplains to Retired Clergy, Spouses and Surviving Spouses program grew to include the involvement of 82 dioceses and 115 chaplains.

Church Publishing Incorporated (CPI) introduced the Seabury Books and Seabury Classics imprints, and, in association with the Episcopal Church Center and the Episcopal Church Visual Arts Network, developed and introduced the Worship Well website – www.theworshipwell.org. In October 2005, Morehouse Publishing and Living the Good News became part of Church Publishing Incorporated, thus forming the first comprehensive denominational publishing arm of the Episcopal Church as described later in this report.

The exhibit on the facing page provides a brief summary of the clients served and services provided by CPF and each of the major affiliates. A brief description of the affiliates follows the exhibit.

**The Church Pension Fund and Affiliated Companies
Services and Clients**

The Church Pension Fund

Clergy		
Not-yet-retired	7,734	} 25,927
Retired	6,344	
Surviving Spouses	2,526	
Lay Employees		
Not-yet retired	8,260	
Retired	1,063	

Church Publishing Incorporated

(Church Publishing, Morehouse Publishing, Living the Good News)

Titles in print	686
Individual customers	40,210
Institutional customers	29,966
Church resources and curriculum items	1,463

Church Life Insurance Corporation

Group insurance policy insureds	21,002
Individual insurance policies	2,535
Annuities	4,142
Disability insureds	4,105

The Church Insurance Companies

Total number of churches and other Episcopal institutions protected through CIAC	6,654
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The Episcopal Church Medical Trust

Clergy		
Not-yet retired	3,197	} 15,322
Retired	4,185	
Surviving Spouses	1,547	
Lay Employees		
Not-yet retired	5,295	
Retired	1,098	
Family members covered	10,563	

As of October 31, 2005

Church Publishing Incorporated (CPI) has been the official publisher of the worship materials of the Episcopal Church since 1918. In addition to printed editions of the Book of Common Prayer and various hymnals, we offer the Rite Series software for easy creation of service bulletins, and the Episcopal Clerical Directory, and manage the online search tools, ClergyFinder and ParishFinder. CPI has a growing title list in the areas of liturgy, theology, music and recordings, church history, and Anglican spirituality, and two new imprints, Seabury Books (for trade books) and Seabury Classics (for contemporary classics in the Anglican tradition). In 2005, Morehouse Publishing and Living the Good News became part of CPI, thereby adding meaningfully to our list of book and music titles, as well as church resources and curriculum items.

Since 1922, **Church Life Insurance Corporation** (Church Life) has provided life insurance protection and savings products for clergy, laity, and their families. Products offered include annuities and IRAs, as well as individual and group life insurance. Additionally, Church Life provides a new Group Annuity as an investment option in the Lay Defined Contribution Plan and Retirement Savings Plan. In 2006, Church Life will be introducing 14 new life, annuity, and IRA products to meet clients' life-stage needs.

The Church Insurance Companies consist of the Church Insurance Agency Corporation (CIAC), the Church Insurance Company of Vermont (CIC-VT), and the Church Insurance Company (CIC-NY). CIAC offers a broad range of property and casualty coverages tailored to the specific needs of Episcopal institutions. Six regional offices serve church clients nationally. CIC-VT, a single-parent captive insurance company headquartered in Bennington, Vermont since October 2004, enables church institutions to benefit from the coverage, flexibility and potential cost advantages of the captive risk-financing approach. CIC-NY, founded in 1929, provides traditional property and casualty products. Thanks to the enthusiastic reception of the CIC-VT program and CIC-NY's offerings, the number of churches and institutions served over the past three years has increased dramatically. Today, 82% of Episcopal dioceses and 76% of parishes rely on us for their commercial package coverage.

The Episcopal Church Medical Trust (Medical Trust), now in its 27th year, provides the clergy and lay employees of the Episcopal Church with a broad array of health plan options, offering a wide variety of self-funded preferred provider, managed care, and indemnity plans, as well as mental health, vision, and dental care plans. For retired participants, the Medical Trust offers Medicare supplement plans as well as Medicare HMOs in select regions of the country. Over the past three years, the Medical Trust has increased the number of dioceses it serves from 62 to 67 as we introduced additional national plans and continued to improve the competitiveness of our pricing and client service.

CREDO Institute Inc. is a not-for-profit corporation, incorporated in Delaware and headquartered in Memphis, which provides the CREDO benefit, an eight-day reflection and discernment experience for clergy. CREDO's mission is to provide opportunities for clergy 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. Each conference includes about thirty clergy participants, who are randomly selected from the Church Pension Fund participant database; 2,264 clergy, including 81 bishops, had attended a CREDO conference by the end of 2005. Recently, the CPF Board completed an intensive five-year review of the CREDO program, subsequently allocating funding for the five-year period 2008–2012.

