A Report to the Episcopal Church and the 75th General Convention

The Church Pension Group

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Among those pictured on the cover of this Report to General Convention is the Rev. Canon Frederick Boyd Williams. Among his many important leadership roles, he served on the Church Pension Fund's Advisory Committee on Pension Fund Abundance. We note with great sadness his death on April 4, 2006, and celebrate his ministry among us.

Introduction

The Church Pension Fund (CPF), an independent agency of the Episcopal Church incorporated by a special act of the New York State legislature in 1914, provides pension and related benefits to clergy and lay employees of the Episcopal Church. Because the Clergy Pension Plan is mandated by the canons of the Church, retirement and related benefits for those ordained are our primary focus. Since its inception, CPF has paid out over $2.3 billion in benefits for clergy, their spouses, surviving spouses, and dependent children.

With the authorization of General Convention, the Church Pension Fund oversees a number of affiliated companies, including Church Life Insurance Corporation, the Episcopal Church Medical Trust, the Church Insurance Companies (The Church Insurance Agency Corporation, The Church Insurance Company, and The Church Insurance Company of Vermont), Church Publishing Incorporated, and CREDO Institute, Inc., to serve Episcopal clergy, lay workers, and their families, as well as Episcopal churches and institutions. Collectively known as the Church Pension Group (CPG), we provide pension benefits and services, retirement planning, life and disability insurance, health benefits, property and casualty insurance, and book and music publishing, including the official worship materials of the Episcopal Church.

The Board of Trustees of the Church Pension Fund and the management of the Church Pension Group submit this comprehensive *Report to the Episcopal Church and the 75th General Convention* as an aid to the House of Bishops and House of Deputies, in order to provide information to the Church about the activities of the Church Pension Group during this past triennium, and to discuss subjects presented in the CPF section of the 2006 *Blue Book*.

To that end, this report has three objectives:

- To describe major benefit enhancements of this triennium
- To highlight major initiatives of the Church Pension Group during the past three years and present in-depth information about our work
- To support a proposed resolution for a church-wide healthcare benefits feasibility study, and explain both the resolution and the reasoning behind it in some detail

We hope you will find the material contained in this report to be useful. As always, we invite you to contact us with any questions or reflections.

The core of our mission is always before us: *to fulfill our fiduciary responsibility by serving the clergy, lay workers, dependents, parishes, dioceses, and other institutions in the Episcopal Church through the provision of pensions and other benefits and services that will contribute to their lifetime economic, physical, emotional, and spiritual well-being*.

The Current Church Pension Fund Board of Trustees

Governance and the Work of the Church Pension Fund Trustees

Governance of the Church Pension Fund is provided by a 25-member Board of Trustees which consists of 24 trustees elected by General Convention, and the CPF President, who is elected by and serves at the pleasure of the board. Governance of the affiliate companies is provided by their respective boards of directors, the memberships of which include both CPF trustees and additional directors with specific industry expertise, with oversight provided by the CPF Board of Trustees.

Thus, the Trustees of the Church Pension Fund play vital roles in both the governance and oversight of Church Pension Fund affairs and the Church Pension Group's varied and complex businesses.

The CPF Trustees make significant policy decisions affecting investment strategy and policy, pension benefits, and CPG services. They are responsible for the oversight and stewardship of assets in excess of $8 billion and a combination of companies with a total cash flow of over $400 million a year. Of the many aspects of the Church Pension Group organization, investment management, pension policy, health benefits strategy, and property and casualty insurance are among the most challenging; they are also among the most complicated business areas in America today. As the trustees address the complex issues of pension funding, benefit strategy and security, claims adjudication, and fairness, they often need to balance compassion and social consciousness with fiscal accountability and fiduciary responsibility.

The CPF Board is enriched by the presence of ordained leaders, as well as experienced investment managers, attorneys, accountants, healthcare experts, and business and financial professionals. It is essential to bring to the board's deliberations the most expert and thoughtful advice available in the Episcopal Church. The complexity of the trustees' responsibilities argues for continuity.

The Election Process and the Current CPF Board

As set out in the Church canons, General Convention deputies will elect 12 trustees, selecting from the slate of nominees proposed by the Joint Standing Committee on Nominations.

As shown on the facing page, 3 trustees — Amy L. Domini, the Rt. Rev. Chilton R. Knudsen, and Arthur K. Kusumoto — are retiring from the CPF Board in 2006, having faithfully served the two consecutive 6-year terms allowed by the canons; 9 trustees are eligible and have agreed to stand for reelection; and the 12 trustees elected in 2003 will continue to serve, as will CPF President T. Dennis Sullivan.

The continuing CPF Trustees and the CPG staff strongly support the reelection of all incumbent trustees. We hope the General Convention deputies will recognize the value to the Church of their knowledge and understanding of ongoing CPG initiatives as well as their accumulated experience, continuity, and wisdom. Beyond endorsing our incumbents, we welcome all new trustees, noting that a balance of experience, viewpoints, and skills is essential.

Directors of Major Affiliate Boards

Church Life Insurance Corporation
Barbara B. Creed, Esq. (Chair)
The Very Rev. M.L. Agnew, Jr.
James E. Bayne
Elizabeth D. Conklyn
Samuel P. Johnson
Arthur K. Kusumoto
The Rt. Rev. Peter James Lee, D.D.
Quintin E. Primo III
T. Dennis Sullivan

The Church Insurance Company
Cecil Wray, Esq. (Chair)
The Very Rev. M.L. Agnew, Jr.
Sheridan C. Biggs
Vincent C. Currie, Jr.
Dall W. Forsythe
The Rev. Canon Carlson Gerdau
Canon Karen Hanson
Canon Joon D. Matsumura
Virginia A. Norman
The Rt. Rev. V. Gene Robinson, D.D.
The Rev. Canon Joseph Y. Seville
T. Dennis Sullivan
The Very Rev. Noreen P. Suriner

The Church Insurance Company of Vermont
David L. Brigham (Chair)
Sheridan C. Biggs
The Rev. Randall Chase, Jr.
Vincent C. Currie, Jr.
James Forsyth
The Rt. Rev. Robert H. Johnson, D.D.
Michael J. Kerr
The Rt. Rev. Claude E. Payne, D.D.
Andrew Sargeant
T. Dennis Sullivan

Church Publishing Incorporated
The Rt. Rev. Hays H. Rockwell (Chair)
The Rev. A. Thomas Blackmon (Lead Director)
The Rt. Rev. J. Neil Alexander
The Rt. Rev. Mark Dyer
The Rev. James W. Farwell
Robert Feaster
The Rev. Stephanie Spellers
T. Dennis Sullivan
Samuel Vaughan
Sally Wood
The Rt. Rev. Wayne P. Wright

The Episcopal Church Medical Trust*
David R. Pitts (Chair)
The Rev. A. Thomas Blackmon
Vincent C. Currie, Jr.
The Rev. Canon Carlson Gerdau
Deborah Harmon Hines, Ph.D.
Robert Leamer
The Very Rev. Noreen P. Suriner
T. Dennis Sullivan
The Rt. Rev. Wayne P. Wright

CREDO Institute, Inc.
Vincent C. Currie, Jr. (Chair)
The Rev. Randall Chase, Jr. (Vice Chair)
William S. Craddock, Jr.
The Rt. Rev. Gayle E. Harris
The Rt. Rev. Robert H. Johnson
The Rev. Katherine M. Lehman
The Rt. Rev. F. Clayton Matthews
Dr. H.M. McFarling, III
T. Dennis Sullivan

*The Strategy and Policy Committee

Leadership Transition

The past three years have been ones of growth and change. There were transitions in the leadership of both the Church Pension Fund Board and the Church Pension Group staff. The investment performance which drives our work has been exemplary. Benefits for clergy and lay beneficiaries have been enhanced in numerous ways. The population we serve continues to grow. The products and services we offer the Church have been improved and expanded. And Morehouse Publishing and Living the Good News became part of Church Publishing Incorporated.

During this triennium, the three esteemed officers of the Church Pension Fund Board — the Rt. Rev. Herbert Thompson, Jr. (Chair), the Very Rev. Noreen P. Suriner (Vice Chair), and Vincent C. Currie, Jr. (Vice Chair) — each completed twelve years of service to the board. In September 2003, board leadership passed to three respected church leaders: David R. Pitts (Chair), the Rt. Rev. Gayle E. Harris (Vice Chair), and the Rt. Rev. Peter James Lee (Vice Chair).

After 13 productive years as President of the Church Pension Group, Alan F. Blanchard retired in June 2004. Alan's contributions to enriching the lives of plan participants were wide-ranging. In addition, his creation of CPF's remarkable investment team was in large part responsible for the near quadrupling of the fund's assets and the launch of an extensive program of benefit enhancements for active and retired clergy, surviving spouses, and lay employees.

The CPF Board elected T. Dennis Sullivan as CPG's new President. Dennis is a distinguished business and investment professional whose career has included significant responsibility for investments, finance, and administration in the for-profit, not-for-profit, and government sectors. Dennis's previous positions include Financial Vice President of the Andrew W. Mellon Foundation, President and Chief Investment Officer of Princeton University Investment Company, and Chief Financial Officer of the New York Public Library. He has also worked with J.P. Morgan Securities, and served as Secretary of Finance for the State of Delaware, and Executive Director of the Municipal Assistance Corporation for the City of New York. He holds a BA (Phi Beta Kappa) from Princeton University and an MA from Oxford University, England.

Investment Results

Financial Stewardship in a Time of Excellent Investment Performance

CPG is the steward of over $8 billion of financial assets. These funds are invested in a broad range of asset classes through a disciplined investment process supported by our internal staff, advisors, trustees, and outside investment managers. Since the early 1990s, we have had a broadly diversified portfolio invested in a variety of strategies consistent with the objectives of the Fund. These objectives are established by the Investment Committee of the CPF Board of Trustees, and reviewed and approved by the full board.

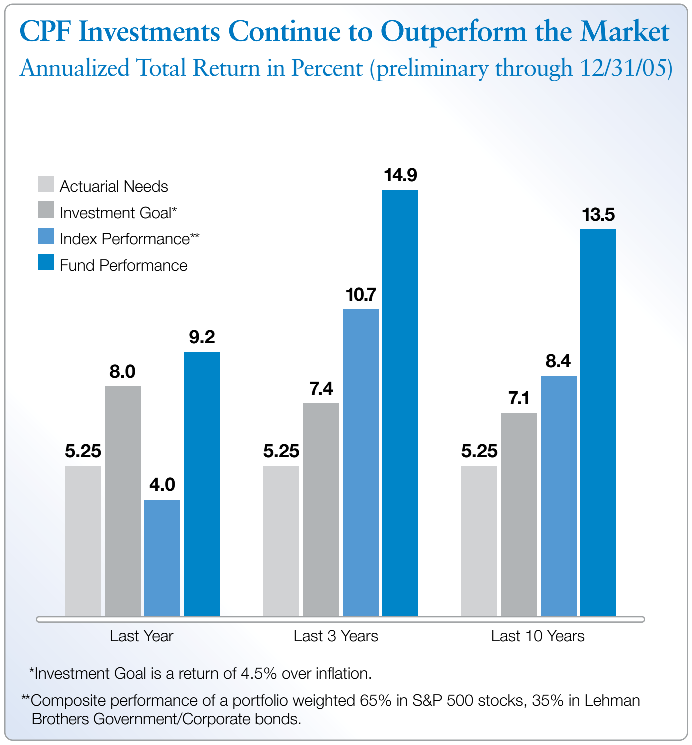
The work of these individuals, and the overall financial market environment, are the primary determinants of how well CPF can meet its pension and related obligations. It is important to review our investment performance both in absolute terms and relative to the overall market environment and how that performance affects Assets Available for Benefits.

