March 19, 2020

Re: January 2, 2021 Pension Plan Change to Normal Retirement Age from 65 to 67

Dear FMC-USA BOA Members,

In April 2017, the FMC-USA BOA (BOA), acting as the Pension Board, amended the FMC-USA Pension Plan (Plan) to address the growing unfunded liability of the Plan, establish the uniform treatment of grandfathered and non-grandfathered participants, and place the Plan on a projection to be fully funded in 25 to 35 years. The Plan amendment did three things: 1. Increase the church contribution to the Plan from 10.5% to 13.5% of a participant's salary; 2. Change the pension calculation from 1.85% of the average of a participant's five highest consecutive years of salaries to 1.5% of a participant's average career salary; and 3. Increase the Normal Retirement Age (NRA) from 65 to 67. The first two changes were effective on January 1, 2018 and the last change had a delayed effective date of January 2, 2021. The reason for the delay was to allow participants and superintendents time to plan.

With the effective date of the NRA change approaching at the 2019 General Conference, some pastors began reacting to the impact on their own benefit payment. The BOA Benefits Committee (BC) has met four times to address concerns raised by Plan participants. These concerns include perceived forced retirement or early retirement, forced departure from the FMC-USA leading to appointment in another denomination, and loss of pension benefits, as well as concern for whatever situation their church was going through.

After considering all possible scenarios and accommodations, and giving careful thought to various factors such as mission, morale, purpose of the Plan, integrity of the Plan, finances, investments, and directives of the BOA-over the course of four BC meetings, the only logical solution is to amend the Plan to allow those who take early retirement benefits to continue to work for the FMC-USA and receive in-service distributions. Presently the Plan does not allow a participant to both draw early retirement benefits (prior to NRA) and continue to work for FMC-USA (which was based on previous IRS law). If the Plan were to be amended in this way, a follow up question must be considered: should the Plan amendment only apply to a select grandfathered group comprised of participants who are currently 62 to 64, or should the Plan amendment apply to everyone in the Plan?

At the same time the sustainability of the plan needs to be considered as we look at the long-term benefits for all the participants moving forward. When a vote was taken of BC members on whether the Plan should be amended, the vote was **tied**. The tie vote meant that the BC did not need to consider the follow up question of to whom the amendment would apply.

I was surprised by the tie vote, but upon reflection and prayer I have a real peace. What will God do next? God has been faithful time and time again in my life and in the life of the FMC-USA. He knows all and He is not surprised by what we currently face. And He promises that He works all things together for good for those who love Him and are called according to His purpose.

The BOA is the Pension Board*, a*ccording to the *Book of Disciple ¶4380 D*. The BC brings recommendations concerning administration of the Plan to the BOA for its approval. *Id. ¶4380 E.* When the BC brings a recommendation to the BOA, all of the background and rationales are not necessarily presented – but they are available. By having a tie vote on the NRA issue, the BOA will have all of the background information that was considered by the BC. The BOA can always disregard any BC recommendations, but for the NRA/Plan Amendment issue, because the BC vote was a tie, the BOA will have the opportunity to review all relevant documents and arguments for amending the Plan or leaving the Plan as it is now.

With this cover letter, you will receive the following:

- Minutes of all BC meetings where the NRA issue was discussed after the Plan was amended in 2017 to change the NRA;
- March 2020 Nyhart Grandfathered Group Analysis;
- Letters from Pastors/participants on the NRA issue;
- 2017 Nyhart analysis of unfunded liability when the Plan amendments were considered by the previous BOA;
- Responses to survey of these specific 62 to 65-year-old Plan participants;
- A letter from Supt. Bradley Button, who served on the 2017 BOA Task Force that considered changes to the Plan.

Please pray and fully educate yourself on the NRA/Plan amendment issue before the April 2020 BOA meeting. At the BOA meeting the following persons will be available as resources and to answer your questions:

- Nick Meggos, lead actuarial consultant in Nyhart's Actuarial Pension Plan practice (Nyhart is a paid contractor of the Plan) [actuarial, historical, and administration resource];
- Mark Dowley, COO, FMC-USA [BC member and administration resource];
- Willadean Duncan, Human Resources Director, FMC-USA [administration, historical, and Human Resources resource];
- Gene Keene, President/CEO, Free Methodist Foundation (FMF) [investment resource];
- Mark Olson; Executive Vice-President and Chief Investment Officer, FMF [investment resource];

- Current BOA members who served on the BOA during the last quadrennium when the Plan amendments were adopted [historical resource]; and
- Charles Toy, Chair, BC [BC member and historical resource]

Lastly, there are some underlying factors that are important to understand:

- The Plan does not currently allow a participant to begin taking a pension and continue to work for the FMC-USA prior to NRA.
- The Plan allows a participant to retire up to five years before the NRA, but the participant's benefit is reduced by 1/180 for each month prior to NRA.
- This group of grandfathered participants under consideration are those who will be between the ages of 62 and 64, because as of January 2, 2021 age 62 will be the new lowest possible age that a participant can begin retirement benefits (five years before the NRA).
- Any Plan participant that is between 62 and 64-years-old may receive greater Plan benefits if they retire by January 1, 2021 than if they retire after that date. In 2020, 65-year-old participants do not have a reduction in benefits as that is their NRA; 64-year-olds would receive a benefit reduction of up to 12 months for early retirement; 63-year-olds up to 24 months; and 62-year-olds up to 36 months.
- After January 1, 2021, 65-year-old participants would receive a benefit reduction of up to 24 months for early retirement; 64-year-olds up to 36 months; 63-year-olds up to 48 months; and 62-year-olds up to 60 months.
- Currently those active participants in the 62 to 64-year-old group who do not take early retirement will continue to earn additional credited service after January 2, 2021 that will increase their final retirement benefit at the new NRA of 67.
- Those receiving an in-service distribution (having retired on or after their current NRA and continuing to work) may or may not be due additional benefits when they fully retire. Any additional benefits that the participant would receive will depend on their average career salary and additional years of service.

In closing, if you have any questions, please contact me before the meeting. If your question and the answer would help the entire BOA, I will email the entire BOA. I am attempting to avoid cognitive overload. It is imperative that the NRA issue be discussed and resolved at the April 2020 BOA meeting because all Annual Conferences will have been completed by the BOA meeting in October. Bishops, Conference Superintendents, and pastors need to make decisions about whether a pastor is retiring and whether churches need new appointments. Please be in prayer about this matter. Thank you and blessings overflowing.

Sincerely,
s/
Charles R. Toy
Chair, BOA BC
toyc@cooley.edu

How to Use Attachments to Benefits Committee Report
(or How **NOT** to Be Overwhelmed by a 79 Page Report)

In the last paragraph of my March 19, 2020 cover letter regarding the January 2, 2021 Pension Plan Change to Normal Retirement Age, I write, "I am attempting to avoid cognitive overload." Then 75 pages of material follow! Allow me to guide you through this material so you will not be overwhelmed and you can use your time wisely.

The four-page March 19, 2020 cover letter gives the history of the 2017 amendment to the Pension Plan that changed the normal retirement age (NRA), concerns raised by pastors and superintendents over the new NRA, what the Benefits Committee considered, operative parts of the Plan, and the only viable alternative to address Plan participants' concerns, which was to amend the Plan. The vote on the Plan amendment was tied.

The next 75 pages are attached as resources; they are not attached as something you must read. You can read none of the material or you can read what you wish to a level that gives you answers or clarity. The amount that you read depends on how much you want to drill down on the subject.

If you wish to learn more about the 2017 amendment to the Plan that changed the NRA, see 17-page Nyhart Plan Design Analysis. [2nd to the last attachment]

If you wish to see the concerns raised by pastors and superintendents and reply communication and thoughts, see 23 pages of emails and notes that are dated from January 2, 2020 to February 7, 2020 and the March 17 2020 letter to the Board of Bishops from Superintendent Button. [first attachments after cover letter]

If you wish to see records of Benefits Committee meetings where the NRA issue was discussed, see yellow highlighted portions of minutes for BC meetings from May 10, 2018 to March 10, 2020 (there are a total of 26 pages, but only 10 pages are highlighted and most highlighted pages are partial pages).

If you wish to see the results of a survey of early retirement eligible Plan participants, see the two-page report dated March 17, 2020 (the Benefits Committee requested the FMC-USA HR Department to conduct the survey at its October 4, 2019 meeting).

If you wish to see the background demographics, financial impacts, and pros and cons of the proposed Plan amendment, which was considered at the March 10, 2020 BC Meeting, see 5-page Nyhart Grandfathered Group Analysis dated March 3, 2020. [last attachment].

New Hope Community Church

45 Stockton Avenue, Walton, NY 13856 (607) 865-5436 865-8937 (fax)

www.waltonnewhope.com

January 2, 2020

Dear Susan,

My name is Larry Light. I am a FM pastor at New Hope Community Church in Walton, NY. I am in my 20th year of ministry at this church.

I am writing to you regarding the recent decision by the FMC USA Board of Administration to **NOT ALLOW** pastors to continue working in their church if they begin drawing a retirement check and are not 65 by January 1, 2021. I have spoken with both Lori Sherwood and Willadean Duncan. They have been helpful in providing information about this change.

Please forgive me if these figures are not totally accurate (I tried taking notes during my conversation with Willadean), but it's my understanding there are some 1,000 retirees in the system. There are 950 active participants paying in. 790 people are vested, but not drawing down any pension. There are 165 beneficiaries receiving a pension. There are 50 or 60 who are drawing their pension and still working.

It's also my understanding that there are 70 people who, if they begin drawing a retirement check, and are not 65 by January 1, 2021, they **CANNOT CONTINUE WORKING** in the FMC. This action by the BoA will save the pension system $2.5 million dollars and help safeguard the financial sustainability of the defined benefit system.

I agree with and understand the need for financial sustainability of the pension system, as well as understand the need to move the full retirement age from 65 to 67. However, my concern centers around requiring some 70 people who, if they begin receiving their retirement check and are not age 65 by Jan. 1, 2021, they will **NOT** be allowed to continue working in the FMC. On the other hand, for those pastors who draw early retirement and are 65 by Jan. 1, 2021, they can draw their retirement check and continue to work.

While I understand the goal for financial sustainability of the system through this decision, it results in a negative consequence for a select group of 70 pastors, i.e., he/she **CANNOT CONTINUE TO WORK** in the FMC.

I would like to offer 3 reasons why this strategy/decision is flawed and provide a recommendation as a solution.

1. Win-Win vs. Win-Lose

For individuals who are 65 prior to Jan. 1, 2021, they can draw their retirement check and continue working. I call this a <u>win-win</u> situation. I am happy for them. The early retirement withdrawal helps prepare them for their retirement. They can choose when they want to stop working.

For those of us who are not 65 by Jan. 1, 2021, the new ruling dictates, if I begin drawing a retirement check, I will be required to **STOP WORKING** in the FMC. I call this a <u>win-lose</u> situation. I win by receiving a retirement check, but lose because the Denomination says I can **NO LONGER WORK** in the FMC.

I am in my 20th year of ministry at New Hope Community Church. This church is my life's work. If God grants me good health, I plan to continue working. My plan was to begin drawing my retirement check in January 2021. However, I won't be 65 until April 4, 2021. In light of the new ruling, I miss the cutoff by 3 months and 4 days. If I receive that check, I will be **REQUIRED TO STOP WORKING.**

I am writing this letter not only for myself, but for any other pastor who is in my situation. If we draw an early retirement check, we **CAN NO LONGER WORK** in the FMC. In short, the Denominational decision has created a <u>win-lose</u> situation for us.

2. Devalued

The word that best describes how I personally feel is "devalued". While not intentional at all, the decision devalues the individual. While there is a $2.5 million savings, it **AUTOMATICALLY TERMINATES** those who would like to continue ministry in the FMC. From what I understand, I can't work anywhere in the church. In the day and age we live in where there is a shrinking pastoral pool, I don't understand why the Denomination would want to further reduce it?

3. FMC Core Values

I have been in the FMC since 1979. I have come to love and appreciate the values it stands for. However, this decision runs counter to the core value of fairness that I believe is part of the culture of our church.

If this decision stands, it will **PUSH ME OUT** of employment in the church. This decision seems to run counter to the FMC's core value of fairness. Our founder, B.T. Roberts, was all about caring for the poor and creating opportunities for people, not erecting barriers.

On the upside, if the decision stands, I will seek out another denomination or parachurch organization that will be in harmony with my personal core values of fairness, i.e., allow me to receive a retirement check and continue to work. The FMC will no longer be that denomination to me.

Here is my RECOMMENDATION:

Lori Sherwood told me "it's a bitter pill we have to swallow". True, if you are part of the 70 people to help save $2.5 million, you swallow it and are **REQUIRED TO STOP WORKING** in the FMC. We would swallow one for the team. However, my **RECOMMENDATION** is to roll back the payout of every person in the system by .5% or 1%. Then, everybody swallows the pill, not just the 70 people. In addition, people can be given a choice whether to **CONTINUE TO WORK** in the FMC if they choose to. I would suggest your actuaries run the numbers on a rollback. I think it would create significant savings.

In conclusion, while the decision has a noble goal of saving $2.5 million, it also has a negative (unintended) consequence of **TRUNCATING MINISTRY** in the FMC for those who would like to receive a retirement check and continue working, but are not yet 65 by Jan. 1, 2021. If you reverse this decision, I will be grateful. If you don't, I am grateful for the opportunity to express myself and thank you that you took the time to read this letter. The God I serve is bigger than the decisions of man. Also, if I have a misunderstanding or am misinterpreting something, please let me know. I would appreciate it.

May you have a prosperous 2020 filled with wisdom, God's goodness and peace.

Sincerely,

Larry Light, Pastor

cc: Bishop Keith Cowart, Eastern Region

Supt. David Harvey, Acts 12:24 Churches

Charles Toy, Chairman, Benefits Committee

Willadean Duncan, Director, Human Resources

Lori Sherwood, Human Resources Assistant

Willadean Duncan

From:	Willadean Duncan
Sent:	Saturday, January 25, 2020 3:15 PM
To:	'Charles Toy'; 'Gregory Delamarter'; 'Dale'; 'Darrel Riley'; 'Melinda Vokal'; SUPT/EPP - John Lane - WAB; Kirk Hoffman; Mark Dowley
Cc:	Mark Olson; Gene Keene; 'Meggos, Nick'; SUPT/BOA/EPP - Glen Prior - SCA; Debbie Jenkins; Lori Sherwood
Subject:	Larry Light - FMCUSA BOA Decision re Retirement System
Attachments:	image002.png

Charles' response

From: Charles Toy <toyc@cooley.edu>
Sent: Thursday, January 2, 2020 11:48 PM
To: Larry Light <larrylight7@gmail.com>
Cc: Susan Agel <sagel@positivetomorrows.org>; Bishop Keith Cowart <keith.cowart@fmcusa.org>; Willadean Duncan <Willadean.Duncan@fmcusa.org>; Lori Sherwood <lori.sherwood@fmcusa.org>; Mark Dowley <mark.dowley@fmcusa.org>
Subject: Re: FMCUSA BOA Decision re Retirement System

Good Evening Pastor Larry,

You have hit squarely on the head what the FMC-USA BOA and it's Benefits Committee (aka Pension Committee) had been grappling with for two years. And why we have been and are grappling with it is for exactly the reasons you state, i.e. involuntary loss of higly trained and caring pastors, forced retirement for pastors who have served long and diligently in the church and want to continue to serve, possible lack of equally gifted pastors to replace those who leave the church, confusion and unsettledness in our societies and individual members, degradation of trust and confidence in the denomination by pastors, societies, and individual members, and an unwelcomed "benefit" that is intended to be a welcomed "thank you" for years of continued service and commitment to serving the Kingdom and a "help" as a part of an overall financial wellness plan. I totally understand what you are saying. While it is noble to say the 70 affected pastors will take one for the team, that is not fair or the right thing to do. You have proposed an interesting plan which will need to be reviewed by the actuaries, both the one on the Benefits Committee and our contracted actuarial service, Nyhart. Let me assure you that neither the BOA nor the Benefits Committee sees this issue only as a financial one. We know it affects our pastors -- people we love, pray for, and serve in our administrative capacities. That is why we are still grappling with this issue. I know that the Benefits Committee is looking into this matter and I am very hopeful we will have something soon. We welcome your prayers as we continue to review and discuss this upcoming issue. We want to be true to what our pastors expect from us and the intent of the retirement plan. In conclusion this is a long way to say I have received your letter and a resolution/response is forthcoming. Thank you, brother for your time and thoughts on this matter. God bless you, your family, and your ministry.

Charles Toy

On Thu, Jan 2, 2020, 4:49 PM Larry Light <larrylight7@gmail.com> wrote:

January 23, 2020

Dear FMC-USA Benefits Committee members,

Thanks so much for the time and effort you invest to help the ministry and mission of the Free Methodist Church go forward! I appreciate what you do for us.

I am a one of the Free Methodist elders affected by the changeover in the pension program. When I learned of the situation, I crunched the numbers and concluded that personally, it would be financially beneficial for me to begin drawing my pension on January 1, 2021.

I then looked at the situation from our church's standpoint and got really excited! Having served at Emmanuel Free Methodist Church for 35 years, I care deeply about its ministry. My thinking was that I could continue to serve the church in my current position but begin to draw my pension, which would allow the church to reduce my support by the pension amount. In addition, the church would no longer have to pay into my pension. Total savings for the church would be about $45,000/year, which I hoped would allow us to make a strategic hire of another staff member and help our church go forward in ministry. I shared these plans with our staff and BOA, and they were excited, too.

These plans came to a screeching halt when I learned that our current pension guidelines will not allow me to work at a Free Methodist church if I draw my pension before full retirement age. However, I learned that this rule is not mandated by IRS and that there was a possibility you might change it in your upcoming meetings.

I'm writing to ask that you would strongly consider changing this rule. I know that other Free Methodist pastors who are in the same situation I am are considering drawing their pensions but continuing to work outside the FMC, either in secular work or as pastors in other denominations. It seems to me that this would be a huge loss for our denomination. I'm not planning to do that – I love the Free Methodist Church, and I have too much invested in our local church and in the denomination to step away from it. My wife and I are looking at the possibility of me drawing my pension and volunteering my service at the church, but we aren't sure if that would be financially feasible for us. (BTW, my long-term plan is never to retire from ministry but in a few years to transition into a volunteer role as an assistant pastor at Emmanuel.)

Here's the bottom line – it seems to me that the current rule could be detrimental to the ministry of the Free Methodist Church, and it seems pretty clear that it *is* detrimental to the church I serve. I know you folks have the best interests of the denomination in mind; while your assigned task is the pension fund, you realize there is a bigger goal out there than making sure the balance sheet looks good. I do not want my friends in ministry to leave the FMC over this issue. More personally, I would *really* like to help our local church go forward in ministry by freeing up some funds. I'm hoping that you will find a way to be fiscally responsible while still providing me and others the freedom to draw our pension without having to leave the church we love.

Thank you for considering this.

Sincerely,

Pastor Mark Scandrett
Senior Pastor, Emmanuel Free Methodist Church

Willadean Duncan

From: Willadean Duncan
Sent: Saturday, January 25, 2020 3:03 PM
To: 'Charles Toy'; Gregory Delamarter; Dale; 'Darrel Riley'; Melinda Vokal; SUPT/EPP - John Lane - WAB; Kirk Hoffman; Mark Dowley
Cc: Mark Olson; Gene Keene; Meggos, Nick; SUPT/BOA/EPP - Glen Prior - SCA; Debbie Jenkins; Lori Sherwood
Subject: Supts. comments on the current in-service ruling with the upcoming change to NRD age 67 effective 1/2/2021

From: Bruce Cromwell <revdrbruce@gmail.com>
Sent: Friday, January 24, 2020 5:05 PM
To: Willadean Duncan <Willadean.Duncan@fmcusa.org>
Subject: Pastor's Pension

Hey, Willadean. I trust you are doing well.

I also guess that your inbox may be filling up with e-mails from other Superintendents. You likely know that the GOT spoke a bit about revising the pension plan, or at least the pension rule regarding retired pastors, and that Supt. Lane of Wabash has recently given an update to us Superintendents. He suggested we share with you our thoughts.

With at least one pastor in the Great Plains who would fall into the grandfathered group (the Rev. David Morris of Salina Cornerstone) I know what he hopes will happen. He'd like to take retirement starting in January of 2021. This will technically be early, given the new changes. But I know he'd like to continue to be able to serve if needed in some of our churches. He will NOT be appointed back to Salina, but will be replaced with a new pastor and will be appointed as retired, but still, he wants to be available and I'd certainly like to use him if we can, where we need.

I suppose I'm just saying that I am wholly in favor of adjusting our pension rule so that those who take early retirement can claim their benefits but serve in FM churches. I am sure I do not understand all that this entails (which is why I'm glad I'm not on the benefits committee for the BOA!) but I did want to chime in and let you know what I was thinking.

More than any of this, I also want to make sure you know I trust you and the others who work so faithfully in HR. I know you'll do what is best for our pastors, and for the Church at large. In all of this, you have my prayers!

Blessings, Willie! Have a great weekend.

Rev. Bruce N. G. Cromwell, Ph.D.
Superintendent
Great Plains Conference
Free Methodist Church - USA
517-763-4846 (cell)

Willadean Duncan

From:	Willadean Duncan
Sent:	Saturday, January 25, 2020 3:01 PM
To:	'Charles Toy'; Gregory Delamarter; Dale; 'Darrel Riley'; Melinda Vokal; SUPT/EPP - John Lane - WAB; Kirk Hoffman; Mark Dowley
Cc:	Mark Olson; Gene Keene; Meggos, Nick; SUPT/BOA/EPP - Glen Prior - SCA; Debbie Jenkins; Lori Sherwood
Subject:	Supts. comments on the current in-service ruling with the upcoming change to NRD age 67 effective 1/2/2021

From: Mark Adams <MarkAdams@undeniableblessing.org>
Sent: Friday, January 24, 2020 4:23 PM
To: Willadean Duncan <Willadean.Duncan@fmcusa.org>
Cc: Lori Koons <LoriKoons@undeniableblessing.org>
Subject: Pension Rule Change?

Hi Willadean,

Blessings to you and your team. You know how much I appreciate you😊

You and I (and I imagine countless other similarly annoying people) have had a conversation about pastors who retire, desire to draw their pension, but continue to work for pay in some way in one of our churches. My understanding is that the IRS ruling prevents the FMC from permitting this, you cannot draw retirement pension and active paycheck from same company.

I have heard from John Lane that the IRS rule has changed on this recently, and that the FM BOA is considering a commensurate change in FM policy as a result. I do not have ANY actuarial knowledge whatsoever and no clue at all as to how such a ruling might impact the health of our overall pension and its long term viability. However, I do know that the short term positive impact for many potential appointments to hard to fill churches with semi-retired pastors who do not require full time compensation as a result of early retirement pension would have a profound and good effect in our conference.

You don't need to answer this email, I know you're uber-occupied, but I thought I'd toss my two-cents (all it's worth) your way as your team and the FM BOA consider the ramifications of such a position. Let me know, though, if the rules do change. Several leaders would be refreshed to hear this😉

Blessings,

Mark

……
Mark Adams, Superintendent
SIERRA PACIFIC
BELIEVE + BELONG + BLESS
Network of Undeniable Blessing/ The Free Methodist Churches of the Sierra Pacific
undeniableblessing.org

Willadean Duncan

From:	Willadean Duncan
Sent:	Saturday, January 25, 2020 2:59 PM
To:	'Charles Toy'; Gregory Delamarter; Dale; 'Darrel Riley'; Melinda Vokal; SUPT/EPP - John Lane - WAB; Kirk Hoffman; Mark Dowley
Cc:	Mark Olson; Gene Keene; Meggos, Nick; SUPT/BOA/EPP - Glen Prior - SCA; Debbie Jenkins; Lori Sherwood
Subject:	Larry Light - Supts. comments on the current in-service ruling with the upcoming change to NRD age 67 effective 1/2/2021

From: dharveymar@aol.com <dharveymar@aol.com>
Sent: Friday, January 24, 2020 1:56 PM
To: Willadean Duncan <Willadean.Duncan@fmcusa.org>
Subject: Larry Light

Hello Willie,

As you know I have been in touch and kept up to date regarding Larry Light's struggle to continue pastoring in the Free Methodist Church during this period in which he would be considered in service with the Free Methodist pension.

Larry is an excellent pastor who has served his local church, the conference and the denomination with great skill and Godliness for many years. It is inconceivable to me that the denomination would penalize this excellent servant. I

I understand that the Benefits Committee is meeting in the near future. Please convey to the benefits committee my deep desire that Larry be allowed to continue to pastor and not be penalized.

I have heard that there are seventy pastors in the denomination who are affected by this in service situation. I would encourage the Benefits Committee to find how many of these seventy pastors want to continue pastoring and make a one time exception to the in service rule for each of those who want to continue.