Benefit Enhancements Since 2003

Our primary 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 substantial 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 and have increased the monthly benefit in each of the last three years consistent with the cost-of-living increase announced by Social Security. In 2005 and 2006, the Fund was able to increase monthly benefits by another \$10 per month, thus “disproportionately” improving benefits for pensioners with lower incomes. This additional amount is especially helpful for those retired from the lay defined benefit pension plan.

Medicare Supplement Plans

The clergy pension plan has long provided a subsidized supplement to Medicare. Beginning July 1, 2003, however, this program was dramatically revised to provide a post-retirement medical assistance program that fully funds a comprehensive supplement for long-service clergy, their spouses and surviving spouses who qualify for Medicare. This program provides benefits supplemental to Medicare’s coverage for hospital stays, physician visits, lab work, annual physicals and prescription drugs. The clergy pension plan contributes \$2,700 per person to this program per year, with the expectation that this level of subsidy, perhaps with increases as healthcare costs increase, would continue into the future. Because it is impossible to know what Medicare will look like in the distant future – and because we cannot manage potentially out of control cost escalation – this level of benefit cannot be guaranteed forever. Nevertheless, in anticipation of a reasonable subsidy in the future, the Fund has designated \$922,587,000 of assets toward these probable future benefits. A substantial portion of this allocation will benefit clergy who retire and become eligible for Medicare in the future.

Disability Benefits

Every American between the ages of 35 and 65 has a 30% chance of being unable to work for 90 days or more due to a disabling condition. The pension fund has been aware that, although many congregations and other Episcopal employers provided access to disability insurance coverage for their clergy, more than half were not adequately covered. Beginning January 1, 2004, the pension fund initiated a benefit that would pay the employer 70% of the cleric’s total compensation for up to 52 weeks (following the first 30 days of disability and presuming the disability meets qualifications) while the employer continued full pay to the cleric. This provides adequate funding for the employer to pay for supply clergy or other assistance while the cleric is recuperating from a short-term disability. Clergy whose disability causes full cessation of work may retire from service and receive a pension benefit. Beginning January 1, 2006, the disability pension benefit will be enhanced to provide 70% of the cleric’s pre-disability compensation until the age of 65. In addition, clergy retiring on a disability benefit also receive a bridge benefit (\$17.50 per month times years of service) for up to 29 months or until Medicare eligibility, whichever is sooner. Also, because the process to qualify for SSDI can be confusing and daunting, the Church Pension Fund makes available the services of Allsup Inc., a specialty consulting firm, to assist with the application process for clergy and nuclear family members applying for Social Security disability benefits.

Overseas Clergy

Mission strategy of the Episcopal Church has provided the Church Pension Fund with the opportunity to provide pension coverage to approximately 300 clergy in a number of overseas jurisdictions. Sometimes referred to as “Province IX clergy,” these individuals have served their native lands in Latin America, the Caribbean, Taiwan, Hong Kong and the Philippines. Some of these jurisdictions are now autonomous from ECUSA, and our responsibility is to those who have already retired. Others continue as constituent dioceses in ECUSA, and we

serve those in active ministry as well as those retired. Although many benefits are identical to those provided to clergy in the US, some of the benefits are calibrated to fit the very different economic circumstances of these overseas jurisdictions. Substantial increases to these benefits were enacted during this triennium: a monthly cash benefit intended to assist with the cost of medical care, akin to the Medicare Supplement provided in the US, was doubled in mid-2005 to provide \$60 per person per month. More importantly, the formula for calculating pension benefits was dramatically enhanced to provide up to 100% of average compensation for long-service and low-paid clergy in these overseas areas – in many cases, more than double the benefit previously available. A commensurate increase was enacted for those already receiving benefits.

CREDO

CREDO (Clergy Reflection Education Discernment Opportunity) is a benefit to clergy that focuses on an eight-day opportunity for clergy to examine significant areas of their lives and to discern prayerfully the future direction of their vocation. During this triennium, CREDO funding was enhanced for the current five-year period (2003-2007) and approved for an additional five years (2008-2012). This funding will enable an additional 5,280 clergy to benefit from this extraordinary program over the next seven years.

Pre-Retirement Survivor Benefit

All clergy who are active participants in the clergy pension plan can now name a beneficiary to receive a monthly benefit from the Fund if the cleric dies prior to retirement. This benefit is calculated as 50% of the cleric's benefit with credited service projected to age 65 and is payable for life (if the beneficiary is younger than 22 at the cleric's death, this benefit continues to age 22 or for five years, whichever is later).

