CONTEXT and FAQs

Proposed Gather 2019 Amendments to the Covenant Pension Plan ("CPP")
and the future structure of retirement savings for credentialed Covenant pastors

This document is intended to outline and respond to some of the most frequently asked questions (FAQs) surrounding the proposed amendments to the CPP. Our hope is to provide enhanced context and clarity to the 26-minute video at the following link: **https://covchurch.org/bbs/pension/**. We encourage you to watch the video as well.

FAQs will be updated as additional questions / clarifications warrant. We trust this provides a useful summary of the proposed changes to the CPP and related implications for pastors, missionaries, conferences, local churches, and other CPP employers.

CPP amendments will be voted on at Gather 2019 in Omaha. A restatement of the full CPP legal document will be provided in the coming weeks—well before our time together at Gather. Note: these changes remain ***subject to final approval of the Covenant Executive Board***. As such, this summary represents an advance preview only.

We are always grateful to receive feedback at **CovPensionFeedback@covchurch.org**, and, if needed, questions can be directed to Paul Hawkinson, director of pensions (312.307.8774).

CONTEXT

For decades, the CPP has been (and will remain) a wonderful benefit for many faithful Covenant pastors. At the same time, real and increasing trends—including the diversity of ministry service pathways, participant longevity, and investment volatility—compel us toward proactive managing of risk as we seek to deliver on 100% of future CPP promises.

The proposed CPP amendments are the result of a three-year comprehensive process of plan evaluation. For greater context, we encourage you to watch past Pension presentations from the Gather video archives (since 2016). As you review archive footage, you will note that our messaging has been very consistent over the past three-plus years. We are excited about the vision for future retirement offerings as we seek to steward risk while best caring for those who faithfully serve.

Please note that while these amendments create **options** for current plan participants, there are few, if any, **required** actions. There will be plenty of time for further discussion and education in the months ahead. Consider this a first-level overview.

We are deeply grateful for your continued feedback and prayer as we walk alongside you!

SUMMARY / FAQ

Q: Can you remind us of the key features and basic mechanics of the current CPP?

A: The CPP is a "Defined Benefit" plan (which means it provides a defined, or fixed, benefit for life, assuming the CPP remains well funded) and is mandatory for most credentialed ECC clergy.

Basic CPP Plan Mechanics and Features

- Current funding requirement = 12.5% of annual compensation (base + housing)
- If "funded" (i.e., payments must be made), then benefit = 1.5% of cumulative compensation
- Years of service ("yos") only relevant for vesting and eligibility for a "Minimum Benefit"
- Current Minimum Benefit = $989.00/mo. with 25 yos

- Current vesting requirement = 5 yos
- There is no benefit to waiting to receive pension after age 65—so apply on a timely basis!
- Automatic surviving spousal benefit (65%) is built into the plan formula.
- At age 63, you can select a higher spousal benefit % without a medical review. *(Such an election then reduces the accrued benefit for the primary participant.)*

<u>Example of the Benefit Formula</u>

In a given year, assume a pastor has $20,000 in reported compensation.

- The Mandatory Church Funded contribution of 12.5% would be = $2,500 for the year.
- If the $2,500 is paid, then the accrued benefit = $300 / annum (1.5% * $20,000) or $25 / mo.

Similarly, assume that over a long period of pastoral service…

- End of Career = $1,000,000 of "Cumulative Compensation" (ex. $50,000 / annum * 20 yos)
- The accrued benefit would be = $15,000 / annum (1.5% * $1,000,000) or $1,250 / mo.

Q: Is there an easier way to receive our current accrued benefit / status in the CPP?

A: There will be soon! In July 2019, we hope to have individual, direct online access available. In the meantime, please email us. Again, there are no near-term decisions for you to make.

Q: Should I be worried about the CPP plan health? What is the rationale for change?

A:

- **CPP is well funded**, at nearly ~99% (2018) based on reasonable plan assumptions.
- At 2018, the CPP has ~$241 million in assets vs. ~$244 million in estimated liabilities.
- There are no current conversations about any benefit reductions.
- This is a proactive plan evaluation from a position of relative strength.