Blessings,
David Harvey

Rev. David Harvey
Superintendent, Acts 12:24 Free Methodist Churches
www.Acts1224churches.com

Willadean Duncan

From: Willadean Duncan
Sent: Saturday, January 25, 2020 2:54 PM
To: 'Charles Toy'; Gregory Delamarter; Dale; 'Darrel Riley'; Melinda Vokal; SUPT/EPP - John Lane - WAB; Kirk Hoffman; Mark Dowley
Cc: Mark Olson; Gene Keene; Meggos, Nick; SUPT/BOA/EPP - Glen Prior - SCA; Debbie Jenkins; Lori Sherwood
Subject: Supts. comments on the current in-service ruling with the upcoming change to NRD age change to 67 effective 1/2/2021

From: Mike Hopper <swimfast.hopper@gmail.com>
Sent: Friday, January 24, 2020 12:41 PM
To: Willadean Duncan <Willadean.Duncan@fmcusa.org>
Subject: Pension Plan

Willadean,

Thanks so much for all your work with the Pension Plan. You have been a delight to work with through the years and (as we have discussed) I hope you are still caring for the plan when I get ready to retire. (Not sure when that will be, though)

In the North Central Conference, 70 percent of our churches are led by bi-vocational pastors - due primarily to the small size of those congregations. Needless to say, it is very difficult to find pastors.

At this time, I am not aware of any of our pastors that are planning on leaving pastoring in order to take the early retirement as a result of the fast-approaching widow of opportunity. (Perhaps you can let me know if you are aware of any?) It would be nice for our pastors near retirement to be able to continue to draw a pay check and get their retirement while continuing to serve these smaller churches.

Your denominational work is much appreciated. May God continue to bless you and your ministry in this new year.

Mike

Supt Mike Hopper
North Central Conference

(317) 244-3660 :: (800)342-5531 x 214 :: fax (317)244-1503

Willadean.duncan@fmcusa.org :: http://fmcusa.org/hr

FREE METHODIST CHURCH USA

From: Michael Guthrie <mvfs@hotmail.com>
Sent: Monday, January 27, 2020 11:54 AM
To: Willadean Duncan <Willadean.Duncan@fmcusa.org>
Subject: Proposal for Pension Board

Hello Willadean & Mark,

I have a attached a proposal for presentation to the Pension Board.

Willadean and I had some discussion of such an idea at General Conference 2019, but I was uncertain if it was ever presented.

As a "Notch" Pastor regarding the Pension changes I am seeking a way to mitigate the anxiety I see among fellow Pastors and our churches.

Would you kindly make sure this document makes it way to the Board of Administration and the Board of Bishops as well as the Pension Board.

Sincerely,

Michael D. Guthrie -Cornerstone Church-Harvest Conference

3267 Babcock Blvd

Pittsburgh, PA 15237-2114

412-310-5081

mvfs@hotmail.com

To: Free Methodist Pension Board

Board of Administration

I wish to put forth a proposal as a possible solution to the Pension issue effecting 70 + Pastors in "the notch" of early retirement and their ongoing contribution and continuation in the Free Methodist Church. To Summarize.

A Pastor taking early retirement from the Free Methodist Church would be permitted to continue salaried work within the Free Methodist Church, however would be permanently disqualified/barred from future increases in that pension amount regardless of additional years of service."

Rationale:

1. Enhancement and protection of the Pension Plan solvency by the ongoing infusion of cash by local churches on higher than average contributions of long tenured Pastors.

2. Guarding the financial stability of the local church effected by undesired Pastoral change that could deteriorate its ability to fund the Pension Plan at current levels

3. Protecting the viability of complex local church situations led by experienced and effective Pastors which include multi-million dollar building projects as well as ministry and kingdom innovations.

4. Risk mitigation to Pastors who wish to continue serving in the Free Methodist Church, but due to health concerns or other circumstances make an Age 67 retirement an unmanageable personal risk.

5. A solution that provides ongoing financial contribution to strengthen the pension plan for current and future recipients while dealing with the unique circumstances of "the notch" Pastors and their critical contributions to the health of the Free Methodist Church.

Mechanism:

1. "Notch" Pastors opting for early retirement would be permitted to continue salaried work within the Free Methodist Church, but permanently disqualified from any future increases of that Pension.
2. The local church will continue to pay on the compensation of the "retired" Pastor as it currently does now at 13.5%
3. "Notch Pastors" would make the choice to opt for a higher pension at age 67 or take an early reduced retirement based on their own risk assessment.
4. The local church, conference and denomination would retain willing, experienced and gifted leaders who wish to advance the Kingdom of God and the Free Methodist Church.

Process:

1. The Pension Board determines the legality of such a change or seeks an adaptation of the idea that would fulfil legal requirements. Ex. Rather than "permanently disqualified" a retired Pastor would need to process as a "new hire." This would require vesting, etc, that could have the same desired effect.
2. The Pension Board completes an "Underwriter Study" to determine the long financial impact of this proposal or adaptations to it.
3. A decision is made expeditiously within 60 days in order to provide stability to the churches, conferences, and Pastors effected.

Closing:

I am grateful for the Pension Plan and for the difficult work that has been done in managing it. The solvency and future health of the plan is important to all of us. I do not imagine that my proposal is perfect, but I hope that it is a possible solution that is financially viable and enhances the life of churches and Pastors.

Sincerely,

Michael D. Guthrie, "Notch" Pastor

Cornerstone Church

Harvest Conference

Willadean Duncan

From: Willadean Duncan
Sent: Tuesday, January 28, 2020 6:11 PM
To: Charles Toy; Gregory Delamarter; Dale; Darrel Riley; Melinda Vokal; John Lane; Kirk Hoffman; Mark Dowley
Cc: Mark Olson; Gene Keene; Meggos, Nick; SUPT/BOA/EPP - Glen Prior - SCA; Debbie Jenkins; Lori Sherwood
Subject: FW: Early retirement and pension

Supt. response

-----Original Message-----
From: actout4jesus <actout4jesus@gmail.com>
Sent: Tuesday, January 28, 2020 3:28 PM
To: Willadean Duncan <Willadean.Duncan@fmcusa.org>
Cc: SUPT/EPP - Michael Traylor - RVR <drmichael@theriverconference.org>
Subject: Early retirement and pension

Greetings,
I would support the option that allows early retirement and ongoing paid service for those that desire to remain involved in ministry though I recognize the negative side to that option.
Blessings,
Supt. Amelia

Sent from my iPad

Willadean Duncan

From:	Willadean Duncan
Sent:	Tuesday, January 28, 2020 6:18 PM
To:	Charles Toy; Gregory Delamarter; Dale; Darrel Riley; Melinda Vokal; John Lane; Kirk Hoffman; Mark Dowley
Cc:	Mark Olson; Gene Keene; Meggos, Nick; SUPT/BOA/EPP - Glen Prior - SCA; Debbie Jenkins; Lori Sherwood
Subject:	FW: Benefits update

In reading these comments, it looks like most of these committee people from the conference do not realize that our plan is not under ERISA since it is a church plan. The rules are not exactly the same, and there are flexibilities based on different plan designs for a church plan.

Willadean M. Duncan, Director of Human Resources
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FREE METHODIST CHURCH USA

From: John Lane <superjohnrlane@gmail.com>
Sent: Tuesday, January 28, 2020 9:51 AM
To: Willadean Duncan <Willadean.Duncan@fmcusa.org>
Subject: Fwd: Benefits update

Greetings Willadean

Below is an email from Jason Garcia, Superintendent of the PCJC.

He had a few members of their HR committee send along their thoughts.

I am forwarding it to you in case you didn't receive this.

God bless
John

---------- Forwarded message ---------
From: **Jason Garcia** <jason@pcjcfm.org>
Date: Mon, Jan 27, 2020 at 11:12 PM
Subject: Fwd: Benefits update
To: John Lane <superjohnrlane@gmail.com>

Hey John,

As you may know...i am concluding my time as Superintendent soon.

So I took the liberty of asking our HR team about your Email

Together they have an amazing collective of experience...especially as it concerns the FM Pension.

Below are their thoughts....not sure how relevant their insights are,but wanted to share their feed back with you.

Best to you friend!

Jason

Superintendent PCJC
Network Lead RIZE Church Planting
pcjcfm.org
rizechurchplanting.com
678- 938-7739

Here are my thoughts (I'm assuming it's legal for employees to retire, then get rehired by the same employer):

1. Defined benefit plans, like the FMC's, are a dying breed because of the difficulty of dealing with life expectancies, sufficient investment returns on the fund andgetting employees to contribute a sufficient amount to keep the fund viable.

2. I assume that the pastor in question has a financial need or incentive to draw his pension and continue working fulltime. Was the pastor's compensation too low to support his financial needs? Is he taking an early retirement to "help" the church financially because they do not pay him a living wage?

4. If pastors retire early, will there be an unexpected draw on the pension fund that adds to the possibility that the pension fund will need to increase funding levels from churches again? How does the early retirement affect the projected funding level of the pension fund, if at all? If the rule is changed, does it increase the possibility that the pension fund will need to increase funding levels again from churches?

I would oppose any changes if the pastor is taking an early retirement to help his church financially. I would also oppose any changes if the rule changes would increase the risk that the current 13.5% churches pay into the fund would be increased.

Ron Yorizane

By the way, Stan Nishikubo worked at an actuarial in pension funds. I'm sure he could give you an informed opinion about the consequences of allowing early retirement and continued employment with the same employer.

I have not heard of the IRS rules that allow workers to receive pension while continuing to work at the same company. This has always been a no-no, considered a type of double dipping. ERISA rules govern "qualified" pension plans and employers need to be careful to adhere to guidelines regarding "retirement". Failure to comply can cause a retirement plan to lose its accreditation. Generally, a pensioner can return to work with another employer but can't go back to the same employer unless part-time or as a contractor. I could not find documentation that says this is changing in 2020.

I am opposed to someone continuing to work full-time and calling themselves "retired" to supplement their income. Retirement plans are meant to provide income when no longer working, they are not meant to be a boon to people as a way of increasing their income while still working. I read one article where they equated this to rich farmers getting government subsidies when they don't really need them.

Blessings. Roy Tsugawa

While I was working in the retirement field, early retirement meant any time before normal retirement so to come back to work before would not be an early retirement. Retiring at normal retirement age as specified in the plan which was normally age 65 or after 10 years of participation whichever was the later and then coming back to work was allowed but no further benefits were accrued or the retirement benefit taken offset further accruals.

In the Free Methodist Plan, I don't believe there is an adjustment for returning to work before normal retirement age. It would lead to interesting problems actuarially and could result in an overvall increase to plan payouts and therefore unless offset by increased earnings on investments resule in a conttribution increase. At the very least a study actuarially should be done to see what the anticipated cost of change would be.to the fund.

In Jesus,

Stan

quoted tex

--

John R. Lane
Wabash Conference Superintendent
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(317) 831-0022

Pacific Northwest Conference

pnwc
Pacific Northwest Conference
FREE METHODIST CHURCH

MEMORANDUM

To: FMC USA Benefits Committee, Willadean Duncan, FMC USA Board of Administration
From: Pacific Northwest Conference Ministerial Education & Guidance Committee
Date: February 7, 2020

Subject: Pension Plan Rules

We are writing to express our concern over a pension plan rule that we believe significantly impacts the Free Methodist denomination. Under the plan's current rule, as we understand it, if a pastor chooses to take early retirement they cannot work in the Free Methodist denomination and draw a salary until they reach the age of 67. This means that if a pastor wants to continue to work and be paid, they have to seek work *outside of our denomination*. From our perspective, this does not advance the mission and vision of the FMC.

We believe the FMC would benefit from the wisdom and experience of these retired pastors. Among other things, if they so desire, they can be deployed to start a new ministry expression, plant a church, serve as an interim pastor, or be a consultant. As pastors retire in smaller churches, this significantly impacts the church as they are unable to pay a higher salary. When we have churches like this where we are looking to make an appointment, a retired pastor would be of great benefit in this situation. They are willing to serve and use their pastoral gifts, but do not require the higher salary that younger pastors (especially those with families) need. This would bring great value to our denomination by allowing the pastors that retire early and want to continue working, to do so *in the FMC* instead of seeking work with another denomination. Yet, this is not allowed because of the pension plan rules.

From our perspective, this doesn't make sense and we question whether or not a change in the plan rule would cause a substantial financial impact. If they draw retirement and continue to work in the FMC, they would also be contributing back into the pension plan and we would retain them in the FMC rather than lose them to another denomination. It seems like a win-win for the mission of the FMC and the pension plan.

If we are going to continue to invest in multiplication and grow the FMC, we need a deep pool of pastors, both younger and older, to deploy into ministry. We urge you to make this plan rule change to benefit the mission and vision of the FMC and to continue to advance the Kingdom of God.

PNWC MAC: Supt. Michael Forney, Pastor Matt Poole, Joelene Meckstroth, Andrew Royer

3120 3RD AVENUE W
SEATTLE, WA 98119
206.281.5003

pnwc.org

Willadean Duncan

From:	Willadean Duncan
Sent:	Tuesday, January 28, 2020 10:03 PM
To:	Charles Toy; Gregory Delamarter; Dale; Darrel Riley; Melinda Vokal; John Lane; Kirk Hoffman; Mark Dowley
Cc:	Mark Olson; Gene Keene; Meggos, Nick; SUPT/BOA/EPP - Glen Prior - SCA; Debbie Jenkins; Lori Sherwood
Subject:	Responses to benefit estimates and letter for ages 62-64 relative to the NRA change 1/2/2021
Attachments:	SAMPLING OF THOSE 62 -64 01282020.docx
Importance:	High
Follow Up Flag:	Follow up
Flag Status:	Flagged

Hello everyone!

I think you have heard from me a couple of times in the last few days. I apologize for the lateness of this section.

Please find attached information regarding some of the comments we have received regarding the change to the NRA of 67 effective 1/2/2021. You have also received two specific letters from two of our pastors, as well as other notes from some of the superintendents.

We have talked to approximately 35 individuals, or received completed retirement forms regarding drawing the benefit for this year. Many of the people do understand we are taking action to preserve the plan for the benefit of all the participants involved, and many also understand the issues of less pastors coming in to the pastorate, investment returns, etc. However, even with that some of those feel they are being "discriminated" against because this age group has been picked. Even though it is explained to them there has to be a line at some point when a new policy takes place, there was notice given, etc. Some feel that it is not putting the Board and the denomination in a positive light. On the other side of the opinion, there are some who accept it and are moving on with it. Most of those people are those who were not planning on taking their benefit and may be further away from age 65 than some, and some who aren't even thinking of retiring until early 70's. Many were complimentary at the same time and expressed appreciation for the overall care the Board and our office provides for the plan and the participants.

There have been questions as to what will be allowed in volunteering, no appointment, getting paid as a local hire, looking at creative ways of still being in ministry, if one goes to another denomination, can they come back at 67? Nick checked with Nyhart' s legal rep and the following is what will be allowed:

Below are thoughts and responses to questions/comments that have been shared as you and your team have reached out to grandfathered participants based on our understanding of the plan document and applicable laws. This has been reviewed by our legal department.

In-Service

Any participant that continues employment (they get paid in an ongoing relationship with the employer that is controlled by the employer) cannot take an in-service distribution because the IRS would view them as a common law employee. It does not matter if their working arrangement no longer meets the definition of being an Employee as defined by the plan.

Remember that being an Employee as defined by the plan allows a participant to get further service accruals for benefits and vesting. As an example, if a participant is not appointed or they work less than 25 hours a week they would not be an Employee of the plan. However, if the IRS would characterize them as a common law employee and they could not receive in-service retirement benefits prior to 65.

Things that don't violate In-Service Rules

1. *Truly volunteer work.*
2. *Pulpit filling type work where it is irregular in nature and the pastor is driving when and if he is available could likely be viewed as an independent contractor situation.*
3. *Retiring and coming back to work after your NRA. However, if grandfathered people come back to work after 1/2/2021 we may have to clarify in the document what is the applicable NRA for them.*

2 Other Items

1. *We likely need to clarify in-service eligibility in an amendment for people who commence in-service after 65, but are not 67 at 1/2/2021 when the NRA changes to 67, which then becomes the in-service eligibility age. We should also consider the rehiring scenario mentioned above if such a clarification is made.*
2. *The definition of Employee in the plan document seems to suggest that not being appointed by a conference does not preclude someone from being a participate in the plan. We believe the Committee should look closely at this definition and make sure people are not violating participation requirements and/or make changes to the definition such that it is harder for people to circumvent participating.*

Nick and I have discussed the **#2 Other Items** based on how the plan has functioned moving forward when there are changes made to the plan. Depending on what is decided regarding the 1/2/2021 NRA change, we will need to make some additional decisions regarding those that return to work after stopping but coming back before age 67 and drawing their retirement benefit.

IRS RULING: When we have discussed the IRS ruling changed to allow an individual to draw their retirement benefit as early as age 62 and continue to work, I read or heard at the CBA conference- and Nick mentioned to me also, the IRS changed it again! Now the age is 59 ½ . Previously someone mentioned if we went along with the ruling beginning at age 62 then the folks under that age would raise a fuss. However, on 1/2/2021 our early retirement age will be age 62 with the full retirement at age 67 (currently the earliest you can take your benefit is age 60, and we have very few that do that due to the severe reduction of benefit). If we made a change to go along with the ruling, it would make sense to base it on our plan earliest retirement age of 62 at 1/2/2021.

Talk to you tomorrow!

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FREE METHODIST CHURCH USA

Willadean Duncan

From: Willadean Duncan
Sent: Tuesday, January 28, 2020 10:17 PM
To: Charles Toy; Gregory Delamarter; Dale; Darrel Riley; Melinda Vokal; John Lane; Kirk Hoffman; Mark Dowley
Cc: Mark Olson; Gene Keene; Meggos, Nick; SUPT/BOA/EPP - Glen Prior - SCA; Debbie Jenkins; Lori Sherwood
Subject: FW: Defined Benefit Pension Plan

Here is an email that Charles and I had some dialog.

One of my comments - There are various creative ways of looking at how we can fund these folks, but I wonder if it would be necessary to create anything additional depending on how the final numbers come out. Once we have an update from Nyhart it may tell more. In talking to the participant the responses and actions are somewhat similar but yet some are different based on what the individual had already planned on doing.

That's it for tonight!

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FREE METHODIST CHURCH USA

From: Charles Toy <toyc@cooley.edu>
Sent: Tuesday, January 14, 2020 9:57 AM
To: Willadean Duncan <Willadean.Duncan@fmcusa.org>
Subject: Defined Benefit Pension Plan

Happy New Year Willadean,

[I am thinking of sending this to everyone who attended our last Benefits Committee meeting. I do not want to blindside you or begin a whirlwind. Do you think it is a good or bad idea to send this to everyone?]

I was wondering and praying about the DB Pension Plan. Is there any movement on possible avenues to lessen the blow on our 62 to 65 year old pastors before the change in the Plan at the start of next year? How has the survey of these pastors turned out? In light of the BOA's concerns and the concerns raised by some pastors, for example Pastor Larry Light, have any alternatives been proposed? To get the ball rolling, here are some kind-of left field ideas:

A. Use the great gain this year (21.7%) to have a graduated help for the 62 to 65 year old pastors. The help would be in the form of supplements to their usual pension payments for a number of years, let's say 3, so these pastors are not going backward. This would fulfill part of the language in the B of D that benefits can not be taken away. It would fill the gap between pre-January 2, 2021 pension payments and anything the pastor would receive if they retired after January 2, 2021. The downside is we are spending the very money we were planning on to make the Plan fully funded. The 21.7% increase early in the next 20 years of recovery allows the Plan to earn on that increase longer (in other words, we would not get such a boast to the Plan if the 21.7% was in the 19th or 20th year of recovery).

B. Same idea as above, but instead of the money coming from the 21.7% market gains from last year, have the FMC-USA establish a fund from budget excesses. In this way, the full funding goal of the Plan is not affected. The fund created by the FMC-USA would be for ministry, as I think the funds are to be used for that purpose. (I hope all the excess is not going to a reserve account -- that to me is like the person who buried his one talent.) The ministry are the pastors who will continue to serve the church and the Kingdom.

I do not know whether there are other ideas. Perhaps the Benefits Committee and other regular attenders at Benefits Committee meetings will have other ideas. That is why I am copying them on this email as well. Hopefully they have been thinking and praying about possible ways to make the transition smooth since our last telephonic meeting. I especially appreciated the spirit and insights added by Supts. Lane and Prior at our last meeting.

Blessings to all and Happy New Year (in 11 days for Melinda -- for those who do not know, Melinda spends much of her time in China, although she is not Chinese and probably still thinks of January 1 as the New Year she will be around many who celebrate January 25 as the New Year).

Charles

Charles R. Toy
5023 River Ridge Dr.
Lansing, Michigan 48917
(517) 285-9709 (cell)
toyc@cooley.edu

Benefits Committee Zoom Meeting
January 29, 2020

Members Present: Charles Toy, Chairman, Greg Delamarter, Mark Dowley, Kirk Hoffman, John Lane, Darrel Riley, Melinda Vokal, and Dale Woods
Others Present: Gene Keene and Mark Olson, Free Methodist Foundation; Nick Meggos, Nyhart; Willadean Duncan, Debbie Jenkins, and Lori Sherwood, Human Resources
Members Absent: None

Charles called the meeting to order at 3:10 pm and opened with prayer.

Mark opened by saying FMF approaches their fiduciary responsibilities with the same principles and vigor across all market cycles. He then highlighted P. 3, the 6.75% per year objective benchmark. About 79% of the pension fund's holdings are in Equity around the world. P. 4, YTD net additions -$4.5M, with distributions exceeding contributions. 2019 YTD 21.7% return; ended with over $150M. Since inception, there has been $39M in net additions and $111M in net gains = $150M ending value. P. 5, 21.7% return, 20.3% policy benchmark, a 1.4% positive to the benchmark. We have 15 active funds, and 10 of them were positive for the year. That added value has been well worth the fee we pay to the managers. P. 6, Target vs. Actual Allocations, we are close to the targets. P. 8 has performance detail; they have highlighted where we had the biggest returns. Private Equity up to $5.8M, $1.8M higher than last year, ramping up to be 8-10% of the target allocation, we are at 4% now. There have been many capital calls. P. 9, Broadstone in Private Real Estate has performed well with a 10.5% annualized return since inception. This year that private company is intending to do an IPO. We will wait until it goes public and then the intention is to liquidate. Global Fixed Income, the arrangement with FMF Loan fund, is up to $6.5M with the pension invested at a fixed rate of 4%. We are anticipating that the full $6.5M will be paid back and reinvested in the well-diversified bond portfolio in late April. P. 30, the top 25 holdings. There are no objectionable companies. The highest holding is only 1.8% of the entire portfolio, so it is well-diversified.

Willadean then shared an update on the communications with the 70 grandfathered group. We have sent three estimates, with a cover letter, to all the 70 grandfathered. They were sent an estimate as of 1/1/2021, their age 65 (an early retirement, based on NRA of 67), and their NRD (age 67). We encouraged them to contact their superintendent and our office for a consultation. There are about 35 people we have had contact with (about half). Some have contacted us for other estimates, some have spoken with their superintendent, some have not, and some did not feel like they needed to. When we did the consultation, we went over all information to make sure they fully understand the calculations. Willadean had approximately four face-to-face meetings with participants and superintendents. She sent out a summary to the Committee of many of the comments received from participants and superintendents. Everyone was very complimentary of how well a job the Committee and BOA are handling these changes. Some of these people had not really thought about retirement until this came about. Some expressed that most of their congregations may leave if they do; another said their church was in the process of selling the building and reorganizing – there are several unique situations. Some individuals felt the increased credited service years would not be worth the benefit dollars gained based on the amount that would be drawn as an early retirement benefit. The Committee has received at least three letters from individuals. One individual felt that instead of "hurting" the group of 70, that all pension participants should take a hit. It seems that some are trying to come up with a workaround to the current rules. Willadean also shared with the Committee some of the information Nick had passed on from Nyhart's legal team. It had been asked if a participant retires at their NRA at 65 and if they leave and then come back, can they continue to draw their benefit and work (since they would have taken the in-service distribution when they were NRA, but upon returning, they might be subject to the new rules of the plan, meaning it would then be an early retirement distribution, not eligible for in-service)? It appears that the church and pastors are not ready to accept the change in NRA.