Lay Participants

CPF administers two pension programs for lay employees of the Church. The Defined Benefit Plan provides a defined monthly benefit to retirees based on years of service and average compensation. There are currently 1,593 active participants and 1,011 retirees. Cost-of-living increases were granted each year for those who are receiving a monthly benefit from the Lay Employees' Defined Benefit Pension Plan. For active participants, this plan provides a death benefit equal to two times the employee's salary to a maximum benefit of \$50,000; in 2003, eligibility for this benefit was extended to age 72 for those who remain working and actively participating in the plan. The Lay Employees' Defined Contribution Plan provides individual retirement accounts to 8,260 participants, with employers and employees making regular contributions. Several new investment options were made available during this triennium to provide a full range of asset opportunities.

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

Benefit Enhancement	Additional Assets Committed		
	Current Pensioners	Future Pensioners	Effective Date
Clergy			
Cost-of-Living Increases			
2.1%	\$30,900,000		1/1/04
2.7% plus \$10 per month	\$52,610,000		1/1/05
4.1% plus \$10 per month	\$77,866,000		1/1/06
Medicare Supplement Plans*			
Redesigned program and increased financial subsidy	\$71,000,000	\$279,000,000	7/1/03
Added hearing aid and international travel benefit			7/1/04
Expanded offerings to include non-Rx plans			1/1/06
Disability Benefits			
Short-term disability coverage*		\$25,000,000	1/1/04
Disability enhancement benefit*	\$5,000,000	\$27,000,000	1/1/06
Medicare "bridge" benefit for disabled retirees		\$2,700,000	7/1/03
Assistance with SSDI approvals	\$118,000		7/1/02
Overseas Clergy			
Doubled monthly medical benefit	\$800,000	\$1,200,000	7/1/05
Enhanced pension calculation, providing average 56% increase in future benefit		\$4,020,000	4/1/06
Increased benefits for retired clergy by \$100 times years of service	\$4,195,000		4/1/06
Increased benefits for surviving spouses by \$80 times years of service	\$1,528,000		4/1/06
Other Benefits			
CREDO fully funded through 2007		\$7,000,000	2/13/03
CREDO fully funded through 2012		\$22,000,000	11/17/05
Increased bridge benefit by 17%	\$400,000	\$2,200,000	7/1/04
Introduced Pre-Retirement Survivor Benefit		\$12,000,000	11/19/05
Special one-time supplement to all pensioners	\$5,500,000		1/1/06
Lay Participants in CPF Pension Plans			
Cost-of-Living Increases – Lay Defined Benefit Plan			
2.1%	\$410,000		1/1/04
2.7% plus \$10 per month	\$1,500,000		1/1/05
4.1% plus \$10 per month	\$2,245,000		1/1/06
Other Benefits			
Extended death benefit to age 72 if still working at time of death	\$560,000		1/1/03
Expanded investment options in Defined Contribution Plan			Various
*Some of the financial benefit accrues to churches and dioceses since these benefits costs are now borne by CPF.			

Formation of First Comprehensive Denominational Publishing Arm of the Episcopal Church

In October 2005, an exciting and historic publishing event took place: the formation of the first comprehensive denominational publishing arm of the Episcopal Church. In an effort to better serve the Episcopal Church, two distinguished names in Episcopal Publishing – Morehouse Publishing and Living the Good News – became part of Church Publishing Incorporated (CPI).

The Church Pension Fund Board of Trustees enthusiastically approved this acquisition by CPI and celebrates this expanded opportunity to serve the Episcopal Church.

“This is a giant step toward providing integrated program resources, church supplies, educational materials, and books to the Church and its people,” the Rt. Rev. Hays Rockwell, Chair of the Board of Directors for Church Publishing Incorporated, said at the time. *“Our intent is to serve the Episcopal Church more efficiently through an integrated organization and shared resources,”* added the Rev. Deacon Kenneth Arnold, CPI’s Publisher. *“These individual publishing programs will now benefit from a common philosophy and the strength of common resources such as marketing, finance, and operations.”*

The new combined entity continues the operation of Morehouse, Living the Good News, and Church Publishing in their current locations. Morehouse’s provision of Church Resources and The Episcopal Church Annual (“The Red Book”) also continues. Customers will continue to contact Morehouse, CPI, and Living the Good News through existing telephone numbers, websites, and post office addresses.

