APPENDIX G

Council of Delegates Comments regarding Overture 4

MEMORANDUM

To: Synod 2024
From: CRCNA Council of Delegates
Re: Right of Comment re Overture 4: Close the Pension Fund to New Members and Create a New Retirement Fund
Date: April 17, 2024

To have some understanding of the issues and concerns presented in Overture 4, it is important to recognize the following, as stated in the Rules for Synodical Procedure (section VII):

> That synod defer action on overtures, minority reports, and motions from the floor of synod that involve substantive matters concerning the denomination's retirement plans until advised by the U.S. and Canadian pension trustees. The same is requested for actions that may be initiated by synod's advisory committee on finance or by any other of synod's advisory committees that is at variance with recommendations made by the pension trustees or is independent of any action recommended by them. Advice to synod will be in the form of a memorandum or other materials directed to synod's advisory committee on finance, which is the committee normally designated for processing matters related to the denomination's benefit plans.
> (*Acts of Synod 2004*, pp. 623-24)

Because any action taken at synod involving substantive modifications to the denomination's retirement plans requires the involvement and advice of the pension trustees, this Right of Comment addresses parts of the overture where misstatements or erroneous conclusions are drawn. This Right of Comment speaks to those issues to best serve synod in its work.

Pension Plan Background

The ministers' pension plans are "defined benefit" plans. This means that the benefits paid by the plans are defined (by formula), and the plans' funding is determined by actuarial calculations of the amount of money needed to fund the defined benefit. The plan sponsor (the denomination), through member and participant assessments, funds the "defined" pension benefit. Defined benefit plans place market and mortality risk with the plan and the sponsoring organization (the denomination). So if markets fall and members live longer than expected, the plan and the sponsor pick up the cost.

In addition to a defined retirement benefit, the Ministers' Pension Plan provides significant disability and survivor benefits in the years before retirement. Benefits are provided for a surviving spouse on the occasion of a plan participant's death while in active service, and disability benefits are paid to participants who experience permanent disability. In each case, these benefits are changed to lifelong retirement benefits when the surviving spouse or the disabled participant, as the case may be, reaches retirement age.

"Defined contribution" retirement plans (i.e., RRSPs and 301ks in Canada, and 403(b)s and 401(k)s in the U.S.) typically define the funding in terms of a percentage of compensation and allow the benefit to be determined by the amount of funds accumulated at the point of retirement. The amount available to fund retirement benefits will vary from member to member. These types of plans place market and mortality risk (and reward) in the hands of the members. So, up markets help, down markets hurt, and each member's choice of financial planners significantly affects their benefit.

Discussions have occurred for years over which of these forms is the best in general terms and for the participant plan populations. Many years ago, the pension trustees surveyed all plan participants and asked which of these retirement plan forms they preferred. At that time, the survey results indicated that an overwhelming majority of active and retired ministers preferred the defined benefit form, and they opposed any elimination of the disability and survivor's benefits that have historically been a part of the plan's benefits structure. It was also understood that these types of plans would not lessen the impact on retirement savings for a minister taking a call to a smaller church rather than a larger, more affluent church during their years in ministry.

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The overture contains several representations that are sometimes inaccurate or not fully explained. One example states that "a pastor entering ministry around 1995 has seen a reduction in projected benefits from the pension plan of 30-35 percent" on their annual pension estimate statement. In the past, the estimate statements used a projected increase in the final average salary (one of the elements in the benefit calculation). In more recent years, the estimate statements discontinued that practice and presented the estimate based on current dollars. This would give an appearance of a reduction, but in both cases, past and present, the statements were estimates. The adjustment in how the estimates were presented was explained in correspondence sent with the statements when this change was made.

The statement that "there are a number of churches not paying their assessments in the pension plan" is misdirected. Most churches that are unable to pay into the plan are vacant churches (currently without a minister). Vacant churches do not have a minister accruing benefits during the vacancy, so there is no additional financial burden on the minister and minimal impact on the plan.

Among the concerns presented in the overture is that the CRC's director of finance and administration retired last year, leaving a gap in pension plan leadership. Because John Bolt has years of knowledge and experience in the pension realm, the plan's consultants and advisors were not called on to take as strong a role as they would under staff with less pension administrative experience. John has been able to provide consulting to the pension office since his retirement. This has been helpful to staff involved in the administration of the plans. At the same time, it is important to note that the plans use excellent investment consultants who attend every trustee meeting and communicate with staff and the trustees in between meetings. At each trustee meeting, fund managers are reviewed. An established process is used to evaluate and, if necessary, replace fund managers. One hundred percent of the trust funds are under fund managers and monitored by the trustees in conjunction with the investment consultants. The sustainability of ministers' pension plans has never relied on one individual.

Plan Design Considerations

The ministers' pension plans are funded through monies held in trust (distinct from all other denominational cash holdings) and are dedicated to the payment of participant benefits only. At the last valuation at the end of 2022, the U.S. fund was 88 percent funded, while the Canadian plan was 100 percent funded. Neither plan has ever experienced any issue meeting the benefit payment demands. The overture mentions that the U.S. plan does not fall under the Pension Benefit Guarantee Corporation (PBGC). The benefit of not falling under PBGC is that the denomination also does not pay the significant PBGC premiums annually that an ERISA plan must cover.