It was asked of Nick what the IRS rules say if someone takes an early retirement benefit and continues to work? What is the correct interpretation for our plan with IRS rules? Based on our plan rules one is not supposed to take payment and continue to work for the same employer prior to the NRA. The in-service law, as of December 2019, was as low as age 62. But the plan document lets people do an in-service distribution currently as low as age 60 (it specifically states five years before NRA). The new IRS law is now 59 ½. But unless we are going to change the writing of the plan document, the new law has no applicability. The real question is if we want to change the wording of the plan to allow this. They can keep working, they just cannot draw a pension. Right now, the average retiree's pension is about 50-75% of their current pay. There are people who would want to take their benefit and continue to work for various reasons. There are those who already are 65 drawing their benefit and continuing to work, which has allowed for lots of years. We talked about a $2M cost, but that does not really take into effect the loss of contributions from those individuals, which needs to be considered and is about $5,000 per year per person. Those pastors might be from larger churches and the plan will be hurting to lose those contributions. Nick was then asked his opinion on the best scenario to address the situation. He suggested to change the in-service age to 62. He also pointed out that we still have roughly 90 grandfathered people that will not be 62 by 1/1/2021, which could be another group of people that will come around and ask the same questions. It was discussed that the next group could be even bigger. There were 936 active participants in the plan as of 1/1/2019, 790 terminated vested – our choice affects about 2,000 people. It was asked, if we lower the in-service distribution to 62, would we do it for everyone or just those 70 grandfathered? It seems like we would change it for everyone, unless we want to change the document to specify a specific group. Others expressed similar concern, noting that if we do it, we are going to have more discussions with more groups of people. Willadean mentioned there are only a handful of people taking their benefits at 60 or 61, given the drastic decrease, and it is usually a health-related issue. Also, changing the in-service to 62 as Nick mentioned goes along with the early retirement age as of 1/2/21 starting at 62 with normal at 67.

Willadean shared that in our discussions, there were participants who were not sure which way they would lean, but there are three that have confirmed they will take early retirement. It does seem that there are some that are not necessarily interested in "double dipping," but rather locking in their benefit election for their survivor. The current default on the plan if you die in active service is a choice between a J&S50 monthly option payable at the participant's NRD (with the option to draw a reduced benefit earlier), or a lump sum of the J&S50 value, as of the date of death. Although the participant may want to choose J&100 (the most popular option) at retirement, where they can lock in the option they want, and their survivor is better cared for with the option chosen which includes a $2,000 death benefit on the participant. Presently, the Nyhart system will only process final calculations up to six months in advance.

Nick then commented, in response to "double dipping," unless you are going to earn enough benefit, it would be worth more to continue working and earn the salary versus taking a smaller pension. There are only a handful of people who are missing the cut off date by just a few months. He does not think it is a bad thing to change the in-service but do an in-service just for the grandfathered people. Otherwise, the in-service eligible age will change to 67 as of 1/2/2021.

There was then discussion about the next group of grandfathered, the 90 below the group of 70, who are going to want the same exception. That group's future benefits have gone down, but they do not have the time to make up retirement funds by contributing personally elsewhere. With the suggestion to spread the cost the rest of the participants, those 90 are going to get hit even harder. That is not a good option.

Nick expressed concern as well that the next group, the 90, will not be 62 by 1/1/2021, and that the in-service distribution option at age 62 would not help them much as the reduction will be from age 67 after 1/1/2021, not 65. Most of these people have in mind drawing early based on 65. A line must be drawn at some point. There was then discussion about how the line has already been drawn, when these changes were made, and that leniency was given by extending the effective date three years to 1/1/2021. This group has had time to adjust.

There was then discussion on the missional aspects of the situation. If a large group of these 70 people were to leave the plan/denomination – how are we going to fill those spots? From 2007-2017, we lost 10,000 people in the denomination. Would it be missional to let these pastors stay and finish, or get new pastors? It was noted that the missional and morale issues were discussed and anticipated at the time the Committee made the original decision. In addition to potentially losing pastors, we would also have less people making the 13.5% contributions. We could lose $.5M per year in contributions if those 70 were to leave. $1.5M offset could be lowered if those that leave are replaced by new people, or that some of those 70 people are planning to work until 67 or later. The $.5M in contributions per year assumes everyone that is age 65 leaves the plan, though we know it will not be all of them. It could legitimately be 30-50% of them.

Supt. John Lane of Wabash then spoke about how this will directly impact his conference. There are six pastors that are eligible. Two have said they would take the in-service. If we do not offer it, one will leave to another denomination. These pastors are also deeply connected generationally to each other. They are feeling that the denomination they love are pushing them out. It will create headaches for superintendents across the country who are now being told they cannot appoint certain people.

Members still expressed concerned about our funding percentage. The BOA in the past has called us out about it when it has been low. There were many meetings and conference calls. If we take this action, the BOA needs to be made fully aware that this will have a negative impact on our funding percentage. They cannot then later come back and push back on the lower funded percentage. We need to clearly communicate with the board. One of the proposals said if someone starts a benefit, freeze it so there are no further accruals – can we do that, legally? What if we put some of this responsibility back on the BOA, can they make a financial contribution to the plan? The $1-1.5M equates to 1% of the plan, so we are looking at going from 82% funded to 81%.

A couple of the senior Committee members remembered there was a period where we had three consecutive years of solid growth where we paid out a 13th check and a cost of living increase to retirees, along with increasing the benefit formula. The plan's funding percentage has never recovered from the years following that where 1999 saw a return of +31%, then down -8.2% in 2000, -13.7% 2001, and -18.2% in 2002. There was concern that we are looking at 2019's 21.7% return and wanting to spend it.

It was then asked how much we would be paying out in years one, two, three, etc. Nick noted that if everyone left the plan of the 70 people, the additional payments would be between $1.5-$1.7M in the first year, if everyone took their benefit around 1/1/2021. Our fundamental mindset was that everyone retires at 65, now with the change, they are either likely to wait or take it a little early. The ultimate cost depends upon the decisions they make. As we get closer to the date, conversations are more intense. Willadean shared that we can continue to reach out to those we have not heard from to get an idea of their plans. Many of them, after seeing the numbers, do not want to wait until 67. Though we did say they are going to get another year of accrual, and their potentially increased salary could change it as well.

These original changes were not made for the individual, but the overall integrity of the plan. Those BOA meetings, the graphs Nyhart presented – our unfunded percentage was in constant decline. When will we be 100% funded? This decision would put it off a few years, or does this decision put us in danger of never reaching 100%? Nick stated that it just makes it a little bit harder.

Charles then stated that it sounds like there are some that would be for it and some that are against it. A vote should be taken and whatever it is, that becomes the decision of the Committee, whatever it may be.

A motion was made to have a vote on not making another change (keeping the plan as is). Vote results: four No; four Yes; a tie. The motion was neither passed nor defeated. The decision will now be up to the BOA. We will present BOA with the pros and cons in an easily understood fashion, along with an edited version of the minutes, and make Nick available if they want to talk with him. Nick will put together a summary with a review by HR & the Benefits Committee.

Mark Olson stated that they are running the investment recommendations through FMF's internal board, then set up a call with the Committee. The FMF board meets March 20th, so a conference call will be set up after that.

The next face-to-face meeting will be Thursday, May 21st at 9:00 am at the WMC.

Gene closed with prayer, and Charles adjourned the meeting at 4:59 pm.

Submitted by,

Willadean M. Duncan

Benefits Committee Zoom Meeting
March 10, 2020

Members Present: Charles Toy, Chairman, Greg Delamarter, Mark Dowley, Kirk Hoffman, John Lane, Darrel Riley, Melinda Vokal
Others Present: Gene Keene and Mark Olson, Free Methodist Foundation; Nick Meggos, Nyhart; Willadean Duncan, Debbie Jenkins, and Lori Sherwood, Human Resources
Members Absent: Dale Woods

Charles called the meeting to order at 2:00 pm and Willadean opened with prayer.

Nick shared the Grandfathered Group Analysis he put together, with the HR team's input, regarding those grandfathered Actives eligible for early retirement at 1/1/2021. (Ex. A) Initially there were 70 participants, we are now down to about 65 or fewer, as some have started to take their benefit. The Benefit Liability at 1/1/2019 was $18.4M, which results in a $2,525 monthly benefit for each participant on average. There would be no contributions after 1/1/2021 from this group if the entire group takes their benefits early. The liability would be $16.3M if they all wait past 1/1/2021 and retire at 65, and we would collect an additional $751,000 in contributions. Their benefits would be less if they work until 65 (plan's savings). We have not previously discussed fully the contributions that would be coming in if this group stays in the plan. We could expect about $2.2M less in liability if benefits are paid at age 67 instead of taking the benefit at 1/1/2021, these participants would also receive $13.5M in additional salary and provide $1.8M in additional contributions relative to the entire group taking their benefit at 1/1/2021..

If doing an in-service distribution, the participant's accrued benefit would grow, but it will be offset by the benefit amount they are receiving. The grid on p. 3 shows the cost would be about $2M relative to assuming they will retire at age 65. However, note that if the pastors continue working they will continue contributing ($1.8M if they worked until age 67). If these pastors were to all retire at 1/1/2021 and are not fully replaced, the plan could lose out on receiving contributions that would be provided from pastors receiving an in-service distribution.

The far-right column is using a simple method to estimate totals – the average monthly benefit is not increasing because it has often been the case that their benefit does not increase when they fully retire, due to the value of the benefits received while working. This provides the confidence that benefits payable at 1/1/2021 would be the same liability amount.

It was asked if it is legal and feasible to adjust the plan to say once you start drawing your pension it is frozen forever, with no further increases. We cannot really do that if contributions continue to be collected without giving them the opportunity for an increased benefit. The same result occurs with the way the plan functions now on recalculations. It would only not work that way if the participant has a large increase in pay or if they have lower amounts of service when they start drawing. Most in this group have a lot of years of service already.

P. 4, Pros/Cons for each situation.
    All Retire Early: *PROS*: we have it as a pro that the person gets to retire early, but many have voiced that they feel like they are being forced to retire early, as it is not their choice. Reducing plan risk is also a little debatable. It is an opportunity for new pastors to get involved in the plan, that is likely the largest pro. *CONS*: pastors going to another denomination, lost contribution revenue, low retirement income, (debatable on when they actually retire), and general feelings of negativity and mistrust as this group expects more changes soon.

    All Work Until 65 (based on NRA 67): *PROS*: saves plan money, it was the participant's original plan, we retain leaders; *CONS*: some potential lost contribution revenue relative to retirement at 67, reduced retirement income.

    All Work Until 67: *PROS*: current plan, more contribution revenue, keep experienced leaders, participant can delay drawing Social Security; *CONS*: higher eventual monthly benefit for the plan to pay albeit for a lesser amount of time, less opportunity for next generation of leaders to step up.

    P. 5 In-Service: *PROS*: lower NRA change impact, we retain experienced people, we receive contributions, participants maximize their pre- and post-retirement income, provides goodwill; *CONS*: reducing liability savings, administratively more burdensome (checking if they are do a recalculation), may bring into question the current contribution rate of 13.5% when their benefits do not change (if we explain it better it might not be an issue), could cause higher taxes for the participant, but that could be mitigated by housing allowance, and then there is the next group of people – you have to draw a line somewhere.

Nick also added that if we are not going to be able to replace some of these people when they leave early, there will be an increase in liability and less than expected contributions coming in because their potential replacements won't be there to make them. The $2M cost of in-service distributions does not consider the offset of contributions collected if pastors stick around. It has been an on-going discussion that we are not going to be able to replace the entire retiring population. The savings we have always talked about assumed people would change when they retire (after the NRA change). We will not get that savings if they all leave early. It is still an $18M liability whether they retire early or we allow in-service distributions. They would be collecting the benefits (what we have to pay out), based on an age 65 NRA, not 67. However, we would miss out on their contributions if we do not allow for in-service distributions. The savings has always been tied to when we assumed they would all retire.

This document will go to the BOA with a packet of info. Supt. Brad Button was on the committee that made the decision to fund the unfunded portion three years ago. He wants to put together a letter, similar to the list Nick created, but said in a different way – what the committee was thinking at that time.

Willadean stated we have had some conversations recently with those that we had not heard from yet. A few people had not contacted us yet because they are planning to take their benefit early but were not going to send in the paperwork until closer to that date (since we mentioned in the letter the earliest we can process a final calculation is six months before the start date). We had been assuming most of these people were going to continue to work and that was why we had not heard from them. It is possible we are just not close enough to the date they want to start. We also spoke with several of these people at General Conference, and some others when the change initially came about. Out of the 42 people we have now had specific contact with, 17 people (40%) are planning to work until age 67 or later, 18 are planning to retire on or before 1/1/2021 (43%). There are seven still undecided. Most have not forgotten, but felt it was unnecessary to contact us at this point. We will continue to try to reach out to those we have not heard from. Based on the many conversations the HR office has had with these participants, it is very clear there are many different life issues they are facing, which makes their decisions very diverse. This makes it difficult to put them into a specific retirement date option.

Mark Olson then presented the three recommendations from FMF, which have all cleared their internal and board investment committees. He started by sharing that in our last meeting he highlighted that FMF uses the same principles and vigor across all market cycles. It has been 12 years since the last time we had a drop of more than 20% in a year. This is a normal temporary occurrence, not an apocalypse – however, we are in the midst of uncertainty. The market responds negatively to fears and uncertainty. Prudence and patience needs to be how we respond to uncertainty. The recommendations have nothing to do with the current situations, but are the result of research focused on how we can increase the probability of meeting the 6.75% objective.

Recommendation #1: Terminate Baird Mid-Cap Growth and replace with Principal Mid-Cap. Rather than going with a passive strategy, Syntrinsic negotiated us access to a previously unavailable separately managed account that will accept our screens.

On motion, Recommendation #1 was approved as presented.

Recommendation #2: Add Calvert Emerging Market Equity and split the direct emerging market allocation 50/50 with Lazard. The two have complementary strategies on both the value and growth side; they will be better together. See pp. 5-16 for strategy comparisons and other information. Emerging markets are a critical element in our allocation.

On motion, Recommendation #2 was approved as presented.

Recommendation #3: Seven elements to this recommendation, highlighted on p. 3: A. Increase Equity allocation by 2.5%. B. Decrease Public Real Estate by 2.5% and maintain current manager ratios. We are not running away from Real Estate. C. Increase Direct Emerging Market exposure by 1%. D. Transition Equities from 53% US / 47% non-US to 55% US / 45% non-US. This 2% shift reflects the way the world is moving. E. Maintain Broadstone Private Real Estate allocation through their planned IPO. F. Maintain 12.7% allocation to hedge strategies. G. Maintain the current Fixed Income allocation until FM Loan Fund Series P Flex is converted to cash around May 1. When the $6.5M comes in, allocate the whole 5% allocation across diversified holdings: 50% Baird, 35% Doubleline, and 15% Templeton. These modifications will position the portfolio to increase the probability of achieving the 6.75% objective.

On motion, Recommendation #3 was approved as presented.

Mark also highlighted YTD returns. As of 2/19/2020 it was up 2.4%, 3/6/2020 down 5.3%, and 3/9/2020, down 10.1%. After yesterday the US Equity markets were down 15-16%, we are only down 10.1% because we have good diversification.

Charles thanked everyone at FMF for all their hard work.

Minutes from the last meeting were then reviewed. The last meeting was a Zoom conference call meeting on 1/29/2020 to discuss the in-service issue.

On motion, the minutes from the January 29, 2020 Zoom conference call meeting were approved.

Willadean then discussed the pension waiver which allows a potential church pastor participant to waive out of the plan due to either having an established retirement plan with a previous employer, or cultural traditions. There is no opting back into the plan at a later time. All participation waivers must be approved/signed by the participant, spouse, superintendent and bishop. We received five in 2019, with all but one citing cultural reasons, and several of those individuals do not appear to fit the true reasons behind the cultural option of the waiver.

A recent waiver from someone cited their spouse's 401(k), mutual funds, stocks, and estates to be inherited, *and* cultural traditions as his reasons for requesting the waiver. We explained that his spouse's 401(k), stocks and inheritance would not satisfy the prior employer-sponsored retirement plan requirement; that the participant must have something established in their name only to be eligible for the waiver under that reason. We also asked for clarification on his reasoning behind the cultural traditions. The pastor stated that due to being a church plant it is not in their best interest to use their limited funds to pay for a pension that he feels he does not need (that was also his explanation for why he chose the cultural option). The pastor responded that ultimately, he refuses to comply. Willadean is planning to speak with his superintendent about his flat-out refusal, based on the fact that pension participation is part of being a church plant for moving to full society status.

We are questioning the need to remove the cultural option from the waiver form. It appears it is being abused or not fully understood. It was asked, is the rule that a pastor must be in the plan, or is the rule that they must be in the plan unless the superintendent and bishop exclude them? So long as they meet the three eligibility criteria of being appointed, receiving compensation, and ordained (or appointed a CMC/Senior Pastor), then they must be enrolled in the plan. If there is an extreme financial/economic reason why they cannot be on the plan, then the superintendent can request in writing that the church be deferred until they are able to pay. That option is meant to only be temporary until the church can get back on its feet. The waiver option is supposed to show that someone potentially coming into the plan is entitled to receive benefits from a retirement plan maintained by an employer who is not the FMC-USA (not just an IRA). The cultural option was implemented years ago when at the time there were several ethnicities that felt their family would take care of them in retirement. They did not feel the need, and with the language barrier, they did not see the value in the pension. To date we have had eight participants select the cultural option for waiving participation, and four of those eight were received last year. We have received 29 total approved waivers since this option was implemented 1/1/2008. This is something that should be researched and then reviewed at our May meeting with any recommendations to change presented at the October BOA meeting.

The next face-to-face meeting will be Thursday, May 21st at 9:00 am at the WMC.

Charles closed with prayer and adjourned the meeting at 2:55 pm.

Submitted by,

Willadean M. Duncan

Benefits Committee Meeting
April 2, 2019

Members Present: Charles Toy, Chairman, Greg Delamarter, Darrel Riley, Melinda Vokal, Dale Woods II
Others Present: Kevin Carey, Nick Meggos, Drew Simmermeyer, Nyhart; Willadean Duncan, Debbie Jenkins, Lori Sherwood, Human Resources
Members Not Present: Mark Dowley, Kirk Hoffman, Pearson Miller

CALL TO ORDER

Charles opened the meeting at 9:03 am. Bishop Matt Thomas shared devotions.

UPDATES

Willadean provided some updates:

- Nyhart is fine tuning some final critiques and starting Thursday we should be able to fully utilize the new system for Change of Status and Pension Enrollment forms.
- So far in 2019 we have paid 2 DB Lump Sums under $5,000 (1 direct payment, 1 rollover) and 6 under $25,000 (5 direct payments, 1 rollover). In 2018 we paid out 54 Lump Sums under $5,000 (28 direct payments, 26 rollovers).
- The 2018 Audit will be the second week of May. We have been assembling work papers.
- Housing allowance ruling – overruled, now deemed constitutional. This is a great praise for our retirees.

MINUTES

On motion, the minutes from the September 5, 2018 meeting were approved.
On motion, the minutes from the February 14, 2019 conference call were approved.
On motion, the minutes from the March 11, 2019 conference call were approved.

FINANCIALS

Financials – The 2018 and 1Q19 Budgeted Financial Statements for both DB and DC were presented. (Ex. A) 1Q19 does not include any investments for either plan. 1Q19 DB Exhibit Expense includes a booth and an ad in the GC19 book. It was asked if we are on track to meet the budgeted figures or if will we continue to remain under budget. There will be further expenses closer to GC, the audit bills will come through at various points with the final one after they are done. There will also be further conference registrations in 2019 and actuary charges. The 1Q19 DC Budgeted Financial Statement is basically paid benefits. 2018 DB shows we saved $30,000 in expenses. We did not spend as much in monthly benefits as projected, but we spent more on lump sums than predicted (since we were pushing for more to take the lump sums under $5,000). Death benefits were also more than the budget, this could be due to some waiting to take the lump sum distribution until this past year, instead of when they passed. It was pointed out that the management fees were 25% over budget. Willadean shared that FMF gives us a projection of what it will be, but it may differ. The investment management fees will fluctuate. It was requested to have FMF write a note explaining the excess in investment management fees. It was noted that we saved quite a bit on contractual services. Contribution Revenue, despite the large realized/unrealized loss, was higher than budgeted. As were the interest/dividends. Nick pointed out the $5.6M original Contributions Revenue number did not capture the entire group. Those that are Retired/Active contribute more than predicted. They are counted as Retired, but they are Active. As we approached the end of the year, the $5.6M was probably low. Since all in-service people are at least at Normal Retirement Age (NRA) it is difficult to project how much longer they are going to work. The number we are anticipating this year is relatively close to the actual number from last year. Willadean also shared that some churches set up payment plans last year to pay off additional retroactive contributions. 2018 DC was investments, benefits paid, investment fees, and contractual services for processing of benefit payments.

DELINQUENTS

Delinquents – Our last delinquent report total was $14,000, now we are up to $38,000. The increase is the result of one church that decided to pay off a very large retroactive amount from when they were previously unable to pay contributions. They began their six-year payment plan in October 2018. However, due to the lower interest rate used in 2019, they will be able to pay their balance off about 18 months earlier than planned.

STATISTICS

Pension Statistics Report 2018 – a snapshot of the prior year's activity. This represents the activity for both DB and DC. We had 108 new retirees in the year. It was pointed out that this number is anyone drawing their benefit, not necessarily leaving the plan. We had 25 deceased, and 91 new enrollees. Those listed as bi-vocational are those who are currently serving without compensation, in a pension eligible position. Of the 25 deceased, the 11 with beneficiaries mean that the participant chose a Joint & Survivor option and their beneficiary is now drawing the benefit. It was commented that the lowest DB benefit of $13.28 should have been paid out as a lump sum. This benefit is being paid to a beneficiary. The participant drew the benefit prior to the lump sum rule being put into place.

VALUATION REPORT

Valuation report, Nyhart – Nick thanked the Committee for allowing Nyhart to continue to serve the denomination. This is now the 7th valuation we have done. The purpose of the valuation is to measure the value of the benefits against the assets. We are just coming out of the bottom of a big "V" in market performance. We did not want to get too excited about the great return in 2017, and we do not want to get too discouraged with the 2018 return. The volatility of market returns speak to why several companies are still struggling to maintain a pension plan. Nick pointed out p. 4, Votaire is a software venture Nyhart has invested in, focusing on financial wellness, trying to help people with expenses while they prepare for retirement. We are seeing more clients interested in using this software, not just those close to retirement. We can show it in the fall, now that the participants can process their own estimates. For current pension administration clients, we are doing it for $10 per person. For FMC, we primarily focus on pension actuarial consulting and pension administration solutions.

P. 7, Kevin pointed out that there have been recent lawsuits regarding actuarial equivalency – the assumptions used to calculate optional payment form amounts at retirement. We have reviewed the actuarial equivalence and mortality tables recently, so FMC is ahead of the curve, having updated the actuarial equivalence 1.1.19 to use 6.75% and the RP-2006 Mortality Table with projected improvement to 2018 using scale MP-2017.

Retiree Lump Sums – the IRS previously said you cannot pay retirees lump sums, they have now reversed their decision. They now allow you to go to a retiree who is receiving a monthly benefit and offer a lump sum. (This is where the $13.28 monthly benefit could be paid out.) It was pointed out that paying lump sums might not help the funding percentage since we are reducing the assets used to grow value. Nick noted the only way he could see this potentially being used is on the administrative side. This probably is not that big of an issue. Some large firms were previously given a private letter ruling to utilize this option, which was later rescinded, so this is a significant reversal of an IRS decision.

P. 8 – as we know, 2018 asset performance was worse than expected, the contribution increase helped offset some of the decrease in asset levels. Overall, a small demographic gain. The funded percentage is down about 9%, now 71.3% funded overall. P. 10 – Participant Information: 936 Actives, 1160 Retirees (Retired/Actives are included in this Retiree figure), but the average compensation does not include the in-service individuals. The Terminated Vested (TV) people will eventually be due a benefit. We are hoping the TV number will go down now that we have offered lump sums up to $25,000. It was pointed out that we are carrying the liability, but we are not earning contributions. New retirees have increased by 250 in the last 5 years.

P.11 – Active Participants (not including in-service), grandfathered vs. not grandfathered. The grandfathereds will continue to shrink over time. We would also expect pay to go down as the population decreases. P. 12 Pay Increases – last 4 years have been consistent. Our assumption is 3%. P. 13, TV Lump Sum analysis – just under half are eligible to take a lump sum. They could also drop out of the under $25,000 group as they continue to age, and the present value of their benefit grows. Their lump sum actuarial value is less than their liability (about 96%). Part of the savings is that the retiree death benefit goes away with the payment of the lump sum. Of the 790 TV as of 1.1.19, 363 are eligible to receive lump sums totaling $3.63M.

P. 14, Inactives – Retirees, Survivors, Disability Payments. There are less than 50 retirees who receive more than $2,500/month. The average benefits are not that high. It was noted that the average payment is going to change drastically over the next few years as those with higher salaries and longer service under the FAP formula retire, and they will appear lower on this table (with higher monthly benefit payments).