Beginning in the early 1990s, the Fund's investment program has broadened to include a sophisticated and diversified program of traditional and non-traditional strategies. Traditional strategies include both U.S. and non-U.S. stocks and bonds, which are publicly traded on major financial exchanges around the world. Non-traditional strategies include private equity, venture capital, and real estate. These are usually organized as partnerships and do not enjoy the same liquidity as publicly traded securities. They do, however, offer greater return potential and diversification benefits that compensate for the inherent disadvantages of illiquidity. These non-traditional strategies have been an important source of the significant gains the Fund has experienced over the past ten years.

Relative Investment Performance

During this triennium, financial markets in the U.S. and around the world have performed well. This followed a very difficult 2000–2002 period when markets corrected following the bursting of the Internet and telecom bubbles. Over the past three years, the Standard & Poor 500 returned 14.4% annually; U.S. small capitalization stocks, 22.1%; non-U.S. developed markets, 23.7%; and emerging markets, 38.4%. This reflected the attractive valuations that existed three years ago and the strong economic growth that has occurred worldwide during this period. Fixed income securities, in contrast, performed less well, reflecting the general rise in interest rates, a typical occurrence during periods of economic strength.

The exhibit below shows the performance of the Fund over three time periods through the end of 2005. It compares the portfolio return with three key benchmarks: actuarial needs, investment goal, and an index portfolio consisting of 65% S&P 500 stocks and 35% bonds. As you can see, Fund performance has been excellent and compares very favorably in each time period.



The liabilities of the clergy pension plan are valued annually, using a 5.25% discount rate. This essentially means that the assets need to earn 5.25% year after year in order for the plan to meet its actuarial projections; this is the basis for the "Actuarial Needs" benchmark. One of the highest priorities of the CPF Board of Trustees is to maintain the purchasing power of the benefits paid to our retirees. In order to ensure sufficient funds to meet this goal, we have established an "Investment Goal" of 4.5% over inflation. Over this triennium, that measure had an annualized return of 7.4%. Finally, it is important for us to monitor the investment performance of the CPF portfolio against a market benchmark, shown here as "Index Performance." An unmanaged portfolio invested 65% in the broad stock market as measured by the S&P 500 and 35% in the broad bond market as measured by the Lehman Brothers Index would have earned an average of 10.7% over this triennium. As the middle set of bars in this exhibit shows, our portfolio return of an annual 14.9% far exceeded all of these benchmarks. Even more remarkable is the CPF portfolio's annualized return of 13.5% for the past *ten* years in comparison with each of the ten-year benchmarks.

Socially Responsible Investments

As an owner of shares in over 300 American companies, we use our proxy power in collaboration with the Social Responsibility in Investing Committee of Executive Council. We have co-sponsored proxy questions with the Domestic and Foreign Missionary Society (DFMS) relating to a variety of issues. As part of our policy to consider socially responsible investments, our investment team has identified several investment opportunities that provide important social benefits while also providing attractive prospective returns for the Fund.

- **Urban Redevelopment**
  Urban redevelopment focuses on real estate investments in low to moderate income census tracts. These areas have historically been overlooked by mainstream investors for a variety of reasons. This has led to a chronic shortage of quality housing, retail, and other types of real estate, even though there is strong demand. This mismatch of supply and demand has led to interesting investment opportunities for the Fund. After careful study of a number of community development opportunities, the Fund has committed to investing $157 million, of which $70 million has been invested to date. While still early in the life of the investments, we believe the prospects for attractive returns and significant social gain are very good.

- **Microfinance**
  The Fund has also looked for ways to benefit individuals in emerging economies through microfinance opportunities. Microfinance is the provision of financial services, especially the extension of credit, to the working poor, who historically have not had access to the world's financial system. Typically, a "micro-entrepreneur," such as a street vendor, tradesperson, or small farmer, borrows a small sum of money, sometimes as little as $25, to start a business. Over the past 30 years, microfinance has become one of the most effective tools for fighting poverty in emerging economies. In 2005, the Fund committed $15 million of debt financing to the Global Microfinance Consortium at an attractive expected rate of return.

- **Minority-Owned Firms**
  In order to encourage diversity in the investment management industry, the Fund continues to actively search for investment managers that are either minority-owned or have substantial minority ownership. Today, the Fund has roughly $350 million invested or committed in this important area, with investments in public and private equities, public fixed income, and real estate.

The impact of these socially conscious investments goes beyond the actual capital employed. The Church Pension Fund and the staff who specialize in this area are considered leaders in this investment arena, speaking at conferences and participating in "think tanks" that encourage more institutional investment.

As fiduciaries, the investment team understands that the Fund's investment objectives cannot be compromised, even with the best of social intentions. We are very pleased that the carefully selected and managed programs in which the Fund is invested provide the opportunity for attractive investment returns while fulfilling greater social purposes.

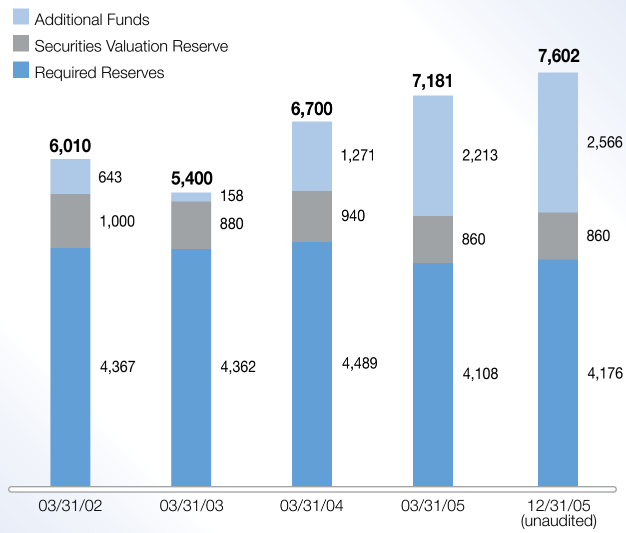
A Triennium of Growth

The excellent investment climate of the last three years provided an opportunity for significant investment gains. The average annual return of 14.9% increased the assets in the pension fund substantially.

Assets Available for Benefits is a figure that represents the total assets in the Fund after excluding legacy and gift funds, investment in the affiliated companies, the value of the headquarters building, and other non-benefit liabilities. As the following exhibit shows, Assets Available for Benefits had declined by approximately 10% in fiscal 2003, but rebounded dramatically in the next year, and have continued to grow throughout the triennium. At the end of 2005, these assets exceeded $7.6 billion, the highest level in CPF history.

Assets Available for Benefits*

Dollars in millions



* Total assets excluding non-benefit liabilities, legacy and gift funds, investments in affiliated companies and home office building.

For 2005, the possible annual benefit increases reserve is incorporated into Required Reserves.

We show three segments in each of the bars in the graph. The bottom segment is the actuarially determined value of the clergy pension liabilities, including the amount needed to pay all the benefits of the clergy plan to all current beneficiaries and plan participants. These are the Required Reserves for pension benefits, life insurance, and the other benefits in the clergy plan. The middle segment is the calculation of a Securities Valuation Reserve, an amount held as a provision against the possibility of a significant loss of value in the investment portfolio. These two amounts, as represented by the bottom two segments of each bar, represent a conservatively determined value of the assets needed to have confidence that all promised benefits can be paid in the future to those who are currently participating in the plan. The top segment of each bar is the amount of Additional Funds, those assets which are in excess of the Required Reserves and the Securities Valuation Reserve. As shown, Additional Funds reached an all-time high exceeding $2.5 billion as of December 31, 2005.[1]

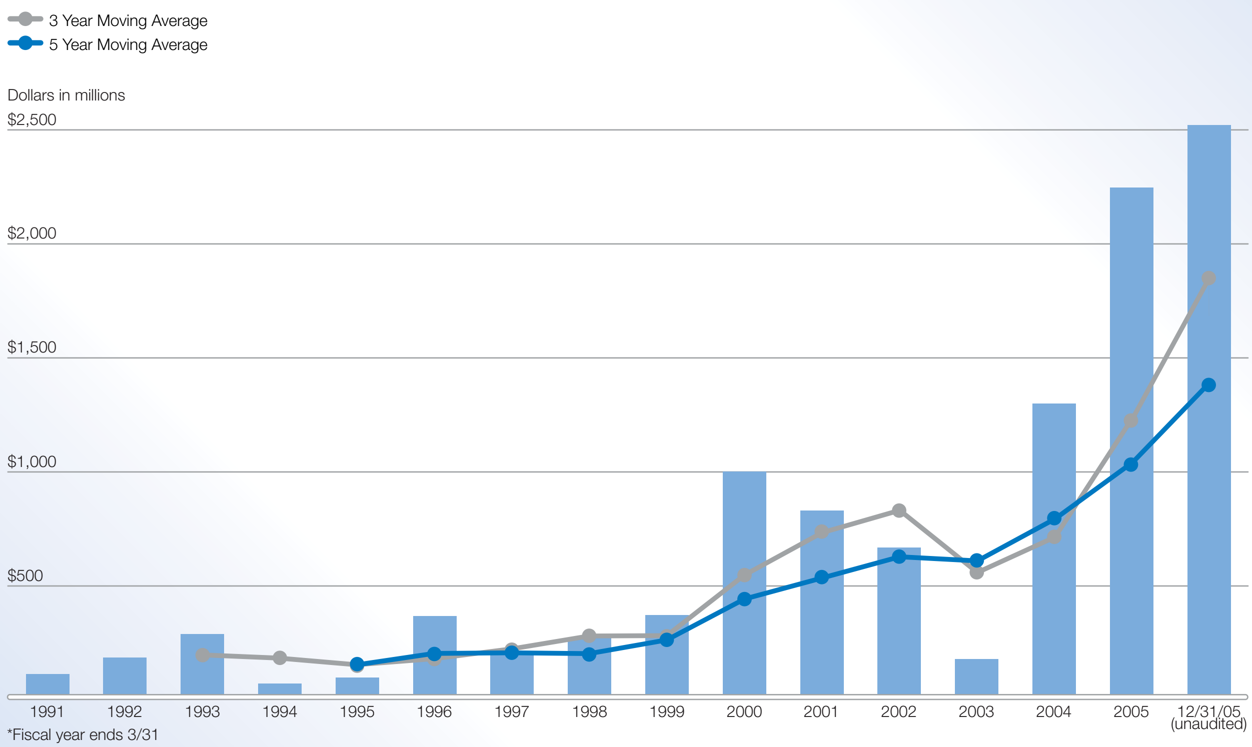
[1]Our fiscal year runs from April 1 through March 31; results through March 31, 2006 were not available at the time of printing. They will, however, be included in our 2006 Annual Report.

In assessing the financial condition of the Fund, focusing on investment results at single points in time can be misleading. Accordingly, the CPF Trustees pay close attention to the three- and five-year moving averages of the Additional Funds. The following exhibit displays these averages at periods ending March 1991 through December 2005. Each bar represents the total of the Additional Funds at fiscal year end (March 31); the bar at the extreme right shows the total as of December 31, 2005. The gray horizontal line represents the three-year moving average, and the blue horizontal line, the five-year moving average. As you can see, at December 31, 2005, the three- and five-year moving averages of the Additional Funds stood at over $1.6 billion and $1.3 billion respectively.

The substantial increase in Additional Funds over the triennium has permitted the CPF Trustees to consider the case for the benefit enhancements that are described in Chapter 5.

Church Pension Fund Additional Funds with Three- and Five-Year Moving Averages

At Fiscal Year-End 1991 – 2005 and at December 31, 2005*



*Fiscal year ends 3/31

Clergy Benefit Enhancements Since 2003

Our primary responsibility is to provide retirement and related benefits to the clergy of our Church. Blessed with sufficient resources, the Board of Trustees has approved substantial increased benefits during this triennium, including a very significant increase in clergy benefits effective July 1, 2006. Highlights of these enhancements follow. The board and staff are grateful that, at a time when many corporate pension plans are reducing benefits, pension fund investment results of the past decade have made such generous increases possible for all of our clergy plan participants, including those already retired and surviving spouses.

