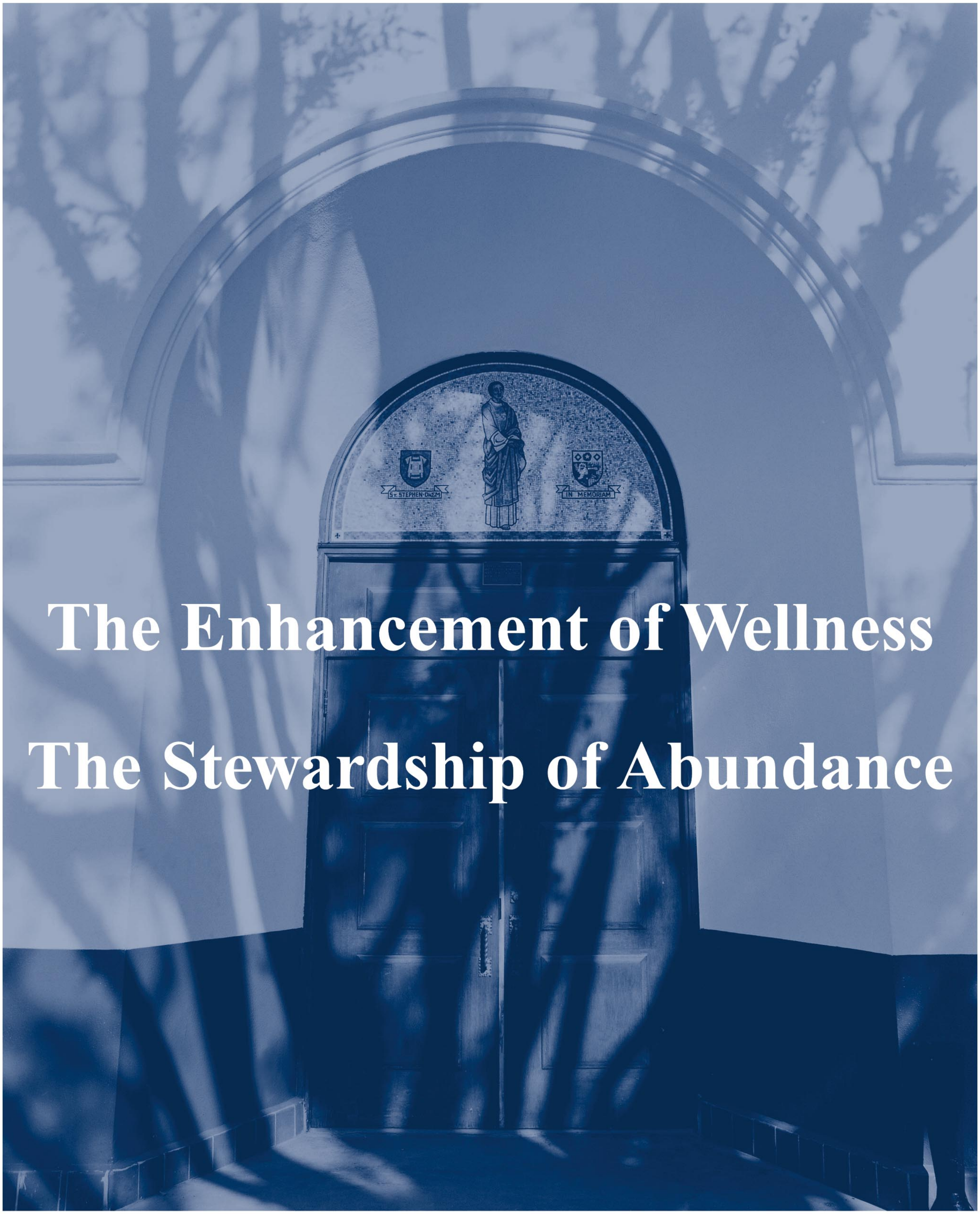

The Enhancement of Wellness
The Stewardship of Abundance

A Report to the Episcopal Church
and the 74th General Convention

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1 The Enhancement of Wellness, The Stewardship of Abundance

The management and trustees of the Church Pension Fund (CPF) submit this document to the 74th General Convention as an aid to the House of Bishops and House of Deputies. We hope that this document and the Church Pension Group (CPG) 2003 Annual Report will give deputies and bishops the information they need to carry out their responsibilities relative to the Church Pension Fund. To that end, this document has three objectives:

1. To highlight the major initiatives of the Church Pension Group during the last triennium

2. To respond specifically to resolutions presented to us by the 2000 General Convention

3. To direct interested parties to additional information detailing the work of CPG

The title of this report, "The Enhancement of Wellness/The Stewardship of Abundance," is also the subject of our 2003 Annual Report. It captures the themes not only of this triennium but also of the extraordinary period since 1994 when the Church Pension Fund trustees concluded that CPF's financial position was sufficient to launch an aggressive inquiry into clergy wellness.

Exhibit 1-1, the signature exhibit of this year's annual report, shows the extraordinary degree to which this effort has borne fruit. Since 1994, almost $1.3 billion has been allocated to benefit increases. In this triennium alone, the aggregate increase amount is over $600 million.

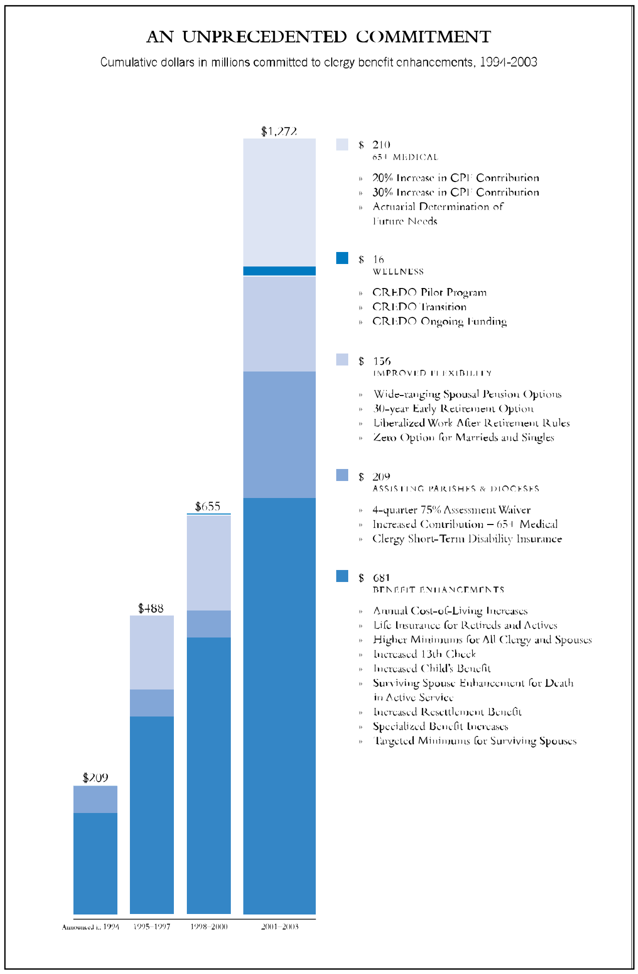


Exhibit 1-1

This record of benefit increases is unprecedented. We believe it calls for the church to do two things: first, to understand and internalize the magnitude of this commitment, and, second, to consider its implications as we go forward. This year's annual report, summarized in Chapter 8 of this document, discusses the intersection of individual and institutional wellness, a particularly strong and critical ongoing area of concern.

These recent benefit enhancements have been instituted despite the very poor financial climate of the past triennium. When General Convention met in 2000, the financial markets were just completing the end of a period of extraordinary positive financial returns. In our fiscal year ending March 31, 2000, the pension fund had far outperformed the financial markets, creating a $2 billion or 50% increase in investment assets.

The picture of this triennium is quite different (see Chapter 3). The financial markets have done very poorly, although the pension fund has outperformed the markets by an admirable degree. Since early 2001, our assets available for benefits have declined about 10%.

The overall financial impact of these events is shown in Exhibit 1-2. Here, we focus on three particularly significant financial measures: required reserves, the securities valuation reserve, and additional funds. Two things are evident. First, the amount of required reserves has increased substantially, largely as a result of funds committed to benefit enhancements. Second, the market has caused a moderate decline in overall available assets.

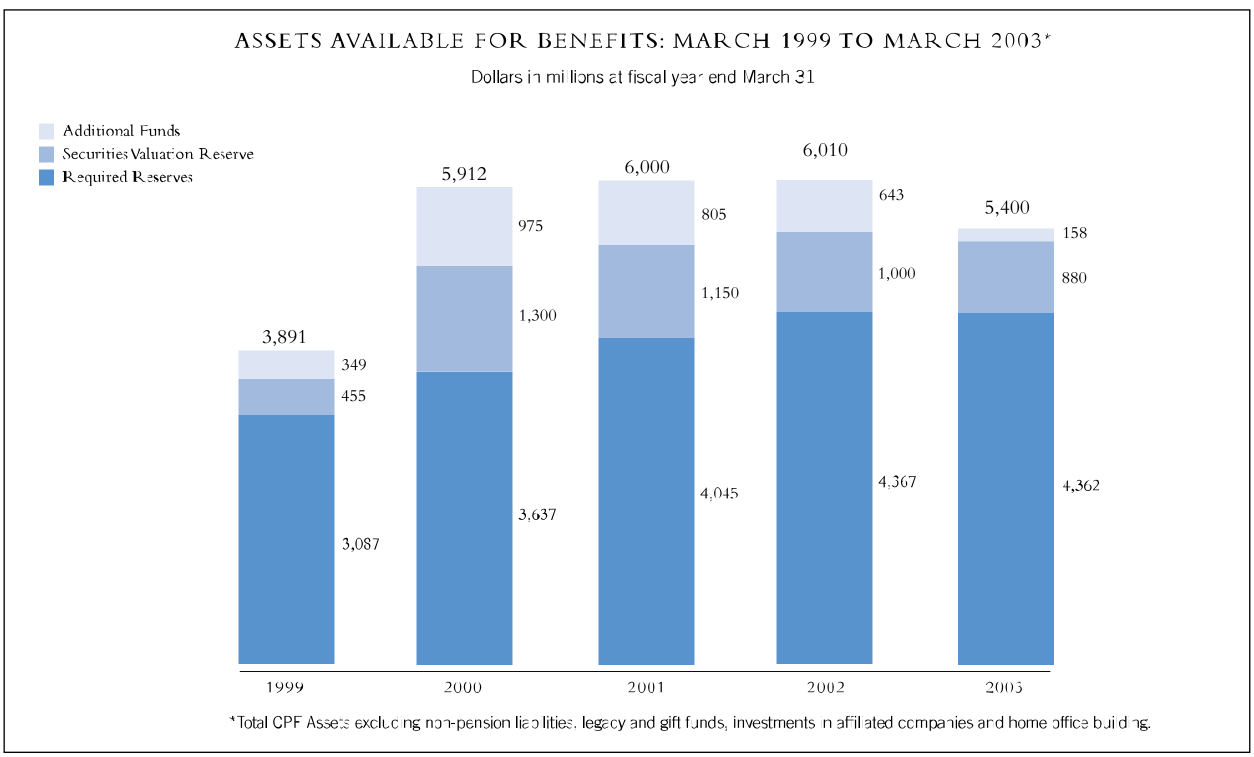


Exhibit 1-2

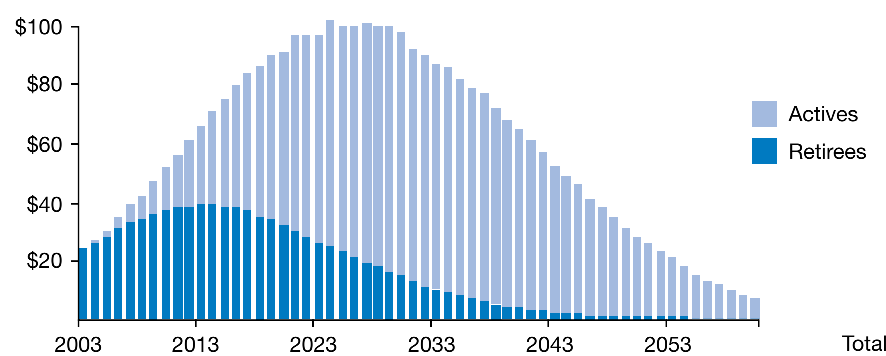
This decline in overall assets supports our position as outlined in the 2001 Annual Report. At that time, we suggested that the extraordinary financial performance of the 1990s might prove to be a once-every-hundred-years—or a once-in-all-time—period of good fortune. That suggestion, and the uncertainty of the future, called for exceptional prudence in the commitment of the additional funds which had been accumulated. Since 2000, new benefit commitments total over $600 million (see Chapter 5), representing over half of the additional funds that were available in 2000. As we thought might happen, the market has taken away much of the rest.

We end this chapter with an exhibit which will be further discussed in Chapter 6. It is very complex. However, we think it is important to draw immediate attention to serious issues regarding the providing of health care assistance to Medicare-eligible retirees.

Exhibit 1-3 shows our health care actuarial consultants' current estimate of the future dollar payments that would be required, under our current medical assistance program, to two groups of people: current retirees and active plan members once they are Medicare-eligible and retired. The projection assumes that we continue with the current approach of committing roughly $2,700 per plan member (and spouse) per year and increase that amount annually in an attempt to offset inflation.

CPF Projected Future Medical Assistance Cost—Current and Future Retirees, Spouses and Surviving Spouses

($ in millions)



								Total
Projected Costs by Decade	$414	$839	$979	$734	$370	$106	N/A	$3,442
Actual 2003 Present Value	$310	$387	$276	$126	$39	$7	$2	$1,147

Exhibit 1-3

The pattern of expected total annual payments to current and future beneficiaries looms extraordinarily large, growing from the $24 million we expect to spend in 2003 to $116 million on a “current dollar” basis in 2030. And the obligation extends for a very long time.

Fortunately, not all the money that eventually might be required needs to be in hand today to make future payments in this manner. On a “present value” basis, our consultants predict that we need a total of $1.147 billion for all of these commitments.

The possible need for sums of this magnitude, for a program which began almost as an afterthought just a few years ago, represents the most dramatic change in the recent life of the clergy pension plan. As is the case for most of America, the rapid cost increase and level of uncertainty surrounding the future of medical care is our most serious concern.

It is important to note that this pattern of future payments discussed here represents a hope, not a promise. Medical cost assistance to our retirees is not a guaranteed element of our pension plan. The uncertainty surrounding future health care costs and government financing is far too great to make any promises.

With this caution in mind, we hasten to assure you that the fund is financially strong, and current and future pension benefits are secure. We calculate funds necessary to provide benefits using conservative assumptions, and pension assets are invested in a wide variety of investment strategies.

2 Overview of the Triennium

The organization chart below shows the major operating units of the Church Pension Group. Beginning with a special act of the New York State legislature in 1914, which formalized the Church Pension Fund authorized by General Convention in 1910 and 1913, the organization now called the Church Pension Group includes a wide range of businesses and services. An amendment to our charter by General Convention in 1940 significantly expanded the scope of our authorized activities. Partially as a result, CPG's business units in addition to the fund encompass the Church Insurance Company (founded by individual CPF trustees in 1929 and "acquired" by CPF in 1940), Church Life Insurance Corporation (founded in 1922), the Episcopal Church Medical Trust (founded in 1978) and Church Publishing Incorporated (founded in 1918 as Church Hymnal Corporation). CPG's 300-person staff also includes internal support units, including information services and finance, which serve all these businesses.

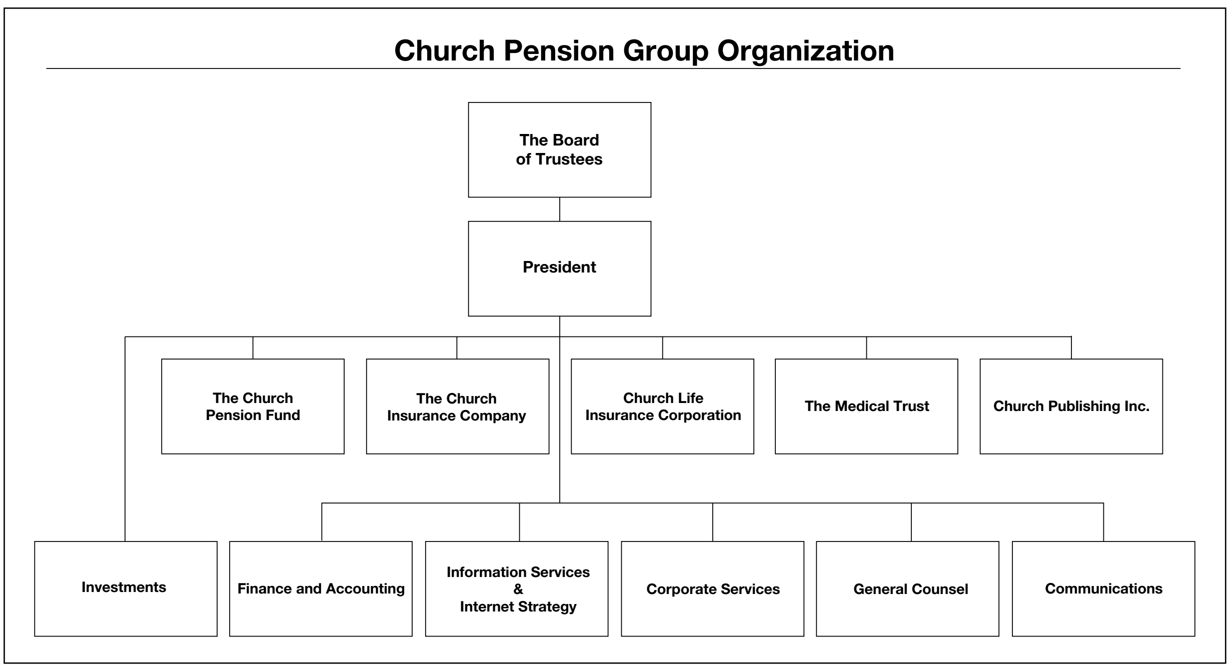


Exhibit 2-1

We believe a look at the past triennium supports four important conclusions:

- The investment performance which drives our work has been exemplary.
- Work on benefit initiatives has been extensive.
- The population we serve continues to grow.
- Seriously studying the interaction of institutional and individual wellness is critical.

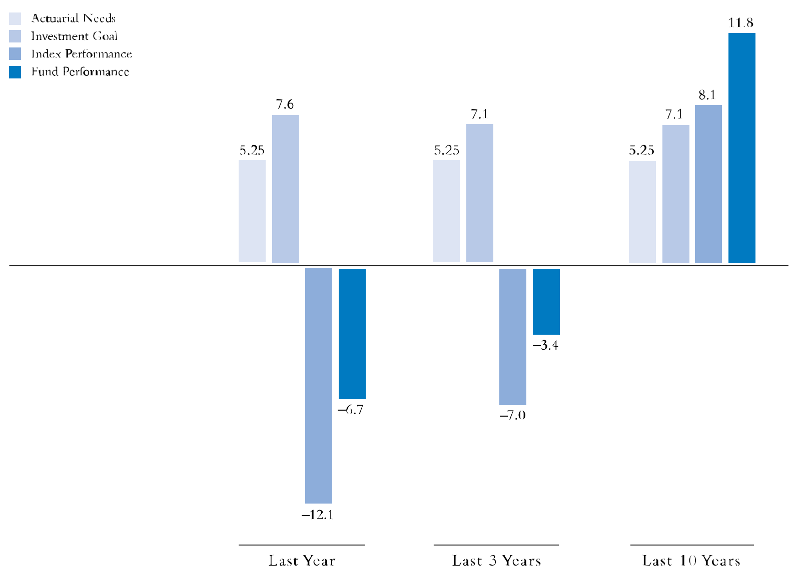
Our Financial Position

The Church Pension Fund's investment performance and its impact on our financial position call for specific, detailed discussion (see Chapter 3). However, this is an area of such importance that this overview must begin with some additional discussion of the current economic climate.

Exhibit 2-2 shows CPF investment performance over one-, three-, and ten-year periods. It compares the total return of our portfolio with three key benchmarks: actuarial needs, investment goal, and an index portfolio that is similar to ours but is not actively managed.

INVESTMENT PERFORMANCE FOR PERIODS ENDING MARCH 31, 2003*

Annualized total return in percent



* This exhibit compares the fund's performance to three important indices: Actuarial Needs (the annual return used to calculate pension liabilities); Investment Goal (annual return needed to fund pension liabilities and cost-of-living increases); and Index Performance (composite performance of a portfolio weighted 65% in S&P 500 stocks and 35% in Lehman Brothers Government/Credit bonds, and reduced to reflect the cost of equity protection). Because of their complexity, the fund's performance numbers could change to some degree.

Exhibit 2-2

Calendar year 2002 represented the third consecutive poor year for the U.S. and world stock markets. Relative to the market, Church Pension Fund investments did well in fiscal 2003, decreasing by only 6.7% versus the 12.1% drop experienced by the index portfolio which includes both stocks and bonds. In the three-year period as well, CPF has done significantly better than most institutional investors.

However, as excellent as our relative performance is, it is troubling that only one of the three time periods shown in this exhibit has positive returns. CPF is far from immune to market forces. Although we are financially strong, we remain cautious, constantly seeking ways to protect our assets from market volatility. We rely heavily on the extensive knowledge and experience of our trustees and staff.

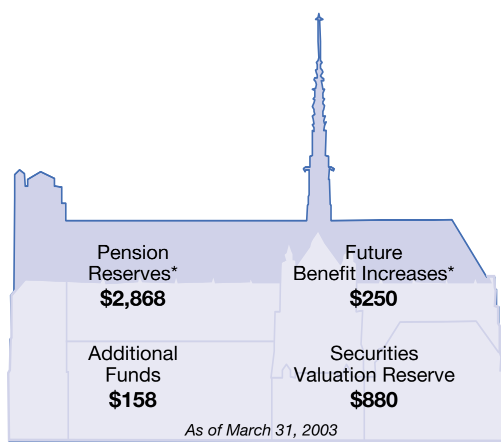
Exhibit 2-3 provides another picture of the scope of the activities to which CPG's assets are devoted. As the chart demonstrates, the various components of the clergy pension plan funded reserve comprise the most substantial asset pool. Here, committed reserves fall into four categories with a total value of $4.2 billion. Of these, additional funds, the amount not specifically earmarked for promised benefits, total $158 million. The core mission of the clergy pension plan is to serve the church's 16,000 clergy and their families, ensuring their financial security, particularly in their retirement years. Yet, as the organization chart (Exhibit 2-1) and the asset summary below indicate, the clergy pension plan is but one of the many services we provide, and the clergy pension pool of assets is but one of several for which we are responsible.

CPG's responsibilities have expanded, growing increasingly diverse in response to the needs and desires of the church. The clergy pension plan always will remain at the center of our focus. It is with tremendous gratitude that we report that, despite the volatility in the financial markets, CPG continues to have the financial and managerial resources to fulfill its core responsibilities and to continue to consider how we might best add enhancements to serve our plan members and the church.

The Breakdown of CPG Assets

($ in millions)

Elements of the Clergy Pension Plan Funded Reserve



Other CPG Assets

Major Medical, Life Insurance, and Supplemental Pension Funds* **$1,244**	Lay Pension Plans **$146.1**
Affiliated Company Assets **$386.5**	Staff Pension Plans and Miscellaneous **$110.1**

*These comprise the $4,362 million in Required Reserves as shown in Exhibit 1-2.

Exhibit 2-3

Marketing and Communications Activities

For many reasons, properly positioning and describing our major services, possible pension plan enhancements, and our thoughts on the financial lives of our individual and institutional clients continue to grow in importance.

In recent years, we have increased our communications with the church to include in-person meetings, regional forums, a comprehensive website, videotapes, and an array of written materials (see page 5-22).

Exhibit 2-4 displays the front pages of a number of the written communications of this triennium. These documents, some of which are reproduced here as appendices, focus on our major activity: the clergy pension plan and its enhancements. In addition, a quarterly newsletter, *CLICk*, provided information about personal financial planning topics and products, and enhanced communications dealing with active and retiree medical plans, new features of our lay pension plans, and a new approach to property and liability insurance through the Church Insurance Company of Vermont, were widely distributed.

Selected Written Communications

Exhibit 2-4

Participant Trends

As we administer the clergy pension and other benefit plans, and as we work on the plan's enhancements, it is important to track general trends in the plan itself and the population we serve. The following three exhibits, therefore, present selected statistics for the most recent fiscal year, 2003, the last year of the previous triennium, 2000, and the year 1970.

Plan Participant Growth

	1970	2000	2003
Benefit Recipients			
Retired Clergy	1,451	5,356	5,778
Surviving Spouses	1,628	2,410	2,458
Total	3,079	7,766	8,236
Active Contributing Clergy	8,868	7,721	7,767

Exhibit 2-5

Note first the substantial increase in the number of benefit recipients, shown in Exhibit 2-5. This increase is fueled both by the larger number of new retirements each year and by the increased longevity of our beneficiaries. The number of retired clergy has nearly quadrupled in the past thirty-three years, coupled with a 50% increase in the number of "surviving spouses" now receiving pension benefits following the clergy spouse's death.

During the same 33-year period, the number of clergy actively participating in the fund, – i.e., those for whom assessments are being paid – has fallen by about 1,000, or 12%. The number has increased slightly during this triennium. With more individuals receiving benefits than paying into the fund, the clergy pension plan is a mature pension plan. Fortunately, it is fully funded by assessments already paid and investment returns on those accumulated assets.

Assessments and Benefit Payments History

	1970	2000	2003
Assessments Received	$12,846,192	$67,567,368	$76,890,841
Annual Retirement Benefits Paid	$7,198,977	$133,359,905	$169,773,992
Average Annual Benefits			
Retired Clergy	$2,858	$16,796	$19,525
Surviving Spouses	$1,579	$9,418	$12,158

Exhibit 2-6

As compensation for our clergy has grown over the years, assessments received on their behalf have increased, from $13 million in 1970 to over $76 million this year, a five-fold increase (Exhibit 2-6). But the increase in annual benefit payments is far greater. The nearly $170 million in payments made during fiscal 2003 is over twenty-three times the total of thirty-three years ago.

Certainly, these benefits are paid to a larger population of retired clergy and spouses. However, the average annual benefit has increased dramatically as a result of periodic formula improvements, frequent inflationary-induced pension increases, and several recent increases in minimum benefits. The average retired clergy benefit this year of $19,525 is nearly seven times the average in 1970 and represents a 16% increase during this triennium. Because of special benefit improvements for those who served the longest and who have been retired the longest, which especially aided our oldest surviving spouses, the average surviving spouse benefit rose by nearly 30% during the recent three-year period.

Participant Characteristics

	1970	2003
Average Age of Plan Beneficiaries		
Clergy	73.6	73.3
Surviving Spouses	72.5	77.3
Life Expectancy of Comparable Population		
Males		
At Birth	75.7	82.3
At Age 65	16.5	20.6
Females		
At Birth	81.2	87.4
At Age 65	20.5	24.5

Exhibit 2-7

It is also important to track the demographic composition of our retirees. As shown in Exhibit 2-7, the average age of retired clergy now drawing benefits has fallen very slightly. More clergy are retiring before their 65th birthday than in earlier decades, partly because of the availability of enhanced benefits for early retirement. Conversely, life expectancies have increased dramatically. In 1970, male clergy at age 65 could expect to live an additional 16.5 years; in 2003, that life expectancy is four years greater. Because our retired clergy are living longer, newly widowed spouses begin receiving benefits from us at a later age. In fact, the average age of our surviving spouses has increased by nearly five full years. Women continue to have longer expected lifespans than men, and, on average, our surviving spouses will live 24.5 years beyond their 65th birthdays, attaining an average age of nearly ninety.

Some Thoughts on the Future

This report documents the enhancements we have been able to implement over the last ten years. However, there is the inevitable question: "What happens now?" Of course, none of us can know for sure.

We do know that our ability to enhance and innovate requires investment income, and that the current financial environment is uncertain (see Chapter 3). That said, we invite extensive discussion about what the church needs, and the prudent and appropriate role for CPG. General Convention, largely through the work of its pension fund committee, figures heavily in this discussion, and a major goal of this report is to provide useful background material to deputies and bishops for their deliberations.