P. 15 Annual Cash Flow – expect the trend of increasing benefit payments to continue. Projected payouts are predicted to peak at about $16M by 2030. That is simply the current population aging. P. 16 Asset Reconciliation, since the 2018 DB portfolio market losses totaled $9M and we did not receive the 6.75% anticipated gains, we ended the year $19.5M lower than where we hoped to be. We are now up about 10% in 1Q19. (The market value of assets is an estimate, not the final number, but we don't expect it to change materially) P.17 History of Investment Returns, over the last 10 years, the return has been 7.1% (no longer including 2008), over the past 5 years 3.3%. For perspective, the S&P500 since 2000 has returned about 4.9%.

Kevin then discussed Funding. P. 19, Funded Status, lighter blue is the market value of assets versus the darker blue unit credit liability. It moved as expected over the past year. As benefit design changes are phased in from 2018-2021 and contribution increases take effect in 2018, funded percentage is expected to improve. P. 20, Liability Summary – 1.1.19 unit credit for Actives $58.5M vs. $75.1M present value of future benefits. This represents the present value of expected future benefit accruals for the current active population. We are only receiving contributions on the $58.5M for Actives at 1.1.19 and not on the Deferreds or Retirees. Normal cost as a percentage of pay is about 5%. P. 21 Unfunded Accrued Liability, contributions coming in decrease the unfunded. We had a small change to the mortality assumption which also decreased the unfunded liability by about $530,000. P. 22, Recommended Contribution Calculations (based on the aggregate method) – we look at the unfunded present value of future benefits (PVFB) and come up with an amount that reflects the percentage of pay necessary to pay off the unfunded PVFB during the future working years of the active population, about $10.6M for 2019. Alternative contribution calculation for 2018 was $4.8M, $6.1M for 2019. The alternative contribution calculation is the unit credit normal cost plus a 30-year amortization of the unit credit unfunded liability. The 2019 figure is also in line with the projected contributions for the year.

P. 23 shows breakdown of actual contribution vs. aggregate contribution calculation. There is a shortfall. P. 24 Contributions to Increase Funded Percentage, the blue represents the actual contribution with the actual asset return for the year, we are comparing that to normal cost (yellow), and interest (red) on the unfunded. The interest is quite a bit larger in 2019 than 2018. Because of the work the Committee did, the expected contributions will pay for future accruals and help pay down the unfunded liability.

P. 25, Key Risks: Investment Risk and Demographic Risk. We expect on average the blue bars on p. 21 to be non-existent, except we know we have normal cost, interest cost and contribution coming in. The last three you can barely see, that is the demographics changes we did not expect if assumptions were met. The asset gain/loss causes the most volatility in the unfunded. There is potential to smooth assets over a handful of years, such that your funded percentage would be more of a middle ground. Instead of using the true market value, use an adjusted or actuarial value of assets (AVA) that gradually recognizes gains and losses (typically across 4-5 years). Nick's opinion, the only advantage of an AVA approach would be as changes have been made to plan benefits, the funded percentage of the plan is discussed more, we would not fully reflect the loss from last year, or the gain from the year before. It would provide less volatility in the funded percentage measurement. After discussion, the Committee would prefer to continue to use the actual market value of assets, easier to explain to the average individual. Nick, if we showed the funded percentage based on a smoothed value of assets (AVA) after a year like 2018, you could see the funded percentage go up, which could create some confusion given the significant asset loss in 2018. We will continue to proceed using market value.

P. 28, Projection Assumptions: about the same as the valuation assumptions. The number of actives remains constant, contributions remain the same, 100% retire at NRA. Scenario #1 Baseline, 6.75% return on assets for 2019 and each year thereafter. Even with a 2% population decrease, funding percentage stays relatively flat, upper 70s. It is assuming 6.75% each year, not an average. It was asked if the projected annual asset return could reflect some year to year fluctuation while still averaging 6.75% instead of assuming a constant 6.75% is earned each year. Nick pointed out that is where we would get into a stochastic study. If we use a geometric average instead of an arithmetic average, we are going to end up with about the same result. Scenario #2 10% return in 2019 & 6.75% thereafter. Scenario #3 10% return in 2019, then lower contribution rate in 2030, back to 10.5%. Scenario #4 10% return in 2019, 6.25% thereafter. For the most part still trending in an upward direction.

Nyhart is expecting to have benefit statements done by the end of May. They plan to include a communication to the grandfathered group again. Push TV Lump Sums to get some of the smaller numbers off the books. It does not have a huge impact on the funded percentage. Nyhart will issue the final valuation report mid-May, once we have the final Blackstone number. At the fall meeting, we would like to review ways we can refine the valuation, maybe some refinement on the Life Annuity payment form assumption and when are people going to retire. There is a good portion of the retirees who are taking Joint & Survivor annuities. We need to know when the spouse predeceases, so we can reflect that every year in the valuation and refine the process of determining when the spouse predeceases. We can also speak to Votaire. It was also asked to bring the cost for a stochastic study. Nick will need to discuss it with Mark Olson, maybe on the next conference call. A stochastic study would produce projections with probabilities of certain outcomes. Right now, we see 90% funded at 2039, with a stochastic study we would see that maybe 80% of the time we would have at least 75% funding, etc. There is variability on the expected return; correlation between US/foreign, and fixed income/equities. Most felt it would be a valuable exercise.

INVESTMENT REPORT

Investments 1Q19 report – FMF – this discussion was tabled since there was no one present from FMF. Charles shared that the FMF Investment Committee meeting was held 10 days ago and discussed rebalancing the asset allocations, with no new suggestions for asset allocations and managers. Based on an email from Mark Olson, the April 1 YTD DB return was 10.10%, and DC was 9.24%.

CLOSURE OF DC PLAN

Response of the BOA regarding Defined Contribution closure – Charles has not received any questions or emails regarding this decision from BOA members. Charles will have talking points when he goes to the board. DC Plan Document, Article VII, Section 7.04 (5), Special Rule for Plan Termination: "…the Participant Account will, without the consent of the Participant, be distributed to the Participant regardless of the size of the Participant Account." Therefore, no additional amendment or motions are needed from the Committee to close the DC plan, just the approval of the BOA.

IN-SERVICE DISTRIBUTIONS

In-service distributions – those not yet age 65 before the NRA change to age 67 on 1.1.21. They would not be able to draw their retirement benefit and continue to be employed with the church if they take their benefit before their normal retirement age (NRA), which is age 65 at the present. There has been an uproar from superintendents that they are going to lose pastors because the pastors will lose money if they do not retire by 1.1.21. One superintendent said they have several pastors who fall in this window, they have no one to fill the roles and the pastors do not want to take more of reduction in their benefit, and they desire to continue to work. Charles received an additional email from another superintendent who provided various options. A list of names/birthdates are included in the packets, so the Committee can review those specifically being impacted across all conferences. This policy was put in place to help make the plan healthy. Nick, Nyhart, mentioned it would cost $1.5M if you allow in-service distributions to those not yet NRA. A couple of specific examples could be provided, both at age 62, with different levels of service years and look at their benefits if they stay through 67. The Committee will gather more facts and discuss this further at the next meeting after receiving a cost benefit analysis from Nyhart. Charles will let the BOA know we are aware of the issue and the hard choice we must make, and that we will have further information to review at our next meeting It was also mentioned we originally added two years (instead of making it 1.1.19 we made it 1.1.21), to give people the additional time to determine their best course of action. We do not want to create a false expectation. Charles will send out talking points to the Committee to have on hand when approached between now and the fall meeting.

GENERAL CONFERENCE 2019

General Conference 2019 – Retiree luncheon, July 17 – invitations are in the packets. We generally have a form of entertainment and a speaker/devotional. Dale agreed to speak. Charles, Darrel, Greg, and Melinda will also attend. Willadean will check with FMF on what they might like to share, and who will be attending. Charles' daughter may be able to provide the entertainment.

Exhibit booth – estimates, sample calculations, topical slides, resources – hoping to have a tv with displays of formulas, housing, etc. We will run estimates, show them how to use the system to run their own, how to complete the new Nyhart forms, etc.

CBA CONFERENCE

Church Benefits Association Conference – December 4-5, 2019 in Jacksonville, Florida – Charles will go if he is still on the Committee. This will be discussed further at the fall meeting.

NEXT MEETING

Next meeting – Fall – the current members will still be on this same committee and will meet. There will be a new BOA meeting in October and they will appoint a new committee to begin 2020. Friday, October 4th looks like the best day to meet. Willadean will check with those not present.

BOA REPORT

Miscellaneous – turn the board report and minutes around quickly so we can present it to the BOA by Friday.

CLOSE

Closing prayer – Charles closed with prayer and the meeting was adjourned at 1:48 pm.

Submitted by,

Willadean M. Duncan

Benefits Committee Meeting
May 10, 2018

Members Present: Charles Toy, Chairman, Greg Delamarter, Mark Dowley, Kirk Hoffman, Pearson Miller, Darrel Riley, Melinda Vokal
Others Present: Gene Keene, Mark Olson, Free Methodist Foundation; Taylor Fireoved, Nick Meggos, Drew Simmermyer, Nyhart; Willadean Duncan, Debbie Jenkins, and Lori Sherwood, Human Resources
Members Absent: Dale Woods

CALL TO ORDER

Charles opened the meeting at 9:02 am. Darrel led devotions and prayer.

UPDATES

Willadean provided some updates.

- There were two promotional cards in the packets – one sent to all Actives, and one to all Retirees. There will be another one soon for the Terminated Vesteds. There was also a flyer sent out to help explain the DB plan and the changes.
- Average pastors' salaries chart (informational) – The highest graph should be higher, (off the page).
- HR sent out notices to all participants (DB and DC) who are at or near age 70 to let them know they need to start their benefit. They are sent at the beginning of the year, with reminders every six months. Those on the DC plan are provided with their Required Minimum Distribution (RMD) amount.
- Conference Administrators' meeting, November 2017 – overall good feedback on the transition in the plan's formula, and the contribution increase. Although churches were not thrilled with the increase.
- Mark Dowley's introduction to FMC-USA pension – he has read through recent years of minutes; and discussed pension with Charles, Pearson, several pastors, superintendents, etc.
- The Pension Enrollment form is now online, through Wufoo and it had good immediate responses; conferences are now directing their pastors to our website to complete the info requested.
- HR is updating the content on the webpage for the pension plans and is ready for a new website overall.

In the past few months HR has met with Taylor, Nick, and Chad, on having Nyhart be the host for some of our informational forms, so all data is gathered and housed in Nyhart. We are also looking at gathering basic information for all pastors in the denomination, not just the pension plan, to be able to present better statistics. Since FM Connect did not really take off, we are moving forward with having Nyhart create a way for pension participants to log into their account, update information, run estimates, etc. We will send out a communication to the current plan participants with log in and password info to get them started. This will be a big help in streamlining the data entry process of our forms. Most of this work was included in our original implementation agreement with Nyhart and has been paid for already; Although the implementation of these items was delayed due to uncertainty around FM Connect, Nyhart is going to honor the original implementation agreement and we will only incur additional charges for setting up processes that were not included in that agreement. Willadean thanked the Nyhart team for being willing to work with us to get these things accomplished. The WMC has been working on a data integration process; Chad will work with our IT when they are ready for pension information.

- Mark Dowley received complaints about the contribution increase, specifically from the west coast.
- February 2018 National Prayer Summit, Spring Arbor – Willadean attended and received some feedback about the contribution increase. They understand why it needs to be done and they know it will be beneficial in the end. How the conferences handled the communication of the increase has helped. HR gathered some data from phone calls, which showed there were at least 16 churches who said they were never notified of the change. There were many who remembered hearing about it after being reminded of the increase. Others said they appreciated the advance notice.
- Mark noted that we sent out 20 different communications about the increase in contributions (not just HR, but also included in the denomination's monthly newsletter) – all went out prior to the BOA vote.

MINUTES

On motion, the minutes from the October 2017 meeting, and the minutes from the February 2018 conference call were approved (Ex. A).

FINANCIALS

We are currently in the process of the 2017 pension audit. The 2017 and 2018 YTD financial statements were presented (Ex B). The variable expenses are things we budget for, but have no control over (benefit payments, death benefits, etc.). It was asked why certain categories had $0, such as printing/graphics, and employee development. Willadean explained that some of the employee development category falls under conferences and seminars. The current year financials do have some printing expense. Graphics is only for external companies, we primarily use our Communications department, and they no longer charge other departments for their work. DC we do not budget. That plan is getting smaller, only $2.6M for 2017.

On motion, the 2018 financials were approved.

DELINQUENTS

We are doing well on getting the delinquent churches caught up, and those on a payment plan are starting to pay off. Included is the current delinquent report for over 60 days, and the responses to those who are on the delinquent report (Ex. C). It was noted that delinquents have come a long way with great progress in the last two years in getting paid– good job! Darrel also noted that the HR department sends out a statement to each conference at the end of the month, that has helped spur communication as well.

STATISTICS

Pension Statistics Report 2017(Ex. D) – the number of retirees Nyhart reports differs from the number of benefit payments issued on the statistics report. Most of the difference comes from retirees who start their benefit as of January 1, whereas we are reporting the benefit payments issued as of December 31. There are also some retirees that are drawing a benefit from two records of service and are counted twice as a benefit payment, but only once as a retiree. We now have over 1,100 retirees as of May 1, 2018, and we anticipate adding 100-150 new retirees per year going forward.

DC statistics (Ex. E) – as of December 31, 2017 there are 51 retirees and beneficiaries drawing their DC benefit monthly. There are 92 with an account balance, and 41 have yet to begin drawing it (either monthly or as an annual IRS RMD). The total average age of DC participants is 74, with an average account balance of $28,498. There are five participants with a balance over $70,000, one of which is drawing monthly, and one is taking an IRS RMD.

VALUATION

Nyhart then presented the 2017 management report for the valuation (Ex F). Nick Meggos started by introducing Drew Simmermeyer, an actuarial analyst, who has been with Nyhart for about a year and he has been working on our plan since he started. Nick then highlighted the following three changes since last year: 1) Great asset return, (p. 6), 2) the application of an updated mortality assumption and 3) that 2018 is the first year the grandfathered participants are earning benefits at a lower rate (1.5%, same as all other participants). Because of the large asset return, we are making progress on the funding percentage. The funded percentage has moved to 79.5% versus 72.7% in 2017 (that includes the mortality change). Taylor highlighted the participant information on p. 7, as of January 1, 2018: 1,090 retirees/beneficiaries/disables – quite a jump from last year. We have had a jump in actives as well. Those 113 that have come into the plan are younger than the people that left the plan, bringing down the average age and cost. The average compensation did not change much, comparing just those that were active for the whole year last year versus those active for the whole year this year. We are now down to 280 grandfathered participants. P. 9, gives a breakdown of who is in the plan, how old they are, and what they are receiving from the plan. The few under age 60 are disabled, and possibly some beneficiaries. Most are between 60-90, benefits ranging from $832 to $467/month, with an average of $670. There are many below $500. Willadean pointed out that there are many retirees that are receiving the minimum benefit of $150, driving the number of 646 receiving a benefit below $500. P. 10 includes history of benefit payments and contributions coming into the plan from 10.5% to 13.5%. That comparison will just grow every year as we have more retirees drawing a benefit. They have projected what is expected for 2018, 13.5% of pay, and those they expect to retire during the year, which might be slightly elevated. (Those that are already past NRD are included in that figure of those expected to retire, when they may not really retire in the next year.) P. 11, is 3% pay increase reasonable? They are only looking at average increases for those that were active for the whole year. The average pay increase over the past five years has been 3.1%. P. 12-13, plan provisions – starting January 1, 2018, all participants are now accruing at 1.5%. In the future, 2021, the NRA for the grandfathered will change from 65 to 67.

P. 14, assumptions and methods used in the 2018 valuation. 6.75% interest (net of expenses). Mortality rates – previously recommended and moved to the new RP-2014 Mortality with fully generational MP-2017 improvement scale. This year they are moving to the fully generational scale. This means that the assumption of a how long a 70-year-old will live today, will differ from the expected lifetime of someone that turns 70 twenty years from now. The withdrawal rates are updated based on the plan's actual experience. Nick pointed out that this has increased the rate younger people terminate from the plan. As a result of going to a fully generational table there is a liability increase of approximately 3%. Though this change does not increase the ultimate cost of the plan which will ultimately be determined by how long people live, Nyhart believes it is the best way to predict how long people are going to collect benefits. If we do not forecast these improvements and then they happen, the plan will have to fund more in later years. P. 15, Asset Reconciliation – Started out with $1.22M as of January 1, 2017, assuming the plan would have earned 6.75%, we earned approximately three years of contributions paid with the 2017 investment performance! P. 16 shows historical return rates, 10 years, 4.2%; five years, 7.3%. Next year, dropping off 2008, the 10-year average will change to 6.9%.

P. 17, historical funded status. Unit credit liability considers the accrued benefit to date; projected unit credit liability considers future pay increases. Now that the plan uses career average pay, it does not make sense to include the average pay increases (whereas we needed to when looking at final average pay). P. 18, normal cost is the cost of benefits being earned in the coming year. $3.7M last year. As of January 1, 2018, the Normal Cost dropped to $2.26M as a result of the change in the benefit formula for grandfathered participants. Present value of future benefits' funded percentage has also improved, from 61.25% at January 1, 2017 to 72.54% at January 1, 2018. The change in present value of future benefits for Actives from $95M to $79M is mostly due to the formula change. P. 19, how the plan's unfunded accrued liability (UAL) changed from last year to this year. At January 1, 2017 the plan was underfunded by $45.8M. After interest, normal cost and contributions (the items we knew would impact the UAL) moved the UAL to $48.1M. The asset gain of $14.9M decreased the UAL to $33.2M. The combined impact of the new termination and mortality assumptions increased the UAL by $1.8M to $35M. Other demographic losses (data movements and new entrants) further increased the UAL by $1.5M to $36.5M. P. 20, recommended contribution calculations. Nyhart shows the recommended contributions using two different methods: The aggregate method and the alternative method. The aggregate method takes the difference between the present value of benefits (all benefits earned and expected to be earned) and the current asset value and figures out the average percentage of payroll necessary for the plan to pay off the difference over the future remaining payroll. This percentage for 2018 was 20.89% which equates to a 2018 contribution of $8.2M. The alternative method is the one used by many plans which calculates the contributions as the sum of the normal cost (cost of benefits being earned during the year) plus a payment on the unfunded liability. The payment on the unfunded is based on a 30-year payment calculation. This method yields a recommended contribution of $5.1M. However, if this method is used over and over (like getting a new 30-year mortgage every year) the unfunded will linger for much longer than 30 years. P. 21, the recommended contribution has been much higher than the actual for quite some time, this is why we changed the contributions from 10.5% to 13.5%. P. 22, for 2017 the plan collected $4.6M, with interest to the end of the year that brought us to about $5.1M coming into the plan. But just to pay the interest on the unfunded, and the normal cost, we needed $7.1M for 2017 for the unfunded not to get larger. Fortunately, with the large asset return the unfunded did end up getting smaller. For 2018, the normal cost drops significantly as a result of the change in the benefit formula for grandfathered participants. When adding this normal cost to the interest on the unfunded Nyhart calculates we will need $4.9M in contributions to keep the unfunded liability at the same level by the end of 2018. However, at 13.5% of pay the plan is anticipating a contribution with interest of almost $5.8M. This is the change we were looking for when the plan and contribution changes were made.

VALUATION, cont.

Projection assumptions pp. 23-24; p. 25 is assuming we always put in 13.5% of pay; p. 26 shows lowering the contributions back to 10.5% in 2025, still assuming 6.75% return. Even with a population decrease of 2%, we would still be ok. Scenario #3: 0% return in 2018; but changing nothing else – still not bad. Scenario #4: 0% in 2018 and 6.25% for each year thereafter – pessimistic outlook, especially on the population decrease. Flat population and 1% population increase are still on trend to reach 100% funded over time. These projections just help confirm that we should not reduce the 13.5% contributions – just in case we ever have another market year like 2008, having that additional buffer helps protect us.

INVESTMENT REPORT

Mark Olson, FMF, then presented the 1st quarter 2018 Investment Report (Ex. G). In looking at the Nyhart predictions, Mark suggested focusing on at what point over 100% funded is enough of a cushion, instead of a future date to reduce contributions.

Mark then stated that they look at investment policies annually. Our plan policy was reviewed and confirmed and will be presented to the BOA. FMF uses a third-party consultant, Syntrinsic, which is a way to leverage expertise, bring independence and objectivity. With that arrangement, we have access to 40 different financial firms. We build that information into our portfolios. They use internal staff, and a board of directors with an investment committee – so when they present their report, it is representing all parties and expertise.

Tab 2, p. 16, benchmarks. There has been a slight change in the last quarter, the Private Equity fund had a capital draw, it is up to $2.5M of the draw. P. 17, through March 31, 2018, down -0.10%, as of May 9, 2018, up 0.30%. Tab 3, p. 19, investment committee always dives into the since inception risk-adjustment return analysis. The diamond on the left is the 90-day Treasury Bill, we want to be above standard deviation. Pp. 20-21, there are 17 funds, and 10 separately managed accounts, they are the ones screening all the holdings. Those managers are looking at any company that has 5-7% of their revenue from those screens. In the past we have put in all the holdings in the investment report, this will be emailed separately. We have not seen anything objectionable. If you look at the whole portfolio: 1,560 stocks, 2,594 bonds; there are 4,100 different holdings. Slightly ahead of the benchmark. In the listed Real Estate, (we put two index funds in Real Estate), US Real Estate investment index, down 8.2% YTD. Lending affects Real Estate companies, there is a correlation to rising interest rates. The market says it went down 8%. That is the largest variance. Mark conveyed they are in the middle of some substantial due diligence. They would like to bring recommendations to the Committee in about a month: transitioning Real Estate space, taking another $4M from Public to Private Real Estate fund. Already one has grown from $5M to $6.5M in two years. We think we can get long-term higher returns, probably with less volatility; 2.5% more in the Private Real Estate space. Private Equity has a lot of complexity. 10% position in Private Equity long-term would be wise, with a 4-year period of transition, $2.5M purchases each year. Information will be presented a week ahead of time to review, bringing both listed Real Estate and Private Equity.

INVESTMENT RECS CONFERENCE CALL

It was decided to have a conference call on Tuesday, June 12, 2018, at 10 am EDT.

Tab 4, DC p. 24, $2.4M, as of March 31, 2018 down -0.50%. As of May 9, 2018, down -0.30%.

Tab 5 – Summary of investment managers. No recommendations, nothing to highlight. We pay attention to each manager's strategy, and their team. The box in the top right for each manager is new, looking at rolling 3-year periods of time over the last 10 years, and plotting the fund against its benchmark. FMF is always looking at a manager who is going to stick with strategy through all cycles. We are paying attention to how they are doing over long periods of time. Invesco International Growth Fund, p. 38, bottom right, ESG ratings (Environment Social Governance) – what choices they have made, which stocks are in their portfolio, of those holdings, what is the score on those holdings, and what is their governance, structure and effectiveness? How do these compare to their peer group? Hopefully these convey their fruitfulness. 50 is average, 60 is one standard deviation up, etc.

Charles commented that he spoke with auditors yesterday. Last year they discussed Blackstone, we did not have the data in time – they have it now. Mark noted that was the GK Property fund. This is not a problem this year as information was reported earlier. Charles thanked FMF for their continued work.

CYBER SECURITY

Last year staff was tasked with reviewing cybersecurity. We did get a cybersecurity statement from Nyhart, ChurchShield (they handle DC), and NELCO (they do our DB 1099s). This also has been discussed with CIM (Computers in Ministry, WMC IT provider). This will be a WMC policy, which will include what we as the pension plan need to have incorporated. The Assessment Evaluation for FMC-USA was handed out, looking at churches, conferences, vendors – have there been any issues? If so, make note, try to curtail. This also includes the website, communication policies, etc. WMC IT's response noted some risk areas have been identified; and items will be reviewed at appropriate time intervals. Basically, this is a work in process. Willadean noted that another denomination had some sabotage of their benefit payments, this helped to bring about such a review. This is something that must be reviewed continually. This was shared with the BOA Budget and Finance Committee by Jo Lammey, our Controller, and it is sufficient to satisfy the audit management letter concerns. Mark Dowley shared that the Finance Committee met about cybersecurity, he and Jo have been talking about it, along with an auditor. Willadean has discussed with Nyhart, and auditor Christy Ellingwood, whether Nyhart should take responsibility of our benefit payments and contribution billings. Given the small number of HR staff, how can controls be better established/protected? It would take the risk out of our WMC office, as well as the cybersecurity element. Umbrella coverage is needed, and it should come from the Finance Committee/BOA to cover the entire church. This will continue to be reviewed. The Committee will continue to fall in line with what the WMC does and wait for a recommendation from the Finance Committee's discussions.