The clergy pension plan differs sharply from many corporate plans in significant and reassuring ways. It is fully funded, and CPF also has reserves to provide medical assistance after age 65 for eligible retirees and surviving spouses, with resources more than sufficient to pay promised benefits to all plan participants who are now retired or who will retire in the future. Its liabilities are conservatively valued, so reserves are maintained at a high level. Furthermore, the percentage of plan assets compared with plan liabilities is high, another important indicator of benefit security.

Because the clergy pension plan is fully funded and liabilities are conservatively valued, pension benefits are secure. This is in sharp contrast to corporate defined benefit plans currently in the news, some of which are severely underfunded, requiring major increases in contributions and, in some cases, causing corporations to terminate or freeze their benefit plans.

The summary below offers a brief description of the plan enhancements of the past triennium; full details are available in the actual plan documents.

Benefit Enhancements for Those Already Retired and Surviving Spouses

As the clergy pension plan is a defined benefit plan, the monthly pension benefit is determined by formula and payable at that level for the cleric's remaining life. A continuing benefit for the eligible surviving spouse of the cleric is available, generally at 50% of the cleric's benefit, with a variety of choices available to the cleric at retirement to tailor the spousal benefit to fit the financial circumstances of the couple.

Cost-of-Living Increases

Because the CPF Board seeks to maintain the purchasing power of pension benefits, they approved an increase to the monthly benefit in each of the last three years consistent with the cost-of-living increases announced by Social Security. The aggregate increases during this triennium exceeded 9.1%.[2] Benefits have now been increased in this manner for 27 consecutive years.

[2]Annual increases of 2.1%, 2.7%, and 4.1% were effective each January 1st. Those who retired during this triennium received pro-rated increases during the first year of retirement proportional to the number of months retired.

In addition to an annual percentage increase, the CPF Board approved an additional benefit increase, in both 2005 and 2006, of $10 per month for retired clergy and surviving spouses, in order to give proportionately more to those with the lowest benefits.

Virtually no other non-government pension plans grant annual cost-of-living increases. The provision of this assistance to plan members, although not mandated by pension plan rules, is one of the Church Pension Fund Board's highest priorities. Our "Investment Goal" of 4.5% over inflation is geared toward ensuring that this priority of providing annual increases can be met.

Additional Special One-Time Supplementary Payment for Clergy Plan Beneficiaries

Because the CPF Board was especially mindful of recent increases in energy costs, the trustees approved a special one-time supplementary benefit that was paid early in January 2006. The formula for determining the amount of this supplementary benefit for each individual was the same as that used in calculating the Christmas Benefit that is paid to clergy and surviving spouses each year: $25 times years of credited service for clergy, and $20 times years of credited service for surviving spouses. As a result, the average long-service cleric received a one-time supplementary benefit of between $750 and $1,000.

Extraordinary Increases in Pension Benefits Effective July 1, 2006

The CPF Board, at its February 2006 meeting, approved a significant pension enhancement for those already retired from the clergy pension plan, thus raising benefits by 14% or more, on average, for all participants in the clergy pension plan — and their surviving spouses — who retired directly from active service.[3] Those with long service and low benefits will see an average increase of over 25%. Beginning with the July 2006 benefit payments, the annual pension benefits of retired clergy will be increased by 6⅔% plus $90 times years of credited service. Surviving spouses will see an increase of 6⅔% plus $72 times years of credited service.

The following exhibit shows the impact of the benefit enhancement for clergy who have already retired from active service. Here, we show examples at varying current benefit levels and different years of credited service to illustrate the dollar and percentage improvement in annual pension payments. You can see that dramatic benefit improvements result: 14% or more for the vast majority of our retirees and over 25% for those with the lowest current benefits and long service in the Church.

Pension Enhancement Increases the Benefits of Already-Retired Clergy

Years of Credited Service	Current Benefit	New Benefit	Annual Additional Benefit Dollars	Percentage Difference
15	$ 5,000	$ 6,684	$1,684	34%
	$10,000	$12,017	$2,017	20%
	$15,000	$17,351	$2,351	16%
25	$10,000	$12,917	$2,917	29%
	$20,000	$23,584	$3,584	18%
	$30,000	$34,251	$4,251	14%
35	$15,000	$19,151	$4,151	28%
	$30,000	$35,151	$5,151	17%
	$45,000	$51,152	$6,152	14%

Examples are for illustrative purposes only; each individual's circumstance is different.

[3]Clergy who retired from active service are those on whose behalf assessments were paid into the Fund during the period immediately preceding retirement. It is these clergy, and their survivors, whose benefits will be impacted by these increases.

The following exhibit shows the impact of the benefit enhancement for surviving spouses. The examples show benefit increases of between 16% and 28%, with those with the lowest benefits receiving increased benefits of 20% or more.

Pension Enhancement Increases the Benefits of Surviving Spouses

Years of Credited Service	Current Benefit	New Benefit	Annual Additional Benefit Dollars	Percentage Difference
15	$ 5,000	$ 6,414	$1,414	28%
	$ 7,500	$ 9,080	$1,580	21%
	$10,000	$11,747	$1,747	17%
25	$10,000	$12,467	$2,467	25%
	$15,000	$17,801	$2,801	19%
	$20,000	$23,134	$3,134	16%
35	$12,500	$15,854	$3,354	27%
	$20,000	$23,854	$3,854	19%
	$27,500	$31,854	$4,354	16%

Examples are for illustrative purposes only; each individual's circumstance is different.

Medicare Supplement Plans

For almost 25 years, the Church Pension Fund has provided a supplement to Medicare Part A. Effective July 1, 2003, this program was dramatically revised to provide a post-retirement Medicare Supplement assistance program that is sufficient to purchase a comprehensive supplement for long-service clergy, their spouses, and surviving spouses who qualify for Medicare, through the Episcopal Church Medical Trust. At present, this assistance has a value of $2,700 per year per eligible member. This program provides benefits supplemental to Medicare's coverage for hospital stays, physician visits, lab work, annual physicals, vision care, and prescription drugs. This new program was described in detail in our *Report to the 74th General Convention*.

During this triennium, we were able to enhance benefits by increasing vision benefits and adding benefits for hearing aids and for health coverage during international travel. We also added another plan option so that eligible members have three plans from which to choose. Most important, the pharmacy benefit provided under all three plans is considered "creditable coverage" and provides greater benefits than are available through the U.S. Government's Medicare Part D plan. Effective January 1, 2006, all three plans are also available without pharmacy benefits in the event participants choose to enroll in Medicare Part D.

The Episcopal Church Medical Trust has successfully negotiated significant cost reductions with our primary pharmacy provider, through a coalition of 14 denominational health plans, and has applied for the Medicare Part D federal subsidy starting in 2006. These efforts to control costs during this triennium have enabled us to provide enhanced benefits without raising the monthly rate. CPF plans to continue to provide similar post-retirement assistance in the future. However, given the issues of rising medical inflation and the uncertainty about future changes in Medicare, we can't make "forever" promises. Nevertheless, in anticipation of a reasonable subsidy in the future, the Fund has established nearly $1 billion of reserves toward these probable future benefits.

Benefit Enhancements for Those Not Yet Retired

Significant Improvement to Pension Benefit Formula Effective July 1, 2006

The CPF Board, at its February 2006 meeting, approved a significant improvement to the pension benefit formula — the first formula change since 1988 — thus raising future benefits by more than 13%, on average, for all currently active participants in the clergy pension plan — and their surviving spouses — when they retire in the future. Those with long service and low benefits will see an average increase of 25% or more.

Current Formula	Improved Formula as of July 1, 2006
Currently, the clergy pension benefit at retirement is calculated based on the cleric's Highest Average Compensation (HAC) and years of Credited Service (CS),[4] using the following formula:	Effective with retirements on or after July 1, 2006, the formula will be improved:
1.75% x CS x first $10,000 of HAC, plus 1.5% x CS x HAC in excess of $10,000	**2.75% x CS x first $10,000 of HAC, plus 1.6% x CS x HAC in excess of $10,000**

Thus, the percentage multiplier will increase from 1.5% to 1.6%, resulting in benefits that are $6\frac{2}{3}$% higher for everyone. The higher multiplier used for the first $10,000 of HAC further improves benefits for all, with the result that the improvement was weighted in favor of those with the lowest compensation.

While individual circumstances may vary, every participant currently active in the plan will see a significant increase in benefits at the time of retirement.

The exhibit below provides nine examples of the effect of these changes for clergy at varying earnings levels and different numbers of years of credited service. All of these examples, which represent the vast majority of the circumstances of our active clergy today, show benefit increases of 13% or more, with the lowest-compensated clergy receiving increased benefits of over 25%.

Formula Change Increases the Pension Benefits of Active Clergy Begining July 1, 2006

Years of Credited Service	Highest Average Compensation	Annual Benefit: Current Formula	Annual Benefit: New Formula	Annual Additional Benefit Dollars	Percentage Difference
15	$30,000	$ 7,125	$ 8,925	$1,800	25%
	$60,000	$13,875	$16,125	$2,250	16%
	$90,000	$20,625	$23,325	$2,700	13%
25	$30,000	$11,875	$14,875	$3,000	25%
	$60,000	$23,125	$26,875	$3,750	16%
	$90,000	$34,375	$38,875	$4,500	13%
35	$30,000	$16,625	$20,825	$4,200	25%
	$60,000	$32,375	$37,625	$5,250	16%
	$90,000	$48,125	$54,425	$6,300	13%

Examples are for illustrative purposes only; each individual's circumstance is different.

[4] Highest Average Compensation is the average of the cleric's highest seven out of eight consecutive years of compensation on which assessments have been paid; Credited Service is the years or partial years that the cleric has served and during which assessments have been paid.

Resettlement Benefit Enhancement
At retirement, most clergy move to a new community to allow their successor to begin a new ministry unimpeded. Since 1979, the clergy pension plan has provided a Resettlement Benefit, originally at an amount of up to $3,600. While this benefit has increased a couple of times since, it has not fully kept pace with the cost of moving and resettling. At their April meeting, the CPF Board of Trustees approved an increase to this benefit, for all retirements on or after January 1, 2006, to a level equal to 12 times the calculated monthly pension benefit up to a maximum of $20,000.

Short-Term Disability Benefit Initiated
Statistics show that every American between the ages of 35 and 65 has a 30% chance of being unable to work for 90 days or more due to a disabling condition. Although many congregations and other Episcopal employers provided access to disability insurance coverage for their clergy, we were aware that more than half were not adequately covered.

Beginning January 1, 2004, the pension fund initiated a Short-Term Disability Benefit that will pay to the employer 70% of the cleric's total compensation for up to 52 weeks (following the first 30 days of a qualifying disability) while the employer continues full pay to the cleric. This provides adequate funding for the employer to pay for supply clergy or other assistance while the cleric is recuperating. This benefit thus provides necessary funds to the church while enabling the cleric to concentrate on getting well without undue worry over the church's financial strains. During the first two years this benefit was available, the Church Pension Fund paid over $1.8 million on behalf of 138 clergy.

Enhanced Disability Benefit
Clergy whose disability causes full cessation of work may apply to the Medical Board for the Disability Retirement Benefit. For clergy who are active participants in the pension plan at the time of their disability, the Disability Retirement Benefit is calculated using the standard pension formula with credited service projected forward as if the cleric had worked until age 65. Effective January 1, 2006, this Disability Retirement Benefit was supplemented by a new Enhanced Disability Benefit which increases monthly payments until age 65 to replace 70% of the cleric's Total Compensation prior to the onset of the approved disability. The combined benefit is eligible for cost-of-living increases as they may be granted in the future. After age 65, though the Enhanced Disability Benefit ends, the Disability Retirement Benefit continues for the life of the cleric.

