

PENSION FUND OF THE CHRISTIAN CHURCH (DISCIPLES OF CHRIST)

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REPORT TO THE GENERAL BOARD

2007 ANNUAL REPORT

The Pension Fund of the Christian Church (Disciples of Christ) continues to expand its rich history of effective, compassionate service to members and to the congregations and wider ministries of the church that these dedicated saints serve so faithfully. Since 1895, the Pension Fund, founded as the Board of Ministerial Relief, has provided support to persons serving the church as ministers or lay employees. The Pension Fund provides a retirement fund and related financial services to enable participants to live comfortably in their retirement years. It also administers health and wellness programs on behalf of the Church.

The spirit of collegiality permeates all of the contractual programs offered by the Pension Fund. This spirit also forms the basis of our continuing work of Ministerial Relief and Assistance, which provides support for ministers and others who retire with little or no pension, due to their service to congregations that offered low salaries or minimal pension dues contributions. Support for these deserving saints of the Church is sustained by direct gifts, Disciples Mission Fund dollars and earnings on Endowment Funds. Record support for Ministerial Relief efforts was received in 2007, with the 13th Check offering at General Assembly and direct invitation totaling more than \$100,000 for the first time.

To assist the General Board in its responsibilities of coordination, accountability and promotion, it is our privilege to report the following:

1. CONTRACTUAL PROGRAMS

- a. The Pension Fund had solid performance in 2007, which enabled a real growth in reserves and the declaration on February 29, 2008, of a 3% Special Apportionment for all Plan participants and retirees. All pension accounts remained fully funded on an actuarial basis. Although the financial markets have become extremely volatile and disquieting, we are gratified that reserves remain strong. *No plan participant has ever experienced a reduction in pension or credits due to market fluctuations.* Over the past ten years, pensions and pension credits have been increased an average of 5.5% per year through Special Apportionments. This is well ahead of rates of inflation and consistent with our objective of enhancing the financial well being of our retirees and active members.
- b. Favorable market performance in 2007 also enabled the declaration of Good Experience Credits of 2.75% for Tax Deferred Accounts and Individual Retirement Arrangement accounts. The Good Experience Credit for Benefit Accumulation accounts was 1.25%.

- c. The Pension Fund serves as trustee of the Christian Church (Disciples of Christ) Health Care Benefit Trust and as such administers Churchwide Health Care, Dental and Flexible Spending Account programs on behalf of the Church. Churchwide Health Care is a “self funded program” meaning that premiums must cover actual claims experience. In each of the past three years, Churchwide Health Care has been able to reduce the operating deficit. In December 31, 2004, the deficit stood at \$5.4 million and the program was facing demise. At the end of 2007, the deficit had been reduced to \$1.9 million, exclusive of funds received in the Heartbeats of Faith Campaign.

At the request of the Pension Fund directors and other supporters, the General Assembly meeting in Portland in 2005 approved an emergency resolution calling for the revamping of Churchwide Healthcare and authorizing a churchwide capital campaign to create a reserve to assure the financial viability of the program in the foreseeable future. The Pension Fund Board of Directors has acted to restrict funds from the campaign as a permanent fund with only the income being used for health and wellness activities. Heartbeats of Faith funds have not been and will not be used to offset operating reserve deficits of the health care program.

We are delighted that the health care program has been able to reduce its deficit from the \$5.4 million that existed at the end of 2004 to the \$1.9 million at the close of 2007. We are also pleased that the number of active participants has increased by 24% over this same three year period and that the average age of the group has declined by more than a year. Most especially, we now believe that Churchwide Health Care will eliminate its operating deficit in 2008 and begin building the level of operating reserves needed to sustain the program in the years ahead.

We give thanks for the support of those who have joined in the renewed programs. We offer a special thanks for those who have continued to participate. Finally, we encourage every congregation and organization of the Church to consider using Churchwide Health Care for their clergy and lay employees. We believe it is a very good health care program, one that is fairly priced to the benefits and markets in which we serve. For more information, check our website - www.discipleshealth.org .

We also encourage every Disciple to participate in the Heartbeats of Faith campaign in 2008, so that an adequate fund may be established to provide for the health and wellness programs that are needed to sustain a healthy and vibrant clergy. Every Pension Fund Board member has participated. Most Pension Fund officers, leaders of general ministries, and regional ministers have given in support of the campaign. Early on, the members of the General Board were invited to participate. The goal was for 100% participation. To date less than 10% of General Board members have done so.