There are, however, very good reasons to be proactive about the long-term risk of the CPP. Listed below are a few of the factors and realities that have materially harmed broader market plans (including those within the church sphere). These elements, among others, have been central in our CPP evaluation since 2015:

- Increasing (and fixed) future promises, funded by assets that carry meaningful risk.
- Reality of demographic trends (i.e., increased longevity) and investment risks (volatility).
- Demographics lead to increased CPP cash outflow, exacerbating investment risk.
- Diversity of ministerial service pathways are increasing within a one-size-fits-all CPP.
- CPP is generally inaccessible in under-resourced settings (which results in declining participation).
- ~850+ potential churches funding the plan; however, it would be impossible to go back to ask local congregations to bear liability on future underfunded staff.
- Many pastors have been requesting a new model with greater flexibility and control.

Since 2015, we have been very active in studying defined benefit plan activity within the broader market and church plan sphere. This has included many conversations with other denominations, both large and mid-sized. These case studies have deeply informed our work. Our learnings demand that we remain proactive, as we have witnessed once-healthy plans enact substantial and difficult plan restructurings / benefit reductions, even among sister denominations. The shift away from traditional DB plans remains consistent and is accelerating. According to our auditors, of the more than 60 plans audited on an annual basis, only 9 remain traditional DB plans (like the CPP). Three of these 9 plans reside within the ECC.

The proposed amendments are simply the beginning of a long and continued journey of risk management under the CPP—a plan which (even though closed) will continue to serve many ECC pastors for decades. However, given varied (and escalating) risks in broader DB plan markets, a decision to do nothing today, is a likely decision to do something more reactive tomorrow. Other once-healthy plans are too often faced with a no-win choice—materially raising required contributions and/or cutting promised benefits to faithful servants.

Q: What are the guiding principles and objectives of the Board of Pensions and Benefits?

A: Key Principles and Objectives of the Board

- Ensure 100% of all promised current and long-term plan benefits.
- Create a more flexible retirement plan architecture for the ECC.
- Retain a meaningful and mandatory employer funding model for pastors.
- Maximize participant options within retirement savings.
- Ensure better access and care for under-resourced congregations.
- Deliver proactive education and encouragement in retirement planning.
- Leverage the Lilly Financial Leadership grant—integrating both education and resourcing.
- Remain proactive on behalf of those we serve.

Q: Can you briefly summarize the major proposed amendments?

A: In the coming weeks, the restated legal plan document will outline the full scope of planned changes to the CPP. Many of these changes are technical or minor in nature and will not be broadly noted by participants. Substantial additional education will be forthcoming in the months ahead. In addition, few (if any) elements of the CPP reorganization require action on behalf of participants. Primary changes that will directly affect participants include: ***(additional context follows within this document)***

- Closure of the CPP to new participants after 12/31/19
    - If you are "in" prior to 12/31/2019 then you remain in the plan.
- A new, mandatory 403(b)(9) program will be required for new credentials after 12/31/19.
    - Mandatory funding % will remain at parity across plans (12.5% employer funding).
    - Any future % funding change will likely affect both plans equally.
    - No anticipated changes to the current listing of mandatory ECC credentials.
- Enrolled CPP participants will have a future option to switch to the 403(b)(9).
- Participants over the age of 65 (but still enrolled) will direct all future funding to the 403(b)(9).
- Both plans preserve future use of the housing allowance designation for participants.
- Will launch a match fund to augment 403(b)(9) contributions in under-resourced settings
    - Also intend to offer heavily subsidized Life and LTD Insurance access
    - Working to better care for bivocational pastors for whom plan is optional

Q: When will retirees receive a cost-of-living ("COL") increase?

A: We understand the nature of a fixed-retirement payment in the presence of rising life costs, and we would love nothing more than to offer annual COL increases. We are also aware that it has been some time since the last increase. However, the Board lives within a constant tension between the desire for benefit increases vs. ensuring that we meet 100% of future CPP promises. Within this tension, even a modest (~3%) COL increase can materially increase our plan liabilities by millions of dollars, as such an increase carries on for the full future of the plan. Please know that COL increases are consistently evaluated by the Board and can only be enacted as approved.