In addition, clergy retiring on a disability benefit receive a Bridge Benefit ($17.50 per month times years of service) for up to 29 months or until Medicare eligibility, whichever is sooner. And, because the process to qualify for Social Security Disability Insurance can be confusing and daunting, the Church Pension Fund makes available the services of Allsup Inc., a specialty consulting firm, to assist with the application process for clergy and nuclear family members applying for Social Security disability benefits.

The exhibit on the following page illustrates how this Enhanced Disability Benefit works.

How the Enhanced Disability Benefit Works

Example:

A 52-year-old cleric, permanently disabled and retiring from active service in the Church

Total compensation prior to disability:	**$60,000**
HAC (Highest Average Compensation): Credited Service: 17 years at time of disability retirement	**$54,000**

Cleric would receive:

Lifetime Monthly Disability Retirement Benefit (with cost-of-living increases when granted)	**$2,088***

plus

Enhanced Disability Benefit *Additional* benefit to age 65 (with increases when granted)	**$1,412**

plus

Disability Bridge Benefit (payable for up to 29 months or until eligible for Medicare or until age 65, whichever occurs first)	**$525**

* Benefit formula in effect as of January 1, 2006

Pre-Retirement Survivor Benefit

All clergy who are active participants in the clergy pension plan can now name a beneficiary to receive a monthly benefit from the Fund if the cleric dies prior to retirement. This benefit is calculated as 50% of the cleric's benefit with credited service projected to age 65 and is payable for life (if the beneficiary is younger than 22 at the cleric's death, this benefit generally continues to age 22 or for five years, whichever is later).

Medicare Supplement Plans

As mentioned earlier, the Medicare Supplement assistance provided by CPF was revamped and dramatically improved, effective July 1, 2003. While of immediate benefit to those already retired and eligible for Medicare, this new program will be of significant value to all clergy and their spouses retiring from active status in the future once they begin receiving Medicare. Today, this assistance takes the form of a contribution of $2,700 per person per year, with the expectation that this level of subsidy, perhaps with increases as healthcare costs increase, would continue into the future. Because it is impossible to know what Medicare will look like in the distant future — and because we cannot manage potentially unlimited cost escalation — we cannot guarantee an equivalent supplement forever. However, we have included a projection of these possible future costs in the calculation of the Major Medical Supplement reserve of nearly $1 billion so that significant benefits can be provided to future retirees.

CREDO

CREDO (Clergy Reflection, Education, Discernment Opportunity) is a benefit that provides an eight-day opportunity for clergy to examine significant areas of their lives and to discern prayerfully the future direction of their vocations. During this triennium, CREDO funding was enhanced for the current five-year period (2003–2007) and $22 million in funding was authorized for an additional five years (2008–2012). This funding will enable an additional 5,280 clergy to benefit from this extraordinary program over the next seven years. For additional information about CREDO, please see Chapter 11, beginning on page 43.

Summary of Benefit Enhancements During the Past Triennium

Retired Clergy and Surviving Spouses

- Cost-of-Living Increases for 2004, 2005, 2006
- $10 per month increases for 2005, 2006
- Special One-Time Supplement paid January 2006
- Significant pension increases, effective July 1, 2006
- Medicare Supplement enhanced July 1, 2003; vision benefits, hearing aids, international travel coverage added

Not-Yet-Retired Clergy

- Significant formula improvement effective July 1, 2006 for clergy — and surviving spouses — who will retire in future
- Short-Term Disability Benefit initiated
- Enhanced Disability Benefit initiated
- Pre-Retirement Survivor Benefit expanded
- Resettlement Benefit enhanced
- Medicare Supplement enhancements begun this triennium will also assist those retiring in future
- CREDO benefit program expanded; funding extended to 2012

Province IX and Other Overseas Jurisdictions

Overseas Clergy

Mission strategy of the Episcopal Church has provided the Church Pension Fund with the opportunity to provide pension coverage to approximately 300 clergy in a number of overseas jurisdictions. Sometimes referred to as "Province IX clergy," these individuals have served their native lands in Latin America, the Caribbean, Taiwan, the Philippines, and Hong Kong. Some of these jurisdictions are now autonomous from ECUSA, and our responsibility is to those who have retired with rights under the U.S. clergy pension plan. Others continue as constituent dioceses in ECUSA, and we serve those in active ministry as well as those retired. Although many benefits are identical to those provided to clergy in the U.S., some of the benefits are calibrated to fit the very different economic circumstances of these overseas jurisdictions.

Overseas clergy received the same cost-of-living increases during this triennium as U.S. clergy participants; they also received the one-time supplement, paid in January 2006, which U.S. clergy participants received. (For details, please see page 14.)

Two substantial benefit enhancements were approved and effective during this triennium specifically for this population and developed in consultation with a task force appointed by the International Concerns Committee of Executive Council:

Monthly Medical Supplement

Because our overseas beneficiaries are not in Medicare, they are not eligible for the Medicare Supplement plans. Instead, CPF provides a monthly cash medical benefit in addition to the monthly pension benefit. While we do not know the cost and usage of medical care, country by country, we did hear from many that this monthly benefit was inadequate. Effective July 1, 2005, this benefit was doubled to $60 per month per eligible person ($120 per month for a couple if both are over 65). This increase places the non-U.S. Medical Benefit on a roughly equal footing with the U.S. Medicare Supplement as a percentage of average monthly pension.

Pension Benefit Formula

Effective April 1, 2006, the formula for calculating annual pension benefits for clergy retiring from active status whose Highest Average Compensation was earned in the Caribbean, Latin America, South America or Taiwan was improved to the following:

4% x credited service x first $10,000 of HAC (with a maximum of $10,000), plus
1.5% x credited service x HAC in excess of $10,000; total benefit not to exceed HAC

Clergy whose years of service and/or HAC are very low will be subject to a new minimum benefit of $2,400 per year, regardless of the calculated amount; it is understood that this minimum benefit may exceed HAC. In addition, for clergy and surviving spouses who are already in pay status and whose service was earned in these overseas areas, annual pension benefits were increased, effective April 1, 2006, by $100 times years of credited service in the case of retired clergy, and $80 times years of credited service for surviving spouses. All annual benefits for vested participants are at least $2,400.

While additional work remains to be done, especially with respect to clergy compensation in these mission areas, the substantial benefit increases effective during this triennium address the concern that our lowest-compensated clergy may not have sufficient resources in retirement. With this new benefit formula, clergy serving for 25 years or longer with low compensation should receive benefits that equal their pre-retirement earnings.

Companion Pension Plans

In 2004, companion pension plans were created for our brothers and sisters in the dioceses of Mexico, Liberia, and Puerto Rico. Each of these three stories is unique, yet all share the same positive result.

In 1995, **Iglesia Anglicana de Mexico** (IAM) became an autonomous province of the Worldwide Anglican Communion following one hundred years as a member of ECUSA. With financial and other assistance from the Episcopal Church Center, the five dioceses that comprise IAM worked together for many years to develop the governance and administrative processes of a self-sustaining province. One important requirement of the autonomy and covenant process was the establishment of an ongoing pension plan for the clergy in the province who heretofore had been participants in the U.S. clergy pension plan. Because of the size of IAM's clergy population, the establishment of a separate defined benefit plan proved problematic. The Church Pension Fund was able to establish the first Companion Pension Plan, providing administration and investment assistance. Importantly, this companion arrangement provides seamless benefits for these clergy, incorporating all their years of ministry.

Until 1982, **the Episcopal Church of Liberia** was a part of ECUSA, and its clergy were participants in CPF's clergy pension system. In that year, the diocese ended its formal incorporation in ECUSA and became a constituent diocese of the Province of West Africa. In order to continue to provide retirement benefits to its clergy, the diocese created its own pension program, somewhat modeled after the benefits then in place through CPF, and found a commercial U.S. company to administer the program. In the spring of 2002, that administrator notified the Bishop of Liberia, the Rt. Rev. Edward Neufville, that it would discontinue administering defined benefit pension plans, including the plan for Liberia. Through discussions with the Office of Anglican and Global Relations at the Episcopal Church Center, Bishop Neufville was encouraged to seek technical assistance from the Church Pension Fund in determining the best course of action. What followed was a grace-filled journey and growing partnership, culminating in an official "signing ceremony" on December 14, 2004. CPF entered into an agreement of administration and investment management for this plan, drawing on the experience and systems already in place for ECUSA. Unique for CPF, this plan provides equal benefits for clergy and lay employees in one plan, so we believe we will learn from our friends in Liberia even as we are pleased to be providing a service to them. In May 2005, Dennis Sullivan and two CPF staff members joined the Treasurer of DFMS and another staff member in a journey to Monrovia. Hosted by the Bishop and diocesan staff, all clergy of the diocese received information about the benefit structure of their pension plan in a manner somewhat similar to the Planning For Tomorrow conferences that have been so effective and popular in the United States.

The Diocese of Puerto Rico has a slightly different story. On January 1, 1980, the island of Puerto Rico became an independent diocese, considered "extra-provincial" since it was not officially part of any Anglican Province, and autonomous from ECUSA. Showing excellent foresight, Puerto Rico started its own pension plan for the clergy and lay employees of the diocese. At the 74th General Convention, held in Minneapolis in 2003, Puerto Rico was welcomed back into ECUSA as a constituent diocese. Working with the pension committee of Puerto Rico for the past several years, we jointly concluded that the most effective pension system for them would be a companion plan covering all their clergy and lay employees, with benefits very similar to the benefits of the clergy pension plan in ECUSA and providing seamless benefits for all the years of ministry and employment, including years prior to 1980, years during which Puerto Rico was independent, and years after reincorporation. The administration and investment management agreements for this plan were effective January 1, 2004. Administrative staff members from Puerto Rico and from CPF have each visited with the other to become better acquainted, to enhance communications, and to establish mutual operating procedures.

We are energized by our new and renewed relationships, respectively, with these dioceses, and look forward to continuing to provide these services and benefits in the spirit of collaboration and partnership.

Enhanced Benefits and Services for Lay Employees

The Episcopal Church's most important asset is its people. When CPF began, "ministers" were those who were ordained. But our understanding of ministry has changed, and the work of the laity, including those employed by the Church, has expanded greatly. Consequently, CPG has continually strived to improve its ministry and service to lay employees.

A number of enhancements have been implemented in the defined benefit and defined contribution plans — retirement plans specifically designed for lay employee participation. In addition, initiatives and enhancements in health plans, life and disability insurance, and retirement planning and resources have improved the services available to lay employees as well as clergy.

This chapter reviews those initiatives and enhancements while providing an overview of the benefits and services available to lay employees through CPF and its affiliated companies.

Lay Employee Retirement Plans

The following is an excerpt from Resolution D165A, approved by the 70th General Convention in 1991, which established a standard for pension benefit provisions for lay employees of the Church:

> ***Resolved,*** **the House of Bishops concurring, That all Parishes, Missions, and other ecclesiastical organizations or bodies subject to the authority of this Church, and any other societies, organizations, or bodies in the Church which under the regulations of the Church Pension Fund have elected or shall elect to come into the pension system, shall provide all lay employees who work a minimum of 1,000 hours annually retirement benefits through participation in the Episcopal Church Lay Employees Retirement Plan (ECLERP) or in an equivalent plan, the provisions of which are at least equal to those of ECLERP. Such participation shall commence no later that January 1, 1993. At its commencement, if the plan is a defined benefit plan, the employer contribution shall be not less than 9 percent of the employee's salary; if the plan is a defined contribution plan, the employer shall contribute not less than 5 percent and agree to "match" employee contributions of up to another 4 percent…**

Previous Convention actions had recommended benefit provisions for lay employees, but the resolution passed in 1991 provided a mandate for pension coverage for all employees working more than half-time (1,000 hours a year). This mandate proved to be an important milestone in the journey to universal pension benefits. And while much progress has been made across the Church, this mandate has still not been fully incorporated into the "standard practice" of our Church.