Exhibit 2-8, the cover of our current annual report, relates to one topic we have begun to explore: the interaction of individual and institutional wellness. Through CPG, the church has committed nearly $1.3 billion of additional funds to enhance individual wellness. However, institutional wellness remains a concern of many in the church. We deeply hope that we can work collaboratively to study this serious topic (see Chapter 8).

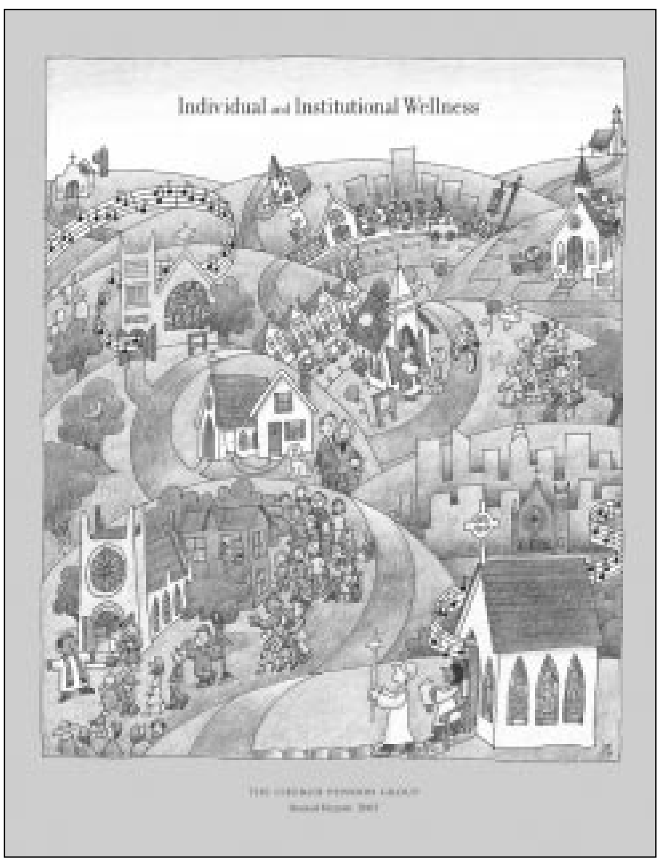


Exhibit 2-8

3 Financial Stewardship in a Time of Economic Volatility

CPF is the steward of $6 billion of financial assets. They are invested through a highly rigorous process, with the assistance of advisors, trustees, staff and investment managers. We have a broadly diversified portfolio invested in a variety of strategies consistent with objectives set by the Investment Committee of the CPF Board of Trustees and continually reviewed by that investment committee and the investment staff.

The quality of the job done by this team, along with the overall financial environment are the primary determinants of how well the church can meet its pension and related obligations. For this reason, it is important to review our absolute and relative investment performance, the impact of this performance on available assets, and the allocation of our assets to particular programs.

Absolute and Relative Investment Performance

The past three years have been a very different financial environment from that which we discussed in the spring of 2000. Exhibit 3-1 on the following page details overall investment returns in each of our three broad investment categories, using a format introduced in the 2000 Annual Report. At that time, this revealing picture told a happier story.

While no two of our investment pools are identical, they each fall into one of the following categories:

- Bonds—instruments of governments, in the US or abroad, corporations and other entities where the basic investment calls for a return of principal at some future date and fixed or variable interest payments until then.

- Public equities—shares of ownership in commercial ventures where there are no stated payments but the potential exists for dividends as well as growth in the price of an instrument traded through a public market.

- Alternative assets—a broad range of interests owned through vehicles, usually partnerships, where, after extensive analysis, we have concluded that some special opportunity for potential gain justifies the disadvantages and illiquidity often inherent in private instruments. This class of investments was largely responsible for the astonishing financial returns we realized in fiscal 2000.

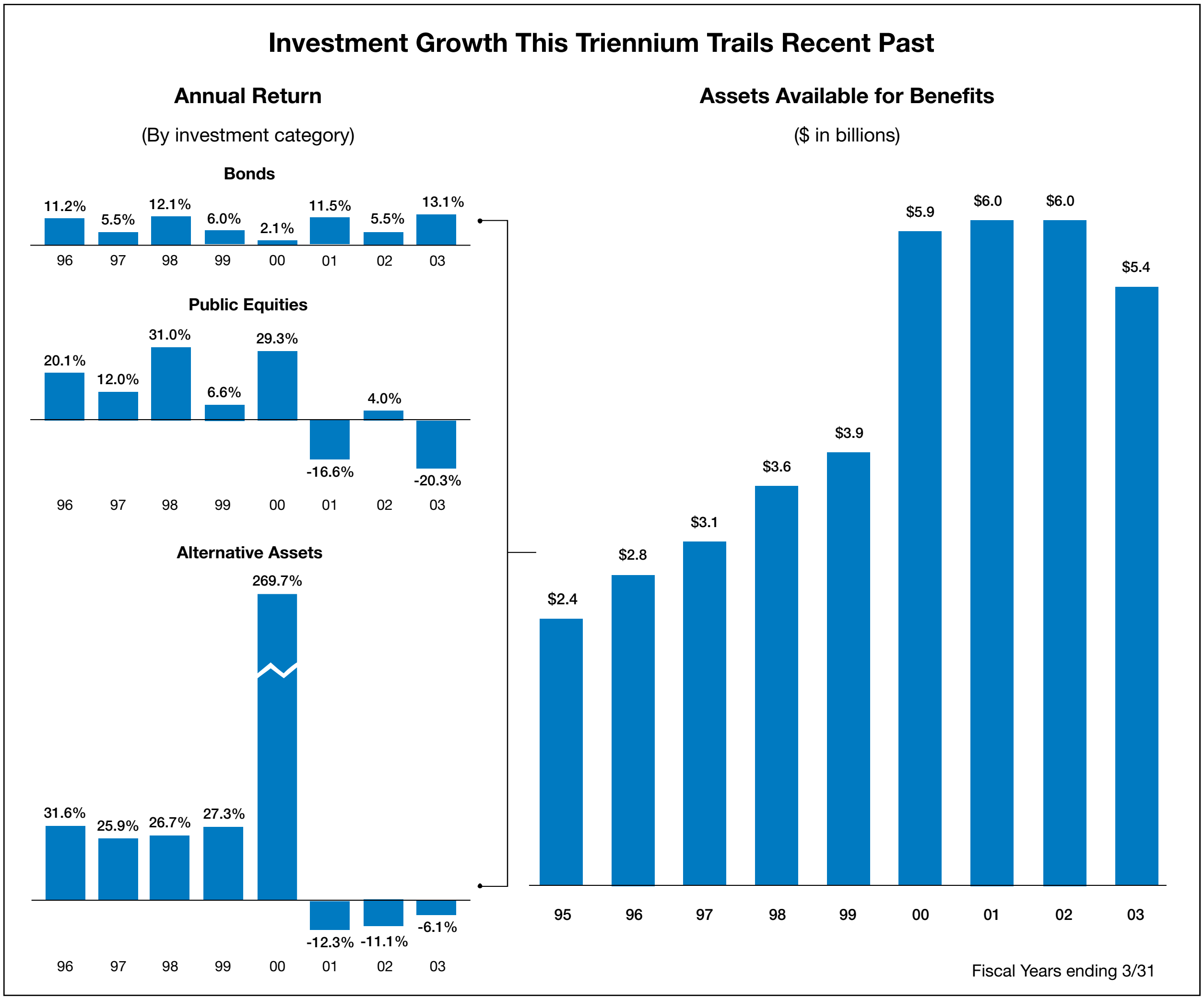


Exhibit 3-1

The three sets of bars on the left in Exhibit 3-1 show the annual rates of return in each of these broad investment categories for each of the last eight fiscal years. The bars on the right show the "assets available for benefits" which, to a large degree, rise or fall as a direct result of the rates of return of the asset classes.

All of the figures for the periods up to and through fiscal year 2000—the time of our last report to General Convention—repeat the very happy news which has made possible so much of our emphasis on increased benefits. Investment performance for the years leading up to 2000 was very good; then the year 2000 itself showed unprecedented positive results. Consequently, as shown on the right-hand bars, our assets show very steady growth and then spectacular growth—all of which ended in 2000.

A look at the final three bars shows that results since that time have been far different. The previous outstanding growth has been replaced by erratic and generally poor investment returns.

Focusing on the left-hand bars, each of our asset classes has performed in the way that one would expect. Bonds have actually performed well. Stocks have performed poorly, as have alternative assets.

CPF Investments Have Performed Well Relative to Market

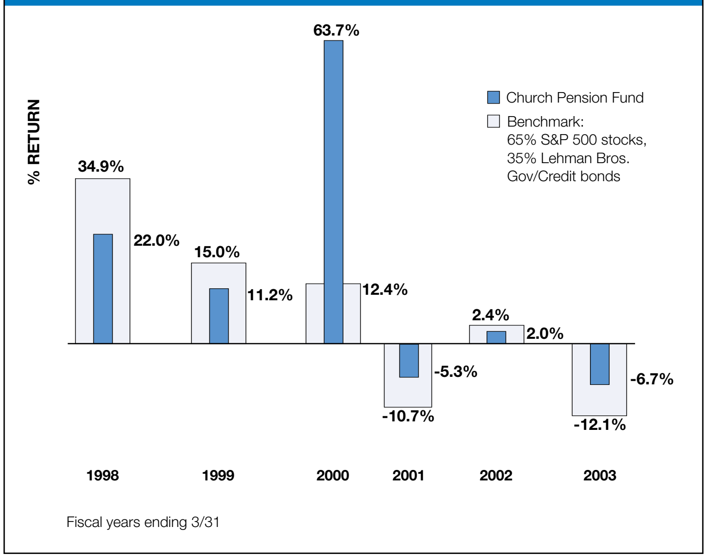


Exhibit 3-2

The impact of these changes on overall assets is shown in summary on the right side of the exhibit. Clearly, there has been a substantial impact. While assets remained close to constant for the first two fiscal years of the decline, the last year was less successful. As of March 2003, assets available for benefits were down $600 million, or 10% of their total, from their March 2002 value.

Exhibit 3-2 provides another perspective on this recent past. This exhibit looks at our performance for each of the last six fiscal years, relative to an "index" or "benchmark" portfolio—one that is invested similar to our broad asset allocation guidelines but is not actively managed. It is another perspective on the data traditionally provided in our annual report on a one-, three-, and ten-year basis. Here, the impact of the fiscal year in which our portfolio performed spectacularly is even more evident. While there are times when our portfolio somewhat "underperformed" the index, the overall record is superb. In a six-year period when the investment return of our benchmark portfolio was about 40%, our investment return was about 100%. As investment professionals, we are pleased with this record. However, while we believe it indicates a level of skill and prudence which bodes well for our future, it does not alter the fact that reduced assets provide reduced opportunity for innovative benefit enhancements.

Impact On Available Assets

The result of investment performance, of course, is to increase or decrease assets under management, and the investment performance just described affected our "assets available for benefits."

Exhibit 3-3 divides the assets available for benefits at the end of each of the past 5 fiscal years into three critical categories: required reserves, those needed for promises made in our plan; the securities valuation reserve, an extra cushion which must be earmarked against the possibility that market declines can continue; and "additional funds," that amount which CPF trustees believe might be conservatively viewed as potentially available for additional benefits.

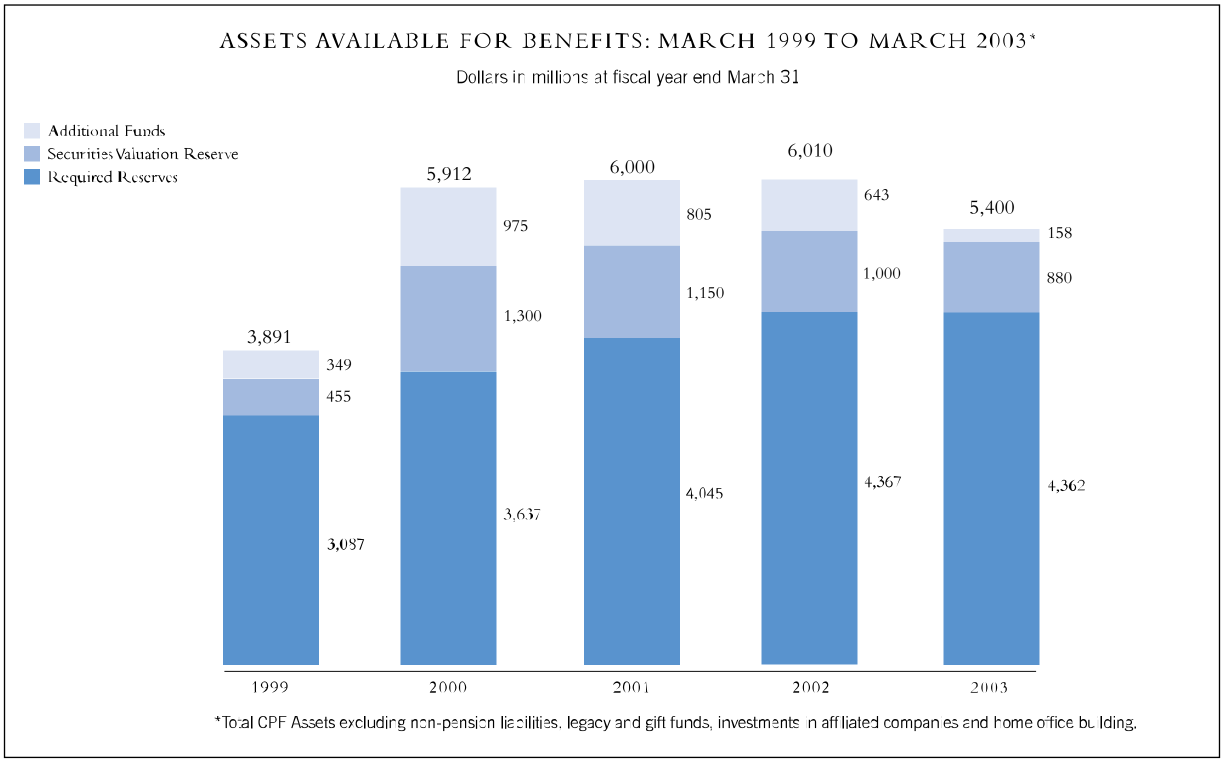


Exhibit 3-3

The increases and decreases in these components of assets available for benefits over the past five fiscal years reflect two powerful forces. The first is the force we have been discussing: investment performance. The initial strong surge of available assets from slightly under $4 billion in March 1999 to almost $6 billion in March 2000, an increase of $2 billion, reflects the marvelous market performance commented on previously. Then, the decline from that level to the $5.4 billion shown for March of 2003 reflects the serious overall financial decline, but relatively good performance by the fund, explained in the preceding section.

Simultaneously, the very large increase in the size of required reserves reflects all of the benefit enhancements, which are the primary subject of this report. As benefit enhancements are approved, for both today's retirees and those of the future, the reserves set aside to meet those promises must be increased. Consequently, required reserves have jumped $1.3 billion since March of 1999.

The second element of assets available for benefits is the securities valuation reserve. This amount results from a mathematical formula that is periodically adjusted. It represents the cushion which CPF trustees conclude should be maintained to protect against the uncertainty of the financial markets.

The final amount, additional funds, is the difference between the total assets available for benefits and the sum of the required reserves and the securities valuation reserve. As a remainder, or "residual" amount, this sum will, of course, vary as both market forces and modified plan commitments change.

Historical Values of Three Major Reserves

($ in millions - March of each year)

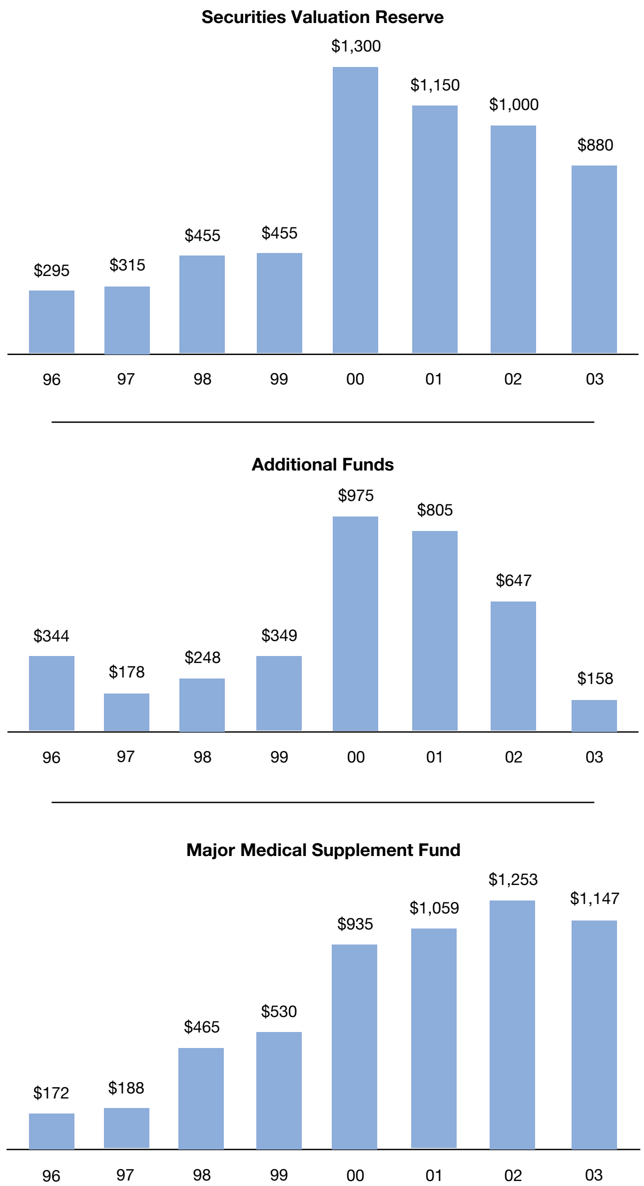


Exhibit 3-4

Allocation of Reserves to Specific Accounts

Exhibit 3-4 further highlights three important elements of our reserves by separately graphing their size over the last eight years. Picturing them separately, and for a slightly longer time frame, emphasizes points made in the previous section. The securities valuation reserve is a sum decided by our board. Note the substantial increase in the year 2000, the year of tremendous investment performance. Knowing how unusual that performance was, and reflecting the increased vulnerability of the overall markets at that time, the board decided to modify the formula used for the securities valuation reserve to be somewhat more conservative. Subsequent events have shown the wisdom of that decision.

Additional funds, as previously discussed, have varied based on both market performance and plan commitments. It has been common, since the wellness initiatives began, for this figure to decline over the course of each triennium. In this triennium, as discussed earlier, the major decline is as much a factor of poor market performance as it is of new benefits.

The final figure, the major medical supplement fund, deserves special mention. The tremendous increases in probable medical assistance needed by our retirees are a major finding of this triennium and a major topic of this report (see Chapter 6). The continued major increases in funds set aside for medical, as shown here, highlight this phenomenon.

4 Role of the Subsidiaries

Introduction

The Church Pension Fund is proud of the contribution made to the church by its subsidiaries: The Church Insurance Company, The Medical Trust, Church Life Insurance Corporation, and Church Publishing Incorporated. These companies, with one exception*, share a common thread: their formation stemmed from a perceived need in the church for improved financial well-being of Episcopal people and institutions. The subsidiaries operate with a common goal: to provide high quality services, responsive to the particular needs of Episcopal entities and people, at the lowest possible cost. A modest income is required to justify the investment of pension funds, but the objective is to keep the profit as low as is consistent with our fiduciary responsibilities. Exhibit 4-1, below, shows the number of people and institutions currently served by these companies. All subsidiaries operate on a calendar year basis.

CPF Subsidiary Companies—Services and Clients

		Clients Served	
Church Life Insurance Corporation	Group Insurance Policies	14,716	
	Individual Insurance Policies	2,884	
	Annuities	4,323	
	Disability Insureds	4,396	
The Episcopal Church Medical Trust	Clergy	5,776	24,538
	Lay Employees	7,136	
	Dependents	11,626	
The Church Insurance Companies	Total Churches Insured Through CIAC	7,767	
	Total Churches Protected by CIC P&C Policies	5,625	
Church Publishing Incorporated	Titles in Print	202	
	Individual Customers	16,977	
	Institutional Customers	10,249	

Exhibit 4-1

* Church Publishing Incorporated (originally Church Hymnal Corporation) was created as a CPF subsidiary in 1918 so that royalties could help support the then-new Clergy Pension Plan.

Church Life Insurance Corporation

The mission of Church Life Insurance Corporation (CLIC), founded in 1922, is to serve Episcopal clergy, laity, and their families by providing life insurance and retirement savings vehicles consistent with their needs. The products are appropriately priced and provide a reasonable return on savings and retirement vehicles. Since its founding, CLIC has been a consistent financial contributor to CPF, providing a total of $3.35 million in dividends to CPF since 1991. During the years 2000–2002, mortality experience was very favorable even though investment income was substantially lower due to market conditions. The company's total net income was $4.8 million for this three-year period.

CLIC continues to offer individual and group term life insurance, whole life insurance for individuals, short-term and long-term disability policies, annuities and IRAs, and other tax-advantaged long-term savings programs such as RSVP (Retirement Savings Plan). CLIC products have been well-received and currently help over 15,000 clergy and lay employees to meet their personal financial goals.

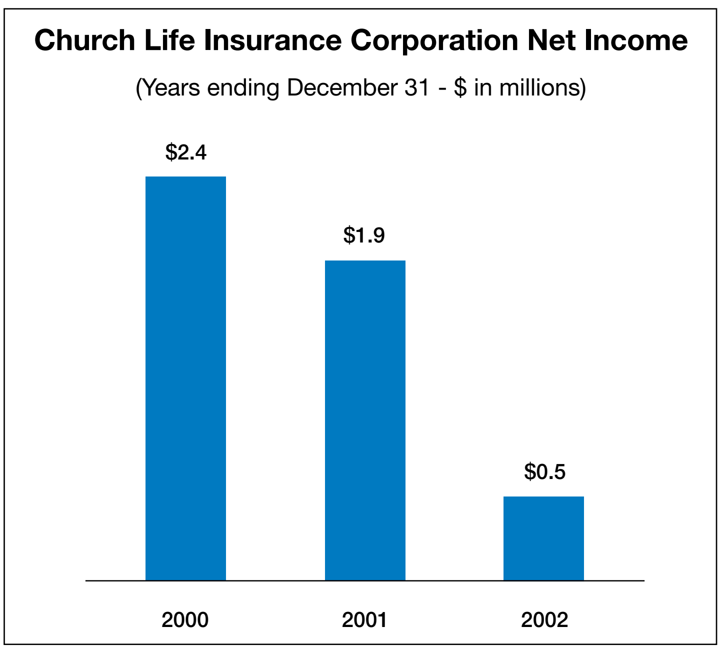


Exhibit 4-2

The Episcopal Church Medical Trust

The Medical Trust has provided group health benefits for Episcopal clergy and lay employees since 1978, maintaining a balance between compassionate Christian care and responsible stewardship of the church's funds. As a not-for-profit Voluntary Employees' Beneficiary Association (VEBA), and consistent with CPG's mission, the Medical Trust's primary goal is to provide the employees and retirees of the Episcopal Church with access to excellent, affordable health care.

In order to offer optimal health benefit options, the Medical Trust has continued to update its product offerings as it has moved from primarily providing traditional indemnity plans to offering a broad array of self-funded preferred provider, managed care, and indemnity plans, with provider networks offered through Preferred Provider Organization (PPO), Exclusive Provider Organization (EPO), Point Of Service (POS), and fully managed care (HMO) options.

The Medical Trust designs its benefit plans cooperatively with participating dioceses, industry experts including our actuarial benefits consultant, and health care business partners. Most plans have integrated prescription drug and vision care benefits. Further, many participating groups choose to offer the Medical Trust's separate mental health/substance abuse supplemental benefit and dental care plans.

In 2000, the Medical Trust concluded a major strategic reassessment that culminated in the adoption of a new business strategy for 2001–2003. The implementation of this strategy has focused the Medical Trust on providing a broader set of plan designs, serving more clergy and lay employees, containing costs, and improving service levels. National provider network plans for active employees, which provide greater access to health care, have replaced numerous less effective local and regional plans. Several new benefit options designed exclusively to meet the needs of seminarians were introduced in 2002, and, effective July 1, 2003, the Medical Trust will implement the new Church Pension Fund 65+ Medicare Supplement for eligible retirees.

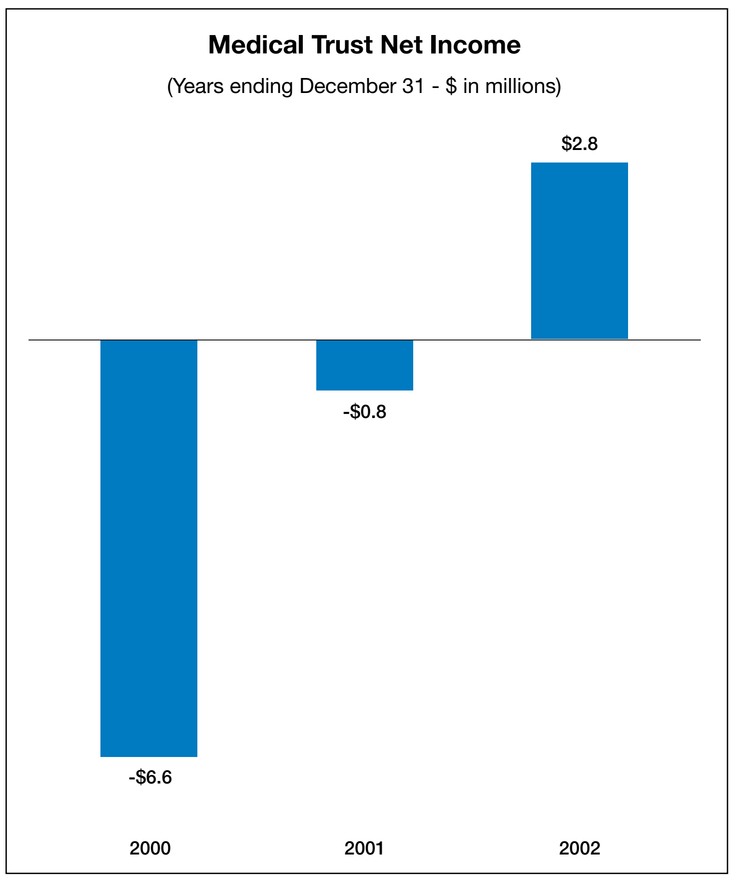


Exhibit 4-3

The impact of implementing this new strategy initiative has been dramatic. After its financial loss in 2000, the Medical Trust stabilized operations during 2001, and generated a significant surplus in 2002. Further, between 2000 and 2002, the Medical Trust increased the number of employee members served by 10%.

The Church Insurance Companies (New York, Vermont, Church Agency)

The Church Insurance Companies (CIC) provide broad, cost-effective property and casualty insurance products and risk management services exclusively for institutions of the Episcopal Church. These products and services are provided through three separate corporations, each owned by the Church Pension Fund.

Founded in 1929, the Church Insurance Company is the oldest company of its kind in the United States. It provides property and liability insurance including pastoral counseling and sexual misconduct coverage.

The Church Insurance Company of Vermont, founded in 1999, is a single-parent captive insurance company domiciled in Vermont. Currently, 68 dioceses have decided to protect their parishes and missions through Church Insurance of Vermont in order to take advantage of the unique coverage breadth and flexibility it offers.

The Church Insurance Agency Corporation (CIAC) serves as the exclusive product distributor of the Church Insurance Company and an intermediary with the commercial insurance market to insure types of risk that Church Insurance does not write. CIAC manages a variety of exclusive national programs, using the buying power of the church family to offer important specialty coverages.