- d. The Pension Fund continues to offer Churchwide Accident Insurance and Long Term Care insurance to participants of the Pension Plan and related programs. Churchwide Accident Insurance is provided through Reliance Standard Life Insurance Company. Long Term Care insurance is provided by CNA Insurance Company. All billing and services related to the Long Term Care insurance is provided directly by CNA.

2. CONTRACTUAL PROGRAMS - INTERNATIONAL

The Pension Fund has provided access to membership in the Pension Plan by clergy and lay employees of congregations in Canada, Puerto Rico and certain other service areas. Participants in Canada were moved in 2006 to a new Canadian Pension Plan that was launched to comply with the laws and regulations of Canada and the various provinces. The impact of regulations in Canada has been onerous for our Canadian clergy and retirees. No Special Apportionment has been possible for three years, because of the restrictions in the

regulations, placing pastors in Canada at extreme disadvantage to their colleagues in ministry in the United States. Staff and legal counsel are working diligently to alleviate the problem and restore benefits as quickly as possible. We hope to bring this situation to resolution in the very near future, recognizing that we are at the mercy of regulators in this endeavor. In 2009, we expect to make compliance adjustments for Puerto Rico participants. Other changes may be made in the future with respect to participation, reporting and taxation as dictated by the applicable laws and regulations.

3. INVESTMENTS

During 2007, total net assets of the Pension Fund grew to \$2.76 billion. The Pension Fund continues to maintain a fully-invested policy with long-term asset allocation of 55% equities, 30% fixed income and 15% alternative investments. Long term investment strategies, although frequently reviewed, rarely shift as a result of market fluctuations.

4. 2007 FINANCIAL OVERVIEW

The 2007 actuarial valuation and financial audit have been completed and reported to the directors. We are grateful that the Pension Fund was able to outperform most of the benchmarks used to evaluate performance and declare generous Special Apportionments and Good Experience Credits as noted above. The base rate on Additional Benefit Accounts is determined annually based upon an array of market indices. Based upon these indices, the base rate was decreased to 4.25% effective January 1, 2008.

5. MINISTERIAL RELIEF AND ASSISTANCE

The Pension Fund distributed \$1.8 million in Ministerial Relief and Assistance in 2007 on behalf of the Christian Church (Disciples of Christ). Only 16% of the Ministerial Relief and Assistance funds came from congregations through Disciples Mission Funding. Another 22.4% was contributed directly by concerned individuals. The remainder was derived from earnings on the Endowment Fund for Ministerial Relief and Assistance or funds previously placed in escrow for these purposes.

For the first time in four years, the Supplemental Gift Pensions were increased for those with very low pensions. Qualifying pension retirees and surviving spouses supplemented to \$15,000 and \$12,300 per year, respectively. Further increases will be possible only when additional resources from gifts from individuals and additional income from Endowment Funds allow. Reductions in Disciples Mission Funding have a direct impact upon the benefits that can be provided for these worthy servants.

The "Thirteenth Check," which is a gift to all persons on the Ministerial Relief roll and some of the neediest on the low pension roll, was sent between Thanksgiving and Christmas. The Fort Worth General Assembly offering for this purpose, along with contributions from individuals and churches, provided the gift funds for 2007 and will fund 2008 gifts. We are gratified that the generosity of the assembly participants and other supporters enabled the 13th checks to be increased over prior years. We give thanks for the generosity of all donors who made this increase possible.

5. GOVERNANCE

The Board of Directors and Staff of the Pension Fund are keenly aware of their fiduciary responsibilities to the Church and those served. The Pension Fund was created to provide a unique ministry to clergy and lay employees on behalf of congregations and their members. The Pension Fund seeks to fulfill these responsibilities, with compassion, wisdom and prudence. We acknowledge that stakeholders within the Christian Church (Disciples of Christ) have an appropriate interest in and right to accountability of its leaders.

The Board of Directors of the Pension Fund of the Christian Church (Disciples of Christ) has implemented practices intended to strengthen oversight and accountability. These are consistent with practices now required of public corporations. In this respect:

- a. The Board of Directors has assigned to a standing committee the function of “audit committee” through which independent auditors report directly to the board. This committee includes at least one person who is a financial expert (e.g., a CPA).
- b. The Board of Directors enforces their written “Conflict of Interest Policy; a written board member evaluation policy and a board member education policy.”
- c. The independent auditor is required to provide the directors with a management letter addressing any material internal control weaknesses or suggested improvements to internal controls.
- d. The Pension Fund staff is required to provide a written response to each issue raised in the management letter as to the steps taken or to address or resolve the issue or the rationale for disagreement with the conclusions presented.
- e. Each standing committee has a written committee charter approved and periodically reviewed by the Board of Directors.
- f. The President and Treasurer certify in writing to the Board of Directors the “appropriateness” of the financial statements and disclosures contained in periodic reports prepared in accordance with accounting conventions appropriate to the Pension Fund, and that such financial statements and disclosures fairly present, in all material respects, the operations and financial condition of the organization.
- g. Staff and Directors enforce their historic prohibition on the extension of credit to any director or executive officer except as “de minimus” reimbursable charges that may arise in the normal course of business.

