Retirement Pension Plan Virtual Town Hall

May 25, 2021

Recommendations

- Recommendations from Board of Benefits
  - The Executive Board has recommended Synod approve these proposals at Synod 2021.

- The October 2020 Synod tasked the Board of Benefits with bringing a recommendation to the Executive Board by March 15, 2021. The recommendations followed recommendations from the Blue Ribbon Committee.

- The Board of Benefits believes that Synod wanted a near-term resolution
  - At the current contribution level, the ARP Retirement plan would have available funds for over 20 years.

- The Proposal has been carefully designed with advice and counsel from our actuary and attorney.

Recommendations

- Hard Freeze estimated now to be July 31, 2021. This date change is necessary due to the time needed to process the paperwork. Accrual of benefits under current plan will cease on this date.
- Retiree benefits (for those currently collecting pension benefits) will remain unchanged.
- Active participants who are eligible to retire under the pension plan (age 62 and over, minimum 3 years of service, but not yet retired) will remain in the pension plan and will have an opportunity for a one-time lump sum payment later.
- Those participants who are not yet retired or Vested Terminated will be involuntarily terminated from the plan and receive a payout which will be 100% of the Present Value of Accrued Benefit.

Recommendations

- At the time of the Hard Freeze, contributions to the current plan will cease.
- The Recommendation from the Board of Benefits and the Executive Committee is that the employer contribution will remain at 12% and will go to the new Defined Contribution Plan/ 403(b).
- It is estimated $8.5 million is needed to fund the current pension deficit in order to solidify the current ARP retirement plan for changed demographic.
    - Special Committee on Net Asset Reallocations is tasked with seeking those funds.

Status of Retirement Plan at January 1, 2021

Actuarial liability	$70,200,000
Market value of assets (a)	65,000,000
Unfunded actuarial liability	$5,200,000
Expected adjustments resulting from plan changes	$3,300,000
Total funds required	$8,500,000

(a) Market value used instead of actuarial value of assets due to contemplated plan changes

Defined Benefit Plan Basics

- Our current ARP Retirement Plan or pension plan
- Each participant receives a <u>defined benefit</u> which is based on earnings (3.1% until 12/31/2013 and 2% after 1/1/2014). The participant **does not** have an individual account; retirement payouts are drawn from a common fund.
- Contribution from churches to the plan are a percent of salary.
  - <u>Average</u> across all participants.
  - Does not directly relate to benefit required.
  - Current employer contribution is not at a level recommended by the actuary.

Defined Benefit Plan Basics

- Payout is equal to Present Value of Accrued Benefits (PVAB)
  - Benefit at retirement is determined based on cumulative earnings and applicable (3.1%, 2%) multiplier.
  - Benefit payout period based on the mortality table defined in plan.
  - All benefit payments are then discounted back to current age based on the rate defined in plan (7%).

- PVAB for 2 pastors with same benefit but different ages would be different with younger pastor's PVAB being lower as there is a longer time for assets to grow.

Present Value of Accrued Benefit Examples

Age	Service	Pre 2014 Earnings	Post 2013 Earnings	Cumulative Earnings	Annual Accrued Benefit	Present Value of Accrued Benefit
60	28	$1,240,000	$660,000	$1,900,000	$51,640	$294,000
60	28	$910,000	$320,000	$1,230,000	$34,610	$197,000
55	22	$850,000	$365,000	$1,215,000	$33,650	$135,000
55	22	$665,000	$375,000	$1,040,000	$28,115	$112,000
50	19	$595,000	$390,000	$985,000	$26,245	$74,000
50	19	$520,000	$215,000	$735,000	$20,420	$58,000

Comparison of Participant Impact

- Findley, the plan actuary, calculated estimates of participant impact at different ages.
  - Key assumptions
    - 12% contribution to the defined contribution plan after the hard freeze
    - Defined contribution plan assumed to earn 6.75%
    - Defined benefit present value factors based on factors defined in plan for mortality table and discount rate
    - Calculation compares values at age 67 under the above assumptions

Current Age	Ratio of DC plan to DB plan
30	199%
40	135%
50	100%
60	98%

Rollover/Payment Basics

- Once a Hard Freeze occurs, it is expected to take 2-3 months to calculate and process the payments.
- Each participant receiving a payment will receive an election form and can choose whether to rollover the funds to the ARP Defined Contribution Plan (active participants only), to another qualified plan, or to receive a check. <u>Rollovers are strongly recommended due to potential tax consequences and possible penalties associated with direct payments.</u>
- More information explaining rollovers and tax treatment will be distributed soon.

Risks

- The ARP retirement plan remains subject to risks from factors such as improved mortality and fluctuating investment returns. Funds added to the retirement plan will address the changing demographics and reduce these risks.
- The funding percentage will go up and down as the market moves at the December 31 measurement date.
- If there is not a commitment to fund the ARP pension plan by Synod, our attorney recommends that the current ARP plan be fully terminated. A full termination would have a different distribution than the proposal. After paying current retirees, the plan would then pay the participant closest to retirement. Then it would pay the next closest and so on, until the funds run out.

ARP Defined Contribution Plan

- Established January 2021 as directed by Synod. All new participants join this plan.
- Board of Benefits approved utilizing PCA RBI plan. Implementation is anticipated to occur at the time of the Hard Freeze.
- Some additional benefits:
  - Non-ordained staff members will be able to defer funds into the plan.
  - Churches can decide to match or contribute for these non-ordained staff at levels of their choosing.
  - Other 403(b) plans can be rolled in the PCA RBI plan allowing churches to have one provider for ministers and staff.


QUESTIONS