The financial results of Church Insurance over the last three years have been greatly affected by two large sexual misconduct cases stemming from events in the 1970s and 80s. In 2000, the impact from these alone was $9 million; in 2001, it was $6.5 million; and in 2002, it was $2.7 million. These losses, coupled with the well-publicized problems of the Roman Catholic Church, have elevated the need for improved misconduct policies, procedures and train-

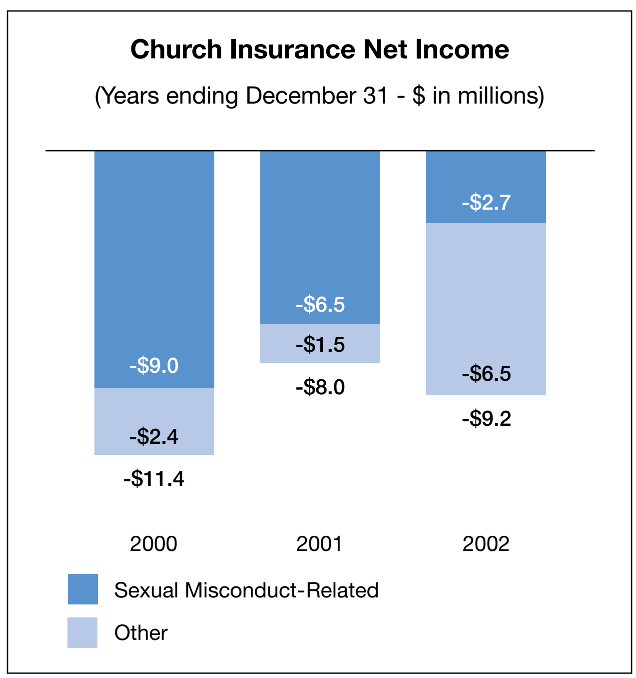


Exhibit 4-4

ing to the top of the priority list for Church Insurance in the current triennium. The financial results shown in Exhibit 4-4 also reflect another large loss occasioned by the recent fire at the Cathedral of St. John the Divine.

Church Publishing Incorporated

Founded in 1918 as the Church Hymnal Corporation, Church Publishing Incorporated (CPI) was the first CPF affiliate. The company changed its name in 1997 to more accurately reflect the breadth of its expanding publishing program. Publisher of the official worship materials of the Episcopal Church, CPI also offers a growing title list in the areas of liturgy, music, spirituality, Anglican and Episcopal history, resources for church leaders, software services including The Rite Series, and database publishing. CPI is also the official publisher for the General Convention of the Episcopal Church.

CPI experienced net operating losses each year in the past triennium as it rapidly built its new title list. During 2002, the CPI Board of Directors, working with the leadership of the Church Pension Group and CPI staff, engaged in a process of strategic review to map CPI's course of growth over the next five years. From this has come an expanded strategic plan that will enable CPI to better serve the church while implementing new governance, reversing the company's financial losses, and recruiting a new publisher.

At its February 2003 meeting, the CPF Board of Trustees received and endorsed the strategic recommendations of the CPI Board. The primary focus of CPI's expanded strategy supports the company's essential mission of providing high-quality, imaginative resources that meet the needs of, and support the ministries entrusted to, Episcopal individuals, congregations, and church leaders. Of particular importance to the success of this strategy is the hiring of a publisher to develop and implement this exciting new direction. The Church Pension Group has retained a national executive search firm to assist in the recruitment process.

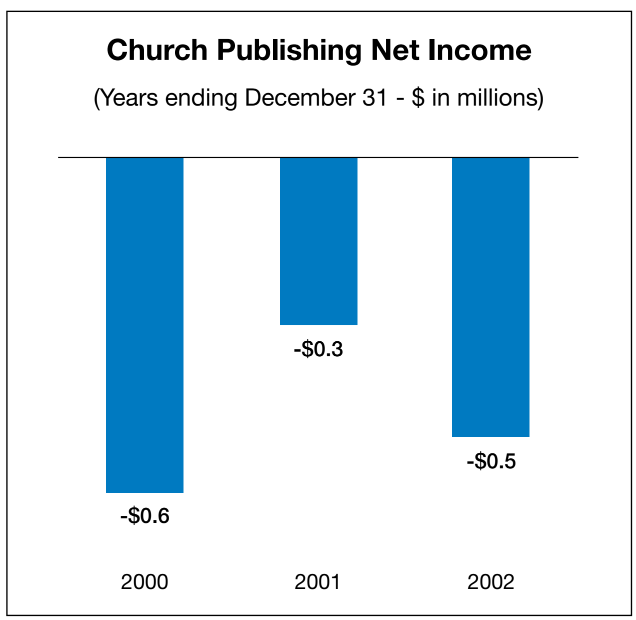


Exhibit 4-5

Consolidated Financial Results

As explained on page 4-1, the affiliated companies of the Church Pension Fund operate with a common goal: to provide high-quality services designed to meet the needs of Episcopal clergy, laity and institutions at the lowest possible cost. A modest income is required to justify the investment by the Church Pension Fund, but the intention is to keep that income as low as possible. Exhibit 4-6 shows the aggregate income (revenue less expense) of these companies for the past three years.

While the aggregate financial results of the past triennium are disappointing, over half the losses were caused by two sexual misconduct cases stemming from the 1970s and 80s. Nevertheless, there has been a recognized need to revise the CIC and CPI business models in order to return these companies to profitable operation. This full-scale effort has been underway since 2001 (CIC) and 2002 (CPI). The Medical Trust has already been returned to a sound financial footing.

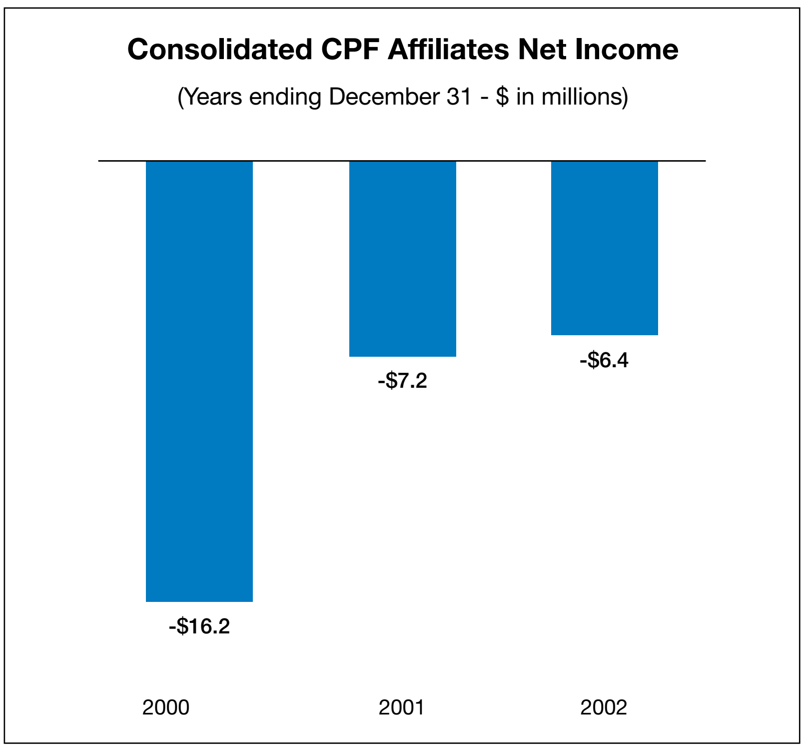


Exhibit 4-6

5 Enhancing Clergy Wellness

Probably no words can express the excitement of our work on clergy wellness as well as Exhibit 5-1, the signature exhibit of our annual report.

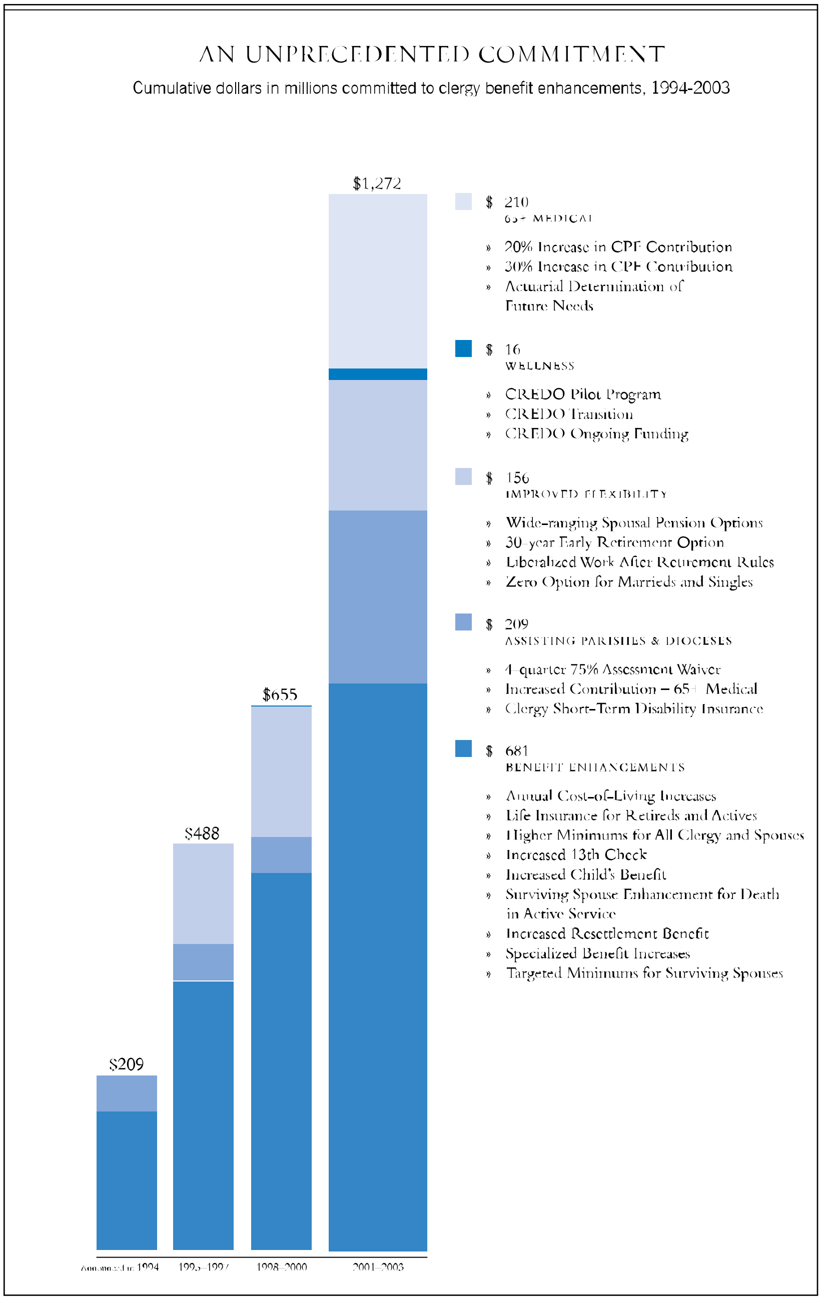


Exhibit 5-1

The role of the clergy in the church, the size of the assets in the clergy pension plan, and the many changes in the clergy workforce have made clergy pension plan enhancement CPF's major area of activity in the past triennium. Extensive existing documentation of CPF's work on plan enhancements makes it unnecessary to provide a detailed discussion of these efforts here. However, we believe this document of record should provide a summary of our major areas of endeavor, the rationale for our proposals, and our plans for the future.

Exhibit 5-1, with which we began this chapter, summarizes the overall expenditures on wellness—primarily clergy wellness—over the past ten years, with emphasis on the last triennium. It also lists a number of specific enhancements that have been implemented.

The appendices to this document contain the CPG publications that have described this triennium's benefit enhancements, often in considerable detail. Here, we want to summarize our approach to the triennium. Using selected exhibits from the myriad of documents produced, we will provide some sense of these achievements.

The following sections of the chapter will discuss

- Our Schedule and Major Themes
- Higher Benefits for Some or All
- Impact of Increases
- Enhancing Benefit Flexibility
- Aid to Parishes and Dioceses
- Aiding Clergy Development through CREDO
- Commitment to Medical Assistance
- Our Efforts to Understand
- Our Commitment to Communication

Our Schedule and Major Themes

This triennium's work on clergy wellness was a continuation of work begun in 1994 and reported in detail to earlier General Conventions and via multiple additional church forums. The triennium started with a plan and an outstanding group of advisors to help execute it.

As shown in Exhibit 5-2, this triennium's plan included systematic analyses of a series of questions that emerged from the discussion at and around the 2000 General Convention.

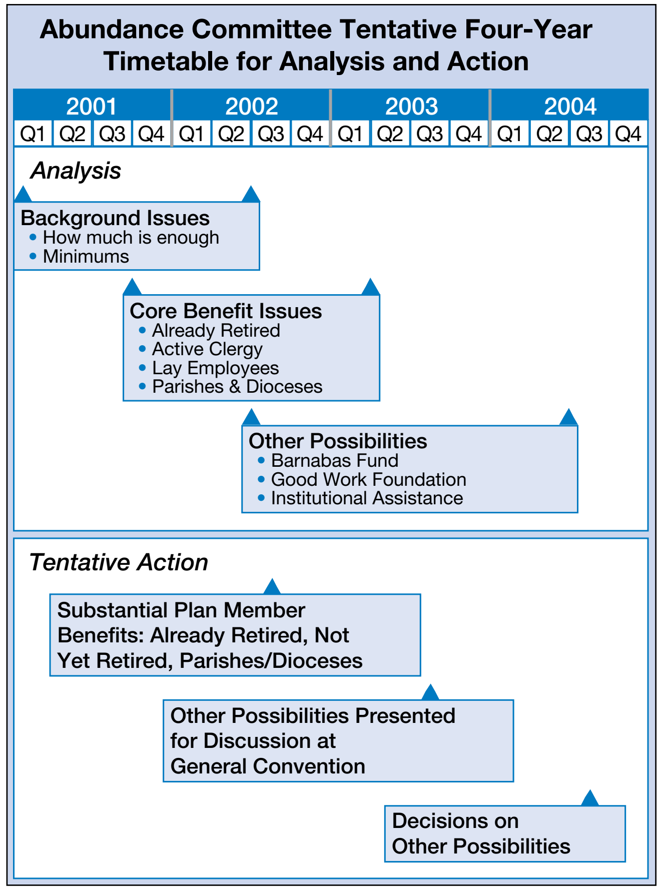


Exhibit 5-2

Pursuant to this plan, we began the triennium with an ambitious work schedule. We started with essential background work: What are our financial resources? How adequate are clergy minimum pensions? We then proceeded to consider core benefit issues: What are our responsibilities to three significant groups? And we outlined some "other possibilities" which we proposed to consider when our core analyses were completed and if additional funds remained.

Exhibit 5-3 outlines some initial questions we considered, with respect to three key groups with some claim on pension plan resources.

Three Groups Have Claim On Our Abundance

The Already Retired

- Is a one-time overall benefit increase appropriate?
- Do those who have been retired the longest deserve more?
- Should we consider special needs, such as long-term care insurance?

Those Not Yet Retired

- Is an overall pension benefit formula increase appropriate?
- Should defined contribution elements be added to the plan?
- How can choices be further enhanced?

Parishes & Dioceses

- Is a permanent assessment reduction desirable?
- Are limited, partial assessment waivers appropriate?
- Could CPF assist parishes through some subsidy of clergy costs?

Exhibit 5-3

To guide this continued work on clergy wellness, an outstanding advisory committee was assembled, under the leadership of the Rt. Rev. Catherine Waynick, Bishop of Indianapolis. Its 21 members, listed in Exhibit 5-4, was comprised of bishops, clergy and laity, with two common characteristics: their love for the church, and their respect for clergy. In addition, they were all bright, end-product-oriented, objective, and open to considering a broad range of views. Working with them has been a privilege for CPG.

Members of the Advisory Committee on Pension Fund Abundance

The Rt. Rev. Catherine Waynick, Chair
Bishop of Indianapolis

James E. Bayne
Consultant & Manager (retired)
Benefits Finance & Investment
Exxon Mobil Corporation, Irving, TX

The Rev. Canon Keith Brown
Consultant on Diocesan & Church
Management Practices
Fresno, CA

Jane Cosby
Bishop's Staff for Evangelism (retired)
Philadelphia, PA

Vincent C. Currie, Jr.
Administrator
Diocese of the Central Gulf Coast

The Rt. Rev. Theodore Daniels
Bishop of the Virgin Islands

Alistair Hanna
Executive Director, Alpha North America
New York, NY

The Rev. Canon Rayford High
Canon for Pastoral Ministry
Diocese of Texas

The Very Rev. Martha Horne
Dean & President
The Protestant Episcopal Theological Seminary
Alexandria, VA

The Rev. Angela Ifill
Associate Rector, St. Paul's Church
Cleveland Heights, OH

The Rev. Lynn Jay
Vicar, St. Stephen's Episcopal Church
Santa Clarita, CA

The Rt. Rev. James Kelsey
Bishop of Northern Michigan

The Rt. Rev. James Krotz
Bishop of Nebraska

The Rt. Rev. Henry Parsley
Bishop of Alabama

Ward Richards
Attorney, The Mediation Group
Savannah, GA

The Rev. Canon Gene Robinson
Canon to the Ordinary
Diocese of New Hampshire

The Very Rev. Philip Turner
Dean & President (retired)
Berkeley Divinity School at Yale
Austin, TX

The Rev. Dr. Frederick Williams
Rector, Church of the Intercession
New York, NY

Cecil Wray
Partner (retired), Debevoise & Plimpton
New York, NY

Ex officio:

The Rt. Rev. Chilton R. Knudsen
Bishop of Maine

Alan F. Blanchard
President, The Church Pension Fund
New York, NY

Exhibit 5-4

Early on, the Advisory Committee on Pension Fund Abundance expressed a set of priorities entirely consistent with the church's desires and earlier work (Exhibit 5-5). Over nine meetings, they considered a wide range of possibilities, always balancing their perception of clergy needs with their understanding of our ever-changing financial position.

4 Expected Themes of Clergy Pension Plan Enhancements

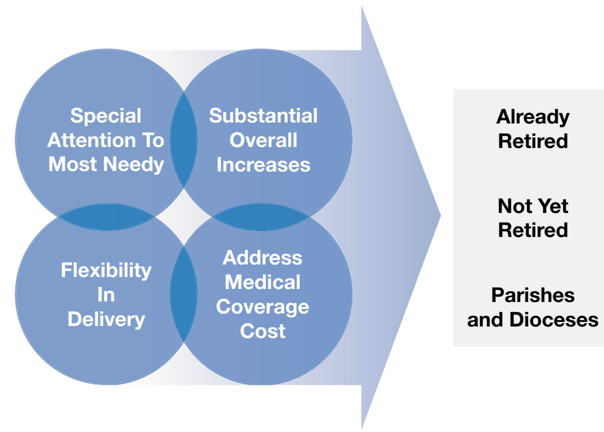


Exhibit 5-5

Exhibit 5-6 presents a chronological summary of the specific benefit enhancements enacted by the CPF trustees during the triennium, based primarily on recommendations of the Advisory Committee on Pension Fund Abundance. Beginning in January of 2001, and ending with decisions made in April 2003, ten significant pension enhancements committed $632.2 million of CPF reserves.

Selected Clergy Plan Enhancements 2001–2003

Enhancement	*Financial Commitment* ($ in millions)
• Zero Option *(1/01)*	$ 34.8
• 4-14% Annual Increase *(1/01)*	77.0
• 20% Post-Retirement Medical Increase *(1/01)*	126.0
• Increased Resettlement *(12/01)*	13.0
• 3% Plus Targeted Pension Increase *(1/02)*	78.0
• Pension Increase for Surviving Spouses *(9/02)*	10.0
• 2% Pension Increase *(1/03)*	28.9
• CREDO Funding *(1/03)*	14.5
• 30% Post-Retirement Medical Increase *(7/03)*	225.0
• Short-term Disability *(1/04)*	25.0
	$632.2

Exhibit 5-6

As shown in Exhibit 5-7, these enhancements fell into the five basic areas, closely related to the goals in Exhibit 5-5. Not surprisingly, by far the greatest number were designed to increase core pension benefits, either for all retired plan members or for a particular group. But a number of other goals were advanced as well: increasing flexibility, helping parishes and dioceses, enhancing wellness, and assisting with medical expenses.

Major Areas of Clergy Plan Enhancements
2001–2003

Area	*Enhancement*		
Medical	20% increase in 65+ Medical Coverage	30% increase in 65+ Medical Coverage	
Wellness	CREDO Funding		
More Flexibility	Zero Option		
Helping Parishes & Dioceses	Short-term Disability	Increases to 65+ Medical Coverage	
Higher Benefits	Zero Option	4–14% Annual Increase	3% Plus Targeted Pension Increase
	Pension Increase for Surviving Spouses	2% Pension Increase	Increased Resettlement Benefit

Exhibit 5-7

Higher Benefits for Some or All

Entirely appropriately, the largest number of benefit enhancements granted in this triennium had a simple goal: increasing the annual pension payments to some or all of our retirees. As always, concern for the surviving spouses of deceased clergy was equal to or greater than concern for retired clergy themselves.

Exhibits 5-8 through 5-11, reproduced from a number of earlier reports, illustrate the specific types of benefit increases granted. The first three exhibits consider monthly pension increases granted on January 1 of each of the years 2001, 2002 and 2003, for both retired clergy and surviving spouses. Interestingly, no two are alike.

In every year, all retired plan members received a "core benefit increase," designed to more than match that year's change in the cost of living. In two out of three years, however, there was a second component to the monthly benefit increase.

In the first case, January 2001, this second component consisted of an additional 0.25% benefit increase for each year since the plan member retired. This formula created increases of as much as 14% (Exhibit 5-8).

January 2001 Benefit Increase Reflects "COLA" and Length-of-Retirement-Based Increment

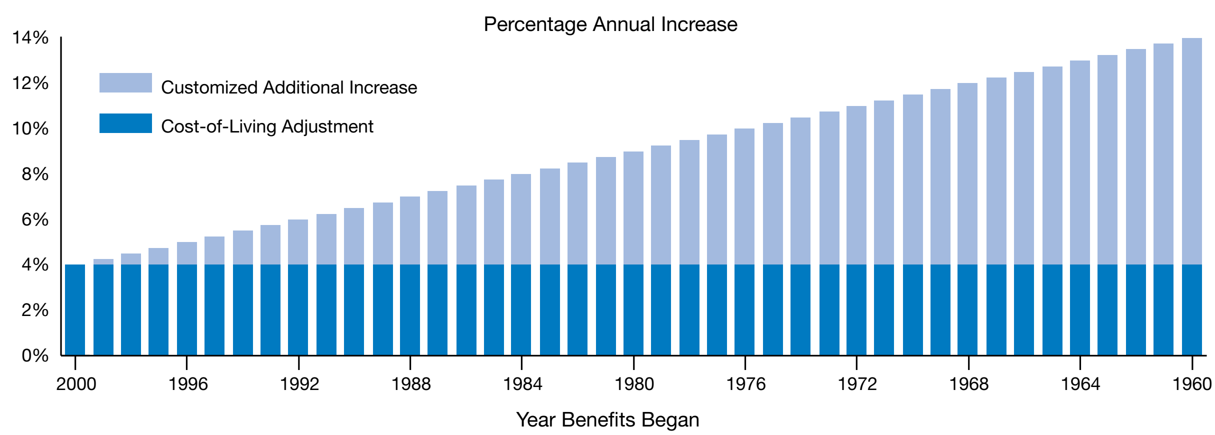


Exhibit 5-8

In the second year, January 2002, a fixed dollar increase for all plan members was added to the 3% basic increase, based on a combination of credited service and years since retirement (Exhibit 5-9). In January 2003, a simple percentage increase was granted (Exhibit 5-10).

2002 Special Increase Reflects Years of Service and Years of Retirement*

Years of Credited Service	Number of Years Retired: 10	15	20	25
10	$150.00	$225.00	$300.00	$375.00
20	300.00	450.00	600.00	750.00
30	450.00	675.00	900.00	1,125.00
40	600.00	900.00	1,200.00	1,500.00

** Dollar figure shown is additional to core 3% pension increase.*

Exhibit 5-9

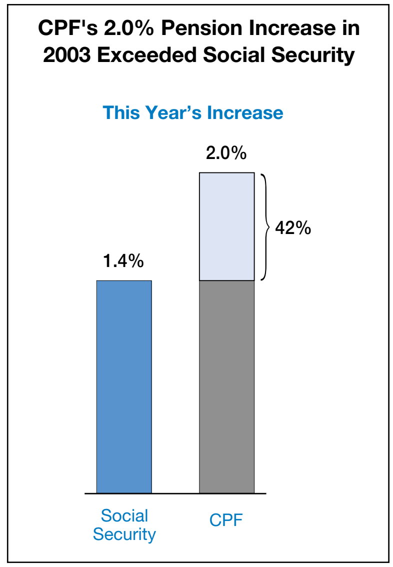
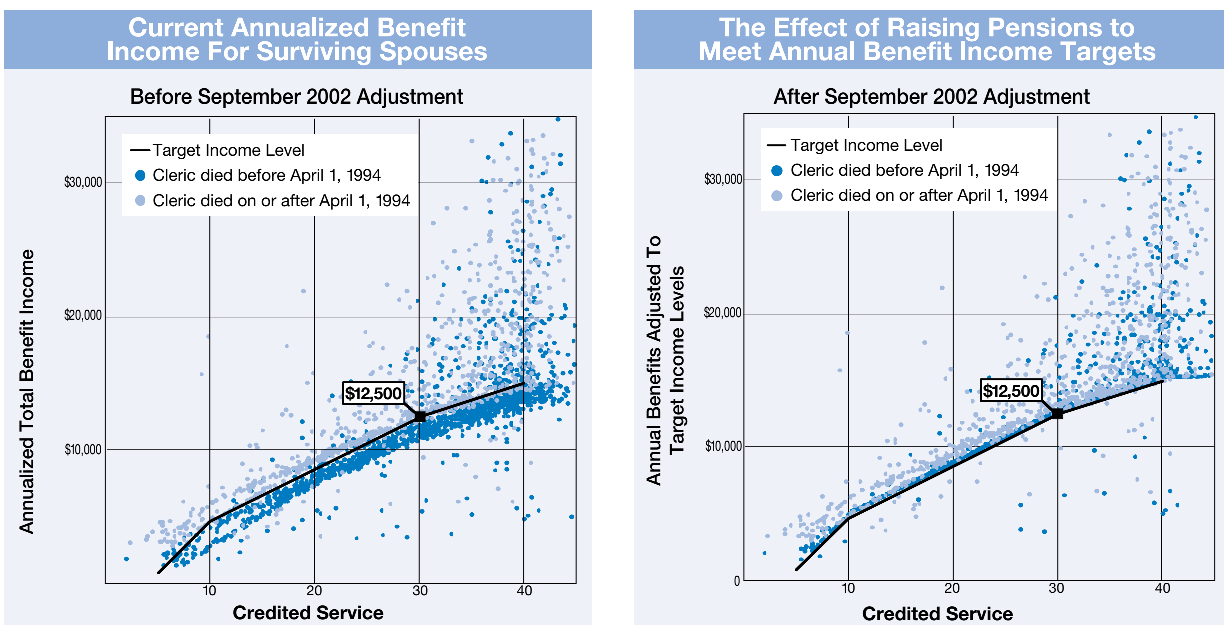


Exhibit 5-10

A great deal of research was carried out before selecting these increases as the most appropriate to target those beneficiaries most in need. Our goal remains constant. To give particular attention to those who need the most help, while insuring that all beneficiaries at least keep pace with increases in the cost of living.

Exhibit 5-11, a graph which accompanied the announcement of a special increase effective September 1, 2002, provides a further example of the analysis which preceded our benefit increase decisions. Research conducted on our behalf by The Urban Institute (see page 5-20) indicated that, in addition to Social Security benefits, single retired persons needed approximately $12,500 in other income to have sufficient funds to live a "middle-class lifestyle in middle America." With that as our target full-career pension benefit, we then analyzed benefits for all our retirees and discovered one group of individuals who appeared to be below this standard—spouses whose clergy husbands had died before the retiree life insurance benefit began in 1994. A specific increase was designed to address this. After its implementation (right side of exhibit), almost all surviving spouses were at or above the benefit level desired. Analysis continues, on a case-by-case basis, of that handful of individuals still below that target line.

