CHURCH PENSION GROUP: SOME USEFUL FACTS

BACKGROUND AND GOVERNANCE

- Founded over a century ago by Bishop William Lawrence who was appalled by the "suffering and poverty of the aged servants of the Church"

- In 1917, as authorized by Canon 8, CPG commenced providing pensions and other retirement benefits to clergy; mandate later expanded to include pension benefits for lay employees and medical benefits; view a brief video of CPG’s history at https://vimeo.com/210302741

- Closely aligned and affiliated with the Church but a clear and distinct mission

- Like most pension funds, organized as separate legal entity with oversight by state regulators to protect assets for participants; and significant and ongoing influence of Church through election of trustees (24 of 25) by General Convention after nomination by joint nominating committee; view Canon 8: Of The Church Pension Fund at https://www.cpg.org/global/about-us/leadership-governance/canons

- Governance structure has ensured close collaboration between CPG and Church and financial security for participants over past 100 years

FINANCIAL

- CPG collects assessments — percentage of compensation — for each individual participating in defined benefit plans; then invests assessments and uses investment earnings to fund pensions and related programs for clergy and lay employees

- Clergy assessment of 18% not close to covering benefit payments: annual benefit payments about four times amount of assessments (or, in 2017, about $370 million of benefit payments vs. $90 million of assessments); gap covered by robust earnings on assets

- CPF holds more than $13 billion in assets; annual stress testing and financial analysis indicates amount is appropriate, and not beyond what is needed, to honor obligations to participants and to weather future financial crises (e.g., in 2008, CPG lost 30% in value of assets but was able to honor pension obligations due to prudent financial management); in solid, but cautionary, zone

- Unlike corporate or state pension plans, no backstop (e.g., corporate cash or tax revenues) if CPG has shortfall – so assets have to last
CLERGY PENSION PLAN; RESPONDING TO CHANGING NEEDS OF CHURCH

- Since inception, pensions based on compensation and years of credited service

- “Flat pensions” proposed by some is dramatic change that would need to have broad support from Church for CPG to adopt; even then, CPG legally bound to honor amounts already earned by active and retired clergy

- More than four years of intense study and conversations across Church led to launch of new clergy pension plan on January 1, 2018; numerous revisions to provide flexibility and reflect changing models of ministry such as part time and bi-vocational clergy, later ordinands, and those with breaks in service; changes receiving broad approval across Church; view details of the revisions at http://www.cpg.org/CPPR

- CPG provides array of support, in addition to pensions, to non-domestic clergy; recent study on benefits for those clergy confirms that pension formula for non-domestic clergy is generous in local markets; however, compensation paid by Church for active non-domestic clergy is lower than that paid to local workers with similar qualifications

LAY PENSIONS

- Per General Convention, Church employers may offer lay employees (i) retirement savings plan, called a defined contribution (DC) plan, at 5% to 9% depending on employee contributions or (ii) traditional lifetime income generating pension plan, called a defined benefit (DB) plan, at 9%; over 80% of lay in defined contribution plans

- Difference in lay and clergy retirement benefits due in part to difference in assessment rates that fund benefits (18% for clergy vs. up to 9% for lay)


- CPG recently launched study on lay retirement readiness

DENOMINATIONAL HEALTH PLAN (DHP)

- Established and affirmed by General Convention in 2009 and 2012

- Requires Church employers to offer health plans administered by Episcopal Church Medical Trust, an affiliate of CPF; also requires equal access and cost sharing for
clergy and lay employees working more than 1,500 hours per year; view the 2017 DHP Annual Report at http://www.cpg.org/DHP

• Has succeeded in its goals:
  o Controlling rising cost of healthcare – in 2018, average rate increase under the DHP significantly below average increase under the ACA; average cost for DHP plans much lower (more than 25% lower) than for similar plans under ACA, with about 90% of dioceses having rates lower than ACA rates
  o Reducing cost disparity between dioceses while keeping rates on par with local market rates (90% of diocesan rates are within +/-10% of each other for the same plan, and remaining 10% of dioceses more than 10% below average)

• Continuing to look for ways to deliver additional cost savings while providing meaningful choice in health plans; choice continues to be part of strategy

• DHP success depends on full participation; opt-outs would enable adverse selection with older/sicker staying and younger/healthier leaving, resulting in overall cost increase to Church

• More detail in DHP Annual Report at http://www.cpg.org/DHP

SOCIALLY RESPONSIBLE INVESTING (SRI)

• CPG’s primary responsibility to generate high returns to close gap between assessments and benefits over the long term; but seek always to reflect the values of the Church

• Employ powerful three part strategy of (i) positive impact investing, (ii) shareholder engagement (in close collaboration with CCSR of Executive Council), and (iii) thought leadership; learn more at www.cpg.org/SRI and www.cpg.org/Insights&Ideas

• Approximately $1 billion of funds invested in or committed to positive impact investing without sacrificing returns; entire fund invested with sensitivity to CPG’s relationship with the Church; please see examples of our work at http://www.cpg.org/SRI/videos

• Shareholder engagement efforts focused on environmental, human rights, and corporate diversity issues
• Thought leadership includes sponsoring conferences, convening conversations, connecting like-minded investors to SRI opportunities, and inspiring others to follow
CHURCH INSURANCE COMPANIES

- Owned by CPG since 1930’s; must operate as standalone business with separate financials

- Insures many Church properties in hurricane-prone areas that are not easily insured with commercial insurance companies

- Severe weather of past several years, especially 2017, necessitates increased premiums to cover increased claims

- CIC working hard to identify alternatives that can contain costs while still providing adequate coverage

- Goal to continue to provide compassionate, knowledgeable service and affordable comprehensive coverage to every client while still remaining financially viable for benefit of the whole Church

Other useful links:

- CPG website: www.cpg.org
- CPG General Convention webpage: www.cpg.org/GC2018
- CPF’s responses to questions from the State of the Church Committee Subcommittee: www.cpg.org/SOC
- Perspective: www.cpg.org/Perspective
- Clergy Pension Plan Revisions: www.cpg.org/CPPR
- Socially Responsible Investing: www.cpg.org/SRI
- DHP 2017 Annual Report: www.cpg.org/DHP
- CPG’s 2017 Annual Report: www.cpg.org/annualreport
- Publications: www.cpg.org/forms-and-publications
- Press releases/news articles: www.cpg.org/mediaroom
- CPG Facebook: https://www.facebook.com/ChurchPension/
- CPG Twitter: https://twitter.com/churchpension

May 2018