IN-SERVICE DISTRIBUTIONS

There are participants whose NRA is changing from 65 to 67 that want to draw early retirement benefits and continue to work, so they can get the most benefit from their pension. Anyone who takes their benefit can continue to work, however, the IRS just states they cannot before age 62. Our document states they cannot retire early and remain active, they must be at least NRA. With our upcoming NRA changes, there will be some who will want to continue to work but take their benefit, so they do not lose it (or they do not think they will work another two to five years to make up the lost benefit). Nick – decide what you want to do and make sure the document aligns with it. Willadean shared, to bestow good will, and avoid a mass exodus from the plan/church, we are going to send out estimates to those that fall into this group – we will send them three different estimates, one at age 65, one at January 1, 2021, and one at age 67. The 2018 benefit statements will also include an additional letter for these individuals, so they can see what their benefit will do. We want them to be very aware. It was noted that this information could be very beneficial for superintendents/conference offices to have. Nyhart can look at the cost of in-service distributions/early retirements and give cost estimates. This can be presented at the next meeting to propose an amendment. This may be something we want to offer for only a period of time, and to just grandfathereds.

LUMP SUM PAYOUTS

Discussion was held for paying out terminated vested lump sums valued at $5,000 or less for those gone five years or more. The current policy is that the value of the benefit at NRD must be $5,000 or less, and that the participant must have been gone for at least five years. Then they are eligible to take their benefit as a Lump Sum (hardships are an exception). The document does not specify "at NRD." It could be read that if the value of the benefit as of today is below $5,000, it could be paid out. We need clarification. Taylor noted that what has historically been done has been a little conservative. Nick said this is a small benefit provision – it lets us get smaller benefits off the books. There are 121 people whose value is less than $5,000 as of January 1, 2018, gone five years or more. There are another 31 that have not been gone five years. Willadean asked if this should this be mandatory. Taylor noted that the document is written that it could be. If the value is $1,000 or less we can just issue them a check If they don't return their lump sum election paperwork, but if it is between $1,000-$5,000 we must set up an IRA for them unless they return an election to receive payment directly or to a retirement account of their own choosing. Willadean asked if it would be permissible to increase this limit from $5,000 to $10,000. That would require an amendment. In the private plan world, you cannot force someone to take a Lump Sum over $5,000, even if offering an IRA; you have to give them the option of an annuity. If we decide to make lump sums over $5,000 mandatory, that would be considered a "cut-back" because we are taking away the annuity option for those people. We do not have to follow the anti-cutback rules, but it may not advisable to take away participant's options. It was also noted, If they elect a direct lump sum payment and they are under 59 ½, they will be penalized 10% for early withdrawal. It was suggested that if they are gone five or more years, and it is $5,000 or less, they must take it; if it is $5,000-$10,000, they be given the option. It was noted that we have had this discussion in prior years (earlier boards), we do not want people to lose their retirement benefit, we want them to have a benefit when they retire. By offering this, we are giving up that responsibility. It was then discussed what happens at death for these participants. If they die before drawing, the beneficiary gets about 45%. Nick – if you can pay the Lump Sum benefit, it is no more expensive than paying them the $94 monthly benefit in 27 years (example of a 40-year old Terminated Vested participant). With our plan it does not cost the plan to pay someone a lump sum given that the actuarial assumptions are very much in line with those used for the valuation.

On motion, it was approved that staff can mandatorily pay out the $5,000 Lump Sum to those gone more than five years, using today's value.

The smaller handout from Nyhart discusses how the lump sums are calculated, and how that tracks with the assumptions used for the valuation. Anytime we do a lump sum, we use the actuarial equivalent present value – that does not match up precisely with the valuation. The assumptions are close. The mortality table is quite complex, that would not be used for administration purposes. Right now, the actuarial equivalents are calculated at 6%, RP-2000 table, no projection, blended 50/50 male/female. If we paid out all Terminated Vesteds under those assumptions, we would be paying out $29.4M; under the other method, $29.2M. Our mortality table is outdated, and we are using a different interest rate. It really depends on who takes the Lump Sum option. Nyhart recommended to move the interest rate to 6.75%, and move mortality table to a more updated table, the RP-2014 with MP 2017 improvement scale, but not the fully generational scale. It was also recommended to use an 80/20 blend male/female, that is based on actual plan statistics. We cannot state that females get less than males; but given that the blend of the plan is not 50/50, that blend does not make sense to use. We can state which blend we want to use. The other pages of the projection all assume that we have made these proposed changes. It would take a plan amendment to update the actuarial equivalent. Nick said it makes sense to do this no matter what is chosen to do with the lump sum payouts.

On motion, the recommendations to update the actuarial equivalents were accepted.

P. 3 – There are 190 participants gone less than five years, 607 total gone more than five years. There are 128 people with a value of $5,000-$10,000. The average age is 56, with an average monthly benefit of $151. The next row shows 171 people. If the three rows are added, that equals $4M. Some are comfortable with the current $5,000 threshold. It was discussed that if more lump sums were paid out, there would be less assets to earn more interest, but also less assets to lose. Nick noted that the amount of shrinkage gained would not be that big. Is it worth tracking them to pay them? Some suggested going up to $10,000. Willadean noted, as inflation moves along, $5,000 is not worth as much today. Others suggested going to the $25,000 line. There was good discussion that these participants are no longer Free Methodist, they have moved on, it is good to give them the option. Nick noted that the only way he would advise against this was if we are uncomfortable with the annuity amount. Taylor noted that there have already been some Lump Sum payouts this calendar year, it would make sense to make these changes effective January 1, 2019.

On motion, it was approved that after an amendment, effective January 1, 2019, we will offer the option to take a lump sum valued up to $25,000, for those participants gone more than five years. For those with a value below $5,000, the lump sum will be mandatory. If a participant does not return the paperwork to receive their mandatory lump sum, they will automatically receive a check (if the value is less than $1,000) or will have an IRA opened in their name (if the value is between $1,000 and $5,000).

DB vs. DC

There is to be in-depth analysis every 7-10 years regarding DB vs. DC based on the action of the October 2009 BOA minutes. The October 2006 and 2009 BOA minutes were included (Ex. H) in the handouts (the starred section is from the 2006 BOA minutes). The Committee recommended to the BOA to create an ad-hoc committee/study group/task force. This should be led by experienced consultants, comprised of representatives from the following groups: Board of Bishops, Superintendents, ordained ministers, lay persons/clergy serving as CMC for 6 or more years, Benefits Committee, persons with knowledge of the formation and philosophy behind current DB plan, and persons with knowledge of currently available retirement tools and options. The results of this study were presented in 2009. It is time for another review. It was discussed that what we have already done with Nyhart, (changes implemented January 1, 2015 and January 1, 2018), could qualify as an in-depth analysis. Nick noted that part of the planning to make the DB plan work was to get the contributions into the plan. Currently the money needs to go to DB.

It was suggested that we should wait until 2019 when we have another General Conference which will result in a new BOA, new Committee members, and possibly new Bishops. This will be a new group with new viewpoints. What we are doing is exactly what needs to be done if we are to provide a retirement benefit for our pastors. Many are unable to provide a benefit for themselves. Willadean pointed out that previously this was a very in-depth study, and prior to that we did two smaller studies – they both came out that DB was a better product for our group of people. It was also discussed that we cannot get out of DB until we cover the unfunded. There was further discussion of the benefits of a DC plan versus DB.

Charles stated he will convey to the BOA that since there are going to be changes in administration, and we have done a lot of changes recently, we will wait a couple of years to do the analysis, especially since BOA is not currently requesting it.

PROMOTING THE PLAN

Mark Dowley noted that when we made the announcement of the contribution increase, churches responded. Some think it is a disincentive to hire new pastors. Some said their payroll costs for pension went up $70,000 because of the increase, and they now cannot hire additional staff. It was discussed that we communicated the changes to the plan, but not the reasons. Charles proposed that we should put out something that shows the reasons why we made the changes, and the benefits of the plan. A sample letter was sent out to the Committee. The Committee should look at it and then send it to the participants. It was suggested to have Nyhart review it, and to include some testimonials – that may carry more weight than statistics. Some suggested a short letter, or a brochure be used. Charles and Willadean will work on this, with Nyhart's input and review.

CBA CONFERENCE

The next Church Benefits Association (CBA) Conference will be in New Orleans, November 28-29, 2018. Please look at your schedules and let Willadean know if you plan to attend.

NEXT MEETING

The next face to face meeting will be at the WMC on Wednesday, September 5th, at 9:00 am.

CLOSE

Charles closed with prayer and the meeting was adjourned at 2:27 pm.

Submitted by,

Willadean M. Duncan

Benefits Committee Meeting
September 5, 2018

Members Present: Charles Toy, Chairman, Greg Delamarter, Mark Dowley, Kirk Hoffman, Pearson Miller, Darrel Riley, Melinda Vokal, Dale Woods II
Others Present: Gene Keene, Mark Olson, Free Methodist Foundation; Kevin Carey, Nick Meggos, Drew Simmermeyer, Nyhart; Willadean Duncan, Debbie Jenkins, Lori Sherwood, Human Resources

CALL TO ORDER

Charles Toy, Chairman, welcomed everyone. Nick Meggos, Nyhart, introduced Kevin Carey, the new actuary working with our plan after Taylor Fireoved recently left the company. Charles then opened the meeting at 9:10 am with devotions and prayer.

UPDATES

Willadean provided some updates:

- Lump sums $5,000 or less – sent out 78 notifications, paid out 33 as of 8/31/18.
- 65 prior to 1/1/21 – There are 49 Actives, 114 Deferred Vesteds – we have sent out 19 notifications to the Actives so far; we will then send out the DV notifications.
- HR recently changed payroll providers, from ChurchShield to ADP. DC will remain with ChurchShield for now.
- HR staff have been continuing to work with Nyhart about the software improvements.
- Promotional letter (Charles presented at the last meeting) – At this point we will provide a shorter version that will refer people to the webpage for further detailed information if they are interested. We are hoping to have this completed prior to the next BOA meeting in October. Nick mentioned that we could rollout the online capabilities with the same letter, to be sent out with the annual benefit statements in the next two weeks.

MINUTES

There were some last-minute edits made to the May meeting and June conference call minutes (Ex. A). Charles thanked FMF and Nyhart for editing their details clearly for those reading them in the future. On the May minutes, in the Valuation section, where Nick pointed out something regarding changing to the different mortality table. Nick explained that we updated the rate of termination for newer pastors. The minutes were further amended where Nick pointed out the increase in the termination rate. The staff was recognized by the Committee on how well the minutes were prepared, with special thanks to Lori.

On motion, including the amended text for the May minutes, both minutes were approved.

AUDIT

David Leising, BKD partner, and Christy Ellingwood, who oversees the field work from BKD, passed out and presented the final drafts of the DB and DC audits, including the management letter (Ex B).

DB – This is an unmodified opinion and once finalized it will be dated. Breakdown of investments at fair value: contributions receivable – that number decreased this (reflective of the collection efforts on those churches); dividend income also decreased slightly – due to the timing of funds being reported; there were small liabilities. Total net assets available for benefits $141M. P. 4, investment income of $23.8M from 2017, indicative of strong market, with a 19% return. Contributions of $4.6M, up from 2016. Deductions – benefits paid of $8.4M, increase from 2016, (76 vs. 52 new retirees). Administrative expenses are expenses paid by the plan. Christy noted that a refund of $200K in 2016 reduced plan expenses for that year. P.5 – Notes to Financial Statements: Contributions – the monthly contributions are 10.5% of compensation – this has changed for 2018 to 13.5% and is noted in the footnotes to the audit. The grandfathered status has also changed, this is also reflected in the audit footnotes. The plan’s cash accounts exceeded federally insured limits by about $6,700. FMF also holds some cash that is not federally insured, about $108K. P.7 – Actuarial Present Value of Accumulated Plan Benefits: 6.75% for 2016 and 2017; Mortality basis changed slightly to RP2014 with fully generational MP17 improvement scale for 2017. Note 3: Investments – alternative investments: Broadstone Net Lease, Inc., determined by the Independent Directors Committee, $6M; Blackstone Partners Offshore Fund Ltd, used as practical expedient, $7M; Strategic Partners Fund VII, L.P., committed capital balance of $3.4M; The plan has a capital account balance of $2M as of 12/31/17; GK Property Fund I, was valued at cost basis, now at fair value is $336K as of 12/31/17.

Actuarial present value of accumulated plan benefits was $175M as of 12/31/17, compared to $141M in net assets. Change in benefit obligation of $1.7M due to the change in mortality table. There was also a change due to plan amendments, for a total net increase of obligation of $7.7M. Note 6: Disclosures About Fair Value of Plan Assets. Assets are in three different levels, with the majority in Level 1; some at Level 3, (Broadstone Net Lease and Strategic Partners, limited partnership); Blackstone is measured at net asset value. Prior year assets were categorized similarly. P. 12, required to show Level 3 reconciliation of assets. P. 13, unobservable inputs on Level 3. Note 7: Party-in-Interest Transactions, paid management fees to FMF, and paid fees to FMF which were then remitted to investment managers. Plan also paid fees to FMC-USA. P.14, Risks and

Uncertainties, common of any DB plan. Note 10: Subsequent Events reference the amendments of 1/1/18 that changed grandfathered status and the 13.5% contribution rate change.

DC – This is an unmodified opinion. P.3 – statement of net assets, investments fluctuate year to year. They decreased, due to the nature of the plan. The noninterest-bearing assets increased. Statements of Changes in Net Assets Available for Benefits shows $397K investment income, a 15% return for 2017. Benefits paid increased to $455K. Most of these distributions are lump sum payments since it is a DC plan, which fluctuate. Notes: no contributions received since 1/1/81. Most of the footnotes for this plan have not changed. P.7 – Note 3: all investments are Level 1 investments (actively traded during the year). P. 9, Note 4: plan paid FMF fees, in addition to fees that were also remitted to investment managers.

Management letter, as per David – if there is anything they are required to communicate to the governing board, it is discussed here. No alternative accounting treatments. Actuarial assumptions are key to determining obligations. Interest rate was kept consistent this year. Most assets were Level 1. There are no audit adjustments, either proposed or booked. Auditor's judgements also had no issues. The section Other Information in Documents Containing Audited Financial Statements will be removed as the plans are not subject to ERISA. Management representation letter will be attached to this. There are three levels of deficiencies: material weaknesses, significant deficiencies, and then deficiencies. There were none.

It was asked of the significant observables, $8M of $133M – how large do they get before they are considered significant? David responded that we have audited financial statements for all of those, except for the one mentioned (GK Property Fund) which was delayed. David pointed out the Level 3 reconciliation – if we did not have audited financial statements, that would be a concern.

David then shared that the HR team was very helpful and did a good job of getting information together and seem to understand the details. Charles also thanked them for their flexibility. Willadean then commented that we appreciate the great BKD team they bring to perform the audit.

DELINQUENTS

Delinquents (Ex. C) – $14K outstanding at the end of August. We send out notices monthly to those that are delinquent. We also have more support from conference offices tracking them down and working with us. A lot of our struggles are language barriers (several languages). The Committee appreciated the low balance noting this was the lowest the delinquents have been for several years.

BUDGET

Budget 2018 and 2019 budget projections (Ex. D) – proposed revenues from FMF; Nick Meggos, Nyhart, also provided the figures for projected monthly benefits for 2019. The Lump Sum number is of note – that is due to the upcoming amendment to raise the threshold to $25K. We must anticipate large payouts. It was noted that actual death benefits were $119K so far this year, but only budgeting $75K for 2019. Nick stated that is what the system calculated. Mark Olson, FMF, noted the dividends should be $2.7M and requested that we put interest and dividend revenues in one line, and no way to anticipate the realized/unrealized gains, and those lines should be combined as well. The combined gain/loss on investments would be $7.8M. It was asked if Contribution Revenue is flat, given that there was no projected increase for 2019. Nick commented that it depends upon the projected payroll increases. He said it could be 2-3% higher. It is correlated to pay scale, $5.6M is optimistic. It was then asked that if assumptions for salary increases are included in the long-term projections of the fund, are our projections for the fund off? Salary increases do not necessarily equate to assumption increases. Payroll slightly trails the investment assumptions (a terminated employee is not generally replaced by one making the same salary). Nick stated that these numbers should be amended. Nyhart and FMF will provide staff accurate figures for the BOA report, following electronic approval of the Committee. HR will also include the August YTD information along with the budget figures.

INVESTMENT REPORT

Mark Olson, FMF, then presented the investments (Ex. E) as of July 31. Tab 1, P.3 – objective is 6.75%, net of FMC-USA expenses. Need to get 6.9% on performance reports. P.4 YTD 7.31.18 net return 2.5%, $142,077,698. Net return 3.13% as of 8/31818. Deposits less withdrawals are -$2M, $3.4M annualized; before changes that would have been about $5M. Nick commented this is fully driven by the 13.5% contribution rate. P.5 YTD, we are ahead of the policy benchmark. P. 7 – detail on performance. US Stock was 6.6%, non-US Equities -1.9% YTD – largest negative variance is from Invesco. Invesco since inception has done well, but their persistent underperformance has caused FMF to bring a recommendation to terminate. 48% of the Equity allocation is in non-US stocks. The back flap of the FMF book had a handout. Across the long-term US and non-US stocks have had similar returns. The Council on Foundations, Total Institutions have an allocation of 53% US, 47% non-US, which is similar to ours. Over the long-term (25 years) stock returns are driven by earnings/dividends/inflation. Over time that has been consistent. The last 6 years S&P500 earnings have been slower than normal and inflation has been low. Based upon that, a 7% return would be reasonable, but it has been nearly 18% over the last 6 years. Over 25 years it has historically reduced to the mean. FMF is paying attention to many different aspects. It was asked if in our current environment with more withdrawals than contributions, would that affect someone's strategy in the way they invest? Mark replied, if we are in a severe downturn, we would take distributions from the Fixed Income allocation. P. 7 Fixed Income – aggregate bonds are negative, but better than the benchmark. Listed Real Estate – that was down 10% in March, it has now recovered. Private Real Estate – Broadstone continues to work out well. 6.3% thru July. August 1 their board granted another share increase. Private Equity – up to $3M on a $5M commitment. Hedge Fund Strategies are there as a buffer. P. 9 shows how we are doing to the target allocation.

Tab 2 – DC – Net return of 2% at the end of July; 3% at the end of August. Ending market value of $2.5M.

Tab 3 – Summary of Investment Managers – every month/every quarter, we are looking at every manager.

Tab 4 – Recommendation #1 – Terminate Invesco International Growth and replace it with Harding Loevner. While we have tremendous respect for Invesco, and their focus on earnings/quality/valuation, over the past two years we have become less comfortable with their stock picking and cash allocations.

Harding Loevner is a mutual fund with an outstanding process and track record. It is not 100% screened, but the top 20 holdings are clean and FMF will monitor the holdings. Concern was expressed over the regional allocations in Middle East/Africa and Asia. FMF later responded that the Middle East holdings are primarily in Israel, the African holdings are primarily in South Africa, and the primary investments held in the Middle East/Africa and Asia were software, healthcare and pharmaceutical related.

Tab 5 – Recommendation #2 – Modify the FMC-USA Pension Investment Policy Statement to clarify the inclusion of private equity and private debt. Language on pp. 49-51. Mark noted that hitting the allocation precisely is not possible. Unlike the public markets, it is going to take a lot of attention to get up to 10% and we will focus on keeping it in that vicinity.

Tab 6 – Recommendation #3 – Commit $6.5M to Hamilton Lane Private Equity Fund X. This type of fund is designed to meet the needs of institutional investments. The funds are pooled together, everyone in the pool is treated with the same attention. This is a well-diversified fund of funds, an ideal fit for the pension fund. P.76 shows their allocation and anticipated diversification by strategy and geography. P. 76, middle pie chart shows 20-25% is in secondaries. P. 77, the j-curve is short.

Tab 7 – Recommendation #4 – Commit $7.5M to Golub Capital Partners Fund 12 and $5M to Monroe Capital. P. 105, summary for Golub. Mark noted that we will be in a pool of loans. They make deals when they call capital. This will be a long timeline for when that money will go to work. Golub will put 10% to work right away, but they take their time finding the right businesses to invest in. It was asked what the difference is between the companies. Golub is in the middle of the market, Monroe is at the smaller end, more opportunistic, more return potential, more risk. Credit first, zero loss mentality. This allocation would be coming out of the hedge fund space, and half out of the equity space. The majority is US, but some is in Europe and the rest of the world. Monroe closes 10/1/18. The turnaround on the capital call is about two weeks. It was noted that these are all Level 3 investments, and we just need to have audited financial statements for the auditors – is FMF comfortable with the groups to provide us with that – on time? It would behoove us to have a call with the auditors, and FMF to see how this will pan out in the audit. Nick asked if moving $20M to Private Equity and Private Debt is intended to increase the possibility of hitting the return objective. Mark responded with a yes. We believe that we need these changes to be able to hit the target. There is always a correlation between risk and return. To get 6.9%, it needs an aggressive portfolio.

On motion, all recommendations were approved, with one abstention.

ACTUARY REPORT

Nick Meggos, Nyhart, presented the Actuary Report (Ex. E). Tab 1 – Administrative Changes – some things were initially put on hold in 2012. Some are things that HR requested; some are things desired by churches/participants. Software updates for website – p.3, every active participant will have a log in, and we want to communicate the FMConnect log in when we send out the benefit statements. Participant Change of Status – that will allow a participant, church or conference administrator to submit the request online, so it will import after approved by HR to their data file. This is also a way for participants to look at their own personal details. P.9, online enrollment. P. 13, additional enhancements – allows participants to do estimates. They will get a quick rundown of the different options available. This will create a PDF (so we have the history of estimated calculations ran), but they will also get to see the info immediately. Nick also pointed out that some of this will be billable and some will not (what was/was not included in the original 2012 agreement). Pastors will appreciate having this. Nyhart also wants to have the most recent benefit statements online.

Tab 2 – Defined Benefit Plan Amendment (Ex. F) – $25,000 payout option – Raises limit from $5K to $25K. In the amendment, 6.02(3)(B) and (C) Forms of Benefit, how the lump sum feature works alongside withdrawals. The combined total was raised from $15K of hardships and lump sums to $25K. 6.02(3)(A), did not remove the part “but no sooner than five (5) years following the Participant’s Severance Date.” Overtime, we should look at that, people who are taking a pastorate as a second career, and are ready to take their benefit, should we make them wait? This could be changed. The mortality and interest rate changes recommended for the new actuarial equivalence represent what we are using in the valuation. In Section 3, bottom of p. 2 of 4, as Nick read the document, the language for when we pay out people under $5K, when you read 7.05(b), referencing the $2K death benefit, it is not entirely clear that if someone receives a lump sum pay out that they are no longer entitled to a death benefit. We wanted to clarify that if they take a lump sum pay out, they are not entitled to any further benefits. Willadean pointed out that administratively we do include language in the letters to individuals that the participant is now paid out, with no further vested interest in the plan. Nick then discussed that $4M out of $180M liability is a big chunk, but not huge. It is the number of people we can remove from the books at a smaller liability; reducing the portion exposed to risk. It was also pointed out that this is not a window/one-time benefit, people in the future will also have this benefit available to them, at this amount, and can then be paid out.

On motion, the plan amendment was approved.

Tab 3 – Final Valuation (Ex. G) – The final funding percentage for the plan was 80.41% as of 1/1/18. After Nick spoke with auditors. our final numbers capture the savings of the NRD change to 67 as of 1/1/21. Previously, Nyhart was delaying recognition of this savings until 1/1/21, but are now we are capturing it a little sooner. The recommended minimum contribution as a percent of valuation payroll is based on the aggregate method. With the plan changes and contributions in place we are finally anticipating paying down the unfunded. Anticipated contributions will be high enough to pay for the benefits that accrue, the interest on the unfunded, and an additional amount to reduce the unfunded.

IN-SERVICE DISTRIBUTIONS

Tab 4 – In-Service Analysis – Drawing early retirement benefits and continuing to work, (those age 65, due to the NRD change to age 67). Right now, this is an option only at NRD, when fully vested. When a participant is fully retired we then recalculate their benefit to determine if they are due anything additional. Most of the time they are not as we compare the benefit they have received to the value of the additional benefit they have earned since commencing payments. IRS rules allow participants to receive an in-service distribution as early as age 62. In May we discussed the possibility of using that age as a minimum, a window for the grandfathered group, so the impact for them would not be as great. We also thought about leaving this option in place permanently.