Q: What are the high-level comparisons of the CPP vs. a 403(b)(9) plan?

A: Please note there will be plenty of future education on this topic. This is not a forum for comprehensive discussion on plan differences/education.

A brief summary of basic features and differences:

CPP, A Defined Benefit Plan

- Governed by a plan benefit formula, a fixed benefit is "defined" based upon cumulative employer contributions made to the plan on your behalf (mandatory at 12.5% for most ministerial credentials).
- No employee contributions are allowed. A vested monthly retirement payment will last until death (provided the plan remains well funded). The CPP also contains an automatic surviving spousal benefit of 65%, which is built into the plan benefit formula. Once a participant and spouse have passed, there is no residual benefit for the estate.
- For a single pastor, there is no residual benefit after the participant passes.
- CPP plan assets are held in a single legal Trust, and assets are centrally invested and managed. Investment and actuarial gains / losses from one participant therefore inure to the benefit (or detriment) of other participants.
- There is no individual account balance—only a promised future accrued benefit fully reliant on overall plan funding health.
- The benefit is not portable or transferable to another retirement plan unless a lump-sum buyout offer is made. Lump sum offers are only available as future-approved by the Board of Pensions. These offers are generally only available to inactive (but vested) participants who are no longer actively enrolled in the plan.

403(b)(9), A Defined Contribution Plan

- This represents an individual, personal account, principally funded (under proposed ECC rules) by a 12.5% mandatory employer contribution, and open to additional employee tax-advantaged contributions.
- Retirement benefits (in both schedule and amount) can be drawn at the discretion of the participant (with guidance available) and are accessible as long as an account balance remains.
- Upon the death of a participant, any residual balance transfers 100% to a surviving spouse, and further remains part of the residual estate after both participant and spouse (if applicable) pass.
- The 403(b)(9) plan is segregated for the benefit of the specific participant, and investment options are available to the participant (along with advisory services). Market gains and losses inure only to the participant.
- The benefit is fully portable and transferable to any other eligible retirement plan (including 401(k), 403(b), IRA), and generally without tax consequence.

Q: What are the more specific implications of proposed CPP changes for each participant?

A: Following is a brief summary of the implications of CPP changes by participant type. There are five primary participant types—please find yourself in the list and review the summary implications. We also encourage you to review the implications for all participant types in order to better understand the broader proposed plan amendments.

Are you currently over the age of 65?

If so, there are two primary participant types to review:

1) **Retired and Receiving a Final Pension**

   Implication of Proposed Plan Changes: None. In fact, our hope is that a proactive plan reorganization now will provide a better opportunity to evaluate future COL increases for faithful retired pastors.

2) **Still Enrolled while also Receiving a Current Pension**

   Implication of Proposed Plan Changes: If you are receiving a current pension while still working (and contributing) to the CPP, mandatory employer funding will continue at 12.5% but will be directed to the 403(b)(9) after 12/31/2019. Additionally, a "final" CPP benefit payment will be calculated / adjusted upward in January 2020 to reflect the full accumulated value of all interim contributions (through 12/31/2019). No further CPP accruals will occur after 12/31/2019, but you will begin to accumulate a more flexible retirement balance in a 403(b)(9) that will be fully accessible.

Are you currently under the age of 65?

If so, there are three primary participant types to review:

1) **Enrolled and Vested in the CPP**

   Implication of Proposed Plan Changes: If you are both enrolled and vested in the CPP, you are free to continue full participation in the plan. If desired, any enrolled participant may also elect a one-time, irrevocable election (cannot change) to freeze your current accrued benefit in the CPP—shifting 100% of mandatory future 12.5% employer contributions into the 403(b)(9). This election will be available annually (in any future year), with elections by June 30 of a given year effective December 31 of that same year. This schedule provides ample time for all participants to receive education and counsel as to whether this hybrid savings option may prove valuable in retirement.