In response to earlier Convention action recommending pension benefits, the Church Pension Fund began the Episcopal Church Lay Employees' Retirement Plan (ECLERP), now refered to as the Lay Defined Benefit Plan, in 1980, and pursuant to the 1991 mandate, launched the Lay Employees' Defined Contribution Plan in 1992. These two pension programs are designed specifically for the Episcopal Church and provide seamless portability among all participating Episcopal employers.

The Episcopal Church Lay Employees' Defined Benefit Retirement Plan (Lay DB Plan)
The Lay DB Plan provides a defined monthly benefit to retirees based on years of service and average compensation. It is funded solely by employer contributions equal to 9% of the employee's pay, and pays a guaranteed retirement benefit to the vested participant for life. For active participants, there is also a death benefit equal to two times the employee's salary to a maximum benefit of $50,000. In 2003, eligibility for the death benefit was extended to age 72 for those who remain working and actively participating in the plan. Participants are also eligible for a disability benefit and a continuing benefit for a surviving spouse or other named beneficiary.

Although not mandated by the plan, the same discretionary cost-of-living increases granted to participants in the clergy pension plan during this triennium were also granted to those who are receiving a monthly benefit from the Lay DB Plan, resulting in an aggregate 9.1% increase over this three-year period.[5]

Retired Lay DB Plan participants also received the same discretionary additional increase of $10 per month granted to clergy plan participants for 2005 and 2006. This fixed dollar increase was especially important to our lay retirees because their monthly benefits are small. On average, the $10 a month in 2005 represented a 4% increase in addition to the 2.7% cost-of-living increase provided that year, for a total increase of 6.7%. Likewise, the $10 a month in 2006 provided an average 3.9% enhancement on top of the 4.1% cost-of-living increase, for a total increase of 8%.

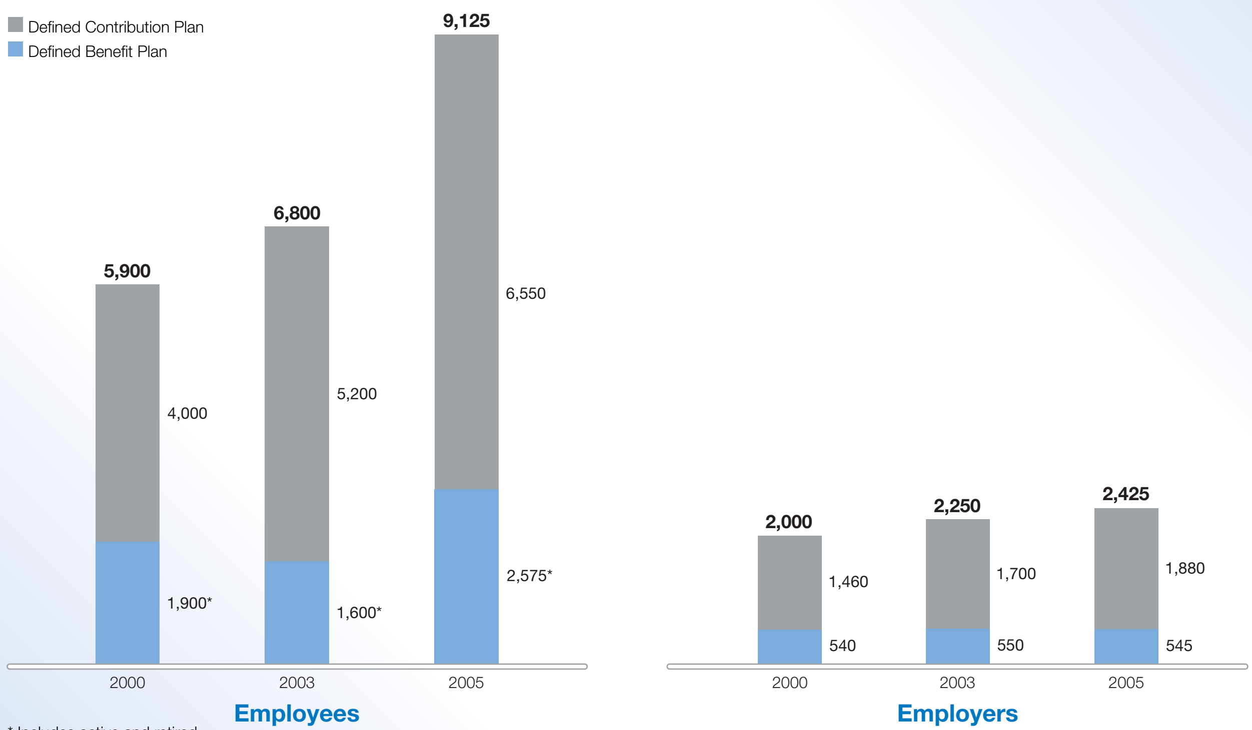
The Episcopal Church Lay Employees' Defined Contribution Plan (Lay DC Plan)
The Lay DC Plan provides individual retirement accounts to its participants. Functioning similarly to a 401(k) plan, and in concert with the 1991 Convention resolution, the Lay DC Plan requires contributions by the employer, allows employees to contribute from their own compensation, and expects employer matching contributions, as well. Each employee has his or her own account and directs how the vested portion is invested by choosing among a range of investment options. This plan also allows for participant loans. The amount available at retirement depends on the amount invested and the performance of the investments over time.

During the past triennium, the number and range of investment options have been increased several times; as of January 1, 2006, there are ten investment alternatives, including a range of stock and bond mutual funds and an annuity. The administrative charge for this plan was reduced by 25% to an annual rate of .3% of assets (30 basis points), thus improving the net investment earnings of all participants.

[5]Annual increases of 2.1%, 2.7%, and 4.1% were effective each January 1st. Those who retired during this triennium received pro-rated increases during the first year of retirement proportional to the number of months retired.

As the following exhibit shows, these two plans now serve 9,125 active lay employees through the participation of 2,425 Episcopal employers, great progress from the 500 employers enrolled in the Lay DB Plan just prior to the 1991 General Convention. A number of churches and Episcopal institutions provide benefits through a different provider of their choice, and these statistics do not include lay employees covered by other plans.

Participation in CPF Lay Retirement Plans



* Includes active and retired

As the following exhibit shows, the 8,100 active lay employees participating in one of the two retirement plans sponsored by the Church Pension Fund are, on average, in their early fifties and have worked for the Church and participated in one of these plans for some eight or nine years. Of particular note is the average compensation of $30,000 or less. It is not possible to determine, without an extensive survey, the average work week of these individuals and how the compensation and benefits of these lay positions compare with similar secular jobs.

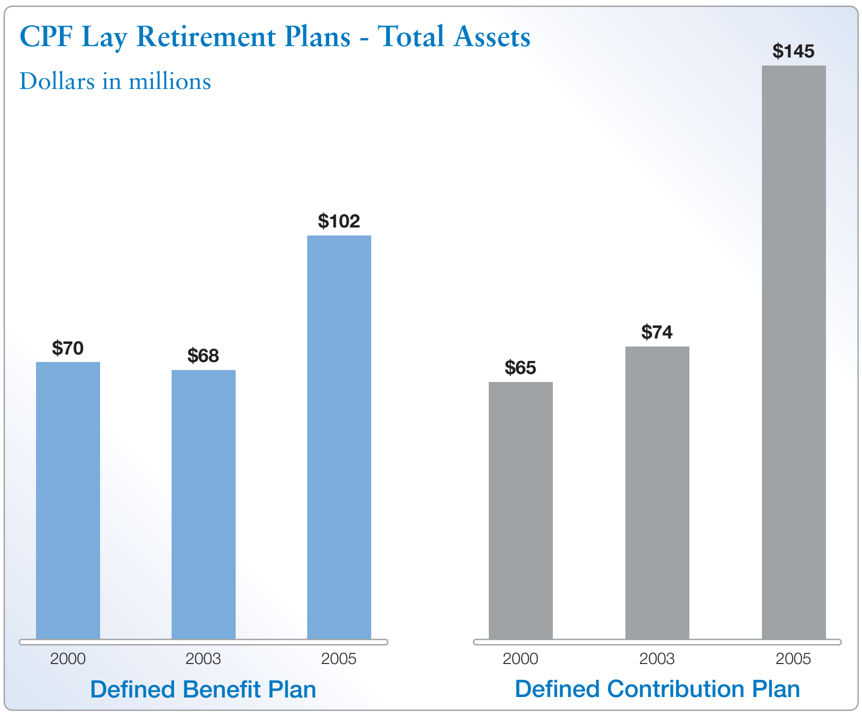
Summary Statistics for CPF Lay Employee Pension Plans (as of December 31, 2005)

	Defined Benefit	Defined Contribution*
Number of Active Participants	1,550	6,550
Average Age	51	50
Average Length of Service (years in the plan)	7.85	8.75
Average Compensation	$31,500	$28,715
Average Current Account Balance	n/a	$20,133

*Includes those with account balances >$0

A survey conducted in 2001 and featured in the CPG *Report to the 74th General Convention* showed that there were approximately 5,100 churches with lay employees who should have pension coverage, and an estimated 33% who did not provide such coverage. While that survey is several years old now, we believe its primary conclusion is still valid: that many lay employees across the Church remain without adequate pension benefits. CPF encourages General Convention to consider seriously the Executive Council resolution regarding lay employee pension benefits, and stands ready to conduct the recommended church-wide survey.

Assets in both plans have increased significantly during this triennium. As of December 31, 2005, assets in the defined contribution plan were nearly double their 2003 total. Assets in each plan now exceed $100 million.



While pension benefits are the foundation of a financial plan for retirement, we also offer other products that employers can use, and employees can take advantage of, to increase financial security.

Retirement Savings Plan (RSVP)

Episcopal lay employees and clergy are eligible to set aside funds to enhance their retirement security by participating in this 403(b) plan. It is usually funded by the individual via pre-tax contributions (subject to IRS limits), thereby reducing that individual's current taxable income. Money invested in the RSVP grows tax-deferred, with taxes due only upon distribution.

The participant is responsible for determining the investment allocations of the funds in his or her account, and the various investment options have varying risk/return profiles. During the past triennium, the investment choices have increased; as of January 1, 2006, there are ten different investment options available, including a range of stock and bond mutual funds and an annuity.

Group Life Insurance Plans

Group life insurance offered by Church Life Insurance Corporation (Church Life) helps assure the financial security of lay employees and their families in the event of untimely death, and may provide immediately needed funds for final expenses.

Group Life Insurance
This is an employer-sponsored plan, which means that a diocese, church, or other Episcopal institution may choose to provide a group life insurance program for its eligible employees. Employers must sponsor this plan and pay the required premium.

Supplemental Group Life Insurance
Those already covered by one of Church Life's group life insurance plans may purchase up to $500,000 of term life insurance coverage and up to $240,000 of coverage for a spouse at group rates. These rates are generally lower than those for individually purchased life insurance policies. Supplemental group life insurance is a voluntary plan, paid for by the employee.

Disability Coverage

Two types of group disability coverage are made available through CPG. Together, they provide a significant measure of financial security for both the lay employee and his/her employer. Each type is offered in two ways: as an employer-provided benefit and as an employee-purchased coverage.

Short-Term Disability Coverage
Also referred to as the Income Replacement Plan or IRP, this coverage is available for purchase by individuals or employers in collaboration with First Unum Life Insurance Company. Benefit payments to the employer or disabled employee (depending on who pays the premium) begin after 30 days of an approved disability and can continue for up to one year.

Long-Term Disability Coverage
This coverage, also available for purchase in collaboration with First Unum Life Insurance Company, provides important benefits for lay employees who are permanently disabled. Benefits begin after one year and continue for as long as the person is disabled, until age 65.

Individual Life Insurance and Annuity Products

Individual life insurance and annuities are a valuable part of a financial plan for retirement. That's why, during 2005/06, Church Life has been introducing a range of new and improved individual life insurance and annuity products for eligible lay employees and clergy, available on a state-by-state basis as they are approved in each state. These include three different forms of life insurance (whole life, annual renewable term life, and level-term life), three different kinds of annuities, a traditional IRA, and a Roth IRA.