A Comparison of Surviving Spouse Pensions and Clergy Years of Service



Note: Each dot represents the annualized benefit income of an individual surviving spouse. The annualized benefit income includes the CPF pension, 13th check, and, for those who were eligible, the estimated annualized value of the life insurance benefit provided by the Church Pension Fund.

Note: Each dot represents the annualized benefit income of an individual surviving spouse with the new benefit enhancement included. The annualized benefit income includes the CPF pension, 13th check, and, for those who were eligible, the estimated annualized value of the life insurance benefit provided by the Church Pension Fund.

Exhibit 5-11

Impact of Increases

Simultaneous with doing analysis to identify need and granting increases which appear to meet that need, periodic reviews were conducted over the triennium to establish the impact of the increases.

Exhibit 5-12 shows one such analysis, reported in January 2002, and focusing only on the changes of the first two years of this triennium, 2000 through 2002. The exhibit shows that, over this two-year period, all clergy on average received a 12% pension increase. It further shows that this increase was skewed towards those who had been retired the longest. Note how much greater, at 21%, is the average increase to surviving spouses. Further, for both clergy and surviving spouses, those retired in the 1970s received percentage increases over twice those granted to the most recent retirees.

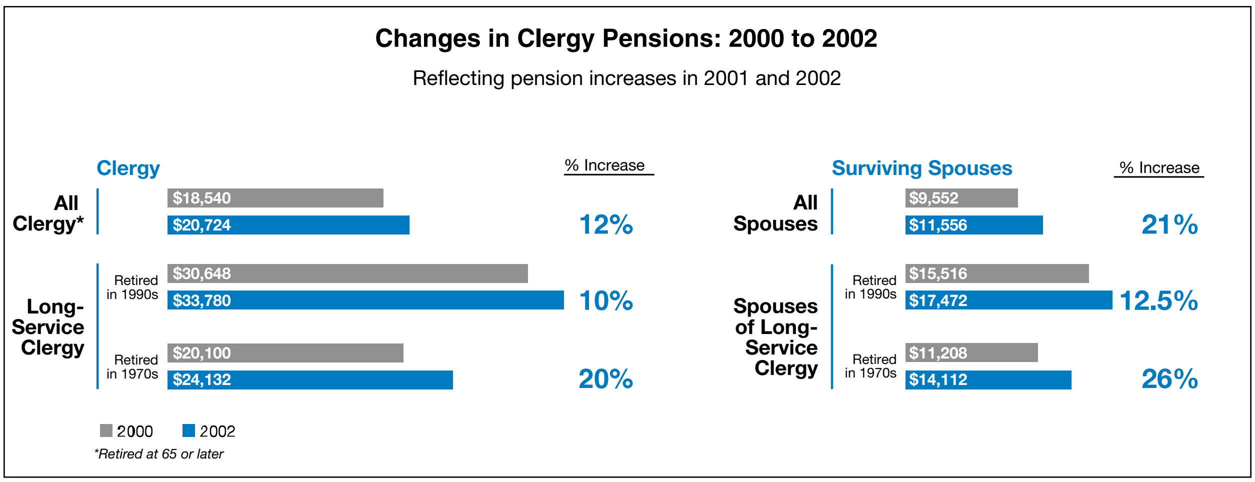


Exhibit 5-12

Perhaps the most compelling evidence of the impact of these changes is shown by Exhibit 5-13. Here, we look at the overall impact for long-time retirees of all the increases granted between 1994 and 2003. During this timeframe, increases in Social Security amounted to 27%. This, then, is the amount by which the government feels the cost of living has gone up. Our average retiree has seen a 41% increase in monthly benefits from our plan—about one and a half times that of Social Security. All our retirees have received increases which exceed Social Security; 10% of them saw increases of 69% or more.

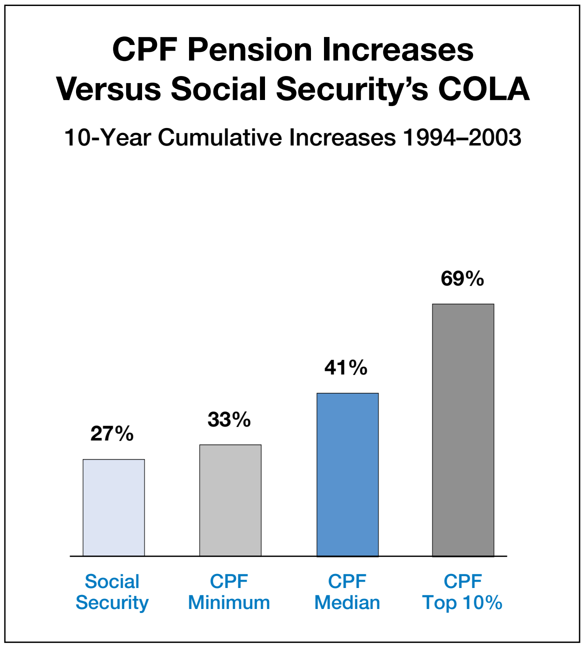


Exhibit 5-13

Enhancing Benefit Flexibility

We have frequently made two statements: First, "As our plan members become more diverse, one size increasingly does not fit all." As a result, "Our goal is for plan members with equal service histories to have benefit packages of equivalent value. Our hope is to maximize flexibility in benefit delivery."

Probably the largest effort to increase benefit flexibility can be seen in the periodic introduction and expansion of "family benefit options." Exhibit 5-14 provides an example of the current range of options by showing, for a hypothetical married clergy person, the range of annual pension benefits the cleric can choose—for him/herself and spouse—and the resulting, widely differing benefit available to a surviving spouse after the cleric's death. Prior to 1997, this range of options did not exist.

Introducing ways to increase the surviving spouse's pension by reducing the cleric's pension became effective in 1997. Early in this triennium, we addressed the other side of the coin. The family was given the opportunity to forgo a pension for a surviving spouse, with a subsequent enhancement of the monthly income received during the cleric's life. This is known as the "zero option." To all who expect not to be outlived by a spouse, and to many with spouses in special circumstances, this is a valuable benefit. An equally valuable benefit accompanied this change: effective with retirements on or after January 2001, an actuarial adjustment was made to the calculated pension benefits of those who are single at the time they retire, increasing the lifetime benefit value to that of the average married couple. Combined with the flexibility to name an adult beneficiary through a reduction in one's own pension, this program made the options available to clergy who are single at the time of retirement far more attractive. The figures in Exhibit 5-14 are equally valid for a married cleric and spouse and for a single cleric and named beneficiary.

An Example of Pension Options

Cleric with 30 Years of Credited Service and
a Highest Average Compensation of $44,000*

Clergy Benefit	Option	Spouse's or Beneficiary's Benefit After Clergy Death
$22,393	0%	$0
$20,550	50%	$10,275
$20,217	60%	$12,130
$19,738	75%	$14,804
$19,431	85%	$16,516
$18,987	100%	$18,987

**Assumes cleric age 65, beneficiary age 62*

Exhibit 5-14

Exhibit 5-15 shows that the overall impact of this and other changes in benefits during this triennium have substantially improved the flexibility of benefits. The pie chart segments represent the percentage of each benefit component that, together, make up the typical cleric's benefit package. Over 95% of the benefit value delivered to our clergy now provides options as to how that value is received.

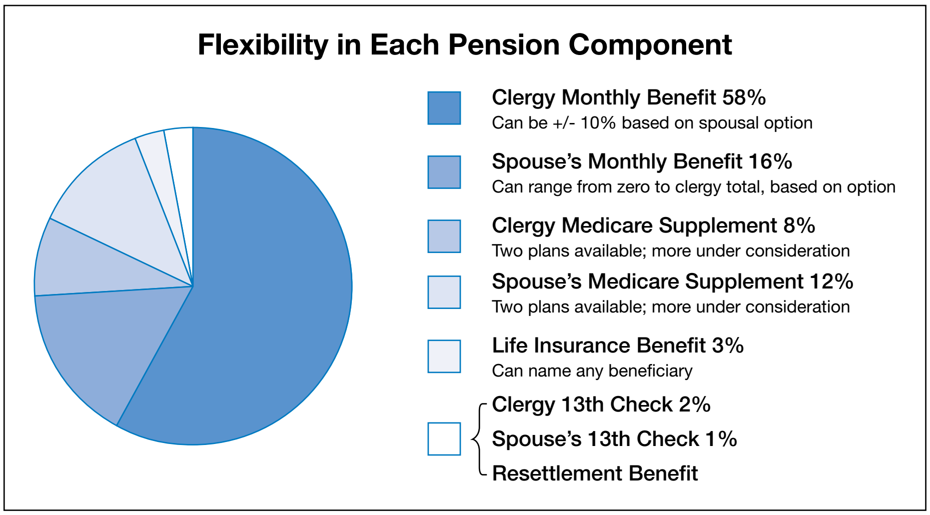


Exhibit 5-15

Aid to Parishes and Dioceses

The pension plan exists primarily for clergy. Consequently, the bulk of our improvement efforts are designed to help clergy directly.

This fact not withstanding, we know that the economics of clergy families and that of parishes and dioceses are closely intertwined. Increasing costs have created financial difficulties for many parishes and dioceses. Therefore, opportunities to assist parishes and dioceses directly are frequently discussed.

CPG's most recent initiative is the new short-term disability insurance program for clergy, to be paid for by the Church Pension Fund. This benefit represents the most direct aid to parishes and dioceses since the one-year clergy assessment rebate of 1994–1995. The program is described in detail in Appendix H.

The institution of this program is in response to Resolution D046. Exhibit 5-16 summarizes its benefits. Essentially, the program assures up to twelve months of income support for disabled clergy who are active pension plan members. For the parish, this assurance removes a major potential financial burden.

CPF New Clergy Short-Term Disability Insurance Program

(Begins January 1, 2004)

What It Is

- Provides funds to congregation when cleric is temporarily disabled
- 30-day waiting period
- 70% of cleric's total compensation up to $1000/week
- Maximum benefit of 52 weeks

How It Aids A Parish/Diocese

- Totally funded by CPF
- Removes financial burden of a disabled priest
- Frees funds for supply or interim clergy

Exhibit 5-16

Our greatly expanded Medicare Supplement benefits provide assistance to parishes and dioceses that is far greater in dollar terms. Under the old program, as discussed in more detail in Chapter 6, the Church Pension Fund paid for one necessary medical program for most Medicare-eligible retirees—the Supplement to Medicare Part A. In addition, CPF effectively subsidized a substantial portion of the Supplement to Medicare Part B. However, it did pass along some cost to parishes and dioceses. As will be described in more detail in Chapter 6, CPF has very substantially increased its dollar commitment for the medical plan of each Medicare-eligible retiree, spouse and surviving spouse. Assuming constant costs, this payment reduces by an equivalent amount the amount that other parties must pay—the diocese or the individual. To the extent that dioceses are now providing assistance, the amount of assistance they have to provide is reduced.

Exhibit 5-17 attempts to quantify this improvement. Based on 2002 numbers, the increased payment by CPF of 30% means others pay 22% less. In some cases, all of this saving goes to the diocese. In others, the savings is shared between the diocese and the individual. And in some cases, the savings go to the individuals who pay for their own supplement.

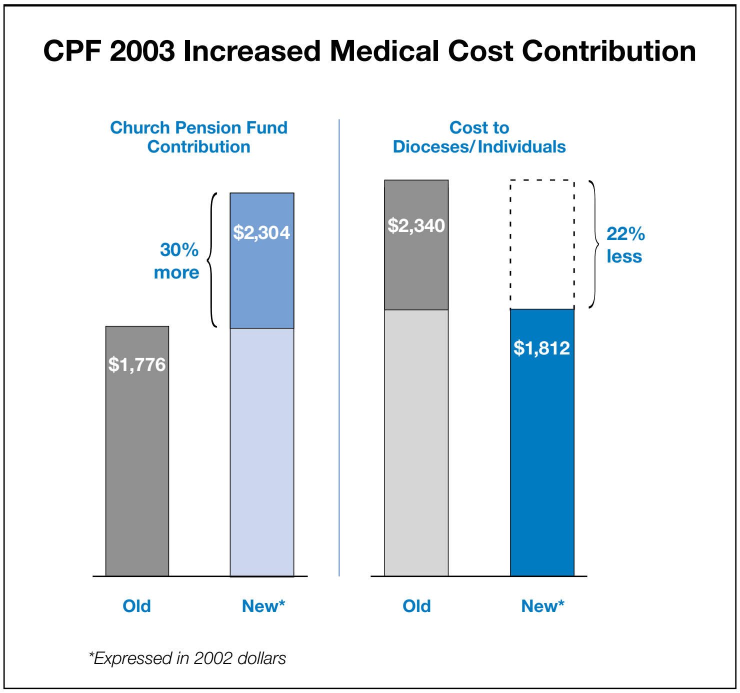


Exhibit 5-17

Aiding Clergy Development Through CREDO

Throughout our work on pension benefits, we have been aware that money is not the only area of concern. Each of our advisory committees has spent countless hours discussing the factors that affect the mental and physical well being of our clergy. Finding ways, beyond money, to enhance clergy wellness has been a constant objective.

It is for this reason that the CREDO Program has been such an exciting initiative. The development of CREDO and obtaining church support for it was a major initiative of the last triennium. Following its test phase, CREDO was discussed at length at the 2000 General Convention and the pension fund committed to fund three years of its further growth. As one of its last actions of this triennium, described in Chapter 10, the CPF board affirmed its support for CREDO and committed to an additional five years of funding. The reasons we are continuing to fund this initiative are described at some length in our response to Resolution A071 of the 73rd General Convention (page 10-4). A report from the CREDO Institute itself is presented as Appendix I.

The exhibits here provide some sense of what CREDO is, how it has grown, and the level of CPF's commitment. Reports of the impact of this eight-day experience remain astounding (Exhibit 5-18).

CREDO Picture

Exhibit 5-18

Our financial commitment is substantial (Exhibit 5-19).

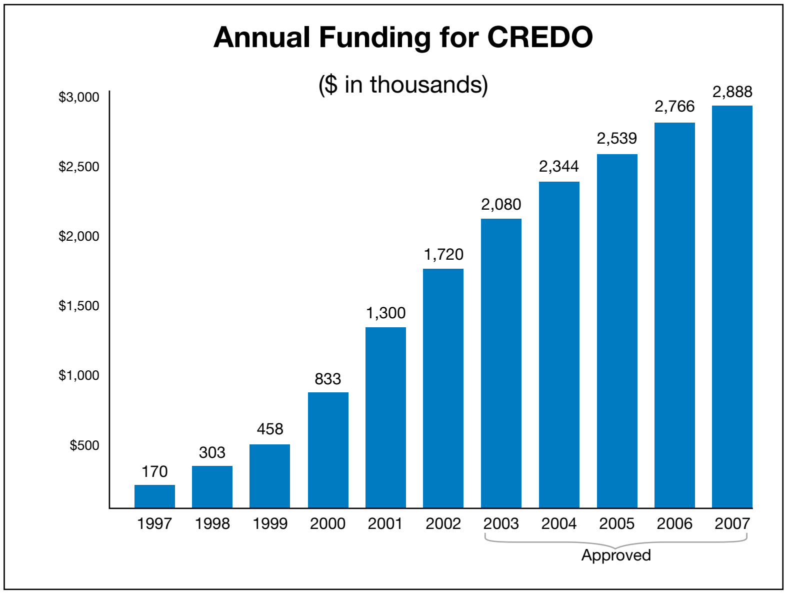


Exhibit 5-19

We are tremendously pleased that over 500 individuals will be attending CREDO this year (Exhibit 5-20). We anticipate 600 individuals a year will be able to benefit from this program once it reaches its target level of 20 conferences annually.

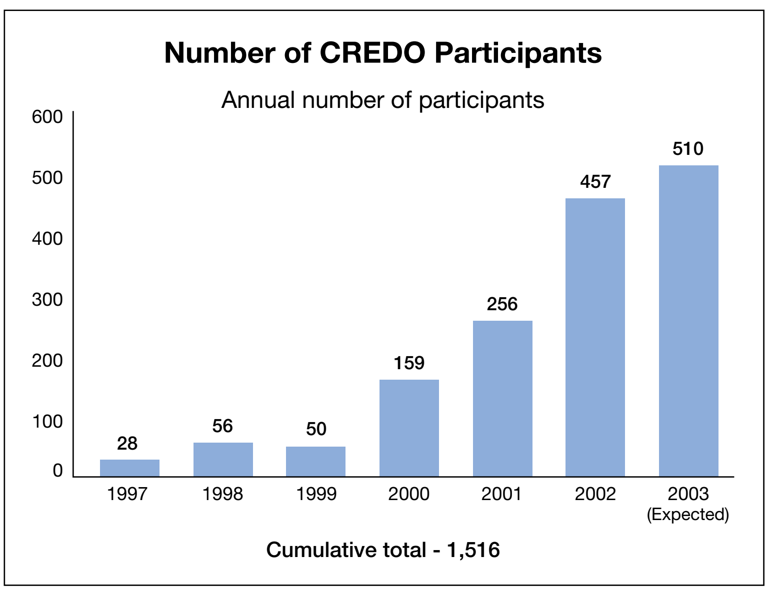


Exhibit 5-20

The Church Pension Fund board has reserved sufficient funds to support CREDO through 2007 as it grows to its target 600 participants per year. We fully expect to be as enthusiastic at that date about CREDO as we are now. However, we believe that periodic review of all significant programs is important. Therefore, CPF's recent commitment was accompanied by a plan to substantially review CREDO once every five years. Obviously, the pension fund's support for this discretionary program could end at any time if the funds earmarked for CREDO came to be needed for more basic pension benefits.

Commitment to Medical Assistance

The background of medical assistance to Medicare-eligible retirees, the nature of the changes to the Medicare Supplement program provided through the Medical Trust, and our concerns about the future of our medical assistance programs are the topic of Chapter 6. Here, we simply wish to note again the serious financial implications of medical assistance and the substantial dollar commitment required by the enhancements of this triennium.

The summary of benefits in Exhibit 5-1 notes that two of this triennium's measures involved assistance with 65+ medical: the 20% increase in CPF's contribution announced in September 2001 and effective January 1, 2002, and the additional 30% increase announced in December 2002 to be effective with the program changes being implemented July 2003. Together, these two increases committed $351 million. This is nearly 56% of the total that was committed in this triennium.

CPF's expanded dollar commitment to 65+ medical is illustrated in Exhibit 5-21. This topic was introduced in the September 2001 *Abundance* newsletter and is expanded upon in Chapter 6. The estimated per-person cost for medical expenses over and above the pension fund contribution and what Medicare pays was estimated to be $2,220 in 2001. By 2005, if CPF simply maintained its proportional assistance, we anticipated this number to become $3,371 per person, or almost $7,000 for most families.

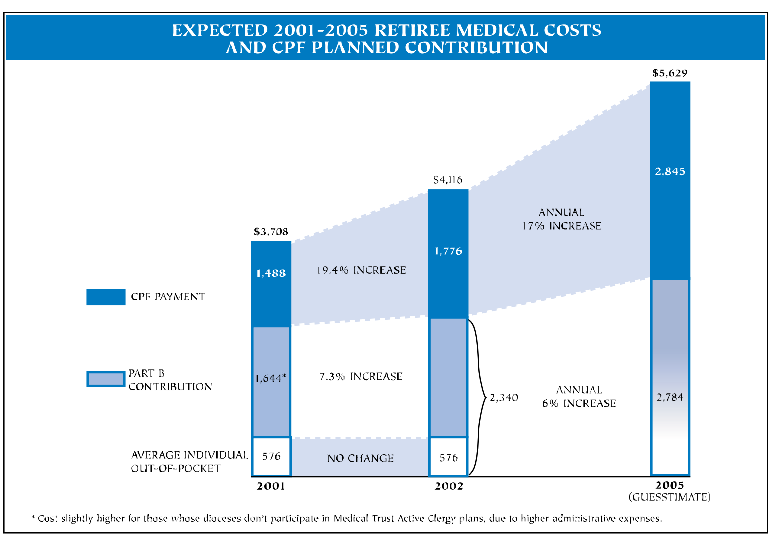


Exhibit 5-21

Exhibit 5-22, which repeats on a stand-alone basis some of the financial reserve figures from page 3-6, is perhaps even more dramatic, showing the increase in the aggregate dollars CPF has had to reserve for retiree medical assistance based on these new commitments. When this program began, less than $60 million was earmarked. Beginning in 1998, as we became more aware of trends, a very substantial increase occurred. A slight adjustment downward occurred in this year for technical reasons. But the figure is still above $1.1 billion.

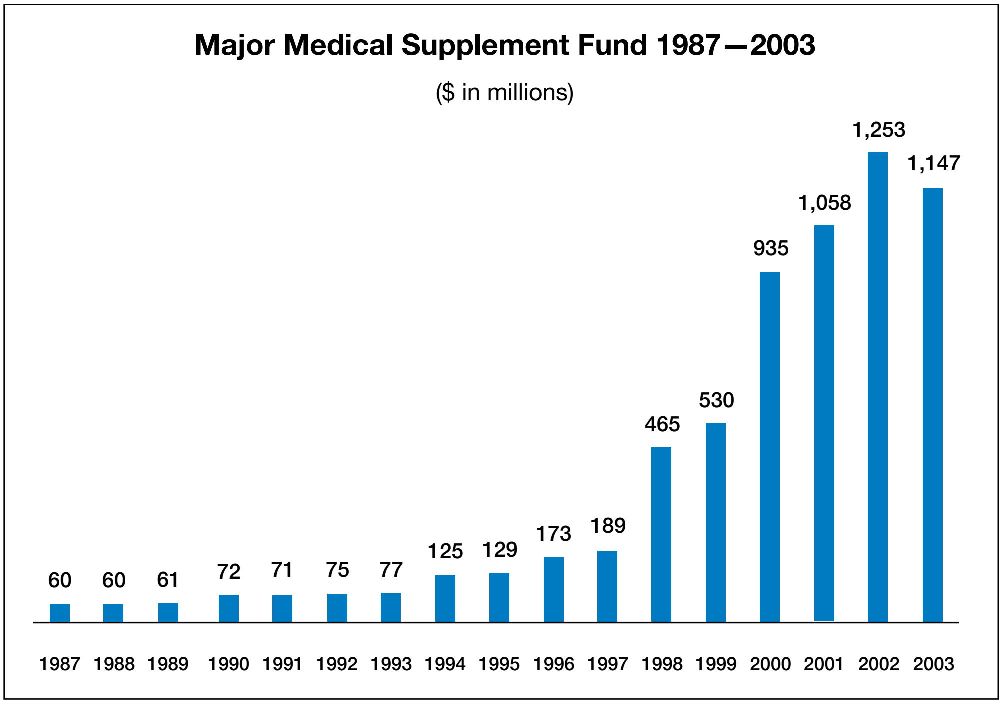


Exhibit 5-22

Stated another way, the amount reserved for 65+ medical is equal to 40% of the amount reserved for all future pensions. This is a staggering increase, particularly given the uncertainty as to future trends.

It is for these reasons that CPF committed to several significant increases in its post-65 medical assistance over the past three years. The first increased CPF's per-person per-year contribution from $1,488 in 2001 to $1,776 in 2002. In addition, CPF reduced the annual deductible for prescription drugs covered under the Supplement to Medicare Part B and absorbed that added expense. And most recently, CPF has committed to an additional increase of 30% plus inflation. Once again, details are provided in Chapter 6.

Our Efforts to Understand

Decisions to commit large sums of the church's money carry with them an awesome responsibility. It is incumbent upon CPF trustees, advisors and staff to have the best possible picture of the circumstances of retirees. Allocating the dollars committed in the most equitable and effective way is clearly essential.

For this reason, research and discussion have always been a large component of CPG's work. In this triennium, our commitment to these areas, and our capabilities to carry them out, increased substantially. Exhibits 5-23 and 5-24 summarize important work done by the Urban Institute, a nonpartisan public policy research firm. We wished our work on benefit increase levels to be informed by the best possible intelligence about the true cost of living for older Americans, and the actual circumstances of our retirees. Therefore, we engaged the Urban Institute to conduct a major study.

Their formal report will be available later this summer. To summarize the nature of the work, we have reproduced two important exhibits below.

Exhibit 5-23 positions two groups of CPF retirees by comparing their pension income with the pension income of those Americans who have pensions. Both our retirees with ten or more years of credited service and those with thirty or more years appear to be in a favorable position.

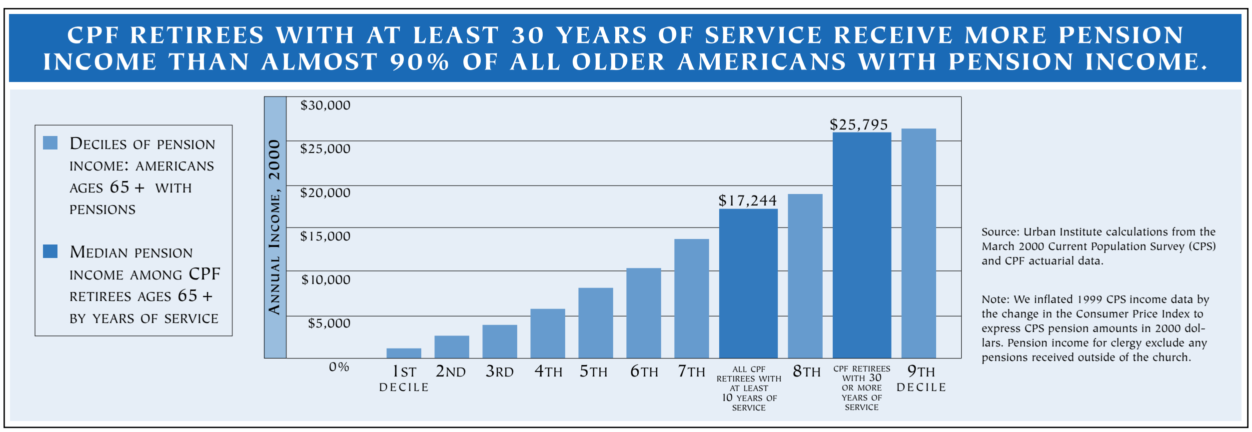


Exhibit 5-23

Exhibit 5-24 provides even more specific information by looking at the "average consumption needs" of older Americans compared with clergy pensions. Once again, the picture is encouraging.

AVERAGE CONSUMPTION NEEDS AND INCOME BY MARITAL STATUS (AGES 65 + WITH COLLEGE EDUCATION)

	Married Couples	Single Persons
Housing	$11,981	$9,456
Food	5,928	3,359
health Care*	4,680	2,340
Transportation	3,931	2,530
Apparel	1,223	835
Other	5,168	2,470
Total	**$32,911**	**$20,990**

	Married Retired Clergy	Single Retired Clergy	Surviving Spouses
Average Family Income (30+ years of service):			
CPF pension	$28,463	$25,595	$14,330
Social Security	19,684	12,472	8,449
Subtotal	**48,147**	**38,067**	**22,779**
Other Income	18,589	8,752	2,580
Total	**$66,736**	**$46,819**	**$25,359**

Note: Estimates are restricted to those ages 65 with 4 or more years of college education. Data are from the 1999 Consumer Expenditure Survey, inflated to 2002 dollars by the change in CPI. Figures indicate the mean amount between the 45th and 55th percentiles of the distribution.

*Average health care expenditures based upon the medical expenses of CPF beneficiaries who do not receive assistance with Supplement to Medicare Part B. Source: Hewitt and Associates. Those who do receive assistance from either their former diocese or parish will have, on average, expenditures below this level.

Exhibit 5-24

A companion research program that gathered in-depth information about the lives of retirees was highly insightful. Seventeen Chaplains to the Retired were trained to carry out interviews with retirees in various parts of the country. Eighty-five people were interviewed in face-to-face interviews (Exhibit 5-25). The conclusions reached, some of which are presented as part of a resolution response (see page 10-12), are again encouraging.

Exhibit 5-25

Our Commitment to Communication

An important requirement for us is to communicate with you. This document, the many documents that it incorporates, and the others to which it refers, are important parts of that communications effort. In-person communication was equally important.

We are particularly pleased with the increase in the number and quality of our Planning For Tomorrow conferences. The number of conferences in 2003 was 18, double the number in previous years. We have also re-introduced individual consultations. Exhibit 5-26 shows one of the advertisements we ran to inform and motivate people to participate in this valuable program.