Potentially making this benefit available to the grandfathered group – anyone who was not going to be 65 prior to 1/1/21, but 60 with 10 years of service. There are 75 people ages 62-65, that could do an in-service distribution if the age was reduced. What does that do to the liabilities? Assuming they are going to retire at 65, with an early retirement reduction after 1/1/21, their liability is $16.8M (about 10% of the total plan liability). We had to predict how they would behave if this were available to them. The first thought was they would all take their benefit as of 1/1/21, the last date available to draw at the old rules – that liability would become $18.3M, $1.5M higher. We then used an alternative assumption that projected the eligible participants to commence early retirement benefits between 1/1/19-1/1/21 as soon as they became early retirement eligible (age 62). That would raise liability up to $18.6M, an additional $1.8M. This sounds good theoretically, but it does impact the liability significantly. Pros and Cons of this are on p.5. Great retention tool for those who feel they are between a rock and a hard place. But it could give back some of the liability we were counting on reducing with the NRA changes. Also, when someone finally retires, HR asks Nyhart to run a recalculation on to see if they need an increase in their benefit. If we do decide to put this into place, we could probably create a tool where we can more easily identify if they are due a recalculation. So, this is also administratively burdensome and potentially costlier. These are the higher liability people. Right now, participants cannot take an in-service distribution, and if they take early retirement they are not supposed to continue working (remain active in the plan). Willadean expressed that many have called in to ask about this, as many are not ready to draw their benefit, but they are thinking they will have to due to the change in their benefit at 67 vs. 65. They want to continue to serve. Nick, in a way this is moving the line of change further out. Nick will look at the way the document is written to see if they could change the date of in-service distribution so that it is not tied to NRA. Nick reminded the Committee of the way recalculations are now calculated and paid, there have been positive changes in the plan. Some commented that they have been surprised at how positive some of the pastors were about the NRA changes. So as nice as it would be to do this for the 75, it is a shared pain, if we all want the plan to be healthy. Others commented that they have heard negative things since we have made changes, and then made changes again, and now we are talking about making more changes. Several were in favor of no further changes. Willadean again expressed that we have gotten many calls from people who are trying to plan and help their church/conference. The liability figure is not as large as she thought it would be. Nick, the reality is likely somewhere in between – not everyone will work an extra two years, and not everyone who wants to will retire early. It was decided that the Committee has already done something, we have looked at it, and we are good with it as is. No further action will be taken. Nick will send HR an electronic copy of the valuation.

General Conference 2019 – Retiree luncheon – Willadean discussed this with Larry Roberts (GC19 Coordinator). They are not scheduling luncheons until March and we need to get Save the Date cards out earlier. FMF agreed to sharing the cost and co-sponsoring the luncheon. It is a great way to participate together and establish goodwill. Gene shared that FMF is meeting in a few weeks with Larry and will discuss it further then.

GENERAL CONFERENCE 2019

The GC19 Pension Plan exhibit booth will provide calculations, resources, and this time mini topical workshops. The idea for the booth is to have a large tv screen and mini workshops/PowerPoints that explain various aspects of the plan, as well as explain the new Nyhart login and estimate calculations. We always hope to connect with those we need information from as well.

HOUSING ALLOWANCE

On motion, it was approved for retirees to declare up to 100% of their pension as housing allowance.

COST OF LIVING INCREASE

Cost of Living increase – Willadean has received calls regarding this. We want to be good stewards of the plan, but it is just not something we can do at this time. Would a 13th check be an option? After further discussion, it was decided that until the plan is at least 100% funded, this will not be offered.

CBA CONFERENCE

Church Benefits Association Conference: New Orleans, Nov. 28-29 – Charles, Mark, Kirk and Melinda will be attending on behalf of the Committee. Mark and Gene will be attending from FMF. Nyhart will be there.

NEXT MEETING

Next Spring meeting — Tuesday, April 2, 2019 at 9:00am at WMC. (BOA is April 3-6, 2019)

BOA REPORT

Willadean and Charles will prepare the BOA report for the Fall Meeting (October 12-13, 2018)

CLOSE

Dale closed in prayer and the meeting was adjourned at 12:56 pm.

Submitted by,

Willadean M. Duncan

Benefits Committee Meeting
October 4, 2019

Members Present: Charles Toy, Chairman, Greg Delamarter, Mark Dowley Pearson Miller, Darrel Riley, Melinda Vokal
Others Present: Gene Keene, Mark Olson, Free Methodist Foundation; Kevin Carey, Nick Meggos, Nyhart; Willadean Duncan, Debbie Jenkins, Lori Sherwood, Human Resources
Members Not Present: Kirk Hoffman and Dale Woods II

CALL TO ORDER

Charles opened the meeting at 9:03 am. Gene Keene opened with prayer and shared devotions.

UPDATES

Willadean provided some updates:

- Participant statements went out right before General Conference (GC). The grandfathered group had an additional sheet explaining their upcoming change in Normal Retirement Age (NRA) from 65 to 67.
- There was one issue in the audit management letter. It had to do with Private Equity and Private Debt – there was a valuation change that came very late in the year (June), $180K less than what was previously reported at year-end. FMF corrected their end but WMC was not informed. Because of this, the numbers presented to the auditors did not match. The auditors adjusted it. The auditors will note our response to the deficiency that it will not happen again.
- DB Lump Sums as of 9/30/19: paid out 23 DB lump sums under $5,000 totaling $77,975, and 27 DB lump sums between $5,000 - $25,000 totaling $318K.
- The remaining DC balance of $517 will be used to pay the 1099-R processing fees. Anything leftover will then just be transferred to DB to cover another DC expense. In 2019 we paid out 26 DC direct lump sums, 60 rollovers and three death benefits, totaling $2,350,296.
- Website: hoping to have that complete by the first part of the year. The FMC-USA website crashed shortly before GC, they were able to get a basic site back, but now we are working to make it more user friendly. Nyhart has done the framework so that we can use the Pension Enrollment and Change of Status forms housed on their website – it immediately integrates with their system.
- GC19 – record number of people came to our booth compared to before. We ran 20+ calculations.
- Retiree luncheon – with the GC delegates session going over we had several people who were not able to be there. Those that did attend enjoyed Elizabeth Toy's performance and felt honored/appreciated.
- Misso Benefits Plan – WMC joined the Missio Benefits plan 7/1/19. It is a new group, ministering to non-profit/Christian groups that provides medical, dental, vision, life, LTD and evac coverages, along with optional coverages that are voluntary. This covers WMC staff, along with career missionaries and VISA Voyagers. The rates are far better than what was in the prior coverages and has good flexibility for the missionaries going in and out of the country. Overall savings for all WMC/Missionary groups was over $200K. Willadean attended the Missio Nexus conference mid-September and is a member of the Missio Benefits Committee. This program is allowing churches to come onto the plan.

MINUTES

On motion, the minutes from the August 5, 2019 conference call were approved.

AUDIT

Christy Ellingwood and Tamyra Jenkins of BKD presented the 2018 draft audit (Ex. A). If there are any changes that need to be incorporated, they can easily make them but if none then this will be the final. This is an unmodified opinion, there were no issues with the reports. P. 3 DB Net Assets at Fair Value – decline in 2018, due to significant market downturn. Contributions Receivable was up from prior year, due to the increase in contribution rate. Accrued Income Receivable and non-interest-bearing cash are both consistent from year to year. Accounts Payable is up, likely due to the timing of benefits being paid. There was a decrease of about $13M from the prior year – benefits paid to participants of $9.6M, there were more lump sums (paying out those valued under $5,000). Notes to Financial Statements: The funding policy changed, from 10.5% to 13.5% of employees' compensation; as of 1/1/18 the plan was amended to remove the grandfathered status and the NRA for all employees is changing as of 1/1/21 – this will be changed to 1/2/21. It was noted that $135K held by FMF is not federally secured. P. 7 Actuarial Present Value of Accumulated Plan Benefits, mortality tables, and retirement age. P. 8, Note 3: Accumulated Plan Benefits – as of the end of the year $178M vs. $127M net assets – primarily due to the asset value decline. Note 5, three levels of value of plan assets: Level 1 commonly traded, Level 2, observable inputs: CDs, etc., and Level 3: unobservable inputs, little to no market activity. Most of the investments are Level 1. Level 3 is the FMF certificate, no external market for that – GK Property Fund I and Broadstone Net Lease. P. 11, Level 3 valuation process and activity. New standard issued in 2018, Level 3 activity disclosures could be decreased. There were a lot more disclosures in the activity, now just disclosing purchases and sales. P. 12, unobservable Level 3 inputs (GK Property Fund), in the process of settling, full liquidation in 2018. Broadstone Net Lease, value determined by independent directors committee, based on net asset value. Unfunded commitments at $19M. P. 13, party-in-interest. The Plan invests $3M in FMF institutional certificates, which earn a variable interest rate. The Committee feels the company and plan name should all be consistent and be FMC-USA instead of FMCNA, since we are no longer truly representing North America. The auditors will change their referencing of the church/plan from FMCNA to "FMCNA DBA FMC-USA." Willadean will send an email to Christy of how it should be referenced in the audit. Next page, amendment, 1/1/19 increased lump sum benefit payments to be $25K or less.

DC Audit – very limited activity. 2019 will be the final audit for DC. This was also an unmodified opinion. Auditors will make the same changes to the name. P. 3, investments at fair value, decrease due to market decline. Net Assets available for benefits: $2,190,783. Decline in lump sum benefit payments for the year. There was a $432K net decrease. As of 12/31/80 no further contributions have been made to the plan. All investments of the plan are Level 1 investments. Plan termination is mentioned in Note 7 – effective 4/5/19, the BOA elected to terminate the plan, distributions are expected to conclude in 2019.

Management letters – also in draft form. One management letter covers both plans. Audit adjustments – attached is a summary of the uncorrected statements. Once the letter is signed it will be attached to the final version. There are three different levels of deficiencies: Material Weakness, Significant Deficiency, and Deficiency. There was one deficiency: FMV was updated after the initial value was recorded, a passed adjustment has been recorded to reflect the adjustment in FMV. Blackstone Strategic Partners Fund VII sent an updated 12/31/18 audit value statement to FMF on 6/28/19. Upon receipt values were updated on the 3/31/19 financials but not back to 12/31/18. Auditors discovered this after the drafts were made, so they attached it instead of modifying the financial statements. It is $180K, but less than 0.14% to the scope. They have also added a statement: "The Free Methodist Foundation has made the investor aware of the problem and will work with the investor so this will not happen again." They will make sure all parties are aware.

The auditors also noted, as in years past, the primary force driving the plan is accurate data. They understand the difficulty in obtaining accurate information, and this will likely remain in the future as part of the notes.

DELINQUENTS

The delinquent report as of 9/6/19 was presented (Ex. B): $36,020 is outstanding over 60 days, the specific churches are listed on the report. The largest one is on a payment plan with about four more years to go, depending upon the delinquent rates.

BUDGET & FINANCIALS

The DB and DC 2019 and 2020 budget projections were presented (Ex. C). September 2019 benefits are included in the totals but the 3Q19 investments and investment manager fees are not. Exhibit Expense of $2,900 is the booth space and associated costs for GC19. GC Dept. Expense of $1,470 was the cost of our share of the retiree luncheon. That is usually put in Entertainment & Hosting (where we budgeted it), but it was put under this new line item GC Department Expense. The GC Dept. Expense are travel and registrations, but it can be moved to the budgeted line items for Travel and Conventions/Seminars Registrations. The Committee requested that the portion of the budget for GC Dept. Exp. be included on that line item, reducing the former line items budgeted. The budget will be updated to reflect the true budgeted amounts for GC so that we can present actual figures/budgets to the BOA.

On motion, the previously approved budgeted line items will be amended to reflect the true GC Dept. Expense on its own line item.

It was noted that we do not generally budget for GC expenses. However, it will be left on there each year, but at $0, so people will remember that is an upcoming expense. It was also suggested that the new BOA see the BKD contracted amounts for the audit. Noting that after next year the audit costs should go down since there will only be one plan to audit. It was also discussed to lower the Exhibit Expense from $4,000 to $2,500; lower the Executive Travel from $6,000 to $4,000 and leave the Non-staff Travel (Committee members) as is, since we do not know who the new members will be yet. That is $3,500 less than the total of $267,500 presented.

On motion, the 2020 budget was approved as amended, reducing Exhibit Expense by $1,500 and Executive Travel by $2,000, while including $0 for GC Dept. Exp. for a total of non-variable expenses of $264,000.

GC19 RESOLUTION 419

Resolution 419 from GC (Ex. D) – "revisit the FM Pension System to develop a path for all generations of pastors to have an opportunity to see reasonable benefits from their mandated contributions." The resolution states in part "…value of the capped payouts is projected to be very low after 30+ years of ministry service…" It was discussed that perhaps the "cap" is in reference to the fact that we no longer use the five highest years' average. So, the younger generation may be getting less than the older generation. But they may also be making a larger salary than some of the older generation. Nick, Nyhart, stated the 1.5% career average approach does not provide the same level of benefits as the old formula. The normal cost to provide benefits for the non-grandfathered people is about 3-5% of pay annually. His thoughts were the issue the resolution appears to raise is the level of the retirement benefits people will receive relative to a pastor's salary at retirement and relative to churches contributing 13.5% of pay. He then noted that the 13.5% of pay contribution is not in place just to provide a benefit for the younger generation, but to also help secure benefits for all generations. It was then discussed how our pension plan compares to teachers' pension plans in the region. It was also discussed that the DB plan was meant to supplement a pastor's retirement, not be their sole retirement vehicle. It was also noted that many employers do not offer pensions anymore, and the 13.5% is 100% employer paid. We are funding a program as a community to be able to resource and serve our pastors. This needs to be communicated from the superintendent, MEG and MAC boards to the churches and lay people, to the pastors. There is really nothing in this resolution that we have not already discussed, analyzed and considered. It seems to be a communication issue. This can perhaps be discussed with the superintendents next week when they are here for meetings. Charles will get together with Willadean to make sure all the sentiments presented during the discussion will be represented. It was also noted, that the committee should be mindful of this resolution's point of view when the committee later discusses current growing concerns around the pending 1/1/21 Normal Retirement Age (NRA) change for previously grandfathered participants.

INVESTMENT REPORT

Mark Olson, FMF, then presented the 3Q19 investment report (Ex. E). Tab 1, Investment Policy Statement: fiduciary responsibilities, the Committee works with FMF to set asset allocation targets, appropriate managers, etc. FMF has a qualified third-party consultant and board with an investment committee, but the Benefits Committee controls all the final decisions. They are using all the resources available to them to bring their best thinking and related recommendations to the Committee. Tab 2, end of the quarter. Normally we do not look at quarter-end until the end of the next month due to trailing benchmarks. Mark highlighted that 6.75% is the objective benchmark. Because we realize that is still an appropriate, but high bar, we have been working on transitioning to a 5.5% allocation to Private Real Estate. 10% in Private Equity and 10% in Private Debt. Nick pointed out that we only have 5% in traditional Fixed Income. Mark confirmed it is 5% + 2.7% in Private Debt, but hedge strategies of 13%. At least half of that 13% is allocated a Fixed Income alternative. Our allocation is perpetually aggressive. YTD 9/30/19, 13.9%. Through 10/3/19, 12.4%. We have favorable material variances to the benchmarks. P. 5 shows actual versus target allocation. Next page, risk v. return, we want results to be above the line and to the left, which it continues to be. P. 7 net return detail: US Equity had a positive variance to the benchmark 1.6% Large cap US Equity is a very efficient market. Also staying active in small and mid-cap, which are adding a lot of value. Non-US Equity has positive variances to the benchmark with managers, Private Debt has been very positive since inception. Public Real Estate was negative a year ago, that is now one of our top-performing categories. The benchmarks for all the private funds lag a month or two. There is $3.5M in a long agreement for use in the FM Loan Fund (Series P Flex), when we invent those dollars in the loan fund, we receive 4.3% interest. For the next meeting we will look at that agreement again.

The Committee then discussed the social monitoring of our equities – does that include vaping? Mark noted that if it is rolled into a tobacco company, yes, but if it is an independent company, not sure. He will investigate it and let the Committee know at the next meeting.

Tab 3, detail on managers, how they are doing against their benchmarks peer group.

Tab 5: individual holdings. It was noted that we have $55K in Hershey, perceived to be one of the major human rights violators. It was discussed that we only screen for tobacco, alcohol and gaming, not currently screening for human rights/social issues. There was some further discussion that we should not invest in things that do not mesh with what the denomination historically supports. Mark noted that the Committee does have the authority to drop an investment at any time, for any reason. He also stated that separately managed funds can be modified to accommodate our screens. Charles noted this will be added to the agenda for the next Committee. Mark also noted that there is a section on the individual manager pages on environmental/social awareness.

VOTAIRE PRESENTATION

Nick introduced Sam Weiss who presented Votaire. Votaire was designed to be a financial wellness platform that integrates with Nyhart's other services. There is a single sign on across the systems and it pulls data from other systems. It offers a "road map" to financial wellness, including: life Insurance; debt management; retirement planning; emergency funds; 529 college choice savings; personalized healthcare projections; ability to load in your projected Social Security benefit or see the optimal age to take the benefit, based on pre-determined factors. It also partners with some third-parties, such as Credible, which helps with refinancing student loans. Votaire encourages you to log in at least monthly to confirm if you have saved that month, etc. There is also a mobile app that will allow push notifications rewarding you when the goal has been met and reminders to record activity. It can also show a personalized income statement based on current information, using pension related data in Nyhart. It can link financial accounts, so the data is current, including credit unions, HSAs, etc.

The system allows you as the administrator to see how many participants are using it, how they are doing on retirement readiness, etc. It was discussed how the information is disseminated, who has access to it, etc. Votaire presents the administrator with numerous reports that show aggregate data based on the information entered, which is all stored in the cloud and encrypted. Trial accounts are also available. The cost comes out to about $12 per participant per year (based on about 1,000 actives), it may come down to about $9 per participant, depending upon number of individuals using it.

ACTUARY REPORT & IN-SERVICE DISTRIBUTIONS

Nyhart then presented the Committee with a grandfathered group analysis for those who will not reach their age 65 before the NRA change to age 67 at 1/1/21 (Ex. F).

Looking at groups of people within the grandfathered group, Nick feels people are forgetting that when they retire, they are giving up their annual salary. One participant provided a spreadsheet showing what he would get if he were to take his benefit at different times, with a Joint & Survivor option. Nick included this same information in their calculations but using all January 1 dates and assuming life annuities instead of J&S options. Kevin Carey, Nyhart, went through the example on p. 6. The example compared early retirement benefits available to the participant at age 63 on 1/1/21, just before the NRA change and retirement benefits available at age 67 based on the participant continuing to work and begin a benefit at 1/1/25. The participant's specific example compared the total pension payments through age 80.5 based on the two different commencement dates. Based on that comparison, the participant would collect more pension benefits if he quit just before the NRA change at 1/1/2021. However, there were two flaws in his example. First, he ignored the additional pay he would receive if he worked four more years until age 67. Secondly, he evaluated the pension cash flows assuming he would only live until 80.5. Based on currently mortality tables he is projected to live until approximately 85. Page 7 of the report highlights that when adjusting his analysis for these two flaws the participant would financially be better off continuing to work until age 67, which he claimed he wanted to do, but was concerned it didn't make financial sense.

P. 9, all grandfathered participants in the plan as of 1/1/2019, 246 participants, are grouped and summarized based on their ages as of 1/1/21. The current liability savings anticipated due to the NRA change at 1/1/21 for this group is about $4.5 million assuming they all still retire at age 65. There are 70 of these participants that will be between 62-65 as of 1/1/21. These 70 participants are positioned to take an early retirement prior to the NRA change. If they all did take that early retirement benefit at 1/1/21 just prior to the NRA change approximately $2.5 million of the anticipated $4.5 million savings <u>could</u> be eliminated and cause potential pulpit issues. It should be noted that many pastors will not want to retire early (consider the example already discussed). Alternatively, if the plan expands the in-service option to benefits being payable at 62 (p. 10) or decides not to change the NRA at 1/1/21 for this group of 70 the $2.5 million-dollar reduction in savings will be virtually locked in. Any specific adjustment to the current Plan for this noted group of 70 would be adding as much as an additional $2.5M to the Plan cost. If we decide to do this, we do not believe we would be able to raise required contributions higher than what they already are. The BOA would need to find another source of funds to cover the cost of these benefits. Would other grandfathered participants under 62 ask for exceptions? (The federal law does state that if you have an in-service clause of your plan you can pay your active retirees' pension while they draw, provided they are at least 62.) There were also several people that came to the HR booth at GC19 from all over the country that were concerned over the issue. Willadean told them we would be discussing it further at this meeting. She has also received comments from superintendents that they do not have other people wanting to take these jobs. Nick stated, if they work past 67, their benefit will not be lower because of the NRA change. There was further discussion on having another Benefits Summit for these 70 people, have Nyhart come in and explain it to them. Another suggestion was to set up an appointment with Nyhart representatives, someone that is not on the Committee, so they have the chance to be heard one-on-one.

Another suggestion was to have HR send out a letter to these 70, explaining that if they are interested, HR will set up appointments with Nyhart, do a half day with them available to take calls, etc. Our main point to the BOA is that we are aware of the concern, we want to listen to their concerns and educate them, then we can report back how broad the issue is. It is too costly to take the approach of allowing early distributions at 65. A deadline would be included in the communication. After that deadline we then would schedule with Nyhart to have those consultations available.

P. 17 – projections, baseline. How the funding percentage would play out. P. 18, assume 13.9% in 2019. Nick pointed out that Kevin and Drew did some good work on the valuation refinements. In looking at retirement rates, when people are truly retiring, etc. P. 22, those of retirement age who started drawing their benefit:

assumption is that all grandfathered people would retire at age 65. Only four of those eligible to retire at age 60 (283 participants) did so. 54.3% who were eligible (304 participants) retired at 65. Keep in mind, these are all grandfathered people. The early retirement reduction (6.67%/year) is approximately equal to the discount rate. P. 23, about 2/3 of people take a J&S option. Thinking of using this as a table for the actuarial assumptions for next year. When we get to the valuation each year, payment forms seem to have an impact. We recommend changing the payment form assumption for future commencements to 35% single life annuity, 50% taking a 100% J&S, and 15% electing a 50% J&S annuity.

VALUATION REPORT

The formal Actuarial Valuation (Ex. G), based on the final audited numbers, was also presented. Nick will provide an electronic copy for Willadean of both reports.

HOUSING ALLOWANCE

On motion, it was approved for retirees to declare up to 100% of their pension as housing allowance.

CBA CONFERENCE

Church Benefits Association Conference: Jacksonville, FL – December 3-5 – registrations need to be in soon. Send in the form to Willadean, she will then send in one check. This will also be available to the new members.

BOA REPORT

BOA Report will be presented Thursday, October 10, between 5-5:30 (Charles is third in line to present).

NEXT MEETING

Next meeting – Spring / New Benefits Committee – date will be set later.

Miscellaneous

Miscellaneous – we should probably do a document restatement. Perhaps discuss at the Spring Meeting.

CLOSE

Willadean said she hopes some of the Committee will stay on for continuity, and she has enjoyed working with the entire Committee. She closed with prayer and the meeting adjourned at 3:15pm.

Submitted by,

Willadean M. Duncan

EAST MICHIGAN CONFERENCE

March 17, 2020

Dear Bishops Adams, Cowart, and Whitehead:

I am writing to offer my perspective on discussions I understand are taking place regarding the pension program. In 1999 the decision was made to increase the rate of calculation to 1.85 and to use the average of the five highest years over the total years served for future benefits paid. This was above industry norms. The change in commitment to future benefits, not requiring higher contributions, a decrease in the number of new pastors contributing, and return on investments over time compromised the health of the pension program.

In 2016 I served as a member of FMCUSA BOA and task force that reviewed the status of the pension program. The actuarial metrics showed the program to be significantly underfunded at approximately 78% of what was needed at that time. The changes (effective January 1, 2018) in contribution requirement from 10.5% to 13.5% and the adjustment in the rate of calculation to 1.50 and the number of years served for future benefits paid, and the age of retirement from 65 to 67 (effective January 1, 2021) were recommended to bring the program in alignment with industry norms and to regain a fully funded program over time.

The delayed effective date in changing of the age of retirement from 65 to 67 effective January 1, 2021 was thoughtfully made so that pastors potentially effected would make necessary changes to account for this. It's important for the FMCUSA Board of Administration to understand that these changes were made based upon actuarial metrics, not to be punitive, and intentionally considered the factors that influence the overall health of the pension program.

I understand a concern has been raised about the potential number of pastors who could retire on 12/31/2020 and that some in this group would be impacted if they retired effective January 1, 2021. I also understand that individuals who choose to continue employment until the age of 67 after January 1, 2021, the benefit will be larger than if they would have retired on 12/31/2020.

Any suggestion that the new structure is forcing people to retire by 12/31/2020 is a false argument, given that the option exists to work until age of 67 and future benefits will continue to be added to. With any change to a program there will always be a window where calculations are less favorable. Inherent within a pension program is the choice for individuals to work or draw a pension. Stewardship is about choices and there are always pluses and minuses.

Accommodating a group at this time, will set a precedent to accommodate future groups of pastors. Then there will be another group that will say, "You did it for them, so why not for us?" From my leadership perspective, we need to take a long view and stay with the more conservative plan. It's important to not ignore the current actuarial metrics or guidance provided by those who work with such programs on a regular basis. Thank you for your consideration of my perspective.