Long-Term Care Insurance

Through The Prudential Insurance Company of America, CPG makes available a group long term care insurance program to eligible lay employees, clergy, and their families, as well as to lay volunteers. This program is available for purchase by individuals at their expense. An open enrollment period in the fall of 2006 will provide guaranteed-issue access to this program to at-work Episcopal employees.

Medical and Dental Plans

During the past triennium, we have enhanced the health plans offered through the Episcopal Church Medical Trust, increasing the number of plans offered and enhancing the available benefits.

Health Benefits for Active Lay Employees and Their Eligible Dependents
The Episcopal Church Medical Trust offers a broad range of health plans from which employers and individuals can choose, all of which provide preventive care benefits to keep lay employees and their families healthy, and substantial benefits to help during those times when they are not. Working with individual dioceses and large Episcopal employers, we also offer up to three different dental plans with varying levels of basic, orthodontia, and preventive dental care. And, because the emotional and spiritual well-being of lay employees and their families are vital to the Church, our Mental Health and Substance Abuse Supplement offers unique supplementary benefits.

Health Benefits for Medicare-Eligible Lay Employees and Their Eligible Dependents
Three different Medicare Supplement plans are available from which to choose, and all provide valuable benefits to help pay for healthcare expenses in retirement. These plans supplement what Medicare provides, including an annual physical benefit, prescription drug benefits with no annual benefit maximum (generally, our prescription drug benefit is better than that currently offered by Medicare), vision benefits, hearing aids, and coverage while traveling out of the country.

Financial Planning Resources

Planning For Tomorrow Conferences for Lay Employees
These conferences, specifically designed to meet the needs of lay employees, provide tailored financial- and life-planning assistance regardless of age or career stage. During the last triennium, in collaboration with the diocesan staffs, we offered eleven conferences across the country. CPF helps to subsidize the expense of these conferences so that cost should not be a deterrent to participation.

PlanAhead for Retirement
During the past triennium, we have refined this Internet-based, interactive, customized financial planning tool, which can help lay employees assess their financial plans and assist in refining goals and saving targets. Developed in association with the international actuarial consulting firm of Milliman, Inc., it is available in a special edition for lay employees (*www.cpg.org/planahead*). For those more comfortable with paper and pencil, a workbook form and worksheets are available.

Assistance with the Administrative Needs of Episcopal Employers and Institutions

Episcopal Payroll Services (EPS)
EPS helps make sure that church employees are paid accurately and on time, by arranging for payroll processing through a national payroll service that knows the seemingly arcane tax nuances of church workers.

Episcopal Web Hosting Service
CPG offers secure, business-level, low-cost web and email hosting to dioceses, which they can then extend to their parishes at no cost. This service is intended to share CPG's experience and expertise with our own web infrastructure with the wider Church and to help increase diocesan outreach and communications. We also expect that this service would reduce the cost and hassle of individually contracted web services.

What Every Treasurer Should Know
Every church treasurer is a vital link with CPG. This reference guide is intended to help church treasurers understand pension assessments and how to keep pension accounts current. In addition, every January, CPF publishes a comprehensive tax guide for clergy. The middle section of the *Clergy Tax Guide* is specifically designed to assist treasurers with tax-related issues.

Guide to Human Resources Practices for Lay Employees in Episcopal Churches
Since few churches have human resources professionals on staff, this guide assists churches and institutions in implementing professional human resources policies and practices, complying with applicable employment laws, and creating a positive work environment for employees. Thus it assists lay workers in their dual roles as employees and as supervisors of others.

Episcopal Church Management Software
The Episcopal version of ACS for Windows software, written by ACS Technologies, can support the needs of Episcopal parishes and institutions in the areas of membership, contributions, and financial management. An integrated application of this Episcopal Church management software is available for the maintenance of a parish's service register and preparation of the membership and financial sections of the annual parochial report.

The Worship Well
This new website, developed during the past triennium by Church Publishing Incorporated in cooperation with the Episcopal Church Center and the Episcopal Church Visual Arts Network, is a free and open space for parishes and church leaders to exchange ideas and information about new liturgies and worship resources.

The Church Pension Fund and Affiliated Companies
Services and Clients

The Church Pension Fund

Clergy		
Not-yet-retired	7,452	
Retired	6,273	
Surviving Spouses	2,495	25,345
Lay Employees		
Not-yet-retired	8,100	
Retired	1,025	

Church Publishing Incorporated

(Church Publishing, Morehouse Publishing, Living the Good News)

Titles in print	736
Church resources and curriculum items	1,463
Individual customers	40,210
Institutional customers	29,966

Church Life Insurance Corporation

Group life insurance policy insureds	21,689
Individual life insurance policies	2,515
Annuities	4,033
Group disability insureds	4,092

The Church Insurance Companies

Total number of churches and other Episcopal institutions protected through CIAC	6,691

The Episcopal Church Medical Trust

Clergy		
Not-yet-retired	3,246	
Retired	3,978	
Surviving Spouses	1,490	
Lay Employees		25,651
Not-yet-retired	5,185	
Retired	1,247	
Family members covered	10,505	

As of December 31, 2005

Service to the Church through Our Affiliated Companies

Serving Our Members and Clients Every Day

Over the past three years, the Church Pension Group and its affiliated companies — Church Life Insurance Corporation, the Church Insurance Companies (The Church Insurance Company, The Church Insurance Company of Vermont, and Church Insurance Agency Corporation), the Episcopal Church Medical Trust, Church Publishing Incorporated, and CREDO Institute, Inc. — have continued to expand and improve the benefits, products and services we provide to individuals and institutions of the Episcopal Church. Likewise, the number of clients served by each affiliate has risen steadily. Today, we serve over 40,000 individuals and more than 8,000 institutions.

The exhibit on the facing page shows the numbers served by these companies.

Although the years of their formation range from 1918 to 2001, these affiliates share a common origin: they were all created to serve important needs in the Church for improved well-being and protection of the people and institutions of the Episcopal Church. Today, their mission remains the same: to serve the Church in an outstanding manner and, in so doing, to remain sustainably but modestly profitable. A modest income is required to justify CPF's investment as well as to meet state regulatory requirements, but our objective is to keep profits, and costs to our clients, low, consistent with our fiduciary responsibilities.

During the triennium, the affiliates strengthened their capabilities significantly, and made major contributions, as can be seen from the following highlights.

- Church Life Insurance Corporation is, where required, now licensed and registered in nearly all states and the District of Columbia with 14 completely new life insurance and annuity products specially designed to meet the life-stage needs of clergy and lay workers.

- The Episcopal Church Medical Trust broadened its health plan offerings for active and retired employees by introducing additional health plan options. Major improvements were made in the pharmacy benefits management contract, which resulted in projected savings of $11.5 million for the Church.

- The Church Insurance Company of Vermont's property and casualty insurance program is now utilized by 79 dioceses (56 in 2002), supported by a brand-new headquarters office in Bennington, Vermont.

- Risk Management and Education responded to the 2003 General Convention resolution on child abuse prevention by introducing *Safeguarding God's Children*, a program of professionally produced videos and training materials, in concert with providing model policies. More than 20,000 church leaders around the U.S. have now been trained using this program.

- In October 2005, Morehouse Publishing and Living the Good News curriculum became part of Church Publishing Incorporated.

Each affiliate operation is discussed below. Because of the early date of this year's General Convention, the complete financials of CPF and its affiliates cannot be included here. They will be found in the 2006 Annual Report to be disseminated in early August, and will show continued improvement in CPG's overall financial condition.

Church Life Insurance Corporation

The mission of Church Life Insurance Corporation (Church Life), founded in 1922, is to serve Episcopal clergy, lay workers, and their families by providing life insurance (both group and individual), disability policies, annuities, and retirement planning and savings vehicles (e.g., IRAs, RSVP) that meet their individual life-stage needs.

In 2003–2004, Church Life undertook a comprehensive reassessment of all aspects of its strategy and operations. This prompted major changes in the company toward a life-stage-based vision of service. All Church Life products have been replaced by 14 updated designs, and, where required, the company and its new products are now licensed and registered in nearly all states and the District of Columbia. These improvements now enable Church Life to serve more clergy, lay workers, their immediate families, and Episcopal institutions with tailored offerings. Already, the number of clients and the products they use have increased, and more increases are expected in the next triennium.

The Episcopal Church Medical Trust

The Episcopal Church Medical Trust provides group health benefits for over 25,000 active and retired Episcopal clergy and lay employees and their dependents. Since 1978, funded by a not-for-profit Voluntary Employees' Beneficiary Association (VEBA), the Episcopal Church Medical Trust has built a reputation for providing access to modern, efficient, and affordable healthcare benefit plans while maintaining its commitment to balancing compassionate Christian care and responsible stewardship of the Church's funds.

Over the past three years, the Episcopal Church Medical Trust has continued to improve and expand its health plan offerings. Active employees can now choose from among six nationally available plan designs (e.g., HMO, PPO) administered through four managed-care provider networks that include Aetna and Blue Cross/Blue Shield. Retired clergy, surviving spouses, and lay employees can now choose from among three Medicare Supplement plan designs that include benefits for vision, hearing aids, and health benefits while traveling internationally. The Episcopal Church Medical Trust successfully completed all required filings with the federal Medicare program, making us eligible to receive a significant federal subsidy as provided for in the Medicare Modernization Act. This subsidy will be used to control plan costs to the Church.

The Episcopal Church Medical Trust manages the complex task of designing its benefit plans cooperatively, actively seeking feedback and input from participating dioceses, parishes and other church institutions, and working with nationally noted industry experts, including actuarial benefit consultants, and healthcare business partners. Dioceses choose the benefit plans to be offered to their employees from an array of plan designs and provider networks proposed by the Episcopal Church Medical Trust. Then, individual members select their health plan from the diocesan offerings. Dioceses generally offer three or four different programs from which employees can choose the coverage that best suits their needs. Since 2003, the Episcopal Church Medical Trust has greatly expanded its wellness, education, awareness, and member advocacy program by initiating a communication and outreach strategy that includes an annual national healthcare conference, periodic health fairs, seminars, and workshops in the dioceses.

As a result of these and other initiatives, the Episcopal Church Medical Trust has seen a steady increase in the number of participating dioceses (now 69, up from 63 in 2003) and individual member households (now approximately 14,500, up from 12,908 in 2003).

The Church Insurance Companies

The Church Insurance Companies provide broad, cost-effective property and casualty insurance products and risk-management services. These products and services are provided through three separate corporations, each with a separate board of directors and each an affiliate of the Church Pension Fund.

- **The Church Insurance Agency Corporation** (CIAC), founded in 1930, serves as the exclusive service agent for property and casualty insurance products for Episcopal Church parishes, dioceses and other institutions, and acts as an intermediary for commercial insurance carriers (e.g., Chubb) for types of risk not underwritten by CIC or CIC-VT. CIAC uses the buying power of the whole church family to offer these specialty coverages from other carriers.

- **The Church Insurance Company of Vermont** (CIC-VT), founded in 1999, is a single-parent captive insurance company offering both property and casualty insurance products from its new headquarters in Bennington, Vermont. This unique national program provides very broad coverages, the ability to customize rapidly to Church needs, and administrative efficiency to its 79 diocesan and 4,760 parish clients.

- **The Church Insurance Company** (CIC-NY), founded in 1929, is the oldest insurer of its kind in the United States. Today, its primary role is as the underwriter of churches in New York State and other Episcopal institutions.

Beginning in 2002, the Church Insurance Company of Vermont has been engaged in a transformational approach to risk management for Church institutions. Key to this has been the increased use of the captive insurance role of CIC-VT, and the establishment, in late 2004, of its new headquarters and staff in Bennington, Vermont. With its national property and casualty program and high levels of service, CIC-VT now serves 84 percent of the dioceses and 73 percent of the parishes outside New York State as clients.