CPF Planning Conferences Advertisement

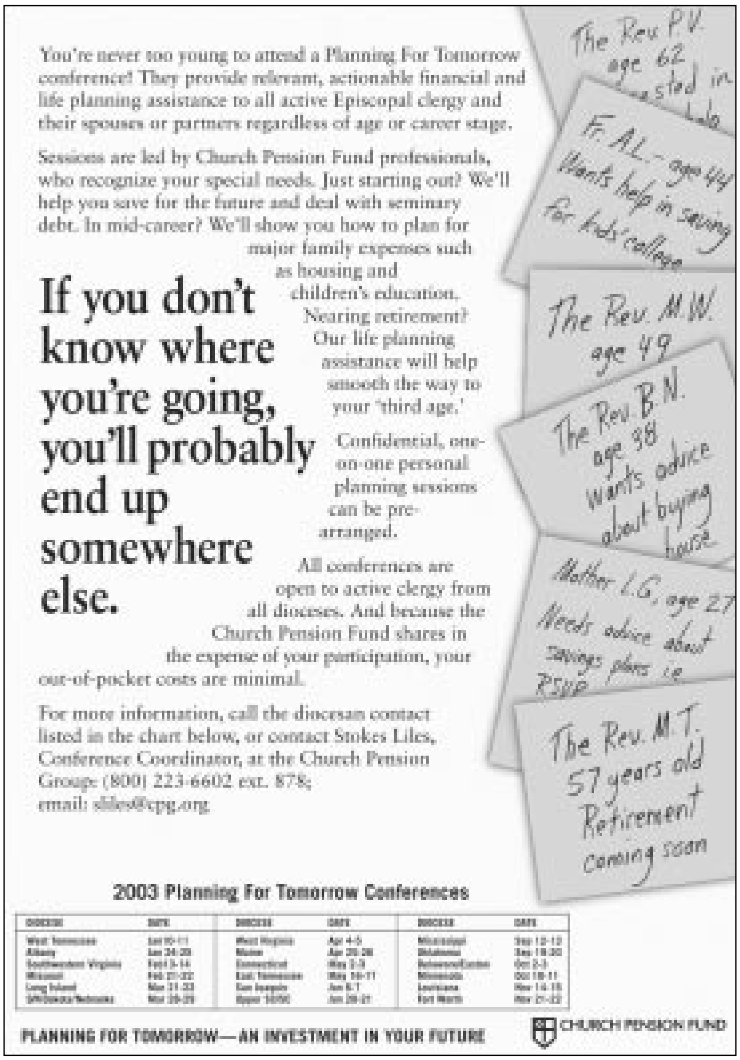


Exhibit 5-26

During this triennium, we also repeated—and expanded—a very successful innovation from the last triennium: regional forums. We held these forums in five cities around the country during October and November 2002.

Exhibit 5-27 is the invitation that was broadly distributed to the church early last fall. Run in multiple publications, and sent to all pension plan participants, this notice announced that five forums would be held between early October and mid-November, and offered participants four ways to register to attend one.

CPF Regional Forums Invitation

Exhibit 5-27

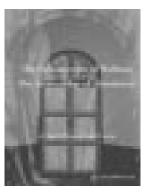
These full-day sessions covered a wealth of material. CPF President, Alan F. Blanchard, began with a one-hour overview. Then, forty-five minutes were spent on each of five critical topics (Exhibit 5-28). In each case, a CPG staff member made a brief presentation which was followed by a panel discussion and questions and comments from the floor.

As expected, the forums represented a very valuable learning experience for CPG as well as for the attendees. In addition to a number of specific learnings, we came away with three broad conclusions:

1. Our church is blessed with terrific people.
2. We have a tremendous body of young retirees.
3. Concern over medical expenses is pervasive.

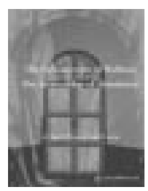
A summary book of the slides presented, with brief explanations, is available upon request.

Selected Forum Presenters and Topics



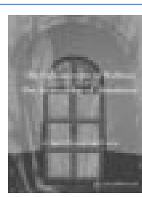
Wellness and Abundance

Alan Blanchard



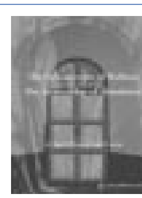
Enhancing Wellness for Those Not Yet Retired

Jim Morrison



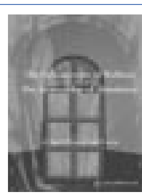
The CREDO Experience

William Craddock



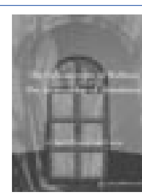
Serving Retired Clergy and Surviving Spouses

Linda Curtiss



Medical Cost Assistance for Retirees

Tim Vanover



Understanding the Clergy Workplace and Issues

The Rev. Cn. Keith Brown

Exhibit 5-28

6 Health Care Initiatives

As mentioned in earlier chapters (see pages 1-3, 3-6 and 5-18), the issues surrounding medical care for post-65 retirees have been the most unexpected challenge of this triennium. Analysis of financial issues, and extensive efforts to provide, through the Medical Trust, high quality and affordable assistance in this critical area, have been far more complex and time consuming than we anticipated.

We believe the importance of this topic will grow and its complexity will continue. For that reason, we present this separate discussion. In the sections that follow, we will briefly review

- our recent pension-related financial initiatives
- Medicare Supplement plan redesign
- basis for future concerns

Recent Financial Initiatives

Exhibit 6-1 repeats the exhibit from our September 2001 *Stewardship of Abundance* newsletter, which dramatizes the financial dilemma facing CPF, our retirees, and older Americans in general. The exhibit shows our estimates of the average annual expenditure for medical costs of our retirees over and above payments by Medicare. It shows the amount we expected for 2001, our estimate for 2002, and the figure that Hewitt Associates, our health care actuaries, projected for 2005.

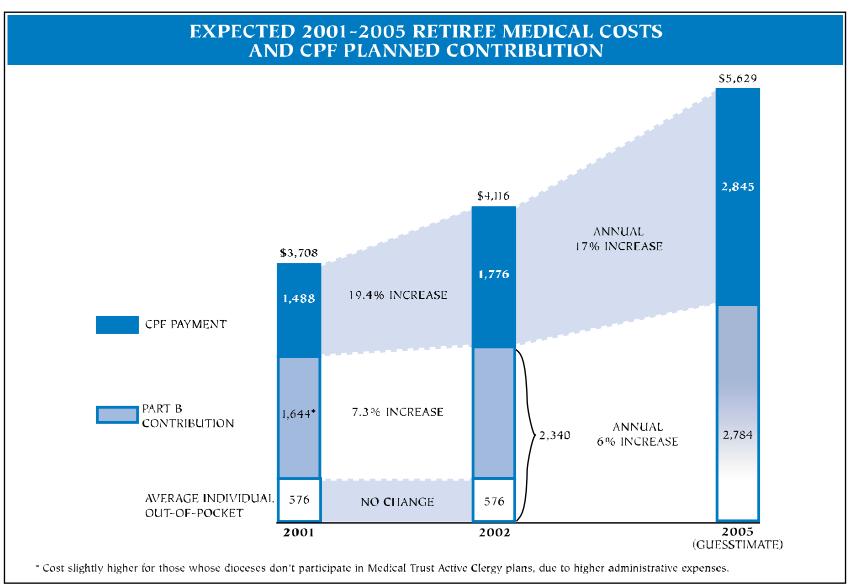


Exhibit 6-1

The overall height of the bars in Exhibit 6-1 indicates the initial dilemma. Retirees' cost of health care, particularly because most retired couples incur these costs for each of two people, is extremely high. The expected increase in these overall costs, due to medical inflation, is even more troubling. The expected expenditure in 2005 is certain to put a strain on the economics of most participants in the health care equation.

The division of each bar into segments illustrates the complexity of current health care cost-sharing. In addition to Medicare, contributions to health care expenses have historically been made by three church entities. The top segment of the left-hand bar (dark blue) shows that the pension fund's contribution in 2001 was $1,488, representing the amount CPF paid to provide the "Supplement to Medicare Part A" to nearly all long-service retirees and their eligible spouses. The middle segment (medium blue), shown as $1,644 in 2001, was the premium charge for the Medical Trust's "Supplement to Medicare Part B," utilized by most retirees. The bottom segment (white), showing $576 for 2001, represents the amount of the average estimated out-of-pocket costs incurred by each individual, primarily for the co-payments for prescription drugs.

The magnitude of these numbers, and the difficulty many retirees describe in meeting their medical obligations, was the primary reason for CPF's substantial increased commitment to medical assistance. In fact, however, we are not able to say precisely what portion is paid by retirees. This is because of the substantial variance in the amount of assistance provided by our dioceses.

Exhibit 6-2 summarizes the results of a survey conducted several years ago to determine what assistance, if any, our dioceses provide to retired clergy and spouses for the "Part B" premium. The picture is very varied: some dioceses paid the full premium for retirees and spouses; some dioceses paid nothing; other dioceses provided some assistance but did not pay the full amount.

Pattern of Diocesan Medical Assistance

($ in thousands)

Total Annual Expenditure	Number of Dioceses	Annual Dollars Contributed	Beneficiaries Assisted
$100,000 and up	**11**	**$2,242**	**1,126**
$50,000 to 100,000	**23**	**1,662**	**1,137**
$25,000 to 50,000	**16**	**573**	**308**
$0 to 25,000	**12**	**124**	**156**
Nothing	**38**	**0**	**0**
	100	**$4,601**	**2,727**

Source: 2001 survey

Exhibit 6-2

The issue as it presented itself in 2001 was expected to become far more serious because of the anticipated increases in medical costs. Referring again to Exhibit 6-1, the two right-hand bars show substantial increases in expected expenses between 2001 and 2005. The overall size of these projected increases, along with extensive discussions around the church, made it clear that our retirees and the dioceses they served would have increasing difficulty maintaining their portion of these costs. "Business as usual" was not a sustainable proposition.

This situation and several years of analysis and dialogue led to the announcement in the September 2001 *Stewardship of Abundance* newsletter that the pension fund would increase its medical contribution for the year 2002 by 20% and would also fund a substantial reduction in the annual deductible for prescription drugs. We also announced our hope for substantial additional funding following further review by the Advisory Committee on Pension Fund Abundance, the Benefits Policy Committee and the CPF Board, and the fundamental redesign of the medical programs provided by our Medical Trust. The figure shown in the top segment of the "2005 guesstimate" of Exhibit 6-1 reflected our hope of increasing the fund's contribution by another 30% in addition to medical cost inflation sometime between 2002 and 2005.

Exhibit 6-3 outlines our plan as it was announced in September 2001, both for expanded financial commitment and extensive retiree medical program redesign. Happily, we have been able to follow through on both of these commitments. This has involved many hundreds of hours of analytic work and collaboration with our colleagues in the Medical Trust.

NEW MEDICAL ASSISTANCE
SHORT- AND LONG-TERM

SHORT-TERM

FINANCIAL ASSISTANCE

- **Lower Prescription Drug Deductible by** 75% — from $200 to $50 per year
- **Increase CPF Contribution by 20%** to absorb substantial portion of 2002 medical cost inflation

LONG-TERM

FUNDAMENTAL REDESIGN

- Modernize the Medical Benefit Plan
- Significantly Increase Pension Fund Contribution
- Introduce Modest Deductible and Co-Pay
- Subsidize 100% of One Benefit Plan for **Retirees with 20 Years of Service**
- Increase Benefit Flexibility

ON-GOING CHOICES AND EDUCATION

- Introduce More Plan Options
- Increase Counseling and Education

Exhibit 6-3

Exhibit 6-4, from our December 2002 *Perspective*, demonstrates the impact of the 30% pension fund contribution on a per-person basis. The earlier 20% increase had already enhanced the per capita annual contribution from $1,488 to $1,776. The additional 30% increase, approved by the board in June 2002, increased this contribution to $2,304. These amounts are shown in constant dollars. With increases due to medical cost inflation, the CPF contribution, effective July 1, 2003, will be $2,700 per person per year.

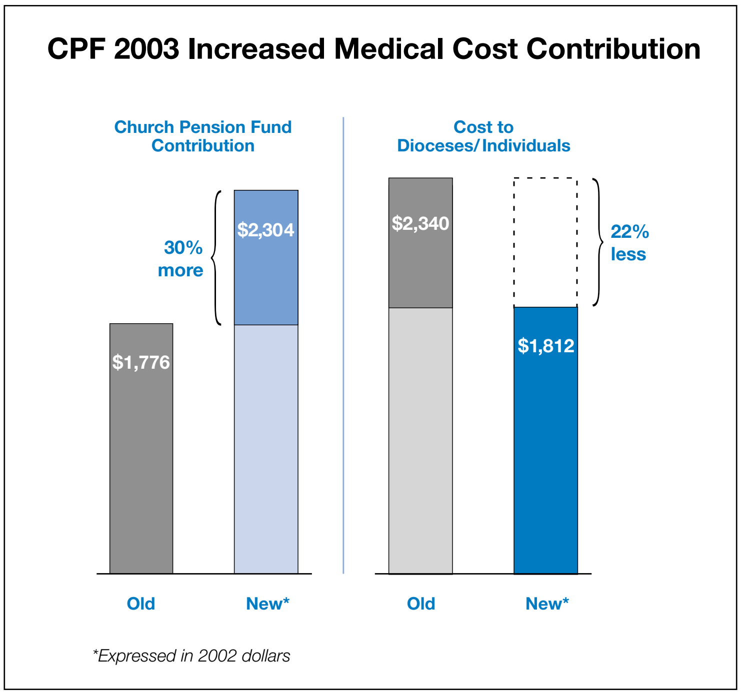


Exhibit 6-4

The right-hand side of Exhibit 6-4 illustrates the benefit to “dioceses/individuals” provided by CPF’s increased commitment. Here, we show that, because the pension fund is contributing 30% more, others are able to contribute 22% less. Because of the complexities of who pays for what, we cannot say exactly who this is. In some cases, the benefit goes to the diocese which will have its costs reduced; in others, it goes to the individual; in still others, the saving is shared.

Nature of Plan Redesign

As indicated, our extensive analysis of retiree medical issues convinced us that, along with the substantial increase in financial contribution for medical assistance described above, a significant redesign of the actual programs offered by the Medical Trust was appropriate.

The specific elements of the redesign, broadly described in Exhibit 6-3, have now been finalized and were approved by our board in June 2002. The new plan will be effective on July 1, 2003. We have devoted considerable effort over the past year explaining this new program to our retirees.

Exhibit 6-5 provides a simple conceptual view of the changes embodied in this redesign. Here, the basic areas of medical costs are listed on the left. Those areas in which Medicare coverage applies are checked in the first column. The manner in which the "old approach"—including separate supplements to Medicare Parts A and B—filled in some of the gaps of Medicare are indicated by checks in the two middle columns.

Medicare Supplements Coordinate with Medicare

		Old		New
	Medicare	Supplement A	Supplement B	Plans
Inpatient Hospital	✓	✓		✓
Skilled Nursing Facility	✓	✓		✓
Home Health Care	✓	✓		✓
Physician Office Visits	✓		✓	✓
Mental Health/ Substance Abuse	✓		✓	✓
Laboratory Services	✓		✓	✓
Vision Benefits		✓		✓
Prescription Drugs			✓	✓
Annual Physical				✓

Exhibit 6-5

The far right column shows that the new redesigned medical program offers one package with coverage assistance in all areas. To incent efficient use of health care services, we have introduced modest deductibles and ongoing co-payments, with maximum out-of-pocket limitations that we think are fair and provide an affordable approach to cost-sharing. To provide our retirees with some choice, the Medical Trust now offers two plans, with different annual overall costs and different deductible and co-payment levels. Both plans provide coverage for hospital visits, physicians and outpatient services; both provide coverage for prescription drugs and vision care; and, for the first time, both include provision for an annual physical examination.

The "Comprehensive Plan" has been designed to have a cost equal to the medical assistance provided by the pension fund for long-service retired clergy, eligible spouses and surviving spouses. This plan, therefore, is available to many retirees at no cost. The "Premium Plan" has lower deductibles and co-payment levels. It is available to long-service retirees and their eligible spouses for a premium cost of $100 per month per person.

Our intention in providing two plans is to allow individuals to choose a plan which minimizes their expected out-of-pocket costs based on their expected utilization. An individual who is heavily dependent on the medical system (frequent hospital stays, multiple prescriptions) might choose to pay a modest monthly premium in order to lower the ongoing cost of care; conversely, an individual with low medical needs might choose the Comprehensive Plan, with no monthly premium for long-service retirees. Whereas details of the two plans are far too extensive to describe, an example might be useful. Under 2003 Medicare benefits, the first $840 of each hospital stay is paid by the patient; the Comprehensive Plan would pay $450 of that $840; the Premium Plan would pay all of that $840. Similarly, Medicare does not cover any of the cost of prescription drugs, except those administered during a hospital stay; under the Comprehensive Plan, a ninety-day supply of a maintenance drug listed on the formulary (e.g., Lipitor, Vioxx, Glucophage) costs the participant $70; under the Premium Plan, this same ninety-day supply costs the participant $50.

We are extremely pleased to offer this new program, which has been enthusiastically received by our retirees across the country. We know, however, that these changes add complexity. Offering options requires education to allow an informed choice. To that end, we have launched an extensive communications and education effort.

Following initial presentations at the widely-attended Diocesan Administrators Workshop in September 2002, CPF sponsored the attendance of two individuals from each diocese (usually the diocesan administrator and the chaplain to retired clergy) at one of four full-day meetings where details of this new program were presented. Also, we made our staff available to every diocese to assist in locally held enrollment meetings with retirees. As shown in Exhibit 6-6, members of our staff assisted with 65 meetings in 48 dioceses. Other dioceses held very successful meetings using their own staff.

CPF-Assisted Enrollment Meetings for 65+ Medical Program

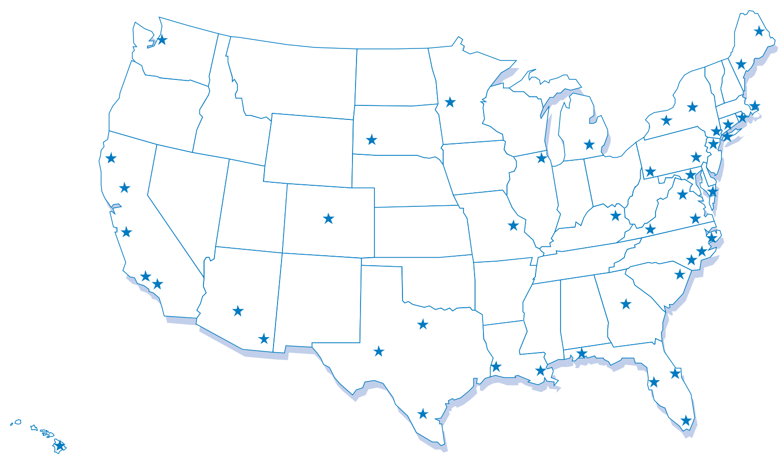


Exhibit 6-6

In addition to the meetings themselves, every eligible retiree and surviving spouse received a booklet describing the plan and the new choices and a videotape discussing the new options. Especially helpful were the worksheets in the plan booklet (Exhibit 6-7) that provided step-by-step instructions for estimating annual out-of-pocket costs under each alternative.

Medical Program Descriptive Material

Exhibit 6-7

The Basis for Ongoing Concern

Exhibit 6-8 re-emphasizes the size of our financial commitment by repeating an exhibit on the history of our medical supplement fund. Specifically, the exhibit shows the dollar amount of the assets the pension fund historically has earmarked to fund medical assistance we hope to provide in the future.

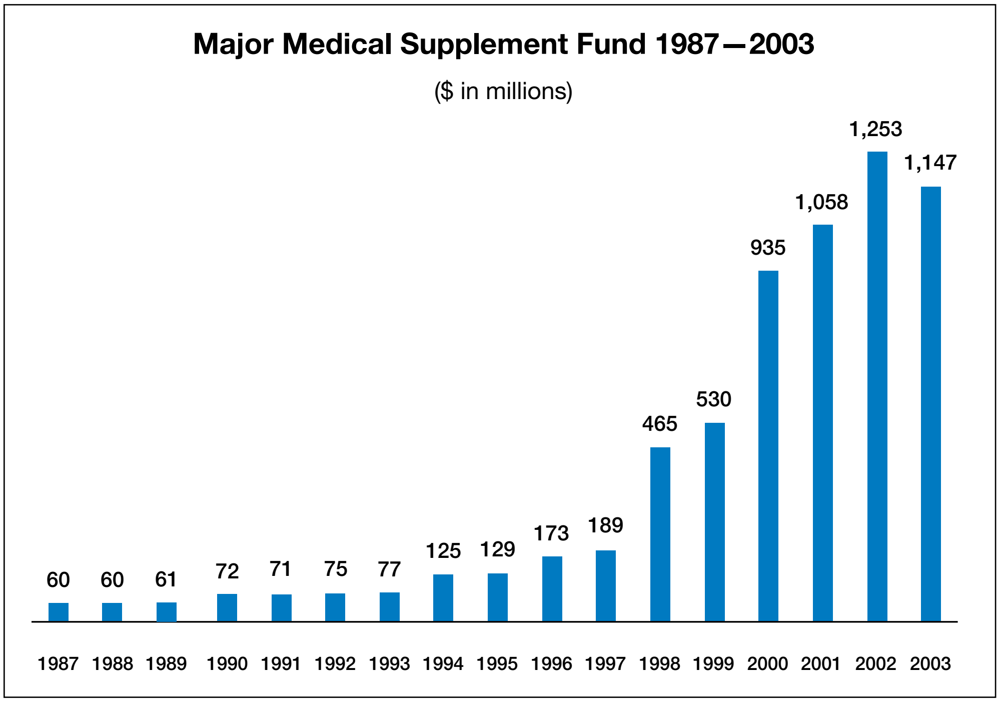


Exhibit 6-8

The magnitude of this increase in committed funds is enormous. From the $72 million designated in 1990, the current fund is over $1.1 billion. Stated another way, this amount has increased by 1,500% in less than 15 years.

To some degree, the increases in this number reflect an increased concern for precision as the importance of this benefit has become more clear over the years. As the cost of medical care has continued to escalate, and as the importance to our clergy of continuing medical assistance has become increasingly evident, CPF trustees and staff have worked to enhance our ability to estimate potential financial implications. To improve our ability in this area, we engaged Hewitt Associates to do extensive work both on program design and probable long-term costs.

The remainder of this chapter will indicate the basis for today's figure. But a caveat is important. **We must repeat that, given the magnitude of this expense and the inherent uncertainty of ongoing costs, we cannot guarantee medical assistance forever.** This assistance was not part of the original pension plan design. It was added in 1987 because of our awareness of a client need and has been expanded as the need has expanded.

As one step toward adding precision, and toward being more clear in our discussions with plan members, we have shifted from talking in terms of a “program” which the pension plan provides, to describing a dollar contribution which we hope to continue to be able to make. As discussed here, many times, that dollar contribution is now $2,700 per person for eligible retired clergy, spouses and surviving spouses—$5,400 for a typical clergy couple—per year.

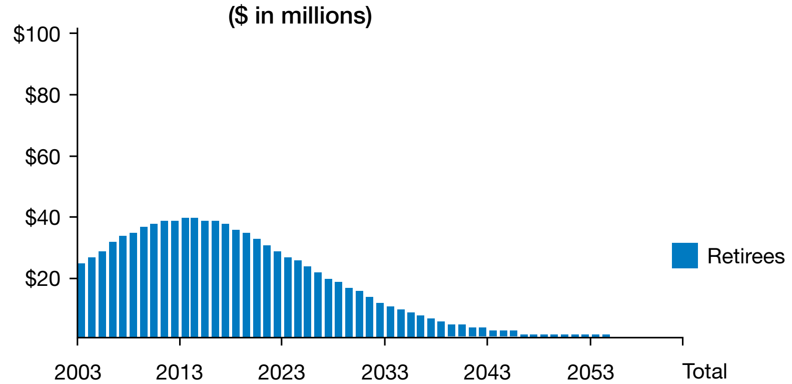
We know that, as time passes and medical expenses increase, this current dollar amount—however high it appears—will buy less and less in terms of medical services. We strongly hope to be able to increase this dollar contribution going forward. Our first hope is to be able to increase the amount at least as much as increases in the overall cost of living. However, medical cost increases have generally exceeded overall cost-of-living increases. It would be ideal to match medical cost increases. Whether or not we will be able to do so is far from clear.

Exhibits 6-9 through 6-12 help explain why we are so concerned about the future of this benefit. As initially indicated in Chapter 1, we asked Hewitt Associates to estimate the annual payments required if, going forward, we were to meet the goals described above. This, of course, requires projecting not just what an appropriate per-person contribution would be, but how many individuals would qualify for this assistance in each year, well into the future.

Exhibit 6-9 shows Hewitt’s best estimate of dollar payments for each year through the year 2060 for plan members who are retired now. This year, 2003, we expect to spend $24 million to provide this enhanced contribution to 65+ medical; Hewitt estimates that this annual outlay, for those retired today, peaks in year 2013 at about $39 million. Naturally, our payments to those now retired go to zero as our current retirees and their spouses die.

CPF Projected Future Medical Assistance Cost—Current Retirees, Spouses and Surviving Spouses

($ in millions)



	2003	2013	2023	2033	2043	2053	Total
Projected Costs by Decade	$325	$350	$186	$59	$13	$4	$937
Actual 2003 Present Value	$249	$166	$54	$11	$1	$0	$481

Exhibit 6-9

To determine the funds which must be reserved now to meet this future obligation, Hewitt does two additional calculations. First, they create a total dollar obligation for each future decade and overall. This “undiscounted” total future expenditure is $937 million. Then, Hewitt calculates the “present value” of that figure. That is, how many dollars they believe must be set aside today to provide the full dollar amount in the future. As shown in the bottom right corner of Exhibit 6-9, that figure is $481 million.

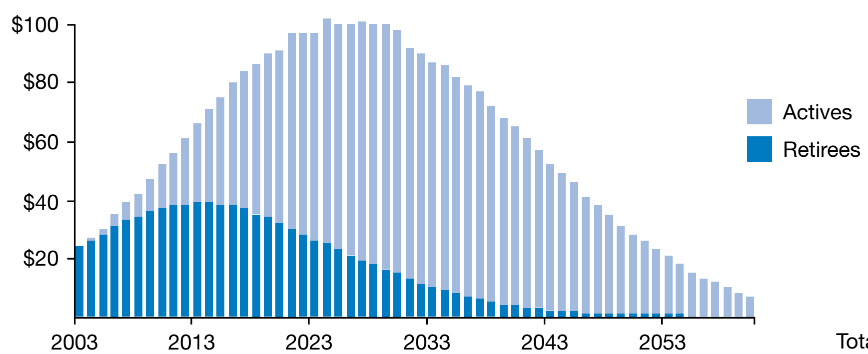
Exhibit 6-10 adds a second component to our future costs by estimating funds needed for clergy who are not yet retired as they “age into” Medicare eligibility in the years ahead. In the exhibit, the cost for this second group is placed on top of the first number. With payment to this group added, the annual cost to the fund, if all of our assumptions prove correct, escalates considerably. The maximum annual dollar amount is now approximately $84 million, reached in the year 2029. Eventually, of course, as our clergy and their spouses die, these new annual costs also begin to diminish.

The figures in the bottom of Exhibit 6-10 show the total expenditures expected as $3,442 million over the next 60+ years. Hewitt’s “bottom line” indicates that we need $1.1 billion today to fund these expenditures over time.

Attempts to predict this highly uncertain number over very long periods of time introduce an element of subjective judgment into an already complex equation. In closing, we wish to note another reason that this judgment is so difficult, and the resulting numbers are so high.