The overture references concern that the last actuarial evaluation was done in 2019. Actually, the evaluation referenced was done in 2020 using December 31, 2019, data. The last evaluation was completed in 2023 using 2022 data and has been reported to synod in the *Agenda for Synod 2024* (p. 261). These evaluations are done every three years rather than annually because it was determined that the very long time horizon to pay pension benefits (for current and future retirees) along with the expense ($30,000-$45,000) of plan valuations, the three-year schedule is sufficient. The pension trustees use these valuation reports when setting the contribution levels. The plans' actuaries have noted no concern about an asset shortfall that would hinder benefit payments at any time in the foreseeable future. The annual contribution (assessments) has been set at a minimum level and has remained unchanged from 2011 through 2024.

The denomination and the plans are binational. In 1982 synod stated that the church's total pension obligation to ministers and their dependents is an across-the-board denominational responsibility requiring joint financing (*Acts of Synod 1982*, p. 50). The denomination considered the retirement needs of its ordained clergy in Canada and the United States as "one." Because one of the plans (Canadian or U.S.) may be in a somewhat better financial condition than the other at a particular point in time is not itself a reason to abandon the fundamental notion that the denomination spans all of North America and is served by clergy drawn from both Canada and the United States. The U.S. and Canadian pension plans intentionally mirror each other so that our ministers can work on either and/or both sides of the border without significant differences in the resulting benefit upon retirement. This overture's proposal requests a significant change to only one plan—affecting those ministers who have served all or part of their careers in the U.S., with no comment for those serving in Canada. This view is contrary to the intent of synod and should not be embraced.

Finally, it is also important to note that many factors affect a minister's financial situation at retirement. The pension plans were never meant to be the only way a minister prepares financially for retirement. When saving for retirement, the pension plan is referred to as being just one leg of a three-legged stool. There is the income from the employer (in this case, the Ministers' Pension Plan), income from the government (Social Security in the U.S. / Canada Pension Plan and OAS in Canada), and personal savings. Therefore, the denominational pension plan is just one element in planning for retirement. This is true for bivocational pastors and for those serving in ministry part-time. Many other retirement savings options are available through a second employer or another provider (banks, credit unions, financial advisors, etc.).

Summary

There are many advantages to maintaining the Minister's Pension Plan (MPP) in the U.S. and Canada; among them, as described above, are the following:

- Investment risk is assigned entirely to the denomination and the plan itself, not to individual participants in the MPP.

  A defined contribution plan, such as recommended in the overture, puts the risk on each individual.

- The MPP provides significant disability and survivor benefits to its participants.

  Eliminating the defined benefit plan would eliminate the Long Term Disability coverage.

- The U.S. and Canadian plans mirror each other so that ministers are free to serve where called and still receive similar benefits at retirement.

  It is unclear if Overture 4 is asking to apply this to both the U.S. and Canada plans or only to the U.S. plan. Synod decided that the plans are to mirror each other; synod would have to reverse that decision for this to happen (*Acts of Synod 1982*, Art. 47).

- Participants are not adversely affected whether they serve a smaller or larger church at any time during their ministry because the benefits provided are not based on individual salary levels.

  A defined contribution plan will disproportionately adversely affect ministers serving smaller churches.

- The trustees of the plans utilize investment consultants, actuarial advisors, and legal professionals regularly to ensure the plans meet the needs of the beneficiaries.

  A defined contribution plan requires the individual to find, manage, and pay for this type of expertise.

- The plans follow each country's pension plan rules and regulations and are held to the same governance level as qualified retirement plans.
- The overture mentions several concerns. The basis for those concerns is inaccurately presented using misunderstood, misrepresented, or missing information. Furthermore, the overture does not recognize the importance of the connected covenantal nature of the pension plans as they currently exist.

  A shift to a defined contribution plan nearly negates the underlying purposes of the current plans.

- The overture suggests that a task force be formed. This suggestion has significant issues: (1) limiting current pension trustees from serving on this task force would risk missing important historical and critical experience; (2) the data that the task force would need and the expertise it would need will come with a cost—likely over $35,000. Where would these funds to come from? There are no ministry shares for this. Funds from the trust cannot be used for this because they are to be used strictly for the benefit of the participants.

The pension trustees continually use the plans' actuarial experts, investment consultants, fund managers, and legal advisors to maintain and, as much as possible, improve "the health of the current CRCNA Pension Plan." It is part of their mission to "provide for its future funding and guard the retirement benefits of those enrolled in the plan." The trustees take their administrative responsibility for the Ministers' Pension Plan very seriously.

Note: This communication is submitted to synod per the synodically approved "Right of Comment" policy in the Council of Delegates Governance Handbook, which states the following:

1. The COD itself (i.e., without staff initiation) may judge that synod would be well served by a formal communication in response to a matter on synod's agenda that affects a ministry that falls under the governance of the COD.

2. If time permits, the COD may ask staff for background information.
3. The communication that emerges may be adopted or endorsed and communicated to synod via the COD's Supplement Report.