Sincerely,

Bradley Button

Brad Button, Superintendent

SAMPLING OF THOSE 62-64 EARLY RETIREE RESPONSES

Concerned responses -

1. May be working until 70 but could stop earlier. Might come back at 67 if he leaves to go to another job. Then would take his benefit 1/1/21. Doesn't really want to stop working in the FMC.
2. Would find another organization to work for and would take the benefit 1/1/21. Feels devalued, it's a win lose situation. Looks like there should be a way to work this so everyone is sharing in this.
3. Wants to continue to pastor, lower his salary for the church and draw his pension, mentoring others to bring up to the lead pastor. Feels over all he is trying to help the church and the denomination. Would work out a way to still be involved but would draw the benefit 1/1/21.
4. Feels this is the first time the pension plan has had a negative change. All the rest have been a move forward. Early retirement is there to discourage people from taking their benefit. Feels like he is being punished not just at 65 but 67 too. Who would want to come back to the FMC at 67? Could check out the Nazarenes, Wesleyans, Church of God, etc. Desires to not loose the benefit. He will find another job and leave 12/31/20, and feels the denomination made this decision for him. Ends up being an emotional issue, and if there is no change by April he will be looking for a job. Timing for the church is not good due to a new launching and direction of the church with moving to a new church building and remodel.
5. Feels he needs to retire at the 12/31/20 date based on the changes with the NRA to age 67. If it wasn't for the change he would most likely continue, but feels it is coming at a time that he should stop. He will look for other part time ways to volunteer and will continue to minister in other ways. He understands the need to make changes to the plan but based on the lack of number of pastors available to serve, this change will not serve the denomination well.
6. Taking benefit 1/1/21. Would be nice to be able to take the benefit early and remain active. Not wanting to do a work around and wants to make sure everything is appropriately done.
7. Individual said many of their conference pastors feel there will be more changes to the plan going forward. Thinking maybe in the next couple years even. He said he would not want the job of making all this work. Feels pastors are living longer, there are less pastors, and these are the real realities going forward. Appreciative of all the work and our board. He is and was planning on working until 67 or beyond but will decide that later.
8. Thinking of volunteering and taking benefit early. Wife is ordained and perhaps she would draw the salary and be the lead pastor.
9. Individual said she will want to work until age 67 and would take her benefit as of 12/31/20. This change in the NRA has pushed her towards making an earlier decision compared to the prior age 65 NRA. Feels not being able to be employed and drawing the benefit would be a problem. Stated this is frustrating based on losing high caliber pastors who are impacted by this change of NRA. The plan at this point is to continue to work until age 67, or perhaps longer. Most likely will take benefit at age 67.

03/17/2020

At this time there are 12 people that have not responded to our letter or voicemail. Out of the 74 (four were previously listed as not grandfathered but they actually are) who have responded here is where we stand currently:

- 7 of the initial 74 are now Vested Termed and have started their benefit or submitted final paperwork to start their benefit later this year.
- 24 people say they plan to take early retirement by 01/01/2021 or before.
- 27 people say they plan to work to age 67 or later
- 11 people are undecided

This means of the active participants (three last groups) who we have had contact with we have 43.6% saying they will work to age 67 or later and 38.7% are planning on taking the early retirement option, with 17.7% undecided on what they will do.

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Free Methodist Church of North America Defined Benefit Pension Plan

Plan Design Analysis

Comments on Projections

The cost projections contained in this report are based on the valuation results and assumptions noted in the January 1, 2016 actuarial valuation report. Reasonable actuarial techniques and assumptions were used to produce the cost projections.

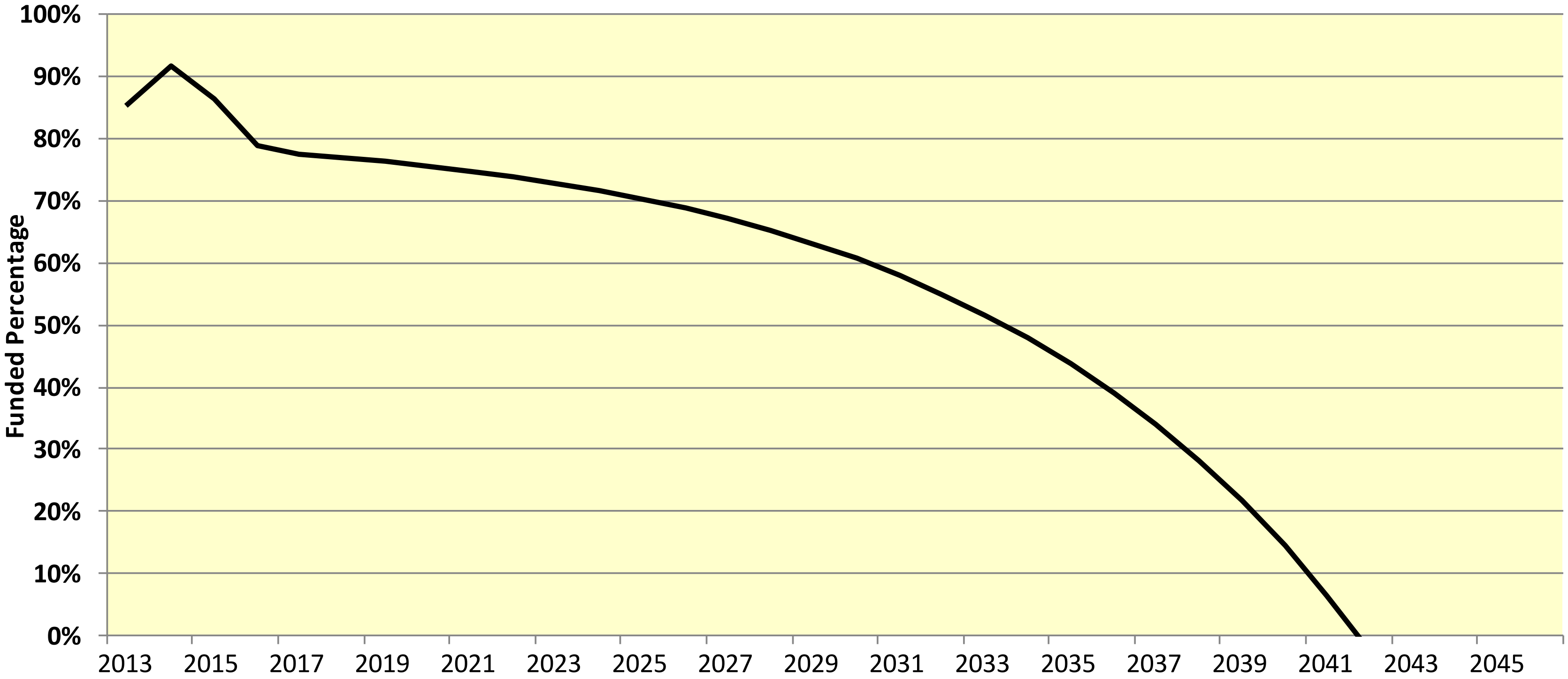
The following pages show cost projections under different economic scenarios. Actual results will vary from projections shown in this report, perhaps significantly, due to changes in the assumptions, plan provisions, participant demographics, interest rate movement, actual asset performance, and other actual experience of the plan. Depending on the use of this information, additional cost projections may be necessary to quantify the sensitivity of results.

While a diligent effort has been made to produce reasonable projections, by their very nature projections are speculative. Plan sponsors are cautioned against placing too much reliance on any particular scenario.

Projection 1 – No Changes to Plan -The Challenge

Free Methodist Church of North America

Defined Benefit Pension Plan - Funded Percentage



- ***Current Plan, 10.5% Contributions, NRA 65, 2% population decrease, 7.25% future ROA***

Considerations for Future Plan Sustainability

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Contributions Increases

- Current is 10.5% of pay
- Looked at increases ranging from 1% - 3%

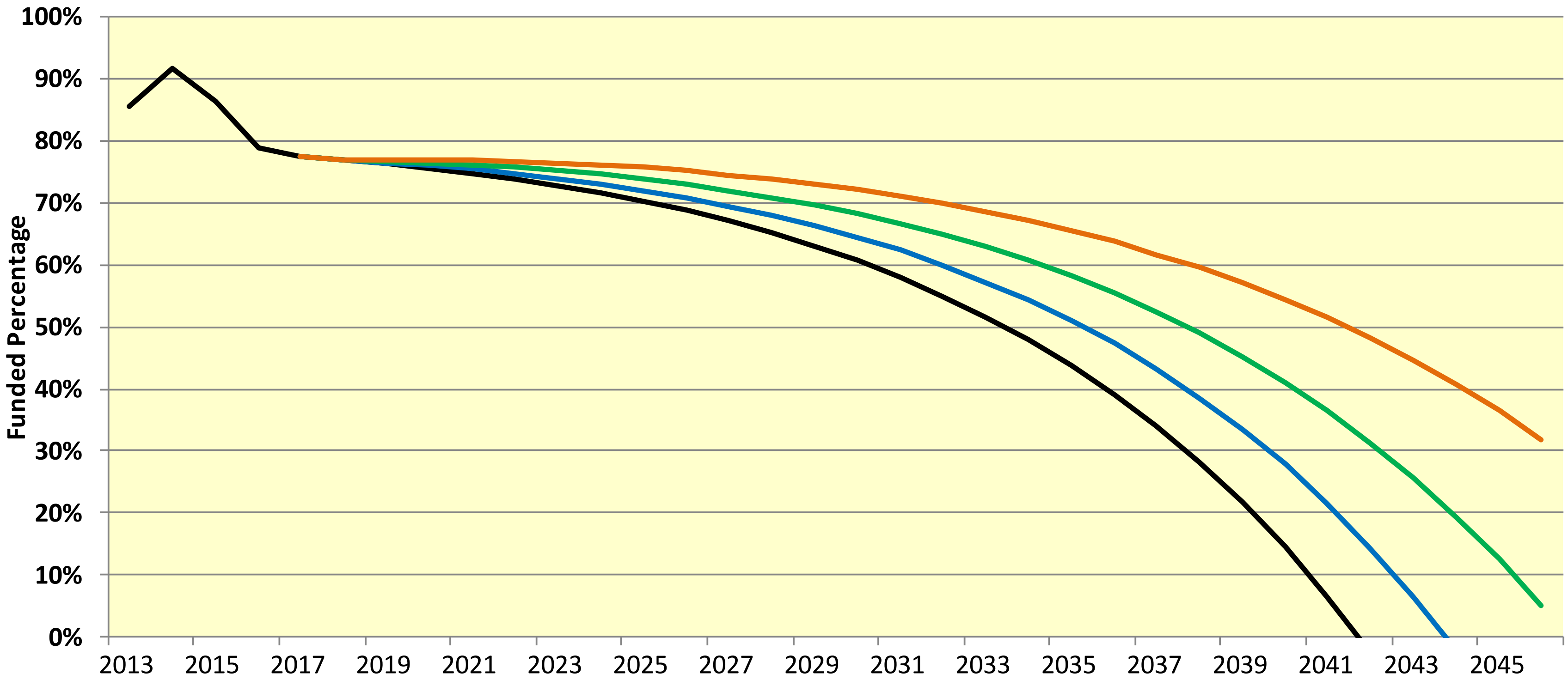
Benefit Decreases

- Grandfathered Group Formula
  - Currently 1.85% of 5-year final average pay
  - Non-grandfathered formula: 1.5% career average pay
- Grandfathered Group Normal Retirement Age
  - Currently age 65
  - Considered 65, 66, and 67

Other Variables Influencing Projected Results

- Population Growth
- Asset Returns

Projection 2 – Current Plan and Contribution Increases



- ***Current Plan, 10.5% Contributions, NRA 65, 2% population decrease, 7.25% future ROA***
- ***Current Plan, 11.5% Contributions, NRA 65, 2% population decrease, 7.25% future ROA***
- ***Current Plan, 12.5% Contributions, NRA 65, 2% population decrease, 7.25% future ROA***
- ***Current Plan, 13.5% Contributions, NRA 65, 2% population decrease, 7.25% future ROA***

Projection 3 – Proposed Plan with Varying NRA – No Contribution Changes

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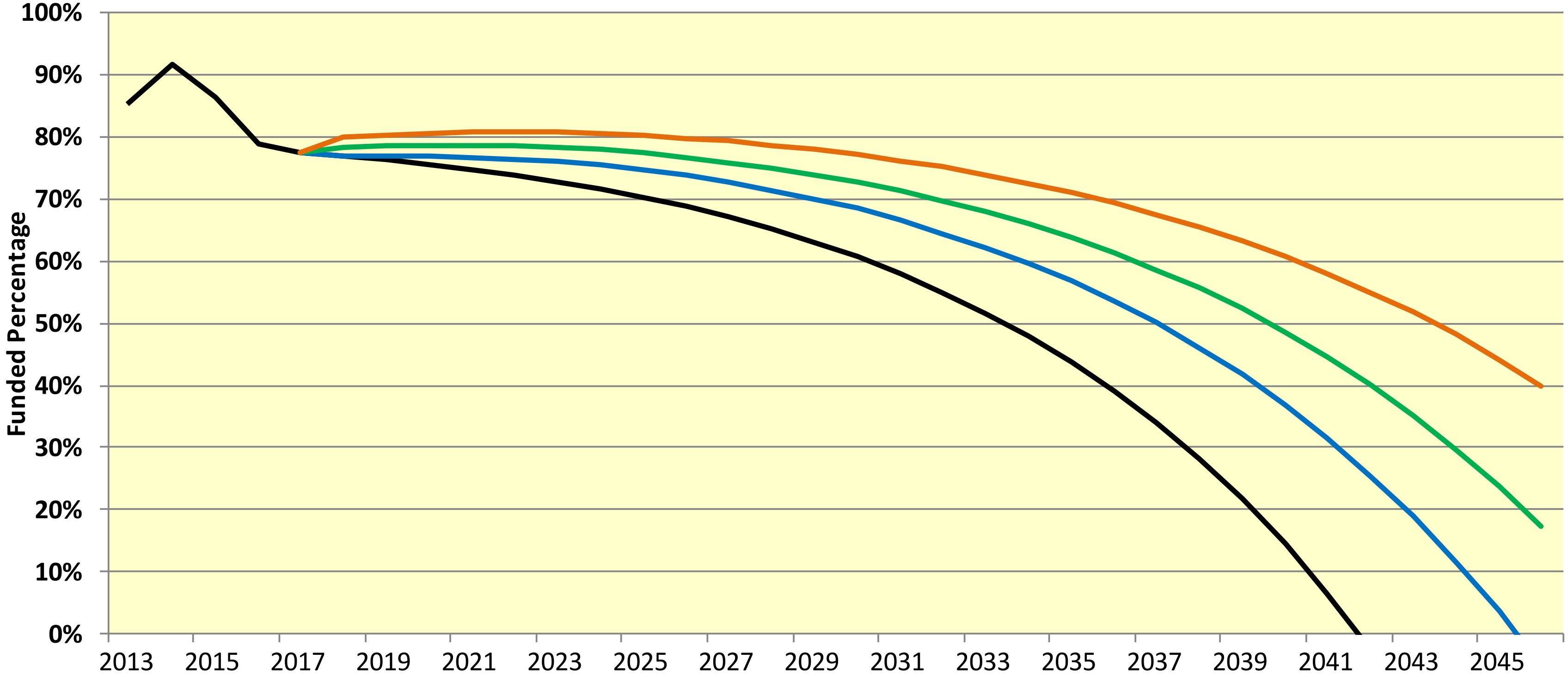

- ***Current Plan, 10.5% Contributions, NRA 65, 2% population decrease, 7.25% future ROA***
- ***Proposed Plan, 10.5% Contributions, NRA 65, 2% population decrease, 7.25% future ROA***
- ***Proposed Plan, 10.5% Contributions, NRA 66, 2% population decrease, 7.25% future ROA***
- ***Proposed Plan, 10.5% Contributions, NRA 67, 2% population decrease, 7.25% future ROA***

Recommended Changes

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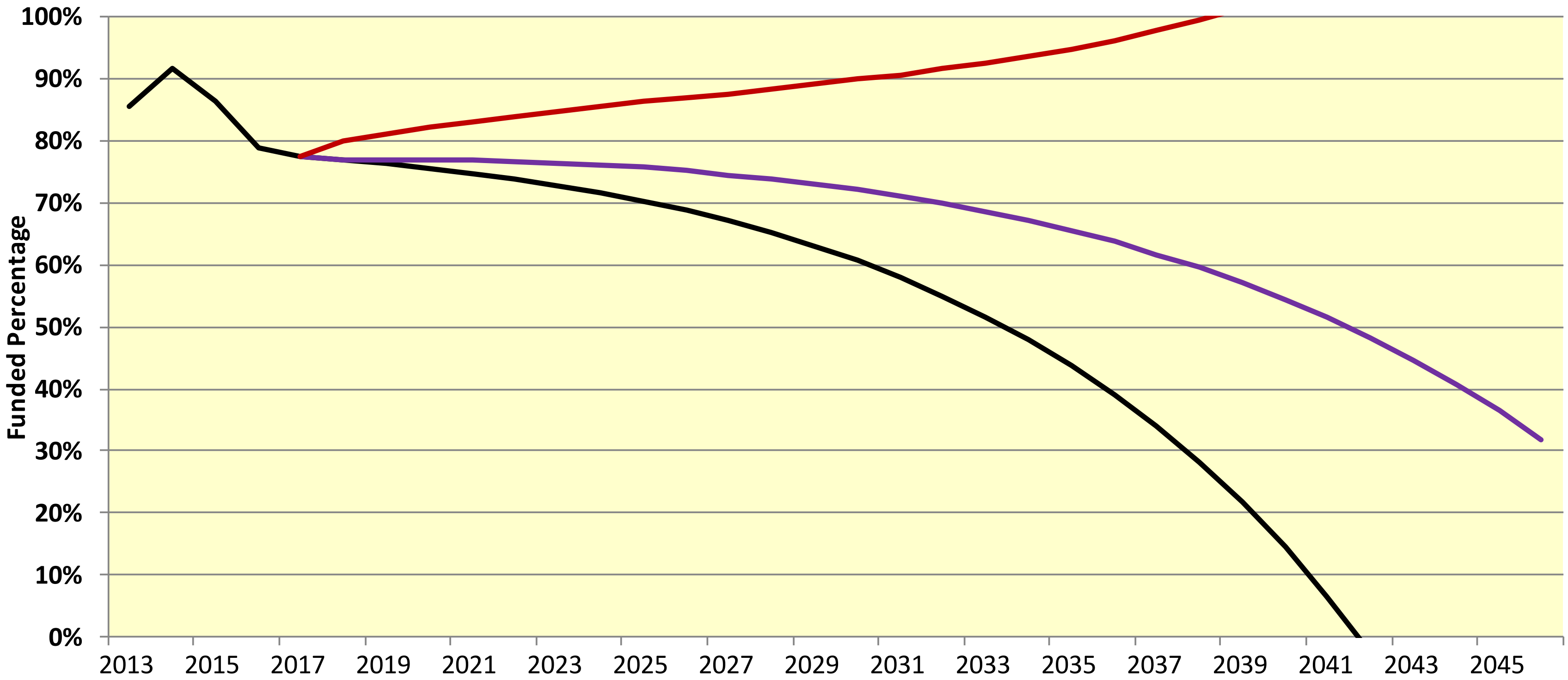
Unified benefit provisions for all participants at 1/1/2018

- 1.5% Career Average Formula
- Age 67 Normal Retirement Age

Increase contributions from 10.5% of pay to 13.5% of pay

Projection 4 – Current Plan versus Proposed Plan



- ***Current Plan, 10.5% Contributions, NRA 65, 2% population decrease, 7.25% future ROA***
- ***Current Plan, 13.5% Contributions, NRA 65, 2% population decrease, 7.25% future ROA***
- ***Proposed Plan, 13.5% Contributions, NRA 67, 2% population decrease, 7.25% future ROA***

Projection 5 – Proposed Plan Provisions with Varying Future Return on Assets

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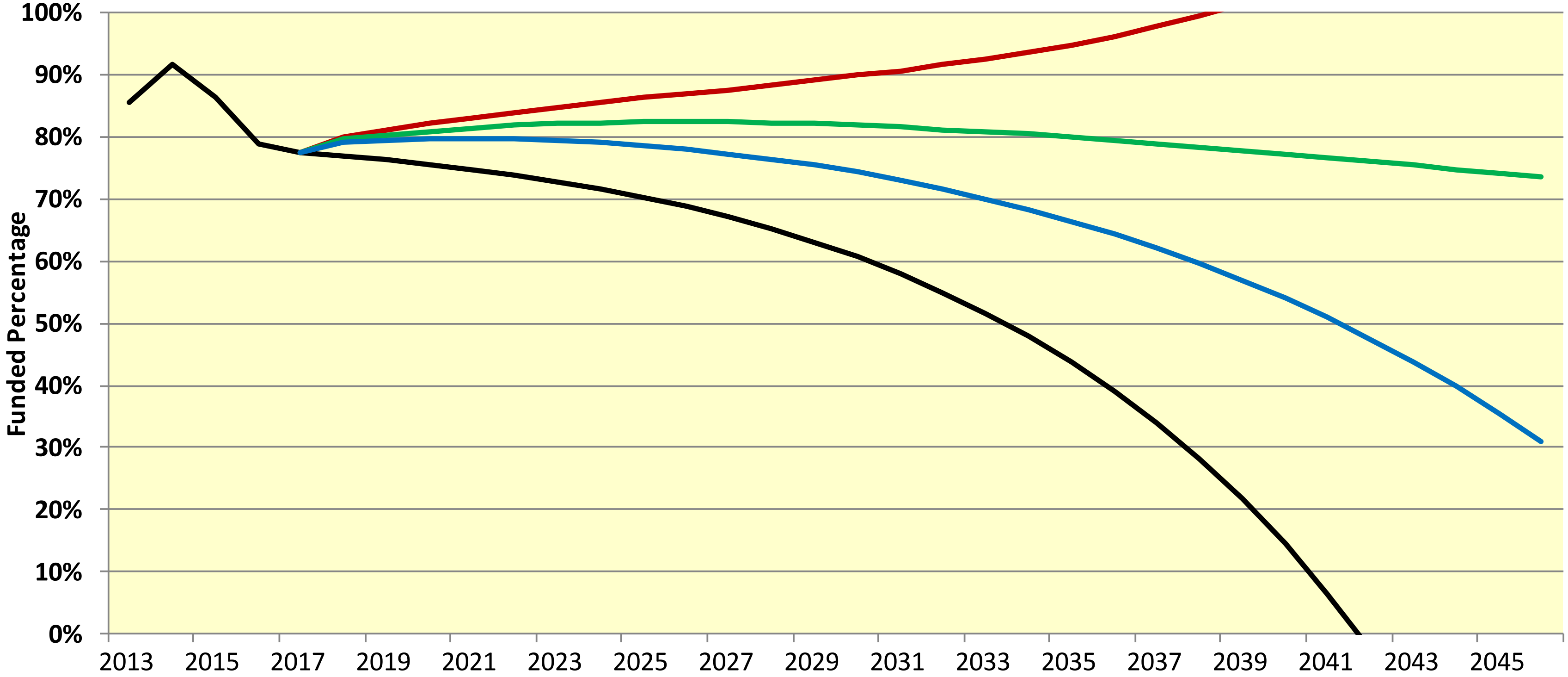

- ***Current Plan, 10.5% Contributions, NRA 65, 2% population decrease, 7.25% future ROA***
- ***Proposed Plan, 13.5% Contributions, NRA 67, 2% population decrease, 7.25% future ROA***
- ***Proposed Plan, 13.5% Contributions, NRA 67, 2% population decrease, 6.75% future ROA***
- ***Proposed Plan, 13.5% Contributions, NRA 67, 2% population decrease, 6.25% future ROA***

Effect of Changing the Grandfathered Benefit Formula to 1.5% Career Average in 2018
Example 1 – Near Retirement

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Date of Birth: 12/31/1954	*Age at 1/1/2018: 63*
Normal Retirement Age: 65	*Service at 1/1/2018: 18*
	Projected Service at 65: 20
	Salary Growth Assumption: 3%

Projected Monthly Benefit Under Current Formula (NRA=65)

$56,325/12 x 20 x 1.85% = **$1,735** payable at age 65

Projected <u>Age 65</u> Monthly Benefit with Formula Change and NRA=67

($53,091/12 x 18 x 1.85%) = $1,473
+ ($1,765/12) = <u>$ 147</u>
$1,620

$1620 x 86.67% = **$1,404** payable at age 65

Projected <u>Age 67</u> Monthly Benefit with Formula Change and NRA=67
(working 2 additional years)

($53,091/12 x 18 x 1.85%) = $1,473
+ ($3,637/12) = <u>$ 303</u>
$1,776 payable at age 67

Effect of Changing the Grandfathered Benefit Formula to 1.5% Career Average in 2018 Example 2 – Furthest from Retirement

nyhart

Date of Birth: 12/31/1964	*Age at 1/1/2018: 53*
Normal Retirement Age: 65	*Service at 1/1/2018: 18*
	Projected Service at 65: 30
	Salary Growth Assumption: 3%