CPF Projected Future Medical Assistance Cost—Current and Future Retirees, Spouses and Surviving Spouses

($ in millions)



								Total
Projected Costs by Decade	$414	$839	$979	$734	$370	$106	N/A	$3,442
Actual 2003 Present Value	$310	$387	$276	$126	$39	$7	$2	$1,147

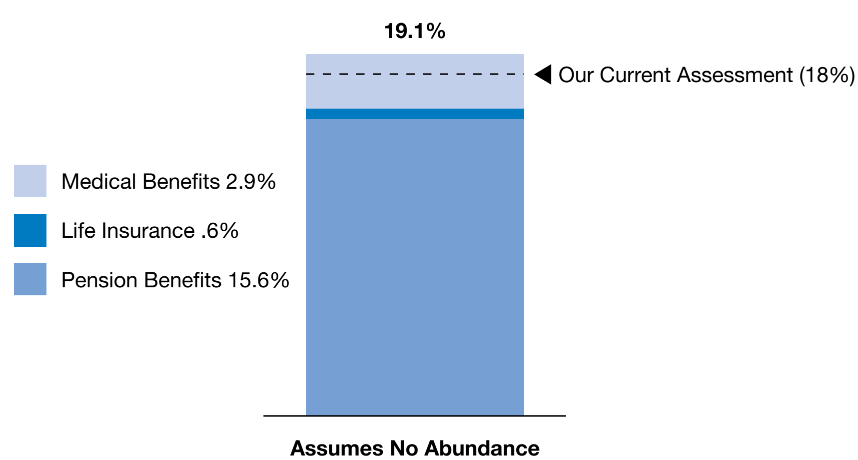
Exhibit 6-10

Most analyses of pension plans take into account only current plan members: these are called "closed pool" analyses. There are two reasons for this. First, a pension plan has no legal obligation to people who have not yet joined the plan. In addition, in a typical defined benefit pension plan, it is assumed that, on average, future plan members will take care of themselves. In other words, on average, new people who come into the plan will have enough assessment paid on their behalf over the course of their working lives so that, on average, their payments and the investment earnings received on them will fund their benefits.

However, we tend to view our level of commitment to our plan members as somewhat different from the "legal" obligations of a typical corporation. Historically, CPF has been highly reluctant to introduce benefits to a current group of retirees which it is not fairly confident it can continue forever.

But what of the assumption that future plan members, on average, will "take care of themselves?" Doesn't this mean we need not worry about future plan members? To test this assumption, we asked two firms of actuaries to compare our benefits provided to our assessments charged. The results were not encouraging. Combining what we know about the cost of pension and life insurance benefits and what we think the cost of medical benefits might be during a retiree's lifetime, Exhibit 6-11 provides one estimate of assessment requirements. This chart updates analysis by Winklevoss Technologies first shown in our 2002 Annual Report. It suggests that the assessment needed on behalf of our average newly ordained cleric is 19.1% of compensation as compared with the 18% that we collect.

CPF Estimated Necessary Pension Assessment



Source: Winklevoss Technologies, Inc.

Exhibit 6-11

The second analysis, shown in Exhibit 6-12, provides additional insight. Here, our long-standing pension actuaries, Buck Consultants, display the differences in assessments required throughout stipended ministry as it varies by the age at which assessments begin. Because of the advantages of compounding, those who begin participation in any defined benefit pension plan at an early age tend to be less expensive than those who enter later in their working lives. The converse, of course, is also true—older new entrants are more expensive in terms of the amounts that should be collected each year to fund future benefit payments.

Exhibit 6-12 confirms this, using demographics of our clergy population and our benefit provisions. It shows that for those ordained at younger ages, the current 18% assessment rate is well in excess of that which is required, if work and compensation proceeds along a normal course. The requirement for those ordained later in life, in contrast, is significantly greater.

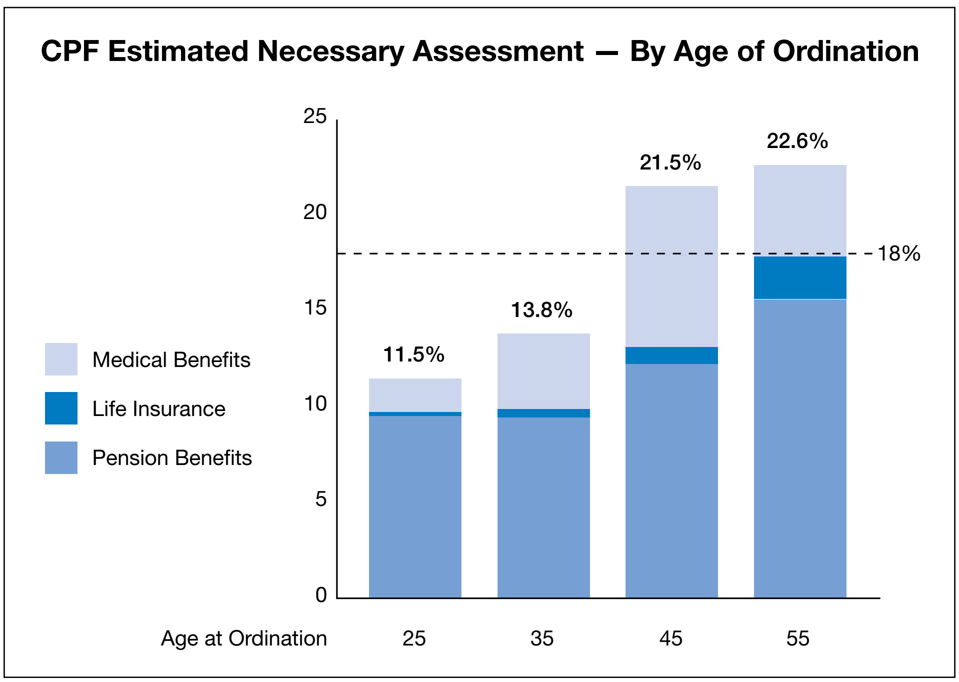


Exhibit 6-12

Although these charts deliver a troubling message, we do not believe there is cause for immediate alarm. Under every reasonable set of assumptions, our pension plan remains strong for a very long time. But these analyses do raise a warning flag. They suggest that both prudence and continued thorough analysis are essential.

7 Services Centered on Lay Employees

Clearly, the Episcopal Church's most important asset is its people. When CPF began, most ministers were ordained. But our understanding of ministry has changed, and the work of the laity, as church employees, has expanded mightily. As a consequence, CPG has continually strived to improve its ministry to the laity.

During this triennium, a number of significant enhancements have been implemented in both the defined benefit and defined contribution pension plans specifically designed for lay employee participation. In addition, initiatives in health plans, life and disability insurance, and retirement planning have improved the services available to lay employees, as well as clergy.

This chapter reviews our activities in a number of areas of value to lay employees. We begin by discussing pension plan changes in the two lay plans. We continue with a review of services in two important areas. The first, "Related Employee Benefits," discusses five enhancements which benefit both lay employees and clergy. The final section, "Organizational Assistance," describes two initiatives focused on parishes and dioceses. In both, lay and clerical employees are the ultimate beneficiaries. Exhibit 7-1 lists the topics we will cover and whom they benefit.

Lay Employee-Oriented Enhancements

Area	Those Who Benefit	
	Lay Employees	Clergy
Pension Plans		
Defined Benefit	✓	
Defined Contribution	✓	
Supplemental (403B)	✓	✓
Related Employee Benefits		
Active Employee Health Coverage	✓	✓
Supplemental Life Insurance	✓	✓
Disability Insurance	✓	✓
Long-Term Care Insurance	✓	✓
Financial Planning	✓	✓
Organizational Assistance		
Human Resources Management	✓	✓
Payroll Services	✓	✓

Exhibit 7-1

Pension Plans

CPG offers two different types of pension plans for church lay employees. For participants in the defined benefit plan, which began in 1980, retirement benefits are based on years of credited service and average compensation in the best seven of eight consecutive years immediately preceding termination or retirement. Employers pay an assessment into the plan equal to 9% of each individual's compensation. All money is pooled for the benefit of participants, and the investment strategy and risk is borne by the plan, not by the individual participants. In short, the benefit is defined by a formula, and the fiduciaries of the plan have the responsibility to ensure sufficient resources are available to provide benefits.

In the defined contribution plan, launched in 1992, each employer contributes 5% of a participating employee's compensation and agrees to match up to an additional 4% of compensation if the employee voluntarily contributes through payroll deduction. These funds are deposited in an account specifically earmarked for that employee. The employee decides how the funds will be invested. At the time of retirement, whatever has been accumulated—through contributions and investment earnings—is available to fund an annuity (which would pay a monthly benefit), as a lump sum, or a combination.

Each approach to retirement benefits has its advantages and disadvantages. The popularity of each approach can vary based on the investment climate. During the bull market of the 1990s, defined contribution plans were especially popular; market losses since 2000 have led, at least in part, to a renewed interest in defined benefit plans.

In the fall of 1999, at the CPG-sponsored Diocesan Administrators Workshop, the status of benefits for lay employees who work in our churches and diocesan offices was a concern raised by many of the 95 administrators in attendance. CPG agreed to assist those who were interested in pursuing this topic further. A major report that grew out of the work of the Lay Benefits Task Force is included in Appendix J, and we recommend it to your reading.

By every measure, our lay pension plans have grown nicely. Exhibit 7-2 looks at asset growth. During this triennium, assets of the new plan, the defined contribution plan, exceeded those of the older defined benefit plan. Employer and employee participation in the two lay plans has also steadily increased.

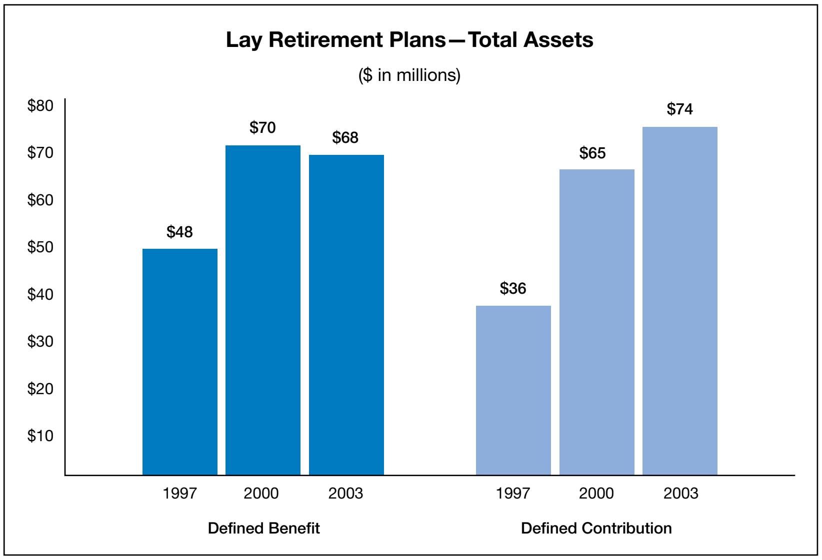


Exhibit 7-2

Exhibit 7-3 looks at both employees and employers in the two plans. The number of employers in the defined benefit plan has been steady, although the number of covered employees has dropped. Both measures have grown for the defined contribution plan. We are pleased that, between the two plans, over 2,200 Episcopal employers are providing benefits to over 6,800 current or former employees.

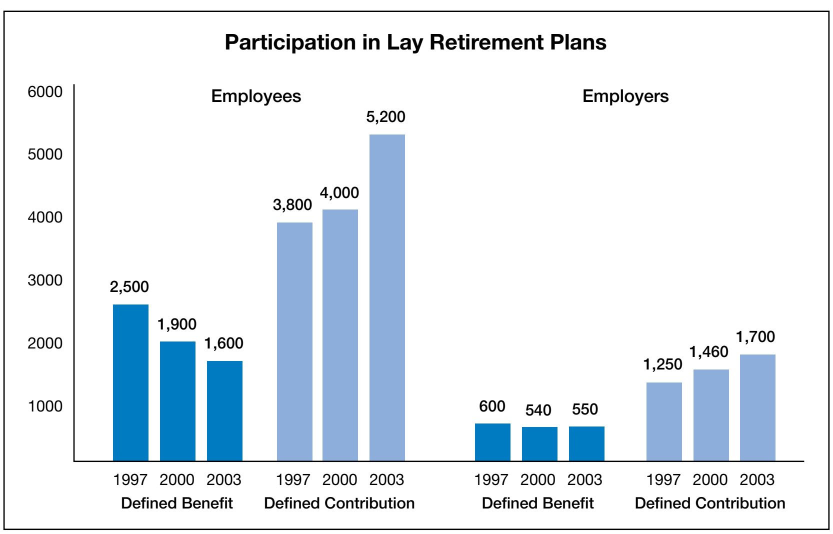


Exhibit 7-3

Defined Benefit Retirement Plan

During this triennium, two new benefits were added to the defined benefit retirement plan. In addition, we were able to fund cost-of-living increases for our retired lay employees.

- **Death Benefit** – If a participant dies before retirement, but after reaching the age of retirement eligibility, a survivor's benefit is payable to the participant's spouse. New this triennium is a lump sum death benefit equal to two times annual salary up to a maximum of $50,000 payable to the named beneficiary of any participant who dies in active service up to age 72. This new benefit is equivalent to the life insurance benefit for active clergy and provides an important safety net for those enrolled in the plan.

- **Enhanced Early Retirement Benefit** – This plan allows for retirement as early as age 55 with five years of service. Under the rules for early retirement, each payment is less than the normal retirement age benefit formula would calculate because benefits begin earlier and will theoretically be paid for a longer time period. This "early retirement reduction" is actuarially determined so that, on average, the value of all benefits paid is the same as would have been paid if benefits began at age 65. The rules were changed during this triennium to lower this actuarial reduction, equalizing the early retirement subsidy with that of the clergy plan for those who retire between ages 60 and 65. This results in a subsidized early retirement provision as shown in Exhibit 7-4

Early Retirement Provisions

Age at Retirement	(Old) Actuarially Determined Reduction	(New) Enhanced Benefit Reduction
55	56.8%	41.1%
57	49.5	31.1
60	35.5	12.0
62	23.6	7.2
64	8.7	2.4

Exhibit 7-4

To illustrate, an employee with an average compensation of $25,000 and 20 years of credited service at age 60 is eligible to retire. The benefit calculation would yield an annual pension of $7,500 ($25,000 x 20 x 1.5%) at age 65. If benefits begin at age 60, the full actuarial reduction would yield a pension of $4,837; the new enhanced benefit reduction now in effect results in a pension benefit of $6,600—a substantial improvement.

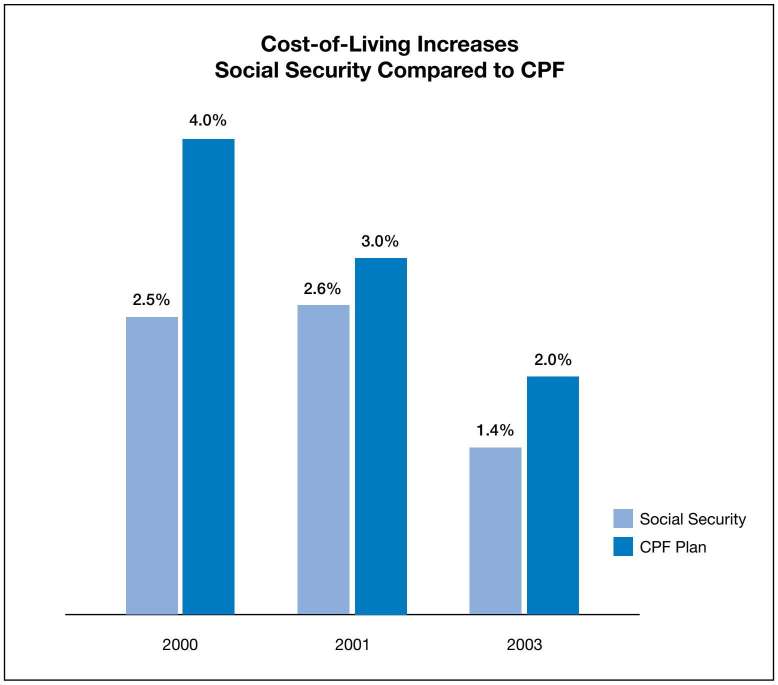


Exhibit 7-5

- **Cost-of-Living Increases** – Although not guaranteed by the plan, we were fortunate to be able to provide cost-of-living increases for retirees each year that exceeded the announced Social Security cost-of-living adjustment.

Defined Contribution Retirement Plan

Beginning April 1, 2002, the Church Pension Group teamed up with Fidelity Investments to enhance the Lay Employees' Defined Contribution Retirement Plan with new, state-of-the-art product features. The Church Pension Group continues to select and monitor investment options available to participants. With Church Pension Group oversight, Fidelity Investments provides contribution processing and participant record-keeping.

The new investment lineup now includes options ranging from a money market mutual fund to a growth-focused stock fund:

- Fidelity Retirement Money Market Portfolio
- BlackRock Core Bond Total Return Portfolio – Service Share Class
- Domini Social Equity Fund
- Fidelity Disciplined Equity Fund
- Fidelity Dividend Growth Fund
- CPG Balanced Fund consisting of 55% Fidelity Disciplined Equity Fund, 40% BlackRock Core Bond Fund and 5% Fidelity Retirement Money Market Portfolio

In addition to pre-tax contributions, individuals can make after-tax contributions to maximize retirement savings. Participant loans (up to the legal limits) are now available. Account information and transaction processing is available 24 hours a day via the telephone and Internet, and the plan provides access to knowledgeable retirement services specialists. Financial planning tools that reference these specific funds are available via the Internet.

These enhancements provide a state-of-the-art defined contribution plan for lay employees that is tailored to their needs, provides diversity in investment options, and flexibility in the management of individual accounts.

Retirement Savings Plan (RSVP)

In May 2003 we made significant enhancements to our Retirement Savings Plan (RSVP) to assist employees with building their personal savings to supplement pensions and Social Security payments upon retirement. We transitioned the contribution processing and participant record keeping for the RSVP plan to Fidelity Investments to provide similar investment options and benefits as the Lay Employees' Defined Contribution Retirement Plan, while maintaining the option for employees to invest in Church Life's tax-sheltered annuity. Employees are now able to select from a significantly expanded line-up of investment options, access their account and conduct transactions 24 hours a day, seven days a week via the Internet or telephone.

Related Financial Assistance

A number of services or enhancements, added in the past triennium, benefit both clergy and lay clients but were developed with the particular needs of the laity in mind.

Health Plans

Given the magnitude of increasing health insurance costs and the economic realities of small congregations, we have streamlined our group medical plan offerings during this triennium to provide national and regional health plans that combined economies of scale with plan designs specific to the employee's needs. With our partners at Blue Cross Blue Shield, First Health, and Aetna, we offer a choice of several managed care plans, such as:

- Exclusive Provider Organization (EPO) and Health Maintenance Organization (HMO) plans that use a national provider network. That means an employee can receive care from any participating provider, even when s/he is away from home. For most outpatient care, the out-of-pocket costs are reduced to a small co-payment and the plan pays 100% of covered inpatient care.
- National Preferred Provider Organization (PPO) plans offer employees access to doctors, hospitals, and other providers who have agreed to participate in the network and accept lower

fees for their services. A PPO plan is a good choice for employees who place a high value on being able to see any provider they choose, yet still keep the out-of-pocket costs low.

- While we encourage an employer to offer one of our national plans, in some cases a local health plan may provide a more cost-effective option. When that is the case, we work with the diocese to negotiate with local health insurance companies for the best coverage at the most reasonable cost.

The emotional and spiritual well-being of employees and their families is vital to the health of the church. Our supplement for mental health and substance abuse continues to cover a variety of outpatient services, including individual, family, and group therapy, as well as colleague groups. This supplement is one of the most generous of its kind.

The three-tier co-payment structure for prescription drugs has become increasingly common in recent years. This structure helps manage ongoing prescription costs by encouraging employees and doctors to use more cost-effective alternatives when they are available.

As members of the Church Benefits Alliance, a coalition of 32 denominational benefit programs, we use our collective buying power to lower costs for employees. More than 60 dioceses now offer health plans through the Medical Trust to more than 12,000 clergy and lay employees and their families.

In our continuing effort to provide affordable options for dental care for employees and their families, we now offer three dental plans that cover preventive care, as well as basic and extended services with low out-of-pocket costs. More than 40 dioceses offer dental benefits through the Medical Trust.

In addition to health plans for active lay employees, we offer two new 65+ Medicare supplement plan options for retired lay employees.

Supplemental Life Insurance

During this triennium we added a new supplemental life insurance plan that an employee may purchase if s/he is already covered by our group life insurance. The annual renewable term insurance rates are generally lower than individual rates. For example, the monthly premium for $150,000 of coverage for a 45-year-old is less than $45 a month. Many employees have found this supplement beneficial, especially if they have dependent children or other dependents, support aging parents, want to ensure their children's education in case of their death, or have a mortgage their survivors would have to pay. An employee can purchase up to three times the insurance benefit their employer provides to a maximum of $300,000 of coverage. Spousal coverage is based on the same calculation to a maximum of $150,000 of coverage. Premium payments are made through payroll deductions and coverage can be converted to whole life/permanent insurance if an employee leaves his/her job or reaches age 65.

Disability Insurance

Our Income Replacement Plan, or IRP, continues to help secure an employee's future against the loss of income due to short-term disability. Our long-term disability insurance plan has been available since March 2001 and was re-vamped this year to offer an employee voluntary option and an employer-provided non-contributory option. Long-term disability benefits are available after a twelve-month elimination period and provide income up to age 70, depending on the age of the employee when the disability began. Disability insurance is underwritten by FirstUNUMProvident Life Insurance Company and is especially important to lay employees since the defined benefit retirement plan offered through the Church Pension Group has only a modest long-term disability provision, and the defined contribution plan has none at all.

Long-Term Care Insurance

In response to increasing interest from individuals around the church, we conducted an extensive search for a long-term care insurance option to be added to our product mix in September 2003. Rather than underwriting this benefit, we have elected to provide employees with access to Prudential Insurance's long-term care product and services. Prudential representatives will be available to assist employees in determining if a long-term care insurance policy fits their specific needs. Assistance with selecting a plan design, benefits, and features will also be available.

Financial Planning Resources

During this triennium, we have focused time and resources to providing increased financial planning services and tools for employees in the church. Employees can now create their own financial plan with available written and online tools. Financial planning worksheets provide a start with basic budgeting, net worth statements, and goal-setting planners. A resource list of helpful books, websites, organizations and resources for financial assessment is also available. The new PlanAhead for Retirement Internet calculator helps employees in the defined benefit retirement plan evaluate their personal retirement finances, in order to make needed changes before they retire. Employees in the defined contribution retirement plan have access to a similar Internet calculator provided by Fidelity Investments.

Planning For Tomorrow conferences have been developed for lay employees, with five conferences planned in 2003 and more to be offered in 2004. In addition, our CPG staff is always available to provide individual consultations to discuss an employee's financial needs and goals.

Organizational Assistance

Human Resources Guide

In response to a need expressed by diocesan administrators and others throughout the church, we published the *Guide to Human Resources Practices for Lay Employees in Episcopal Churches*. The guide provides assistance and suggests ways that churches can improve their employment practices, both to comply with laws and to create a positive, professional work environment for lay employees.

Episcopal Payroll Services

The administration of employee benefits often includes the need for an accurate and efficient way to pay lay employees. During this triennium, Episcopal Payroll Services was introduced as a new service provided by CPG to parishes, dioceses, and other organizations in the Episcopal Church. Using the services of Paychex, the largest processor of small-to-medium-sized payrolls in the US, we offer three affordable plans to fit an employer's needs.

8 Intersection of Individual and Institutional Wellness

As our final topic before the important discussion of trustee elections (Chapter 9) and a response to the resolutions from last General Convention (Chapter 10), we want to mention the topic that currently intrigues us most: the intersection between individual and institutional wellness.

Exhibit 8-1, the cover of this year's annual report, introduces the theme of that document. Using a wonderful illustration by the Rev. Jay Sidebotham, vicar of St. Bartholomew's Church in New York City, it depicts the interaction of Episcopal people and Episcopal institutions.

The work of the past ten years has convinced us that understanding this interaction is critical. We believe that what might be called institutional wellness can materially enhance—or diminish—individual wellness. All of us are affected by our work environment. Healthy clergy cannot stay healthy unless the environment is healthy. Because of this, we believe that ongoing, thoughtful analysis of our institutional system, and the interaction of institutions and individuals, is needed by the church's leaders.

2003 Annual Report Cover

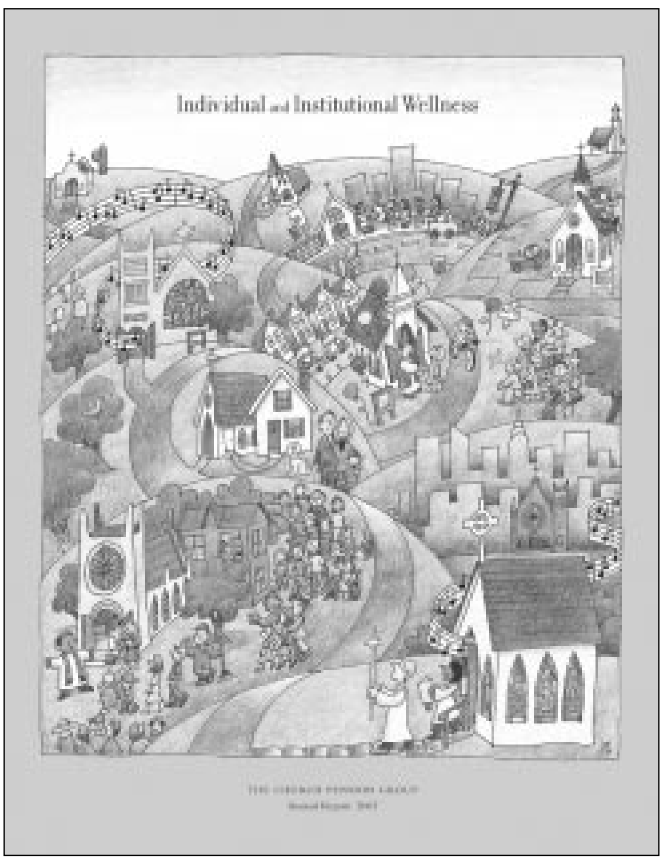


Exhibit 8-1

Why is this particularly important now? One reason, we believe, is the wonderful summary of benefits shown by Exhibit 8-2 and stressed throughout this document. The church, through the pension fund, has recently committed nearly $1.3 billion to the wellness of individuals.

If institutional and individual wellness are linked, we believe this massive financial commitment to individuals has a large stewardship dimension. It makes research on institutional wellness, and how individuals and institutions affect each other, more critical than ever.

In our annual report, we discuss research we are doing to try to better understand this interaction. In it, we use charts and exhibits, all reproduced here, to raise a series of questions.

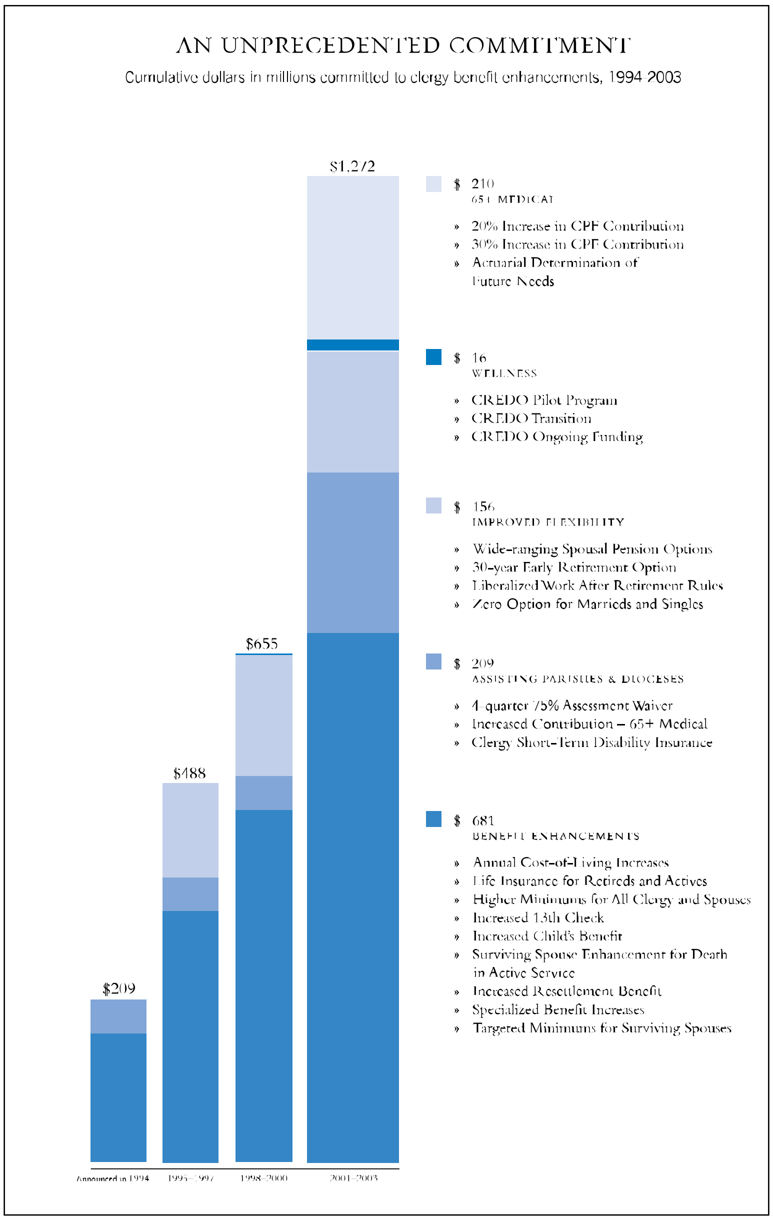


Exhibit 8-2

Exhibit 8-3, another cartoon by the Rev. Jay Sidebotham, succinctly shows the complexity inherent in ordained ministry. A lot is going on in every parish, and the skill sets and types of assistance needed by a typical clergyperson are amazingly diverse.