During the time of this young company's growth, we have experienced the two worst hurricane seasons in U.S. history, including Hurricanes Katrina, Rita, and Wilma this past year. CIC-VT's financial results were negatively affected despite sound catastrophic reinsurance coverages. CIC-NY is gradually recovering from the aftereffects of two large sexual misconduct cases stemming from the 1970s and 1980s.

Church Publishing Incorporated

Church Publishing Incorporated (CPI) has been the official publisher of the worship materials of the Episcopal Church in the United States since its founding as the Church Hymnal Corporation in 1918. CPI publishes the Book of Common Prayer, *The Hymnal 1982*, *The Episcopal Clerical Directory*, and official publications of the General Convention, as well as a growing title list in liturgy, music, and Anglican spirituality. It also provides liturgical-planning software and Internet-based services through its Church Publishing imprint, and books for the trade market through its Seabury Books imprint.

The major strategic event of the past triennium was CPI's acquisition of Morehouse Publishing in October 2005. This has created the first truly comprehensive denominational publishing arm for the Episcopal Church. Two distinguished names — Morehouse Publishing, founded in 1884, and Living the Good News, the Church's leading curriculum publisher — became part of CPI. Morehouse publishes books and resources for parishes and church leaders, including *The Church Annual* (aka *The Red Book)* and items to support individual spiritual practice. Living the Good News publishes faith-formation programs for children, including *Godly Play*, and youth and adult Christian education curriculum.

As part of this major strategic combination, CPI more than doubled its revenue base, to over $10 million annually, and completed the establishment of a new, very experienced management team. CPI had net operating losses each of the past three years as it rapidly grew its product lines and sales and then, in 2005, integrated the two additional businesses into its operations. It is now positioned to regain profitability while increasing its service to the Church.

Risk Management and Education

CPG's Risk Management unit, while not an affiliate per se, draws on the resources of the various affiliates, as needed, in fulfilling its responsibility for implementing programs for the Church in sexual misconduct prevention and the handling of reported incidents nationally.

We responded to the 2003 General Convention Resolution B008 mandating training in child abuse prevention for dioceses, parishes, and other institutions by developing *Safeguarding God's Children*, a program that includes professionally produced videos, and extensive training materials. To assist Episcopal institutions further in responding to this resolution, CPG developed model policies with the Nathan Network, outside experts, and several other church groups.

CPG conducted seven regional training sessions for leaders around the U.S. in 2004 and 2005, which have led to over 20,000 church leaders taking the *Safeguarding* training. In 2005, Risk Management piloted a web-based version with selected dioceses that, when this pilot program is fully implemented, can inexpensively train the over 50,000 volunteers who serve local parishes in youth-related programs. During the next triennium, similar programs dealing with adult misconduct issues will be developed and introduced to the Church. We believe that these prevention programs have materially reduced the number of misconduct incidents in the Church as well as actual claims to our insurance companies, and helped the Church become a healthier place in which to work and worship.

Formation of the First Comprehensive Denominational Publishing Arm of the Church

Church Publishing + Morehouse Publishing + Seabury Books + Living the Good News

In October 2005, an exciting and historic publishing event took place: the formation of the first comprehensive denominational publishing arm of the Episcopal Church. In an effort to better serve the Episcopal Church, two distinguished names in Episcopal Publishing — Morehouse Publishing and Living the Good News — became part of Church Publishing Incorporated (CPI), and ceased to be owned by Continuum International Publishing Group.

The new combined entity continues the operation of Morehouse Publishing, founded in 1884, in its Harrisburg, PA, location; Living the Good News, a lectionary-based curriculum publisher located in Denver, CO; and Church Publishing and Seabury Books in New York. Customers will continue to contact Morehouse, Church Publishing Incorporated, and Living the Good News through existing telephone numbers, websites, and post office addresses. Existing Morehouse, Living the Good News, and CPI staff remain in place.

Church Publishing Incorporated, the official publisher of worship materials for the Episcopal Church in the United States since its founding in 1918 as the Church Hymnal Corporation, has been reorganized around the following imprints and divisions:

Morehouse Publishing: Continues to offer books on spirituality, liturgy and worship, prayer, the Bible, theology, ethics, Christian education, homiletics, parish administration, and contemporary social issues, and *The Episcopal Church Annual* (aka *The Red Book)*.

Church Publishing: Continues to publish the Book of Common Prayer; *The Hymnal 1982*; *Lift Every Voice and Sing; Wonder*, *Love, and Praise*; and official publications of the General Convention of the Episcopal Church, as well as a growing title list in the areas of liturgy, theology, music and recordings, church history, Anglican spirituality, and philosophy.

Seabury Books: Continues to offer trade books and classics of Anglican theology.

Living the Good News: Continues to publish faith formation programs and resources for Episcopal and other liturgically-based denominations aimed at teaching, inspiring, and involving their members in prayer, worship, and spiritual growth.

Church Resources: Continues to offer lectionary inserts and other support for parish worship and operations.

Electronic Publishing: Continues to offer liturgical planning software such as *The Rite Stuff*, and online services including The Worship Well.

Leading this integrated company is the Rev. Deacon Kenneth Arnold, who joined Church Publishing Incorporated as Publisher in September 2003. An experienced managing editor and trade book publisher for many years, Arnold brought extensive experience in university press publishing, having served as an editor at Johns Hopkins University Press, Editor-in-Chief of Temple University Press, and Director of the Rutgers University Press. Ordained to the Permanent Diaconate in 1998, Arnold has also edited the interdenominational journal, *CrossCurrents*, and served as Director of Communications for the Diocese of Massachusetts.

Under Kenneth Arnold's leadership, the new management team required by such a significant affiliation has been put in place. This new team combines long-time, highly respected Morehouse Publishing, Living the Good News, and Church Publishing personnel with several new management additions:

At Morehouse Publishing, Laury Poland was named Vice President, Director of Church Resources, in charge of the Harrisburg office. Nancy Fitzgerald was named Executive Editor for Morehouse Publishing.

James Creasey continues as Publisher of Living the Good News.

Jeff Hamilton's position at Morehouse was expanded; he is now Director of Sales for all of the Church Publishing Incorporated imprints and divisions.

Cynthia Shattuck was named Vice President, Editorial Director, overseeing the editorial programs for the Morehouse Publishing and Church Publishing imprints. She was formerly founding director of Cowley Publications, and had worked for the past two years as a consulting editor for Church Publishing.

Mark Dazzo was named Vice President, Director of Marketing and Global Sales. Formerly with Pearson Education, Random House, and Bantam Electronic Publishing, Dazzo brings a wide range of marketing expertise to the publishing company.

Kathleen M. Burke was named Vice President for Finance and Administration; she was formerly in corporate finance at Penguin Books and at various divisions of Random House.

Susan Erdey was named Director of Electronic Publishing.

10

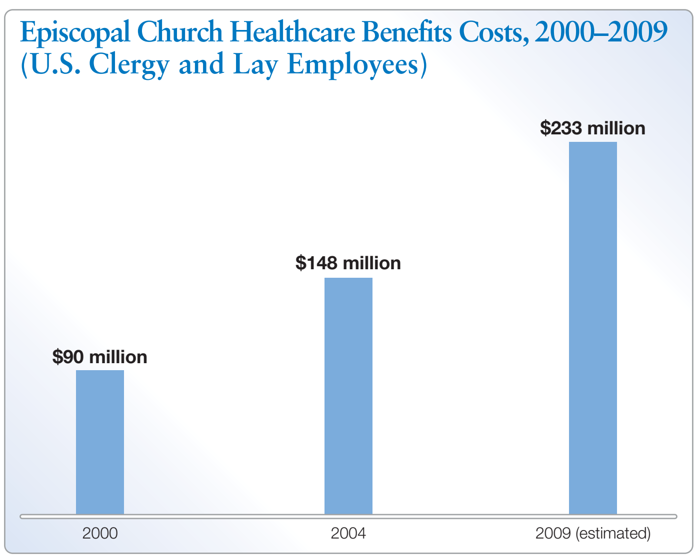
Proposed Resolution for a Church-Wide Healthcare Benefits Feasibility Study

The Future of Healthcare Benefits for Active Employees of the Episcopal Church in the U.S.A.: A Proposal for a Church-Wide Feasibility Study

There is significant potential value for the Church to have a denominational healthcare benefits program, and it is recommended that a major feasibility study be conducted with church-wide collaboration to analyze high and rising costs, industry economics, employee participation, and other denominations' experiences.

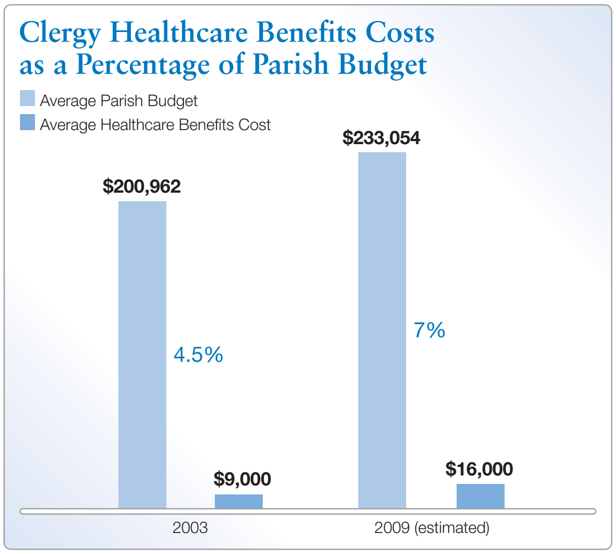
Costs

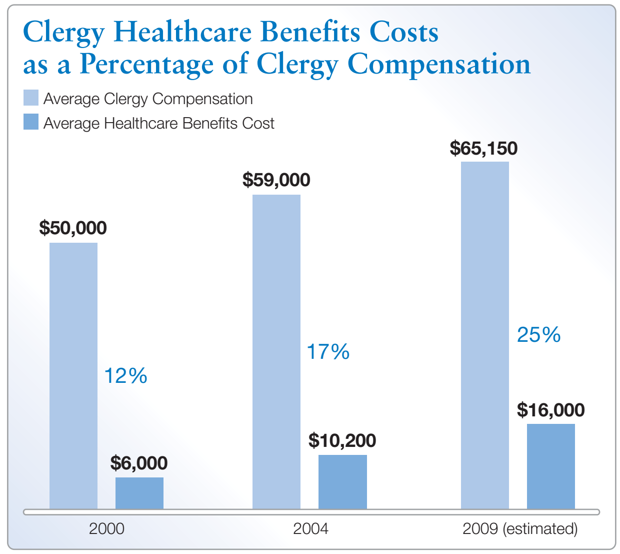
The cost of health benefits is high and rising rapidly toward levels that we believe are unsustainable, placing a progressively more difficult financial burden on many dioceses, parishes, and individuals. As shown in the exhibit below, the total national costs for all clergy and lay employees at dioceses and parishes are estimated to rise to $233 million in 2009.



Sources: Church Pension Fund and Episcopal Church Medical Trust data; the Parochial Report; Hewitt Associates analysis

These costs are growing both as a percentage of parish budget and as a percentage of clergy compensation, as shown in the following two exhibits.





Sources: Church Pension Fund and Episcopal Church Medical Trust data; the Parochial Report; Hewitt Associates analysis

Industry Economics

The economics of the U.S. healthcare environment are such that larger groups, with their greater purchasing power, are able to secure lower unit costs. For example, by participating in a cross-denominational pharmacy purchasing coalition, the Episcopal Church Medical Trust realized a pharmacy savings of $2 million in 2004, and will realize a savings of $11 million over the four-year contract. These savings enabled the Episcopal Church Medical Trust to slow the growth of costs to the Church. Similarly, purchasing health benefits nationally rather than per-parish or per-diocese could contain the growth of cost.