Church Publishing Incorporated has been the official publisher of worship materials for the Episcopal Church in the United States since its founding in 1918 as the Church Hymnal Corporation. It publishes *The Book of Common Prayer*, *The Hymnal 1982*, *Lift Every Voice and Sing*, and official publications of the General Convention of the Episcopal Church, as well as a growing title list in the areas of liturgy, theology, music and recordings, church history, Anglican spirituality, and philosophy. CPI publishes liturgical planning software and online services through its Church Publishing imprint, and books for the trade through its Seabury and Church Publishing imprints.

Morehouse Publishing, located in Harrisburg, Pennsylvania, was founded in 1884. It offers books on spirituality, liturgy and worship, prayer, the Bible, theology, ethics, Christian education, homiletics, parish administration, and contemporary social issues, as well as a wide range of church resources.

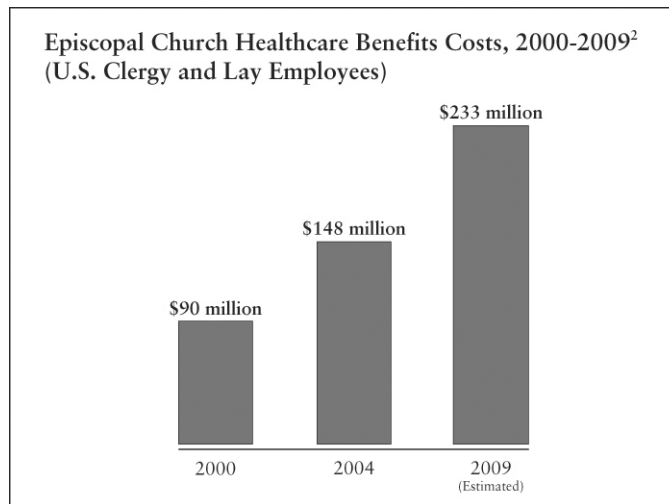
Living the Good News is a lectionary-based curriculum publisher located in Denver, Colorado. It publishes faith formation programs and resources for Episcopal and other liturgically-based denominations to teach, inspire, and involve their members in prayer, worship, and spiritual growth.

**The Future of Healthcare Benefits for Active Employees of
the Episcopal Church in the U.S.A.:
A Proposal for a Church-Wide Feasibility Study**

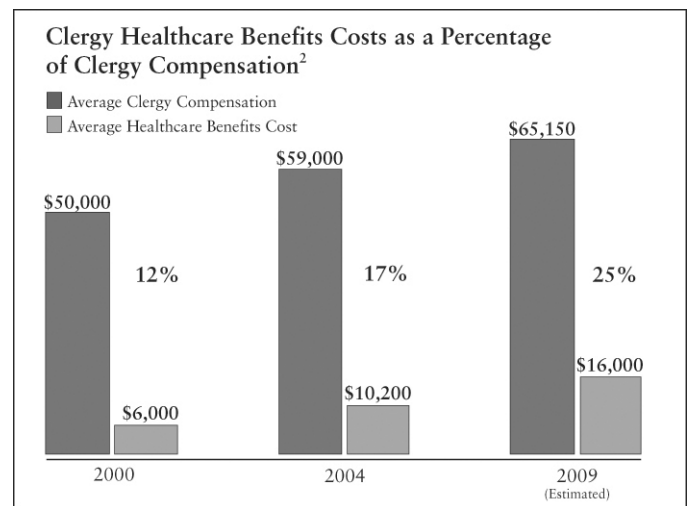
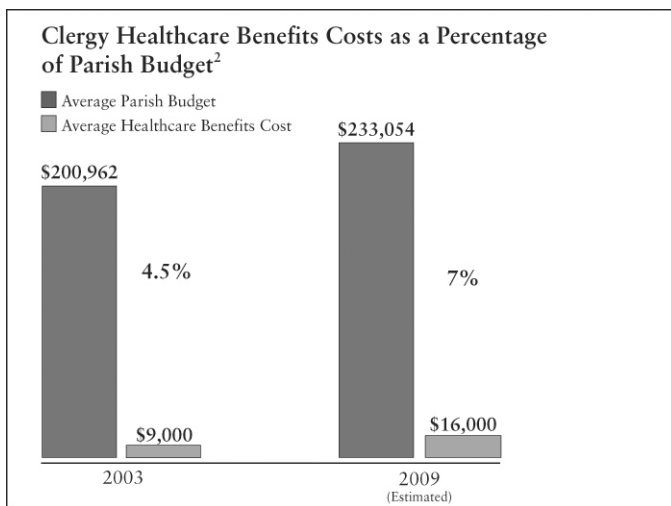
There is significant potential value for the Church to have a denominational healthcare benefits program, and it is recommended that a major feasibility study be conducted with church-wide collaboration to analyze high and rising costs, industry economics, employee participation, and other denominations' experiences.