Our often-used vision statement, "Freeing our Ministers to Minister," refers to CPF's desire to help clergy deal with the demands of parish ministry. We believe we have the ability, now, to deal specifically with some of the overall implications suggested by this cartoon. But fully meeting these challenges will require far more from all of us.

Before suggesting some next steps, the annual report goes on to present data in three areas:

- Who our priests are
- Where our priests labor
- Where our people worship

One View of Parish Management Complexities

Exhibit 8-3

Who Our Priests Are

Clearly, an essential requirement for institutional health is having the right number of enthusiastic ordained people. But what is the right number? Is there a clergy glut? Is there a clergy shortage? Are there trends in ordination that can help us prepare for the future?

Exhibit 8-4 shows a declining trend in the average number of ordinands each year. The decline has not been precipitous, but the cumulative impact clearly is significant.

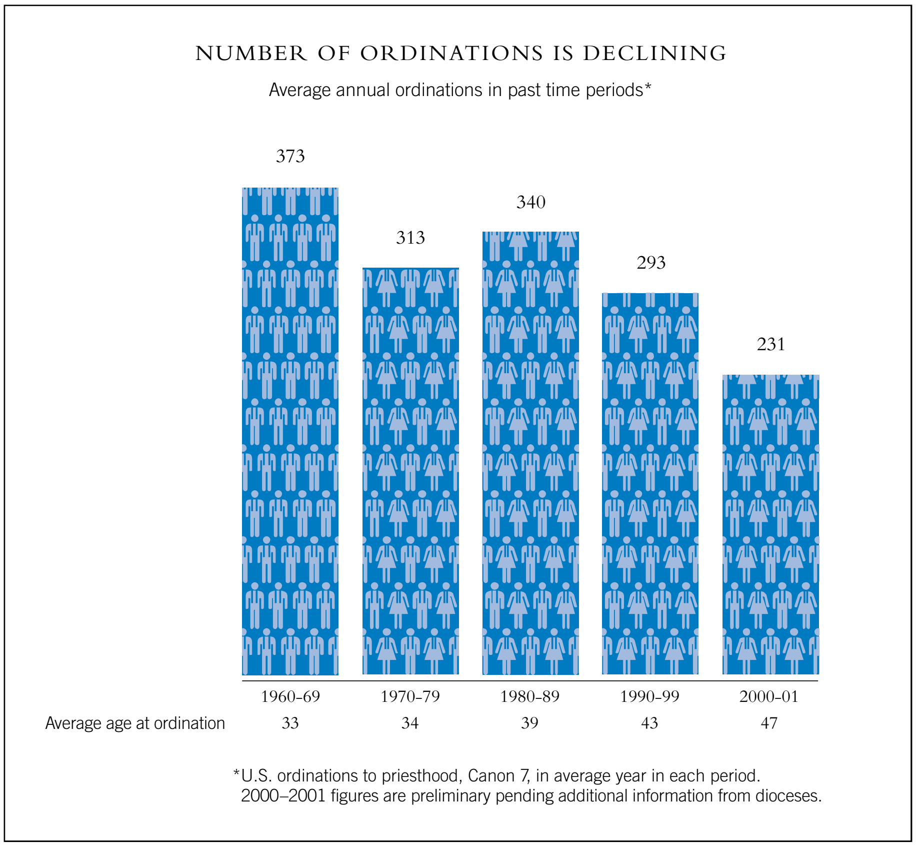


Exhibit 8-4

Further analysis, presented in Exhibit 8-5, suggests that these apparently moderately troubling issues actually may be very troubling. The exhibit divides the ordinands in each time period into four groups by gender and age. Looking first at male ordinands, the exhibit shows a precipitous decline in the number of younger men. The number of older male ordinands has varied somewhat but remained essentially steady.

Turning to female ordinands, we begin to see why the total ordination numbers look more comforting than they may actually be. In the 1960s, of course, there were no female ordinands, as the ordination of women was not approved by General Convention until 1976. In each period shown since then, the number of younger women is fairly constant, but small. The fascinating dynamic has been the large number of older women being ordained. It is this group that has partially offset the declining number of ordinations overall. Can we expect to see this trend continue? If it declines, what will happen to the total number of ordinations each year?

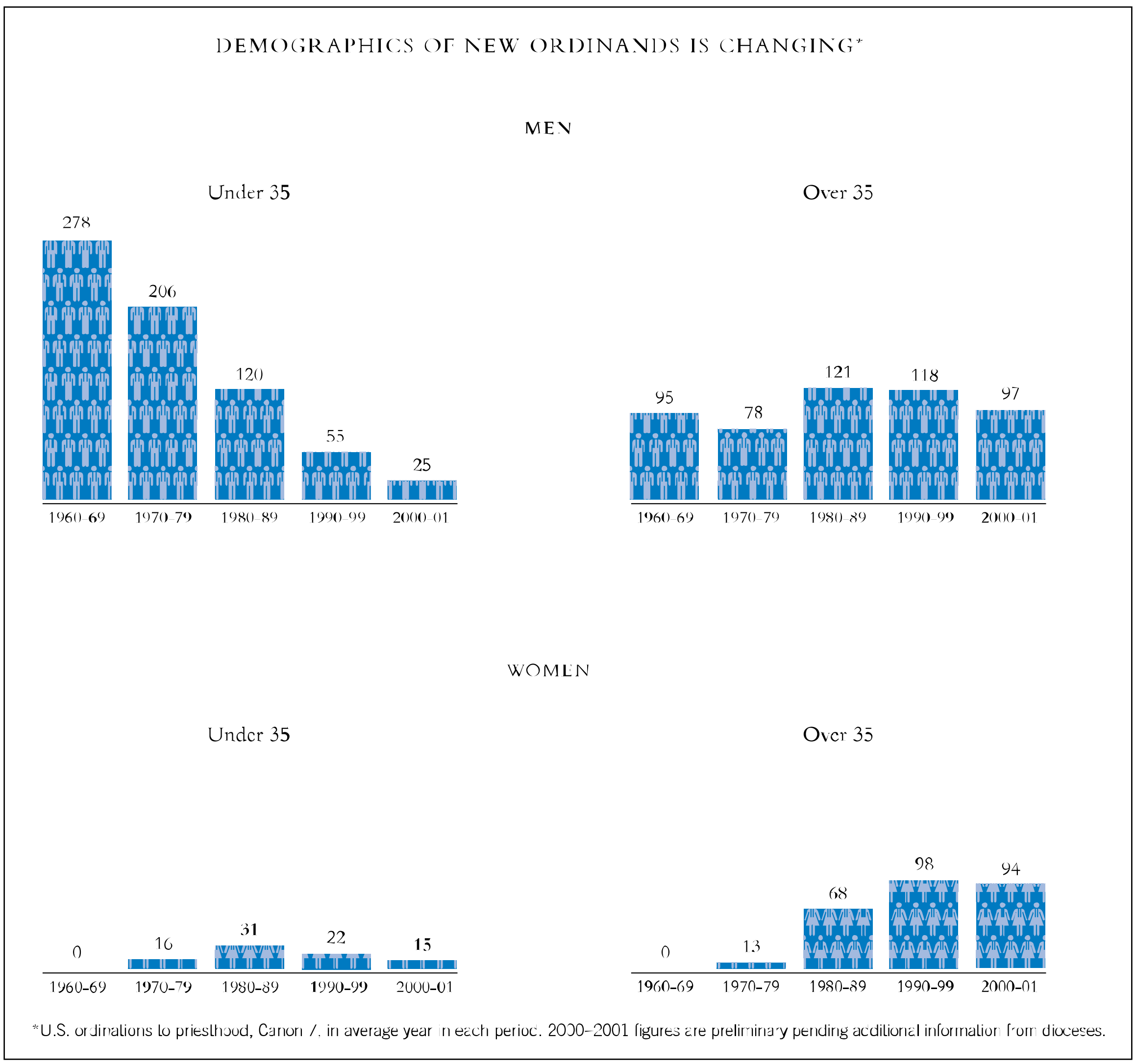


Exhibit 8-5

Where Our Priests Labor

Certainly, the "work life" of our clergy is affected by the nature of their workplace. We know the nature of the job and the skills it requires differ significantly by church size. We also know that economic challenges, which can exist anywhere, differ from large to small churches.

Exhibit 8-6 depicts the number of churches in each of the commonly used categories of church size. Again, the numbers confirm something most people know. By far, the majority of Episcopal churches are small. Nearly 50% of our churches are in the "family" group with an average Sunday attendance of one to 75 people. By contrast, we have only a handful of really big churches. In the "resource" category, those with an average Sunday attendance of over 400, there are only 245 churches. If an institution is defined by its bricks and mortar, the Episcopal Church is an institution of small churches.

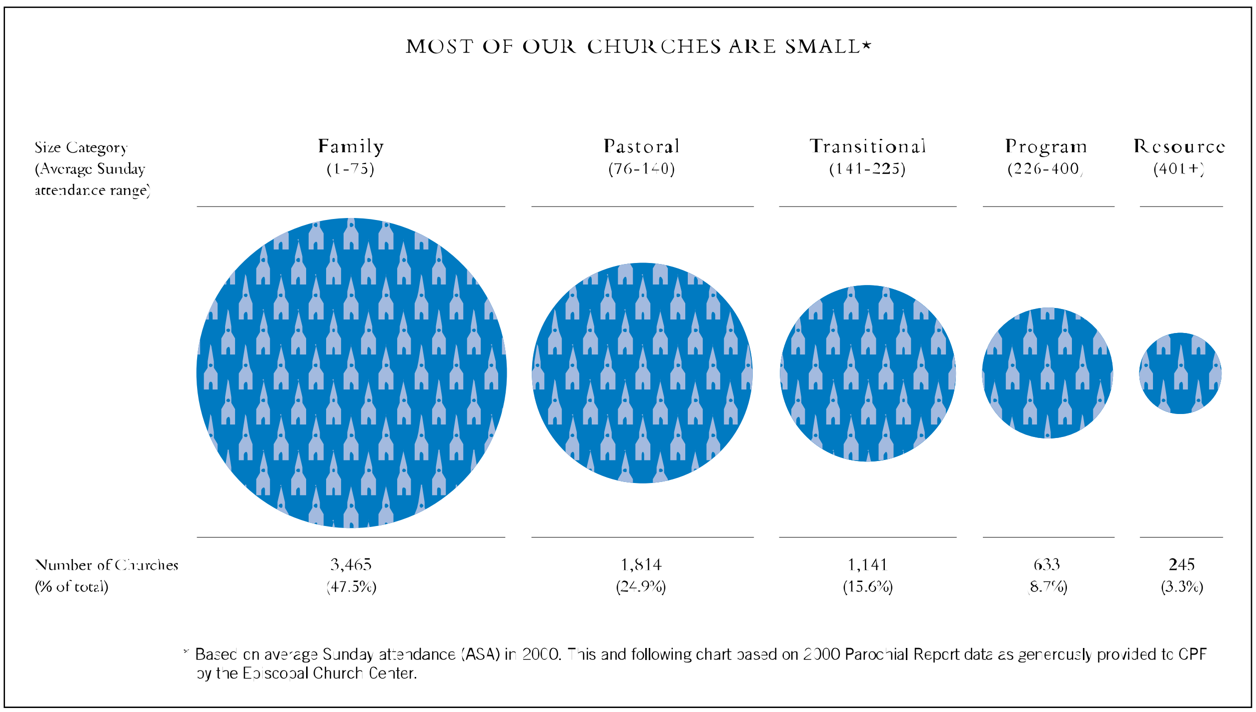


Exhibit 8-6

Where Our People Worship

If the Episcopal Church is a denomination of small churches, is that where most people attend? Interestingly, the answer is no. Exhibit 8-7 looks at two size categories—the smallest and largest. For each, it looks first at the number of churches and next at aggregate average Sunday attendance. The chart makes a fascinating point. More people, in aggregate, attend the 245 largest churches than attend the 3,465 smallest.

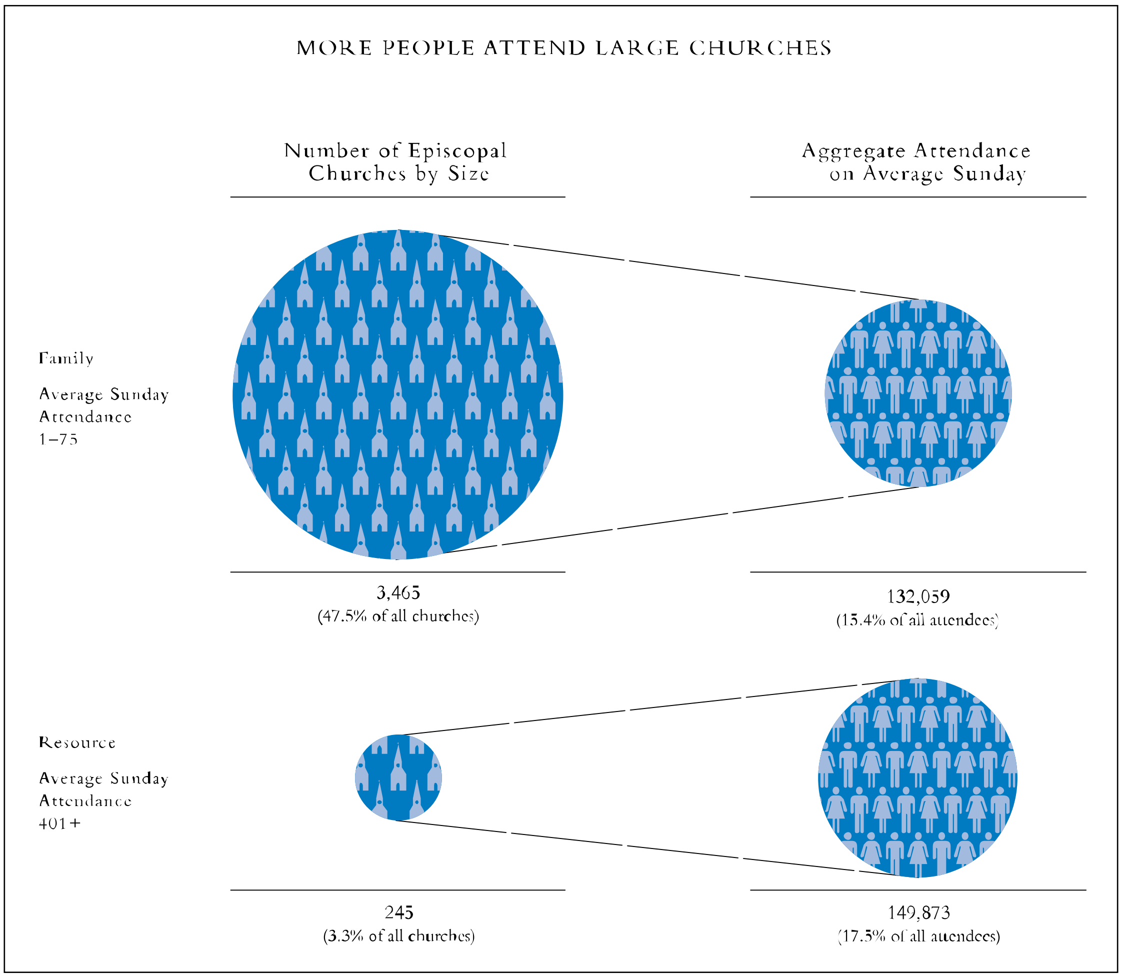
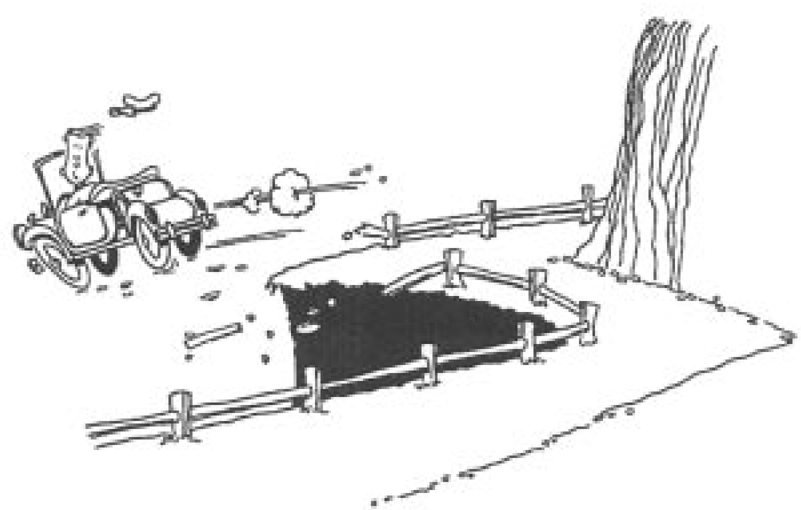


Exhibit 8-7

The Road Ahead

We believe the implications of these statistics are broad, and go substantially beyond the concerns of a pension fund. However, if we agree that the health of the environment and the health of the clergy who work in that environment are interlinked, the impact of these statistics upon institutional wellness across the whole of the church becomes highly significant.

Exhibit 8-8, a wonderful Delbert Brown cartoon, is taken from the Rev. Canon Keith Brown's book, *On The Road Again: Managing Evangelism and Stewardship for the Kingdom*. We believe it sums up the importance of the issues we raised in the annual report. If you're speeding down a road, you'd better have a good sense of where it leads.



"Always turn when the road does." Delbert Brown

Exhibit 8-8

Exhibit 8-9 summarizes what we pledge and what we hope for.

What We Pledge	What We Hope For
• Continuing review of the adequacy of benefits • Continued focus on clergy wellness and wholeness • Ongoing analysis of post-retirement medical issues • Continued question-raising	• Institutional pooling of resources to create better information from available data • Churchwide discussion of the meaning of the data • Energetic, positive, collegial debate and focused action

Exhibit 8-9

CPF's analysis of the increasingly complex and expensive medical situation will continue. And we will continue to raise questions.

Having committed nearly 1.3 billion additional dollars to individual clergy wellness, the CPF Board of Trustees feels compelled to make that money work hard for the church by identifying and exploring a wide range of clergy wellness-related issues in order to determine where we—the pension fund and the institutional church—should go from here.

This is what we pledge. But we are certainly aware that making progress on these questions cannot be done by CPF alone. Many areas of inquiry that would further the church's knowledge in this area fall outside our authority or are activities that fall outside our competence.

For these reasons, Exhibit 8-9 also notes what we hope for. These are activities we believe the church should work on together. We are eager to participate in such work.

9 Pension Fund Trustees and Their Role

The Work of the CPF Board

The trustees of the Church Pension Fund play a vital role in the governance and management of CPG's complex affairs. They make significant policy decisions affecting investment policy, pension benefits, and Church Pension Group services; they regularly address complex issues, often balancing sometimes conflicting social and fiduciary responsibilities.

Current CPF Board of Trustees

Lay Persons (15)

Investment Management (4)

James E. Bayne
Consultant & Manager
Benefits Finance and Investment, Exxon Mobil*
Irving, TX

David L. Brigham
President & CEO
J.P. Morgan Investment Management, Inc.*
Weston, VT

Amy L. Domini
Private Trustee, Loring, Wolcott & Coolidge, Boston, MA

Quintin E. Primo III
Co-Chairman, Capri Capital, Chicago, IL

Accounting (1)

Sheridan C. Biggs
Partner, Price Waterhouse,* Quaker Street, NY

Law (2)

Barbara B. Creed
Attorney; Shareholder, Trucker Huss, San Francisco, CA

Cecil Wray
Partner, Debevoise & Plimpton,* New York, NY

Finance & General Business (7)

Alan F. Blanchard
President, The Church Pension Fund, New York, NY

Vincent C. Currie, Jr. (Vice Chair)
Administrator, Diocese of the Central Gulf Coast
Pensacola, FL

Deborah Harmon Hines, Ph.D.
Associate Vice Chancellor
University of Massachusetts Medical School
Worcester, MA

Arthur K. Kusumoto
Director, Financial Estates Corporation,* Wailuku, HI

Joon D. Matsumura
Comptroller, Diocese of Los Angeles,* Yorba Linda, CA

Virginia A. Norman
Treasurer, Iglesia Episcopal Dominicana
Santo Domingo, Dominican Republic

Katherine Tyler Scott
Executive Director
Trustee Leadership Development, Indianapolis, IN

Health Care (1)

David R. Pitts
Chairman & CEO, Pitts Management Associates
Baton Rouge, LA

Clergy (10)

Priests (5)

M. L. Agnew, Jr.
Dean, St. Mark's Cathedral, Shreveport, LA

A. Thomas Blackmon
Curate for Mission & Christian Formation
Church of the Incarnation, Dallas, TX

Randall Chase, Jr.
Canon to the Ordinary, Diocese of Rhode Island

Carlson Gerdau
Canon to the Presiding Bishop, New York, NY

Noreen P. Suriner (Vice Chair)
Rector, Trinity Episcopal Church, Binghamton, NY

Bishops (5)

Gayle E. Harris
Bishop Suffragan of Massachusetts

Chilton R. Knudsen
Bishop of Maine

Peter J. Lee, D.D.
Bishop of Virginia

Claude E. Payne, D.D.
Bishop of Texas

Herbert Thompson, Jr., D.D. (Chair)
Bishop of Southern Ohio

* Indicates significant former position

Exhibit 9-1

The trustees also provide governance and oversight to the management of a large and varied consortium of businesses. They are responsible for the oversight of assets worth over $6 billion, and a combination of companies that typically has annual revenues and cash flow of over $400 million. Of the many aspects of the Church Pension Group organization, investment management, medical benefits provision, and property and casualty insurance are among the most complicated—and, in the last two cases, the most troubled—business areas in America today. It would be difficult to overstate the importance of bringing to our deliberations the most expert and thoughtful advice available in our Episcopal world.

The Current Board and the Election Process

We believe the election process has historically resulted in outstanding leadership for CPF, as shown by the current board in Exhibit 9-1. Fifteen of CPF's current 25 trustees are lay leaders, generally with strong business experience. The current board includes individuals with significant expertise in four critical specialties: investment management, accounting, health care, and the law. Each of these areas of expertise is essential to board deliberations. In addition, the current board includes seven individuals with general business and/or management experience. The ten clergy trustees are evenly split between bishops and priests. The ordained group represents a diverse mix of geographic location, as well as a variety of parish, diocesan, and national staff experience.

Church canons require the election, at each General Convention, of trustees to fill 12 seats scheduled to expire. They also require elections to fill any "unexpired terms," seats that have become vacant since the last General Convention and have been temporarily filled by interims appointed by the sitting trustees.

Currently, there are two such unexpired seats to be filled. This means that only 11 incumbent CPF trustees continue their terms beyond the General Convention: the President, elected by and serving at the pleasure of the CPF Board, and ten trustees elected by General Convention in 2000 to serve terms which expire in 2006.

Exhibit 9-2 identifies and categorizes the 11 continuing trustees. **Note that there are no lay persons with primary experience in accounting, health care, or the law in this group.** Further, the balance between lay and clergy is changed significantly, with the number of continuing clergy trustees almost the same as the number of lay trustees.

Continuing CPF Board Members*

Lay Persons (6)

Investment Management (2)

Amy L. Domini
Quintin E. Primo III

Accounting (0)

- - - -

Health Care (0)

- - - -

Law (0)

- - - -

Financial & General Business (4)

Alan F. Blanchard
Deborah Harmon Hines
Arthur K. Kusumoto
Katherine Tyler Scott

Clergy (5)

Priests (2)

A. Thomas Blackmon
Randall Chase, Jr.

Bishops (3)

Chilton R. Knudsen
Peter J. Lee
Claude E. Payne

*The President plus 10 trustees elected in 2000 to serve until 2006

Exhibit 9-2

At some point early in the 74th General Convention, the House of Deputies will conduct two elections: in the first, deputies will be asked to select 12 individuals to serve six-year terms; in the second, deputies will be asked to select 2 individuals to serve unexpired three-year terms.

In each case, consideration will be limited to those nominees who have been selected by the Joint Standing Committee on Nominations. Each of these outstanding individuals has provided biographical information and a personal statement. This information appears in the Blue Book of the 74th General Convention, beginning on page 296.

The Election of 12 Trustees to 6-Year Terms

Exhibit 9-3 identifies the 24 candidates nominated by the Joint Standing Committee on Nominations for 6-year terms. Candidates are grouped by their primary area of experience. Incumbent trustees, the nine current trustees eligible for re-election, are shown in bold. Among the 15 new nominees are eight priests, four bishops, and three lay leaders, grouped in areas of expertise as our very limited knowledge suggests are most appropriate.

In general, the continuing trustees and staff of the Church Pension Fund strongly support the re-election of all incumbent trustees. We hope the General Convention deputies will recognize the value of accumulated experience, continuity, and wisdom, especially during this time of financial market volatility.

Beyond endorsing our incumbents, we welcome all new trustees, noting that a balance of business skills is essential. **We urge particular consideration of lay leaders with experience in critical sub-areas: investment management, health care, and the law.**

Candidates For Election To A 6-Year Term*

(12 to be elected)

Lay Persons

Investment Management

James E. Bayne
David L. Brigham

Accounting

Sheridan C. Biggs

Health Care

David R. Pitts

Carla M. Cooper

Finance & General Business

Joon D. Matsumura
Virginia A. Norman

Jon B. Boss

Law

Theresa M. Brion

Clergy

Priests

M. L. Agnew, Jr.
Carlson Gerdau

Samuel G. Candler
Peter F. Casparian
Donald A. Fishburne
Scott B. Hayashi
Lynn Jay
Caryl A. Marsh
V. Gene Robinson
Robert Sessum

Bishops

Gayle E. Harris

David C. Bane, Jr.
Robert H. Johnson
Henry N. Parsley, Jr.
Wayne P. Wright

*Names shown in bold are incumbent trustees

Exhibit 9-3

The Election of 2 Trustees to 3-Year Terms

Exhibit 9-4 identifies the four candidates nominated for 3-year terms by the Joint Standing Committee on Nominations. Two are incumbent trustees. **Note that the two incumbents nominated here are the only nominated attorneys with experience on the CPF Board.** We believe that this fact, combined with the complexity of our work and the increased incidence of litigation against churches, give special importance to their candidacy.

Candidates For Election To A 3-Year Term*

(2 to be elected)

Lay Persons		Clergy	
Finance & General Business	*Law*	*Priests*	*Bishops*
Theodore B. Sloan	**Barbara B. Creed** **Cecil Wray**	Mark S. Nestlehutt	

*Names shown in bold are incumbent trustees

Exhibit 9-4

* * *

The Joint Standing Committee on Nominations has assembled an outstanding list of nominees. We thank them for their work. Now it is time for us to ask that the House of Deputies give thoughtful, prayerful attention to this important task.