Projected Monthly Benefit Under Current Formula (NRA=65)

$60,556/12 x 30 x 1.85% = **$2,801** payable at age 65

Projected <u>Age 65</u> Monthly Benefit with Formula Change and NRA=67

($42,473/12 x 18 x 1.85%) = $1,179

+ ($9,871/12) = <u>$ 823</u>

$2,002

$2,002 * 86.67% = **$1,735** payable at age 65

Projected <u>Age 67</u> Monthly Benefit with Formula Change and NRA=67
(working 2 additional years)

($42,473/12 x 18 x 1.85%) = $1,179

+ ($11,885/12) = <u>$ 990</u>

$2,169 payable at age 67

Other Considerations – Freezing the Plan

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% of Pay Collected	10.50%
Asset Return	7.25%
Approximate Unfunded Liability 1/1/2018	$ 37.6 million

	Amortization Period			
Population	**10**	**15**	**20**	**25**
Flat	31,571,019	41,239,523	48,625,575	54,359,224
1% Up	33,089,650	44,030,020	52,836,594	60,044,621
1% Down	30,147,057	38,698,338	44,896,448	49,456,483
2% Down	28,811,776	36,382,706	41,588,858	45,216,492

- Assume the plan is frozen at 1/1/2018 so everyone would receive what they are currently due, according to the plan's benefit schedule, and churches would continue to contribute to the plan even though their pastor would not accrue any additional benefits, until the plan was sufficiently funded.
- Projected unfunded liability is $37.6 million
- The above table suggests collecting 10.50% toward the unfunded would fully fund the plan in about 16 years with 7.25% returns and a 2% active population decrease.
- The results of this table are available dynamically

Other Considerations – Paying Out the Plan

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- Table below shows the value of a lump sum based on a $1,000/month accrued benefit, current age, Normal Retirement Age, and if the plan was 75% funded at the time of payout

Current Age	Age 65 NRA	Age 67 NRA
35		8,581
40		12,210
45		17,389
50	30,341	24,793
55	43,364	35,436
60	62,470	51,048
65	91,392	74,682
70	81,397	
75	69,752	
80	57,002	
85	44,342	
90	33,377	

- 7.25% and 2016 IRS Mortality used for Lump Sums for Qualified Plans
- Presumably, if the plan was 75% funded, participants could get a lump sum based on 75% of their current accrued monthly benefit

Additional Scenarios

Comparisons to Proposed Plan Provisions and 13.5% Contributions

Projection 6 – Proposed Plan Provisions and Contribution Rate with Varying NRA

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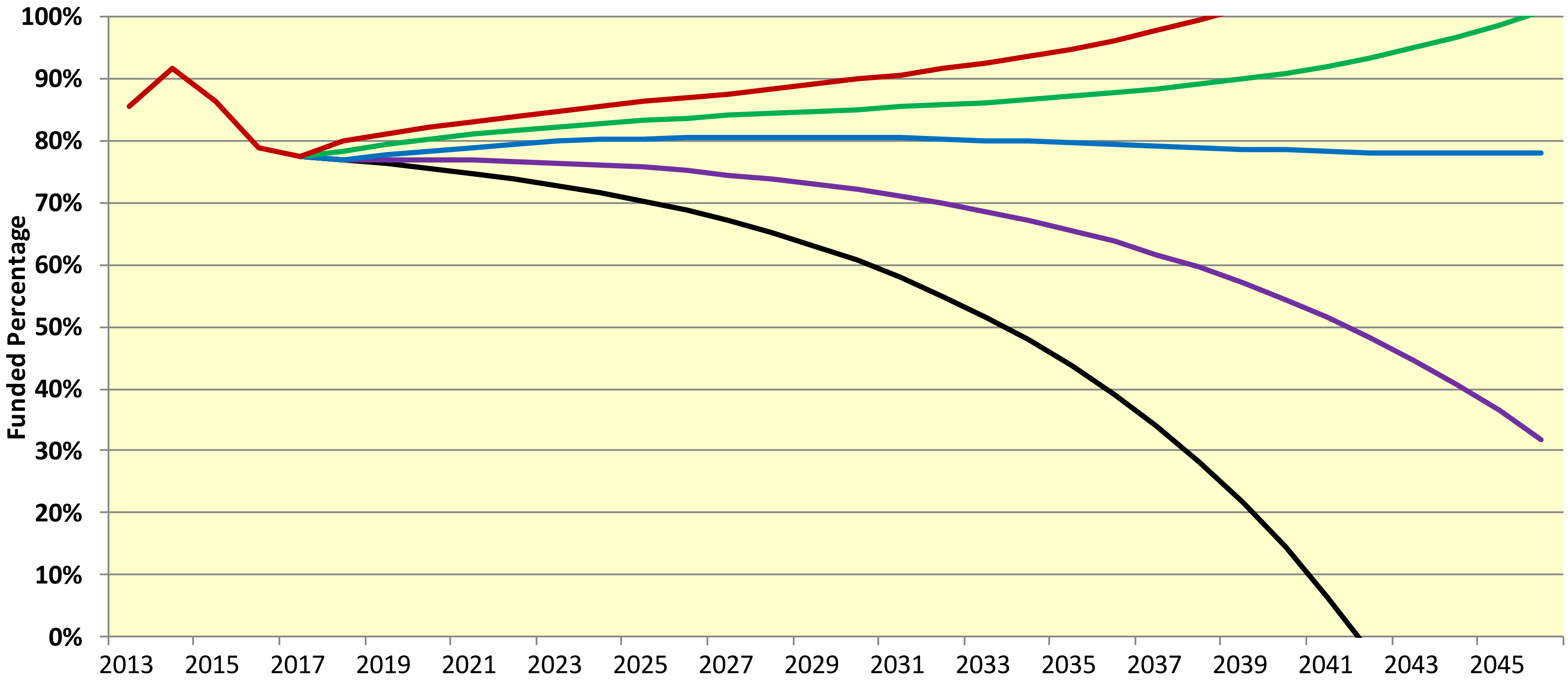

- ***Current Plan, 10.5% Contributions, NRA 65, 2% population decrease, 7.25% future ROA***
- ***Current Plan, 13.5% Contributions, NRA 65, 2% population decrease, 7.25% future ROA***
- ***Proposed Plan, 13.5% Contributions, NRA 65, 2% population decrease, 7.25% future ROA***
- ***Proposed Plan, 13.5% Contributions, NRA 66, 2% population decrease, 7.25% future ROA***
- ***Proposed Plan, 13.5% Contributions, NRA 67, 2% population decrease, 7.25% future ROA***

Projection 7 – Proposed Plan Provisions and Contribution Rate with Varying Population Scenarios

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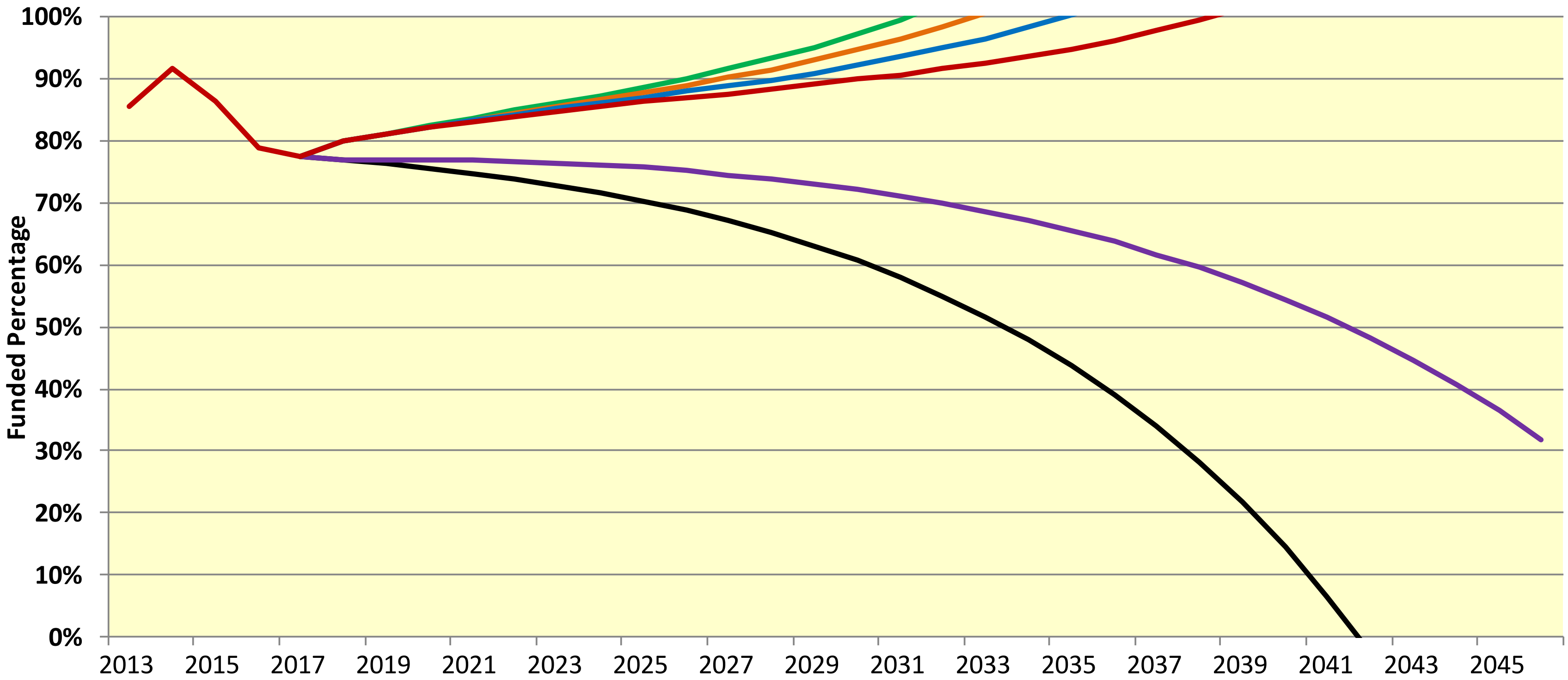
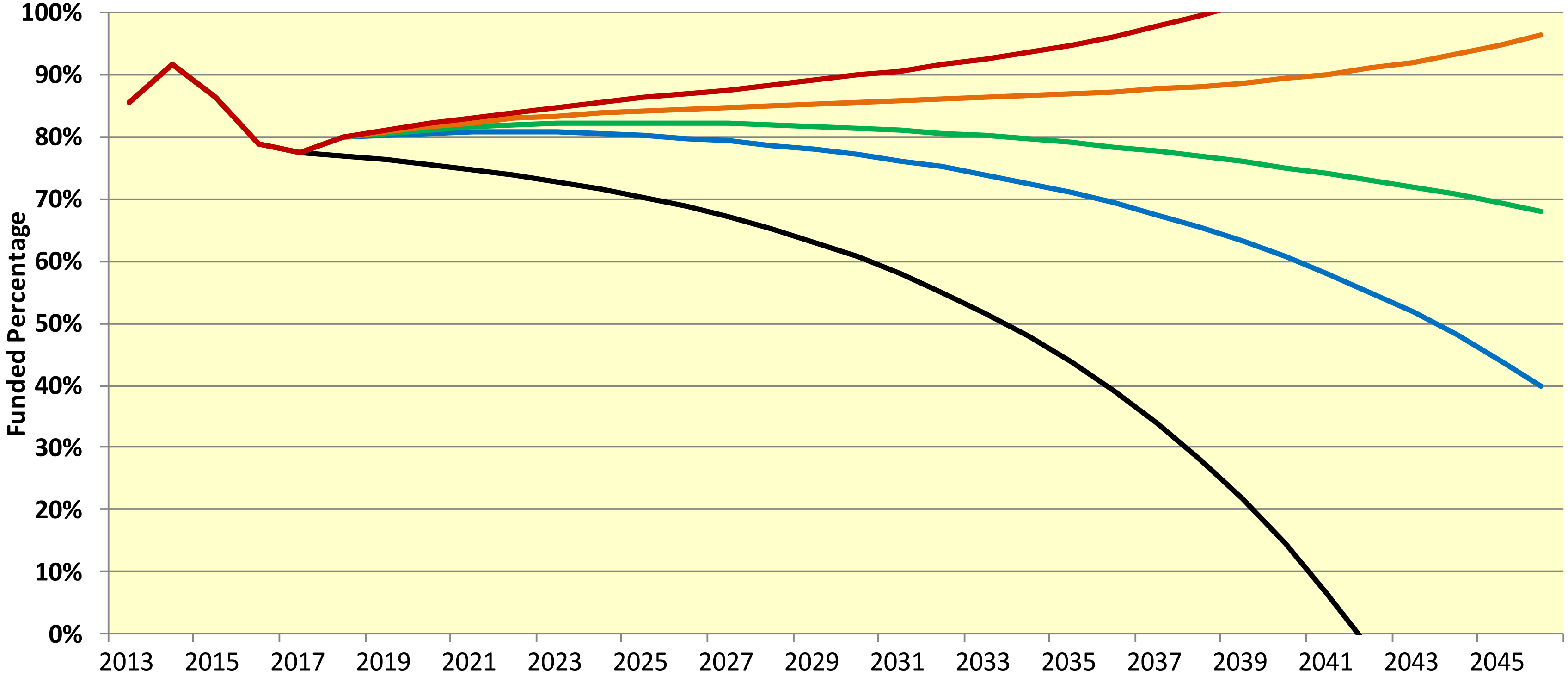


- Current Plan, 10.5% Contributions, NRA 65, 2% population decrease, 7.25% future ROA
- Current Plan, 13.5% Contributions, NRA 65, 2% population decrease, 7.25% future ROA
- Proposed Plan, 13.5% Contributions, NRA 67, 2% population decrease, 7.25% future ROA
- Proposed Plan, 13.5% Contributions, NRA 67, 1% population decrease, 7.25% future ROA
- Proposed Plan, 13.5% Contributions, NRA 67, flat population, 7.25% future ROA
- Proposed Plan, 13.5% Contributions, NRA 67, 1% population increase, 7.25% future ROA

Projection 8 – Proposed Plan Provisions with Varying Contribution Rates



- ***Current Plan, 10.5% Contributions, NRA 65, 2% population decrease, 7.25% future ROA***
- ***Proposed Plan, 10.5% Contributions, NRA 67, 2% population decrease, 7.25% future ROA***
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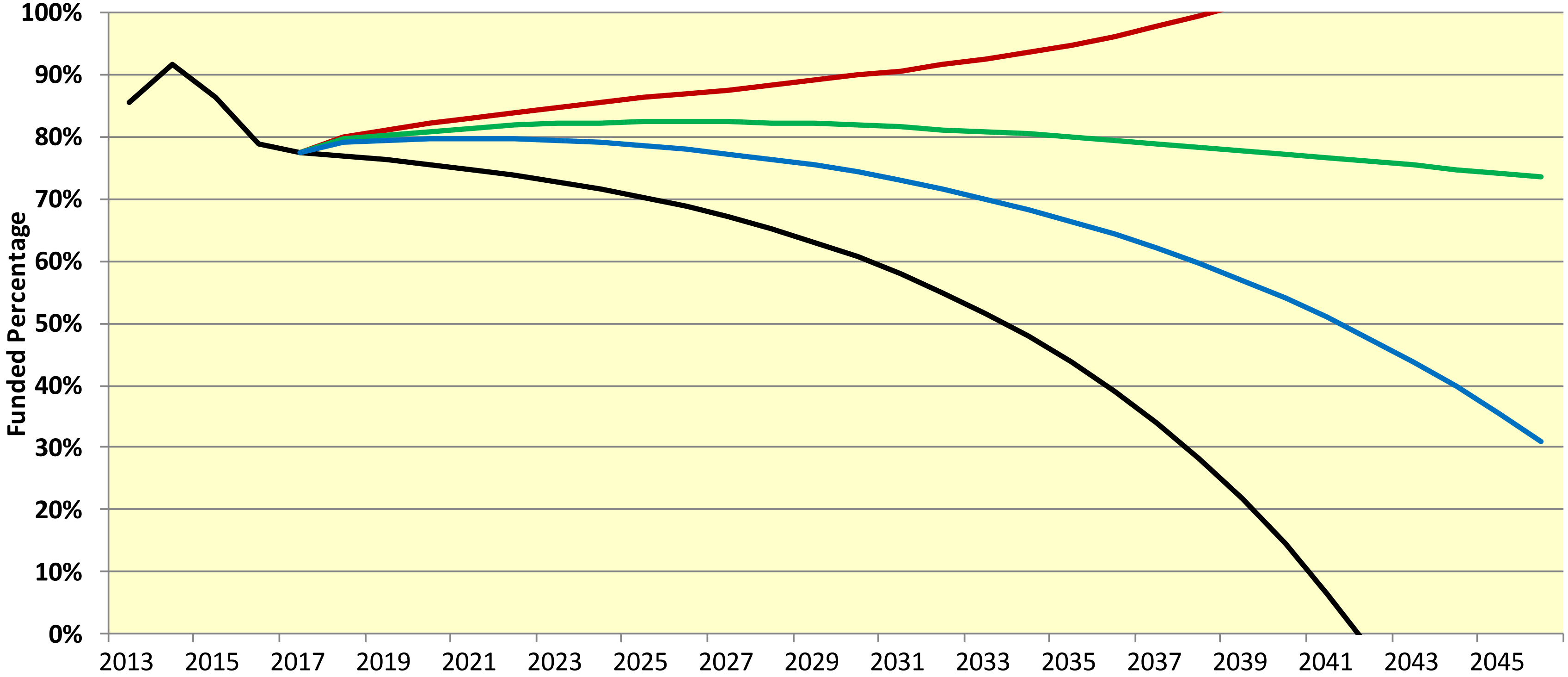
- ***Proposed Plan, 12.5% Contributions, NRA 67, 2% population decrease, 7.25% future ROA***
- ***Proposed Plan, 13.5% Contributions, NRA 67, 2% population decrease, 7.25% future ROA***

Projection 9 – Proposed Plan Provisions with Varying Future Return on Assets (Repeat of Projection 5)



- ***Current Plan, 10.5% Contributions, NRA 65, 2% population decrease, 7.25% future ROA***
- ***Proposed Plan, 13.5% Contributions, NRA 67, 2% population decrease, 7.25% future ROA***
- ***Proposed Plan, 13.5% Contributions, NRA 67, 2% population decrease, 6.75% future ROA***
- ***Proposed Plan, 13.5% Contributions, NRA 67, 2% population decrease, 6.25% future ROA***

Free Methodist Church of North America Defined Benefit Pension Plan

Grandfathered Group Analysis

March 3, 2020

Grandfathered Actives – Demographics

Age at 1/1/2021	Under 60	60-62	62-65
Count	56	35	65
Average Age (1/1/2019)	56.0	59.1	61.5
Average Salary (1/1/2019)	$53,495	$51,627	$60,852
Average Service (1/1/2019)	26.4	29.4	31.2
Average Monthly Accrued Benefit (1/1/2019)	$2,059	$2,098	$2,641

Grandfathered Actives – Outcomes for group between age 62 & 65 by 1/1/2021

	All Retire Early @ 1/1/2021	All Work Until 65	All Work Until 67	All Work Until 67 w/In-svc @ 1/1/2021 *(estimated)*
1/1/2019 Liability ($000s) - PVFB	**$18,352**	**$16,319**	**$16,129**	**$18,352**
Post 1/1/2021 Contributions ($000s)	**$0**	**$751**	**$1,819**	**$1,819**
Post 1/1/2021 Salary Collected ($000s)	**$0**	**$5,566**	**$13,477**	**$13,477**
Average Monthly Benefit	**$2,525**	**$2,518**	**$3,062**	**$2,525**

Grandfathered Actives – Pros/Cons

	All Retire Early	All Work Until 65	All Work Until 67	All Work Until 67 w/In-svc @ 1/1/2021
Pros	• Participant starts retirement earlier • Reduces future plan risk • Potentially new pastors involved	• Original plan • Receive some contribution revenue • Retain experienced leaders (for a period) • Saves plan money as benefit is reduced from new retirement age (67) • Overall plan savings	• Current plan • Receive contribution revenue • Retain experienced leaders • Participant can delay drawing Social Security	See next page
Cons	• Participants leave church for other denomination / employment • Lost contribution revenue • Lost leadership & staffing issues • Lower retirement income • Earlier asset liquidity required • Feelings of negativity and distrust	• Employee retirement income reduction due to new early retirement reductions • Still some lost contribution revenue	• Less opportunity for next generation of leaders • Higher eventual monthly benefits to pay	See next page

In-service Pros & Cons

Pros	Cons
Mechanism for Grandfathered participants to lower NRA change impact without having to leave employment	Reduces liability savings from the NRA plan change
Retain experienced employees	Administratively more burdensome and potentially more costly
Plan receives 13.5% of pay as contributions during the period the participant continues to work	Could bring into question ongoing 13.5% contributions when participant benefits don't change after several years of additional contributions
Participant maximizes their pre & post retirement income	Potentially higher taxes for participants to pay (likely mitigated by housing allowance)
Better reputation by providing gesture of goodwill toward long-serving pastors	Other Grandfathered participants under 62 still on other side of "line"

To: FMC-USA BOA
From: Charles R. Toy, Chair BOA Benefits Committee
Date: April 2, 2020
Re: Benefits Committee Vote on Reconsideration of Pension Plan Amendment

In an April 1, 2020 email, I reconvened the Benefits Committee (BC) and asked members to reconsider the vote to amend the Pension Plan to allow "in-service" distribution, which is the equivalent to "Retired-Active." In others words, a Plan participant could commence their Plan benefit and continue to work, with potential further adjustments to their Plan benefit at actual separation from service.

In addition to the material the BC members already had, which is the 80 page BC Report attached to the BOA agenda, I attached one new and two updated items to the email: 1.) Nyhart's Grandfathered Group Analysis, which will be presented to the BOA during its April 3, 2020 meeting; 2.) an updated report from Willadean Duncan on the survey the HR Department is conducting of the Grandfathered group; and 3.) the end of quarter Pension Plan investment outcome. There was no discussion. Within 2½ hours of the email being sent, all BC members had voted. The BC voted 6 to 2 to **not recommend an amendment to the Pension Plan,** i.e. keep the Pension Plan as is.

For BOA members interested in process or wondering how the vote on reconsideration was framed, as a resource but certainly not compelled reading, the actual email that was sent to BC members follows:

Good Morning Blessed and Faithful Benefits Committee Members,

The FMC-USA BOA Finance Committee stated that it would be helpful to the BOA if the Benefits Committee reconsidered its vote to amend the Pension Plan. Because of a lack of time before the BOA meeting, I will consider the request a motion made and adopted to have the Benefits Committee reconsider its vote, without the parliamentary vote by the Benefits Committee to reconsider its vote.

The minutes of our January 29, 2020 meeting states:
A motion was made to have a vote on not making another change (keeping the plan as is). Vote results: four No; four Yes; a tie. The motion was neither passed nor defeated. The decision will now be up to the BOA. We will present BOA with the pros and cons in an easily understood fashion, along with an edited version of the minutes, and make Nick available if they want to talk with him. Nick will put together a summary with a review by HR & the Benefits Committee.

So the motion is: Do you want to keep the Pension Plan as it is (no amendment to the Pension Plan). A ***YES*** *vote will keep the Plan as is. A* ***NO*** *vote will be to amend the Plan to allow "in-service" distribution, which is the equivalent to "Retired-Active." In others words, a participant could commence their plan benefit upon the attainment of age 65 and continue to work, with potential further adjustments to their plan benefit at actual separation from service.*

Please vote by noon EDT tomorrow, Thursday, April 2, 2020. To not influence others by your vote, please send your reply only to Willadean at Willadean.Duncan@fmcusa.org. If you do not remember how you voted on January 29, 2020, please email me and I will tell you how you voted.

Here are some background resources if you need them. The information that was sent to the BOA is at this link: https://fmcusa.org/springboa. Go to 3:00 PM and you will see the Benefits Committee Report is scheduled. Click on the BC Report link and all the material we considered as a Benefits Committee is there. After the four-page cover letter is a guide on how to review the following 75 pages.

Attached are two ***NEW*** *reports, one from Nick Meggos and one from Willadean. Nick's report is a Grandfathered Group Analysis for the BOA. It is the same report we reviewed at our March 3, 2020 meeting, but pages 3, 4, 5, and 8 have been added to give the BOA background information. I draw your attention to page 5, which is an example of benefits for a participant with 30 years of service, making $60,000 a year, and turning 65 in 2021. The second attachment is an updated report from Willadean Duncan on the survey the HR Department is conducting of the Grandfathered group.*

The last piece of updated news is that the Pension Plan investments are -14.4% as of the close of the markets yesterday, which is the end of first quarter.

Thank you for your service to the Lord, FMC-USA, the BOA Benefits Committee, your ministries, your church, and your family. Blessings overflowing during these unique times. I pray that the Lord protects you and your loved ones and multiples your hope and peace in Him.

Charles
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