Costs

The cost of health benefits is high and rising rapidly toward levels that we believe are unsustainable, placing a progressively more difficult financial burden on many dioceses, parishes, and individuals. As shown in the exhibit below, the total national costs for all clergy and lay employees at dioceses and parishes are estimated to rise to \$233 million in 2009.



These costs are growing both as a percentage of parish budget and as a percentage of clergy compensation, as shown in the following two exhibits.



²Sources: Church Pension Fund and Episcopal Church Medical Trust data; the Parochial Report; Hewitt Associates analysis

Industry Economics

The economics of the U.S. healthcare environment are such that larger groups, with their greater purchasing power, are able to secure lower unit costs. For example, by participating in a cross-denominational pharmacy purchasing coalition, the Episcopal Church Medical Trust realized a pharmacy savings of \$2 million in 2004, and will realize a savings of \$11 million over the four-year contract. These savings enabled the Medical Trust to slow the growth of costs to the Church. Similarly, purchasing health benefits nationally rather than per-parish or per-diocese could contain the growth of cost.

Employee Participation

Private sector health insurance companies target younger and presumably healthier employees, and that means some individuals can now purchase health benefits more cheaply than others. This “cherry-picking” causes dioceses, parishes and other Church institutions, which typically have an employee base that is older than the average age of the U.S. workforce, to pay much higher rates or even to be rejected by private sector insurers.

Many lay employees do not participate in diocesan-endorsed health-benefit programs. This limits the Church’s ability to fully realize economies of scale, and lowers the risk characteristics of the participant pool since lay employees are younger, on average, than clergy. A national church-wide health benefits program may provide the opportunity for greater lay participation, and greater lay participation can help contain the rate of growth of costs for clergy.

Other Denominations

Two other major denominations – the Presbyterian Church U.S.A. and the Evangelical Lutheran Church in America – have national church plans that show promise in addressing the systemic problems described above. Their experiences suggest that a carefully researched and designed national church-wide health benefits program for the Episcopal Church might be a better alternative to the decentralized purchasing and administration model that exists throughout our Church today.

Among the advantages of a national church-wide health benefits program are:

- Improved ability to contain cost by leveraging the purchasing power of a single church-wide risk pool, savings that would be augmented by the inclusion of lay employee participants
- The relieving of dioceses, churches and institutions of the administrative burden of developing and maintaining a health benefits program, including vendor contracting and management
- The creation of a church-wide uniform health benefits standard
- Improved clergy and lay wellness through the provision of a health benefits program with plan and benefit continuity coupled with centralized underwriting, pricing, and plan design
- Better incentives for healthy behaviors

Feasibility Study

The church-wide feasibility study is recommended to analyze alternative solutions and their probable impact on individual church employers, and would seek consensus within the Church on the best long-term strategy for individuals and institutions. The feasibility study would include:

- An in-depth evaluation of the Church’s current approach to providing healthcare benefits
- An analysis of past, current and future costs
- An evaluation of viable alternatives
- A recommended solution and high-level implementation plan

It is envisioned that this collaborative effort would begin in the second half of 2006 and proceed as follows:

- Information gathered, analyses performed, and alternative solutions developed in Year 1 (2006-2007)
- Finalization of the recommended solution and building of a broad consensus behind it in Year 2 (2007-2008)
- Introduction of the solution and implementation program for approval at the 2009 General Convention in Year 3 (2008-2009)

The Church Pension Group, working with the Episcopal Church Medical Trust, the Episcopal Church Center, dioceses, Church leadership groups, and others across the Church, is prepared to lead and fund the feasibility study, which would culminate in the 2009 report-back to the 76th General Convention.

The study should include broad participation of the many relevant constituencies across the Church which would participate in the work of a set of teams and review groups in the study. CPG would provide project leadership, funding, and other resources. The study effort would require appropriate collaborations among dioceses, parishes, the Episcopal Church Center, the Executive Council, the House of Bishops, and many others.

Resolution A147 Church-wide Healthcare Feasibility Study

Resolved, the House of _____ concurring, That the 75th General Convention endorse the Church Pension Group's proposal to conduct a church-wide study of the costs and issues surrounding the provision of healthcare benefits to all clergy and lay employees serving churches, dioceses and other church institutions and to report their findings to the 76th General Convention; and be it further

Resolved, That all dioceses, parishes and other church institutions are urged to cooperate with the conduct of this study by responding to requests for data regarding employee census and healthcare costs; and be it further

Resolved, That this study will include an analysis of the potential for a mandated denominational healthcare benefits program and other viable alternatives, culminating in a recommended solution and an actionable implementation plan.