10 Resolution Responses

The 2000 General Convention requested Church Pension Group action or analysis in a number of areas, as indicated by the eight resolutions listed below as Exhibit 10-1.

In this chapter we provide our responses, often referring to other material.

2000 Resolution Number	Topic	Page on which Response begins
D078	Health Care Benefits for Retired Clergy	10-2
A071	Endorsement and Support of CREDO	10-4
D046	Extending Disability Insurance to All Parishes	10-6
D077	Pension Assistance to Late Ordinands	10-8
C024	Evaluate Housing Needs for Retired Clergy	10-10
D102	Church Pension Fund Policies	10-14
C039	Church Pension Fund Investments	10-15

Exhibit 10-1

Resolution D078: Health Care Benefits for Retired Clergy

> ***Resolved**, the House of Deputies concurring, That the Church Pension Fund be requested to study retirees' health care benefits including, but not limited to, prescription drugs and provision of Medicare Part B Supplement, as they vary among the Dioceses and to consider expanding its own role in the provision thereof.*

Chapter 6 of this report, Health Care Initiatives, describes in detail the multi-year study of retiree health care needs and expenses which resulted in extensive changes to CPF's Medicare Supplement programs. That study confirmed that the medical cost assistance provided by dioceses to their clergy retirees varies considerably.

In 2002, an extensive survey of diocesan administrators showed that 62 dioceses provided some assistance—either paying for all of the Supplement to Medicare Part B or sharing the costs —while the remaining 38 dioceses provided no assistance. Specifically, this meant that about half of our retired clergy and spouses were paying approximately $156 per person per month to supplement coverage provided by Medicare and the Church Pension Fund and the other half were receiving this assistance from the diocese from which they retired. Furthermore, because of the way benefits were delivered, the only way retirees could get assistance with prescription drug costs was through the CPF provided Supplement to Medicare Part B (or directly through private plans).

This information and our extensive analysis of "best practices" for post-retirement health care coverage led to the several extensive changes described in Chapter 6. In summary:

- Two new Medicare Supplement plans were introduced, effective July 1, 2003
- Both plans include coverage for prescription drugs, vision, annual physicals as well as hospital costs and physician visits
- One plan (Comprehensive) is fully paid for by the Church Pension Fund for retirees and eligible spouses with twenty years of credited service, and mostly paid for those with ten to twenty years of service
- A second plan (Premium) available for a modest monthly premium, now paid for either by individual or diocese, provides enhanced benefits, principally through reduced deductibles and co-payments

The introduction of this plan, and earlier changes, created an increase in the pension fund contribution of over 116% during this triennium.

The implementation of the two new medical cost assistance plans is incomplete as this document goes to press. Initial evidence indicates that the enhanced contribution by the pension fund, and the improved choices now available to our retirees, have led to some additional reductions in the provision of assistance from dioceses. We understand that budget issues may require dioceses to reduce their involvement. However, we caution the church against believing that "the pension fund can take care of medical on a permanent basis."

The issue of the rapidly rising cost of medical care, especially for seniors, and the potential impact on the provisions in Medicare, will continue to be of serious concern for us and for our country. We urge all of the church to remain involved in this most important issue. We further urge churches—and congregations—to be mindful of those retirees and surviving spouses who need particular assistance because short service, low pay, or other circumstances have led to insufficient resources.

Resolution A071: Endorsement and Support of CREDO

> ***Resolved****, the House of Deputies concurring, That the 73rd General Convention of the Episcopal Church, first, affirms the Church Pension Group's initiative in developing the CREDO Project and encourages the Church Pension Group to proceed with this initiative; second, urges the General Convention to commit $30,000 annually for each of the next three years to provide scholarships and to assist with the cost of child or other dependent care, supply clergy, and other financial needs which might prevent clergy from taking advantage of the CREDO opportunity; and third, urges all church groups committed to clergy development and wellness to respond positively to the Church Pension Group's invitation to assist in the development of an approach to the governance and administration of this initiative; and be it further*
>
> ***Resolved****, That there be a report to the 74th General Convention on the status and impact of the CREDO Project.*

The affirmation and encouragement provided by this resolution was important to the continuation of the CREDO initiative. Although funding proved not to be available through the General Convention budgeting process, CPF proceeded with the expansion of CREDO.

As the idea for CREDO first emerged, and during its development stage, CPF provided funding for CREDO from the Unrestricted Gifts and Legacies Fund—monies which have been given to the fund over the years, with no restrictions on their use. After the initial "Pilot Conferences" were so well-received, CPF chose to fund this program out of operating funds. In February 2003, the CPF board agreed to sufficient additional funding to cover the five-year period 2003-2007 (Exhibit 10-2).

This substantial enhancement to the funding of CREDO will allow the program to develop to its intended full scale of twenty conferences per year. By the end of 2004, every cleric active in the Church Pension Fund will have been invited to CREDO at least once, and planning for "round two" will have begun.

While no formal commitment has been made, it is CPF's general plan to provide future CREDO funding in five-year blocks. In 2005, therefore, the board will consider a grant for the 2008-2012 period. A thorough program review will accompany this funding discussion.

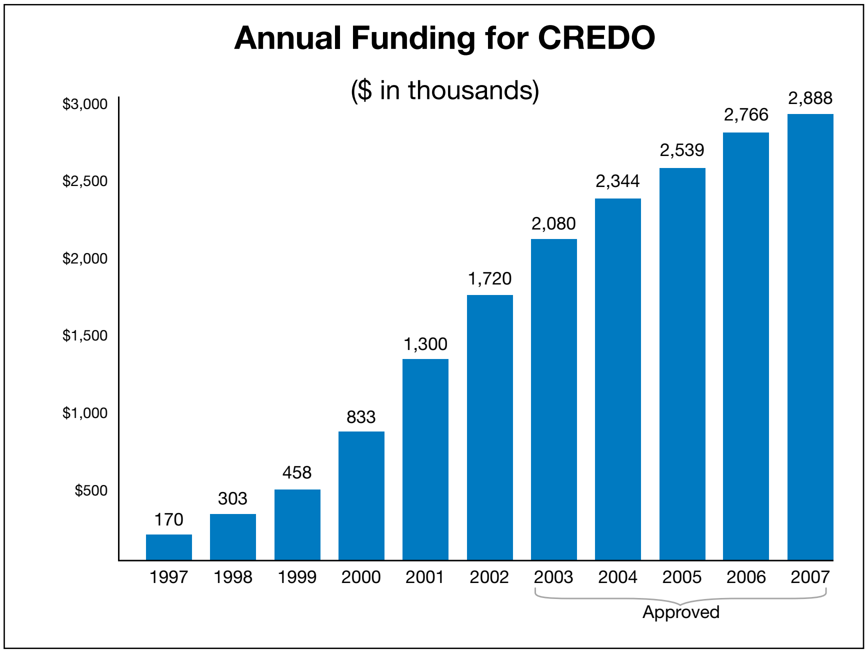


Exhibit 10-2

Following General Convention 2000, the CPF board established a separate 501(c)3 organization, The CREDO Institute, Inc., with its own board of directors, to oversee CREDO. The Institute's mission is to serve as a collaborative alliance providing resources for Episcopal leadership and wellness programs, and it is intended as the vehicle for "all church groups committed to clergy development and wellness . . . to assist in the development . . . of this initiative" called for in the resolution. We are extremely pleased that the Episcopal Church Foundation (ECF) and the Office of Pastoral Development have joined us in the governance, leadership, and funding of the Institute. The current board of directors includes William S. Craddock, Jr. (Managing Director), Bernard J. Milano (President, ECF), Alan F. Blanchard (President, CPF), Vincent C. Currie, Jr. (Vice Chair, CPF Board of Trustees), the Rt. Rev. F. Clayton Matthews (Office of Pastoral Development), and the Rev. Noreen P. Suriner (Vice Chair, CPF Board of Trustees). Vincent Currie serves as the Chair of this board.

The CREDO Institute has participated in collaborative efforts with the Duke Divinity School's Pulpit and Pew Research Project on Pastoral Leadership; the College of Preachers, as they strategize their role in providing important resources to the clergy of our church; Fresh Start, a program for clergy in transition developed by the Episcopal Church Foundation; and the Office of Pastoral Development, in the area of support and development of bishops. We look forward to broadening collaboration with CREDO and to expanding these partnerships with others. It is our hope that other groups around the Episcopal Church will join in steps to enhance all offerings to clergy in our church by working together.

Resolution D046: Extending Disability Insurance to All Parishes

> ***Resolved**, the House of Deputies concurring, That this 73rd General Convention encourage the Board of the Church Pension Fund to provide short-term disability benefits at no charge to all congregations and church-related organizations within the Pension Fund system as part of a safety net for eligible clergy and lay employees.*

This resolution is responsive to a serious, but not well known, financial reality. For every twenty-five workers in America today, one will suffer an illness or accident in the next year that will cause him/her to be unable to work for a month or more. When this happens to an Episcopal Church employee, an employer is required to continue to provide salary and benefits and also to find the additional money necessary to pay for "fill-in" assistance—a full- or part-time priest or lay worker—for three, six, or twelve months.

Prompted partially by this resolution, the Advisory Committee on Pension Fund Abundance, the Benefits Policy Committee, and the CPF board have considered the need for financial assistance to congregations caused when an employee's disabling condition creates an unexpected financial drain. Although the need for assistance can arise among the laity as well as the clergy, the pension fund is only able, at this time, to be of assistance when the disabled individual is an active participant in the Clergy Pension Plan.

As described in the *Stewardship of Abundance* newsletter distributed in April 2003 (see Appendix H), a new short-term disability benefit for clergy has been approved by the CPF Board of Trustees, effective January 1, 2004. Its key terms are as follows: If a cleric is unable to work for longer than thirty days, the fund will pay the employer 70% of the cleric's total compensation, up to $1,000 per week, for a maximum of 52 weeks. We believe this will provide sufficient funds for the employer to pay for assistance while the cleric recovers. Equally important, this financial assistance to the employer should relieve the recovering cleric from the worry that his/her illness has placed a strain on the church. Detailed provisions are being finalized for release in the fall of 2003.

For over 25 years, Church Life Insurance Corporation has made available a short-term disability insurance product, called the Income Replacement Plan, or IRP, which has similar provisions. Churches that have purchased this insurance can feel comfortable lapsing that coverage for their clergy as of January 1, 2004, since this new benefit will replicate IRP. Furthermore, the 70% of churches who do not have this insurance coverage now can take comfort that their clergy—and their treasury—are protected. **We urge all congregations to consider purchasing such coverage for their lay employees**.

Experience with IRP shows that the incidence of disability among our clergy is considerably less than national averages. We hope this favorable experience continues, and we have allocated the financial reserves necessary to provide this benefit based on our experience over the past four years. We will carefully monitor the costs and, perhaps more importantly, the congregational effects of this new benefit. We reserve the right to amend this coverage in the future if unanticipated consequences arise. The intention of this benefit is to provide sufficient money to a congregation—or other Episcopal employer—so that the cleric can continue to receive full pay and benefits without imposing a financial hardship on the employer. It is not intended that the congregation or the cleric “make money” on this arrangement, nor is it intended that the congregation merely “pass through” the 70% of pay to the cleric. We expect to be in close contact with every cleric and employer who files a claim and to monitor the impact. The specific provisions of this benefit may need to be adjusted up or down in the future.

Of course, CPF cannot use clergy pension funds to provide benefits to lay employees. We have analyzed the possibility of providing similar coverage to participants in either of the two lay pension plans administered by CPF. However, we are not comfortable, at this time, with the potential costs of such a program. We will continue to study this possibility.

Resolution D077: Pension Assistance to Late Ordinands

***Resolved**, the House of Bishops concurring, That the 73rd General Convention urge the Church Pension Fund to continue to explore ways to enhance the pensions of those ordained later in life.*

This resolution reflects a perennial concern of the church, as evidenced by its similarity to Resolution C027s from the 72nd Convention. In our response to the 2000 Convention, we noted that for most clergy, even those ordained at 45 or 50, service of fifteen years in the Episcopal Church with full participation in the Church Pension Fund during those years, together with full Social Security, is sufficient to provide income very close to the 80% of pre-retirement earnings that financial planners suggest is adequate during retirement years.

During this triennium, our work with the Urban Institute, described in Chapter 5, and another resolution response (see page 10-10), determined average income needs of our retirees. That analysis showed that an average retired couple needed approximately $33,000 ($21,000 for singles) to live a middle-class lifestyle in middle America today—levels reached by the majority of clergy families with at least 15 years of credited service in the fund.

What about those who contribute richly to our church but, due to ordination after age 50, will not have worked for fifteen years by age 65? How might those clergy and their families be better cared for?

One idea explored in depth by the Advisory Committee on Pension Fund Abundance was to enhance the benefits of those who begin drawing pensions later than age 65, using the mathematical reality that if benefits begin later, they will probably be paid for fewer years and therefore could be actuarially enhanced to equivalent value. While appealing, and having some precedent in the Social Security system, the committee declined to move this idea forward due to its probable cost of approximately $40 million. Additionally, actuarial analysis showed that, for those whose participation in the pension fund included only those years just prior to retirement, the cost to provide all of the benefits included with the pension package (pension, life insurance, resettlement benefit, medical assistance, etc.) exceeded the value of the 18% assessment rate (see Exhibit 6-12).

Analysis related to this idea showed that working past age 65 is indeed of significant value under the current pension formula. The benefit increase related to additional credited service plus probable compensation increases yield a pension benefit more than 9% higher with each additional year of service (see Exhibit 10-3).

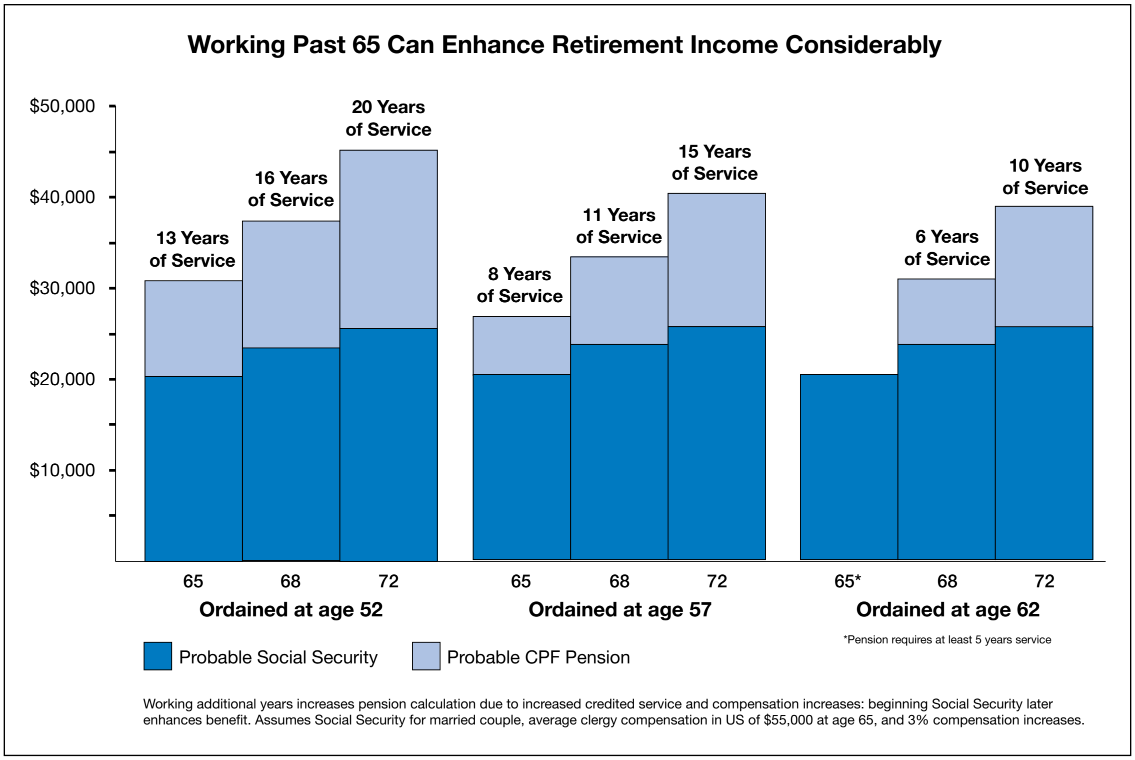


Exhibit 10-3

Church employers and clergy who are concerned about the adequacy of benefits can provide for additional retirement income by contributing to a 403(b) plan or tax-sheltered annuity on the cleric's behalf. Modest monthly deposits and the power of compounding can yield significant annual income. For instance, a contribution of $100 per month beginning at age 50 could yield additional annual income of nearly $3,000 if withdrawals begin at age 65. Matching contributions would, of course, double this amount.

Impact of Additional Savings

Age at which $100/mo contributions begin	Monthly payout beginning at 65	Monthly payout beginning at 70
40	$629	$1,055
50	$246	$450
60	$56	$150

Exhibit 10-4

We conclude that with some planning and foresight, there generally are alternatives available for clergy—and the congregations they serve—to ensure adequate retirement income. Resources available through CPG, including the internet-based financial planning tool ***www.cpg.org/life_planning*** and tax-deferred retirement savings plans such as RSVP, may be helpful to those who find themselves in such circumstances.

Resolution C024: Evaluate Housing Needs for Retired Clergy

> ***Resolved**, the House of Bishops concurring, That the Church Pension Fund analyze the housing situation of retired and overseas clergy persons to determine what, if any, types of housing programs would be desirable to assist those clergy who during their years of service were financially unable to set aside funds for suitable retirement housing.*

Partly in response to this resolution, CPF conducted quantitative and qualitative research during this triennium to assess the general financial and housing circumstances of retired clergy.

Financial Circumstances of Retirees

As discussed in Chapter 5, research by the Urban Institute was a major element of this triennium's wellness work. CPG asked this non-partisan economic and social policy research organization to study the adequacy of pension benefits for our retirees. Our basic question to them was "How much does it cost a retired individual or couple to live a middle-class lifestyle in middle America?" This is our view of the minimum standard of living that should be available to all clergy who have served the majority of their working lives in the church. Housing costs was one major and specific aspect of their investigation.

The Urban Institute reported a number of very interesting, and heartening, findings:

- CPF retirees with at least 30 years of credited service receive more pension income than almost 90% of all older Americans with pension income
- The combination of clergy pension and probable Social Security benefits provides, on average, nearly 85% of an individual's pre-retirement income—well within financial advisors' targets, and a substantially higher percentage than for comparably educated retirees from other professions
- The median household income from clergy pension and Social Security for all our retirees with thirty or more years of service to the church is just over $48,000 for married retirees, $38,000 for single retirees and approximately $23,000 for our surviving spouses. Moreover, most have some other income which supplements these benefits

These estimated clergy retiree resources were then compared to the estimated consumption needs of middle-class Americans at older ages to measure the adequacy of clergy retirement income. Consumption needs were developed from detailed government Consumer Expenditure Survey data covering housing, food, health care, transportation, clothing and other expenditures.

The Urban Institute concluded that, on average, married couples need approximately $33,000 and single adults need approximately $21,000 to live a middle-class lifestyle. Therefore, by this simple standard, it is clear that the vast majority of our retirees are better off than comparable older individuals, and have enough income to live in decent housing.

Retiree Housing Expense

The Urban Institute reached one conclusion highly relevant to this topic: **Housing is the largest single expense for retirees, comprising approximately 40% of household expenditures**. Interestingly, the costs for renters and owners are not much different, since owners still have property taxes, maintenance, insurance and utilities even if no mortgage remains. While the cost of housing varies geographically, the average monthly rent for a two-bedroom apartment in the U.S. is $610. The chart below summarizes the Urban Institute's findings.

Housing is Largest Single Component of Retiree Expenses

	Married Clergy	Single Clergy	Surviving Spouse
Middle-Class Americans			
Average Estimated Need	$32,911	$20,990	$20,990
Housing expense	$11,981	$ 9,456	$ 9,456
Owners	$11,465	$ 9,024	$ 9,024
Renters	$14,273	$12,232	$12,232
CPF Beneficiaries			
Cleric Estimated Income	$48,147	$38,067	$22,779
Average housing as % of income	23%	23%	36%

Exhibit 10-5

Clearly, averages do not tell the whole story. However, analysis of our records, informed by the Urban Institute data, led us to conclude that the vast majority of our pensioners have adequate resources, taking into account just their CPF pensions and probable Social Security. Not surprisingly, those most likely to need assistance with housing are clergy with short service, unless they have pensions or retirement resources from previous careers.

CPF's greatest pension adequacy concern, for housing and all other needs, remains older surviving spouses. For these plan members, retirement began long ago, on pensions based on much lower compensation levels. However, continuing CPF benefit increases specifically designed to provide for surviving spouses, including one that occurred after the Urban Institute study was done, have ameliorated the financial circumstances of a large proportion of older spouses.

Focus on Older Retirees

As also reported in Chapter 5, CPF conducted a second study which provided valuable insights into retiree housing. Here, we commissioned and trained a number of diocesan chaplains to retired clergy to meet with and interview a group of our oldest retirees and surviving spouses. This was intended to gain a more complete understanding of the circumstances of those most likely to be in need. Eighty-five retirees—both clergy and surviving spouses—a majority of whom had lived in church-owned housing, were interviewed individually in their homes. Confidential surveys of personal and financial information were completed by the retirees and returned to the research firm coordinating this study.

The findings from the interviews and the surveys, while not statistically projectable to all older retirees, confirmed what the Urban Institute data show: that most older retirees seem to be doing fine and, in fact, say they are better off in retirement than during their working lives. A few appear to need some assistance, most often surviving spouses.

Importantly, the most serious problems with these retirees are **not** with their housing. In fact, when asked to rank matters that worry them, "housing" came in last. Rather, their greatest concerns are medical expenses and long term care.

Statistics tell only part of the story. The clergy interviewers observed that those who have spent their lives serving the church are very accepting of their living arrangements and enormously grateful for what they have, especially for the benefits from the pension fund. Of particular note was that a significant minority did not feel connected to a local Episcopal church—or to the diocese in which they lived—and perhaps would not feel comfortable asking if in need of assistance. As a result, the pension fund's Office of Pastoral Care and Education, working with chaplains to the retired, has initiated an effort to assure more focused contact with all retirees and spouses, at least annually.

Housing Solutions

Roughly one-third of rectors currently live in church-owned housing. The resources to purchase a home at retirement can be provided by a Housing Equity Allowance or other tax-deferred saving plan into which the church employer and/or the cleric makes regular contributions that will be available at retirement. Two examples show how this kind of investment can make a difference, assuming modest annual growth of 5% in the value of the investment, and retirement at age 65:

Age Start Saving	$ Invested Monthly	$ Available at Age 65
45	$100	$40,746
55	$150	$23,249

Coming at the problem from a different direction, with the long retirement horizon of pension fund beneficiaries in mind, CPF is compiling information on retirement homes of all sorts, including assisted living facilities and nursing homes, in order to provide a resource for the church. Particularly focused on Episcopal-owned or related facilities, this resource will enable individuals and their families to address specialized housing needs with greater confidence and effectiveness. Moreover, we hope it will provide one additional avenue for various agencies of the Episcopal Church to work together to enhance "the third age" of our retired clergy families.

Resolution D102: Church Pension Fund Policies

> ***Resolved****, the House of Deputies concurring, That the 73rd Convention urges the Church Pension Fund Board to develop policies consonant with the celebration of the Jubilee Year of Justice:*
>
> *Continue the development and implementation of a socially responsible screen to guide the development of an investment portfolio that conforms to the positions taken by the conventions of the Episcopal Church (e.g., tobacco, firearms, environmental concerns and treatment of employees).*
>
> *Explore dedicating a small percentage of the assets of the Pension Fund (e.g. 5%) to investments which achieve the economic development of lower income people in rural and urban neighborhoods both in this country and in developing nations.*

Since 1972, the year the CPF Board formed its Social and Fiduciary Responsibility in Investments Committee (SFRI), the Church Pension Fund has worked to promote the values of the Episcopal Church while remaining true to its fiduciary obligations to the participants in the Clergy Pension Plan. As will be indicated in this response, as well as in our response to C039 on the facing page, our recent activities in this area have included direct actions by SFRI and our board, and efforts to collaborate more closely with other church agencies.

In September of 2002, following a vote by the CPF Board, management instructed each of the fund's public securities managers to sell any tobacco company securities as soon as practicable, taking into account market conditions. Tobacco companies were defined as companies that receive at least 25% of their revenues from the manufacture of tobacco products. As of the date of this report, the board is pleased to report that the fund no longer has investments in shares of such tobacco companies. Working closely with both other Episcopal Church agencies and the influential Interfaith Center On Corporate Responsibility, the fund has become increasingly active in using proxy voting to influence portfolio companies on a broad range of social issues.

The CPF Board has also asked its Investment Committee, working with SFRI, to find suitable investments that would promote economic development of lower income people. To that end, the fund has invested $25,000,000 in a joint venture, the Canyon-Johnson Urban Fund, to make real estate investments across all sectors in under-served urban areas in the United States. In addition, the fund has authorized up to $25,000,000 per year in first mortgage loans for the permanent financing of newly constructed and rehabilitated multi-family affordable housing developments through Enterprise Mortgage Investments, Inc.

Resolution C039: Church Pension Fund Investments

***Resolved**, the House of Bishops concurring, That this 73rd General Convention commend the Church Pension Fund for its constructive participation in the solution of a long-standing dispute in 1998 involving low wage janitors in Washington, D.C. and their desire for a union; and be it further*

***Resolved**, That this 73rd General Convention strongly encourage the Church Pension Fund to continue and increase its involvement in stockholder actions and other means to encourage the companies in its portfolio toward more social responsibility, thus following the good example of the Committee on Social Responsibility in Investments of the Executive Council of the Episcopal Church, and be it further*

***Resolved**, That this 73rd General Convention urge all dioceses, congregations and institutions of this Church to exercise similar social responsibility in their investments.*

In line with the intent of this resolution, the fund has continued to actively participate in shareholder actions, consistent with its fiduciary responsibilities, to encourage the companies in its portfolio toward more social responsibility. In addition, the fund has increased its cooperative efforts with the Committee on Social Responsibility in Investments (the "SRI Committee") of the Executive Council of the Episcopal Church.

The CPF Board's Committee on Social and Fiduciary Responsibility in Investments (the "SFRI Committee") has invited members of the SRI Committee to attend its meetings. In return, members of the SFRI Committee have attended a number of SRI Committee meetings. The two committees share fully proxy voting information. In addition, the two committees have developed a joint website, ***www.episcopalinvestments.org***. The purpose of the site is to explain the church's call to encourage corporate social responsibility and to serve as a resource for information on shareholder actions taken by the fund and the Executive Council.

The fund and the Executive Council also co-sponsored a seminar and workshop on Social Responsibility in Investing for the Dioceses of Vermont and Western Massachusetts in Williamstown, Massachusetts in the fall of 2002.

The SFRI Committee has voted proxies on issues affecting the environment, global corporate accountability, equality, international health, tobacco, and global finance.

The fund has also co-filed resolutions with the Executive Council on adopting human rights standards for Hasbro, Inc.'s foreign manufacturers, eliminating predatory lending activities by Wells Fargo & Company, and encouraging board diversity at Werner Enterprises Inc.

Appendices

A. Surviving Spouses; Lay Pensions Increase; "Zero-Option" (*Perspective*, February 2000) A-1

B. Exceptional Pension Benefit Increases for 2001 (*Perspective*, December 2000). B-1

C. Abundance Advisory Committee and Timetable (*Abundance* newsletter, March 2001) C-1

D. 20% Hike in Post-Retirement Medical Coverage (*Abundance* newsletter, September 2001) D-1

E. Generous Benefit Increases (*Perspective*, January 2002) E-1

F. Pension Adequacy Survey and Increase in Minimum Benefits (*Abundance* newsletter, May 2002) . . . F-1

G. Financial Status; 2003 Pension Increases; 30% Medical Increase (*Perspective*, December 2002) . . . G-1

H. Short-Term Disability; CREDO Funding (*Abundance* newsletter, April 2003). H-1

I. A Report from CREDO Institute, Inc. I-1

J. Lay Employee Status Report (Lay Employee Task Force). J-1

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