   Note: Each individual situation is entirely different and requires counsel. For example, if an enrolled and vested participant has an accrued balance of $1,500 / month in the CPP and elects to shift before June 30 of any given year, then future contributions (after December 31 of that same year) would be placed into a 403(b)(9). At retirement, the participant would have both a vested DB benefit ($1,500 / month + all further CPP accruals up to December 31 in the year of election) as well as full access to the accumulated 403(b)(9) retirement account.

   The annual election process applies to enrolled and actively serving pastors. If a pastor begins an entirely new call / position, they will be eligible to shift to a 403(b)(9) on the date of hire.

2) **Currently Inactive, but Still Vested in the CPP**

   Implication of Proposed Plan Changes: If you have achieved a vested benefit in the CPP but are currently not enrolled (perhaps awaiting call or serving outside the ECC), retirement laws allow us to offer a fully optional lump-sum buyout to certain participants. Eligibility would require having been inactive as of December 2018 and continuing as inactive at March 2020 and is therefore focused on those pastors with an extended period of inactivity in Covenant service. Lump-sum buyout offers allow eligible inactive participants to roll over proceeds to another eligible retirement account if desired—generally with no tax consequence. Buyout formulas will be explained in detail at the time of 2020 offer. Offers are entirely optional, unless the value of the buyout is small (less than $5,000, as these buyouts will be forced / mandatory).

It is important to note that a decision to accept a buyout offer will result in the loss of future rights in the CPP. Thus, if a participant returns to Covenant service, they would enter the 403(b)(9). Similarly, a decision to decline a buyout offer allows a participant to retain full rights / access to the CPP in future Covenant service. Again, each individual situation is different, so education and counsel are essential as you move toward any such decision.

3) Not Yet Vested in the CPP (Whether Currently Enrolled or Inactive)

Implication of Proposed Plan Changes: Even if you have not yet achieved vested status in the CPP, this reorganization ensures that you will still retain substantial rights. We will establish a seven-year window for vesting (to December 2026). Any non-vested participant as of December 2026 will be required to shift all future contributions to the 403(b)(9). Non-vested participants at that future date will lose access to future CPP accruals (after 2026). However, **non-vested CPP benefits will not be forfeited or lost**. In fact, service in the 403(b)(9) plan after December 2026 will continue to count toward the vesting requirement of any accrued, residual CPP benefit at the time of the cutoff.

For example, if a participant was not yet vested in December 2026 but had early employer payments sufficient to accrue a $300 / month benefit in the CPP, they would be required to shift all future contributions to the 403(b)(9). However, future 403(b)(9) service would still count for vesting in the residual CPP. Then, if combined CPP + 403(b)(9) service exceeded five years (the CPP vesting standard), the participant would receive the original $300 / month accrued CPP benefit in retirement as well as full access to the accumulated 403(b)(9) retirement account.

Q: If changes are affirmed, what will happen between June and December's effective date?

NOTE: No changes are effective until 12/31/2019 (and then only if approved by delegates to the Annual Meeting in June.) All current CPP rules remain in effect until such time.

A: By July 2019, we plan to finalize the selection of a 403(b)(9) vendor. As many of you know, GuideStone Financial is the current vendor for our current (and fully optional) 403(b)(9) program—currently serving over 10% of ECC churches and conferences. While GuideStone has been a strong partner, the Finance staff and Board of Pensions are engaged in a process of evaluating multiple vendors to ensure we serve you as best we can. Also, throughout the fall of 2019, we will be engaging in multiple forms of participant and local church education / preparation for the changes taking effect at year-end. We realize that there is much work ahead (in partnership with our 403(b)(9) vendor) as we educate and equip local churches to seamlessly enter into / administer the 403(b)(9). We have been gaining substantial experience in this arena through the recent GuideStone plan experience, and we commit to make this a very easy process for local churches administrators.

Note: one of the added benefits of a 403(b)(9) is that when a local church joins the plan, the benefit is then made available to all employed staff (pastoral and lay). While the church employer may only be "required" to make payments for some credentialed staff, the 403(b)(9) provides a wonderful benefit for other employees to make elective (and tax advantaged) deferrals of their own salary.

Last, we will be finalizing a legal plan document, investment structure, and final plan rules for the new, mandatory 403(b)(9) plan, which will be effective 12/31/2019.