6. KEY FOCUS

The Pension Fund is a unique financial services ministry, focusing its efforts and resources toward the care and support of clergy and lay employees of the Christian Church (Disciples of Christ). The Directors and Staff believe the Pension Fund fulfills its historic mandate when it functions as an innkeeper (Luke 10:35) assisting whomever the Church presents for care.

Because of the unique nature of the Pension Fund’s ministry, one can describe its activities within the context of the missional goals of the Christian Church (Disciples of Christ), although most impacts are tangential rather than direct initiatives. For example:

The Pension Fund seeks to support the establishment of new congregations by assisting the pastors with subsidized health care. New congregation pastors may qualify for three years of health care premium subsidy on a declining basis, beginning with a year of full subsidy, if the congregation agrees to continue in Churchwide Health Care following the subsidy period. However, reductions in gifts which make this support possible could cause a reduction in access to this service in future years.

The Pension Fund believes that revitalization of congregations will require vibrant and healthy clergy. Addressing stress, depression, spiritual healing and the life choices these issues bring, which reduce effectiveness and cause illness, is the new ministerial relief issue of our day. Staff, directors, consultants, and

other key participants are working to form strategies to address these issues. Success in this arena will benefit congregations, the clergy, Churchwide Health Care and the Church.

Leadership development is crucial to the growth and vitality of the Church. Pension Fund efforts in this area are related to our efforts to develop a financial net through Pension Plan membership and health care resources. The Pension Fund will continue to work on this task in the years ahead.

To enhance our ability to serve the Church effectively, the staff and directors continue to address systemic racism within the organization, board membership, staffing, and culturally sensitive service capabilities. A multi-cultural staff team is working with outside guidance to assist in this process. Our goal is to serve all constituencies with equal vigor and effectiveness. This is essential to broadening our ability to serve throughout all of our church family.

7. TAX INFORMATION

The Pension Fund continues to keep its constituents informed of changes in tax laws and government regulations. The Pension Fund continues to work with the Church Alliance, an interdenominational coalition of pension boards, to understand and respond to issues which could affect the services, reporting and taxation requirements which relate to the programs and services offered by the Pension Fund. The Church Alliance expects to be actively engaged on several issues in 2008 and beyond.

8. OTHER SERVICES

In addition to those services already described, the Pension Fund provides other services to those who serve the church and its organizations. These include the conducting of workshops and seminars on Financial Planning and Preparation for Retirement and administering a Churchwide Accident Insurance program.

9. HEARTBEATS OF FAITH

In accordance with the provisions of the Emergency Resolution passed at the Portland General Assembly, the Pension Fund took the lead in the launch of a churchwide capital campaign intended to establish a \$5 million reserve fund to undergird the health and wellness programs. The campaign has not achieved the level of success to date that was expected or desired. We believe that key factors in the lack of support were the belief that funds were being raised for the retirement of the health care fund deficit and that the health care program would ultimately be determined to be unsustainable. The re-emergence of Churchwide Health Care as a financially viable program and the decision to restrict Heartbeats of Faith Funds as an endowment for health and wellness programs may allay many of these perceptions.

Total gifts and pledges, including a few deferred gift agreements, total more than \$1.1 million. Thus there is still much to be done to achieve the goal. New organizational initiatives have begun to target donors more directly. A congregational phase is underway in many regions. We invite prayerful and generous support of this campaign.

Income earned from the Health Care Benefit Reserve Fund will be available to:

1. Subsidize health care premiums for:
 - a. Older (60+ years) health plan participants
 - b. Pensioners who have great financial need
 - c. New church pastors
2. Support wellness programs for clergy and other church workers

9. CLOSING WORD

The Board of Directors and Staff of the Pension Fund are grateful for the opportunity to serve the Church, its ministers and lay employees. We ask God's guidance and your counsel as we continue to enhance and expand our ability to serve our constituents. We view this ministry as an expression of thanksgiving from a grateful Church to those who have accepted the call to the ministry, as clergy or lay employees, and who have carried out that ministry faithfully.