Employee Participation

Private sector health insurance companies target younger and presumably healthier employees, and that means some individuals can now purchase health benefits more cheaply than others. This "cherry picking" causes dioceses, parishes and other Church institutions, which typically have an employee base that is older than the average age of the U.S. workforce, to pay much higher rates or even to be rejected by private sector insurers.

Many lay employees do not participate in diocesan-endorsed health-benefit programs. This limits the Church's ability to fully realize economies of scale, and lowers the risk characteristics of the participant pool since lay employees are younger, on average, than clergy. A national church-wide health benefits program may provide the opportunity for greater lay participation, and greater lay participation can help contain the rate of growth of costs for clergy.

Other Denominations

Two other major denominations — the Presbyterian Church U.S.A. and the Evangelical Lutheran Church in America — have national church plans that show promise in addressing the systemic problems described above. Their experiences suggest that a carefully researched and designed national church-wide health benefits program for the Episcopal Church might be a better alternative to the decentralized purchasing and administration model that exists throughout our Church today.

Among the advantages of a national church-wide health benefits program are:

- Improved ability to contain cost by leveraging the purchasing power of a single church-wide risk pool, savings that would be augmented by the inclusion of lay employee participants
- The relieving of dioceses, churches and institutions of the administrative burden of developing and maintaining a health benefits program, including vendor contracting and management
- The creation of a church-wide uniform health benefits standard
- Improved clergy and lay wellness through the provision of a health benefits program with plan and benefit continuity coupled with centralized underwriting, pricing, and plan design
- Better incentives for healthy behaviors

Feasibility Study

The church-wide feasibility study is recommended to analyze alternative solutions and their probable impact on individual church employers, and would seek consensus within the Church on the best long-term strategy for individuals and institutions. The feasibility study would include:

- An in-depth evaluation of the Church's current approach to providing healthcare benefits
- An analysis of past, current, and projected future costs
- An evaluation of viable alternatives
- A recommended solution and high-level implementation plan

It is envisioned that this collaborative effort would begin in the second half of 2006 and proceed as follows:

- Information gathered, analyses performed, and alternative solutions developed in Year 1 (2006–2007)
- Finalization of the recommended solution and building of a broad consensus behind it in Year 2 (2007–2008)
- Introduction of the solution and implementation program for approval at the 2009 General Convention in Year 3 (2008–2009)

The Church Pension Group, working with the Episcopal Church Medical Trust, the Episcopal Church Center, dioceses, Church leadership groups, and others across the Church, is prepared to lead and fund the feasibility study, which would culminate in the 2009 report to the 76th General Convention.

The study should include broad participation of the many relevant constituencies across the Church, which would participate in the work of a set of teams and review groups in the study. CPG would provide project leadership, funding, and other resources. The study effort would require appropriate collaborations among dioceses, parishes, the Episcopal Church Center, the Executive Council, the House of Bishops, and many others.

The full text of the report that the CPF Trustees considered in their discussions leading up to the formulation of the following resolution is attached as Appendix A.

Resolution A147 Church-wide Healthcare Feasibility Study

Resolved, the House of ______ concurring, that the 75th General Convention endorse the Church Pension Group's proposal to conduct a church-wide study of the costs and issues surrounding the provision of healthcare benefits to all clergy and lay employees serving churches, dioceses and other church institutions and to report their findings to the 76th General Convention; and be it further

Resolved, that all dioceses, parishes and other church institutions are urged to cooperate with the conduct of this study by responding to requests for data regarding employee census and healthcare costs; and be it further

Resolved, that this study will include an analysis of the potential for a mandated denominational healthcare benefits program and other viable alternatives, culminating in a recommended solution and an actionable implementation plan.

CREDO Institute, Inc.

CREDO Institute, Inc. is a not-for-profit corporation, incorporated by the Church Pension Fund in Delaware and headquartered in Memphis, which provides the CREDO (Clergy Reflection, Education, Discernment Opportunity) benefit. Vincent C. Currie, Jr., serves as Chair of the Board of Directors of CREDO Institute, Inc., and William S. Craddock, Jr., is CREDO's Managing Director.

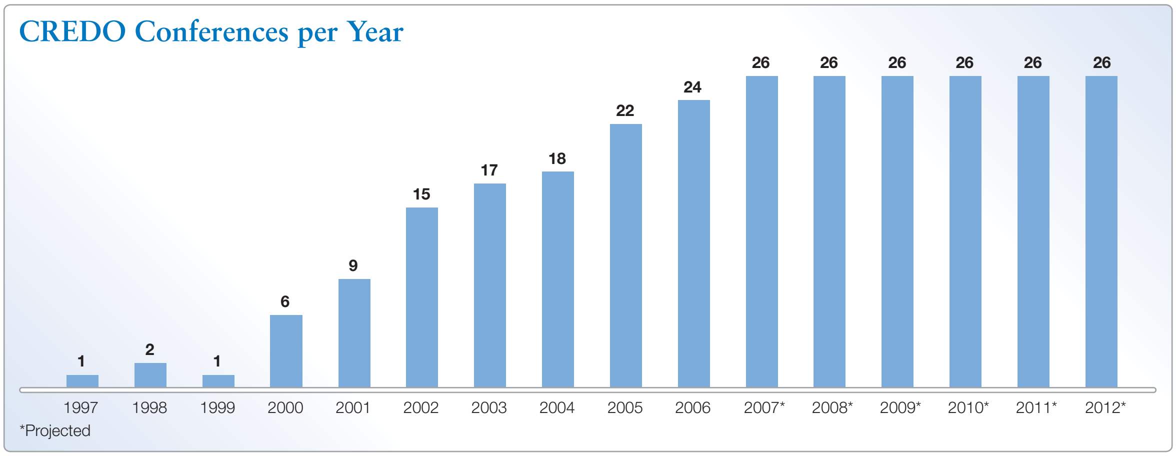
CREDO's goal is to provide opportunities for clergy to examine significant areas of their lives — spiritual, vocational, financial, and health — and to discern prayerfully the direction of their vocation as they respond to God's call in a lifelong process of practice and transformation. Through a holistic approach to wellness, clergy are invited to examine mind, body, spirit, and heart with a community of colleagues grounded in worship and prayer. Each eight-day conference includes thirty clergy, who are randomly selected from Church Pension Fund participants; 2,264 clergy, including 81 bishops, had attended a CREDO conference by the end of 2005.

During this triennium, the CPF Board completed an intensive review of the CREDO program. As part of the review, a special CREDO review committee completed an extensive evaluation. Three CREDO conferences were randomly selected in 2003, and the participants in those conferences agreed to a year-long evaluation process. The evaluation process included post-conference surveys and interviews. The results affirmed CREDO's initial evaluation findings, and showed that CREDO has a substantial impact on clergy wellness, self-efficacy and direction. The periodic review was conducted by University of Cincinnati Assistant Professor Dr. Elaine Hollensbe and her associate, Mathew Sheep.

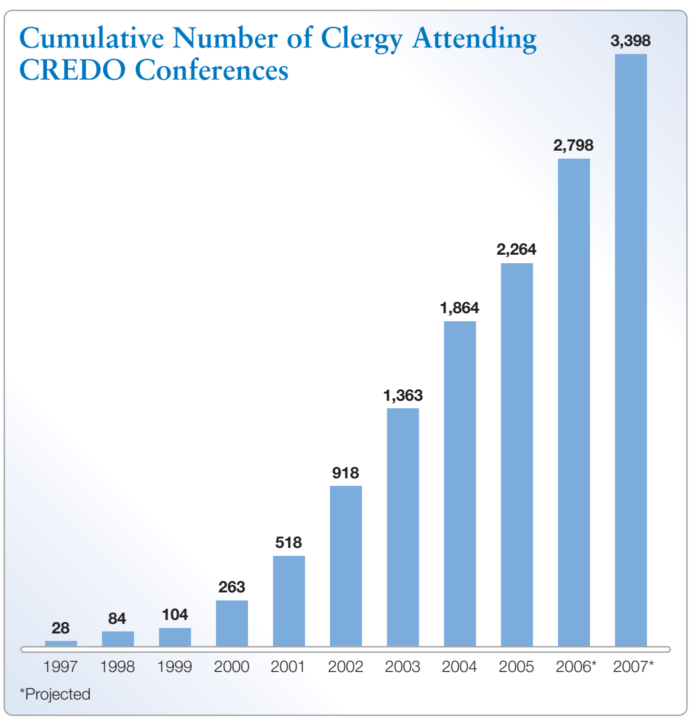
Based on the extremely strong results of the in-depth evaluation process, the CPF Board enhanced its prior approved funding for 2006 and 2007 and authorized $22 million in funding for the five-year period 2008–2012. This funding will enable an additional 5,280 clergy to benefit from this extraordinary program over the next seven years.

The exhibits on the following page illustrate how far CREDO has come since it held its first conference in 1997.

The exhibit below shows the rise in the number of conferences over the years. Most recently, 22 conferences were offered in 2005; 24 will be offered in 2006, and 26 are projected for each of the years 2007 through 2012. CREDO conferences specially tailored for bishops were instituted in 1999; they will continue to be offered in alternate years (2007, 2009, and 2011). A Spanish CREDO conference is being offered in 2006, and it is anticipated that it will continue to be offered each year. CREDO II — follow-up conferences for those who have already attended a CREDO conference more than five years earlier — were begun in 2006; as more clergy complete their initial CREDO conference, CREDO II conferences will occupy a larger part of the conference schedule. CREDO III conferences are currently in the formulation stage. The goal is to have clergy attend a CREDO conference every six to eight years.



The exhibit below illustrates the rise in participants in CREDO conferences since their inception. From a total of 28 clergy attendees in 1997 — the first year the conference was offered — the cumulative number of clergy, including bishops, who have attended a CREDO conference rose to 2,264 in 2005, and is expected to reach a cumulative total of 3,398 in 2007.



During the past triennium, CREDO Institute, Inc. undertook an extensive research study in collaboration with the Presiding Bishop's Office of Pastoral Development. The purpose of the project is to review the impact of the 2003 General Convention on Episcopal Church identity and clergy wellness. The study is being conducted by researchers from the University of Cincinnati's College of Business — Dr. Elaine Hollensbe, Dr. Glen Kreiner, and Mathew Sheep. Primary data sources include nearly 100 hour-long taped and transcribed interviews with representative stakeholders (leaders from fifteen groups in ECUSA), deputies, seminary deans, and bishops; a survey of all bishops; and a survey of 1,000 parish priests randomly generated and stratified to ensure a mix of location, age, gender, race, and ethnicity. An additional survey of laity will occur this year. The interviews and surveys are intended to elicit perceptions of the identity of the Church and provide insights into the impact of changes in that identity on the health and well-being of clergy including bishops.

Another research project conducted by the same researchers focused on how clergy confront and manage some of the most pressing issues in the practice of ordained ministry. The issues include the intersection of personal identity and professional role; work-home balance (how clergy negotiate the demands between work and home life); emotional labor (how emotions are managed at work); and emotional transitions (shifts in emotion associated with changing emotion demands at work). The results of this research will help inform the curriculum of CREDO conferences, and will also be disseminated to the Church by means of written material and conferences.

A third research project being conducted by Sheep and Hollensbe studies wellness benchmarks of more than 500 priests in 2005. The data for this research was gathered through the pre-conference work of CREDO participants, and focuses on physical and emotional health, vocational satisfaction, work and career issues, financial data, and other topics. Copies of this Wellness Report will be available from CREDO Institute, Inc. at General Convention in June.

State of the Clergy Report
Statistical Highlights and Overview

Every triennium, Matthew Price, Ph.D., Vice President and Director of Analytic Research for the Church Pension Fund, prepares an extensive State of the Clergy Report. What follows is an overview of, and highlights from, that report for 2006, with selected data points that will provide some sense of significant trends among the clergy in the Episcopal Church. The full report will be available at General Convention in June, and will also be available on the CPG website: *www.cpg.org/research*.

This overview looks at three major areas:

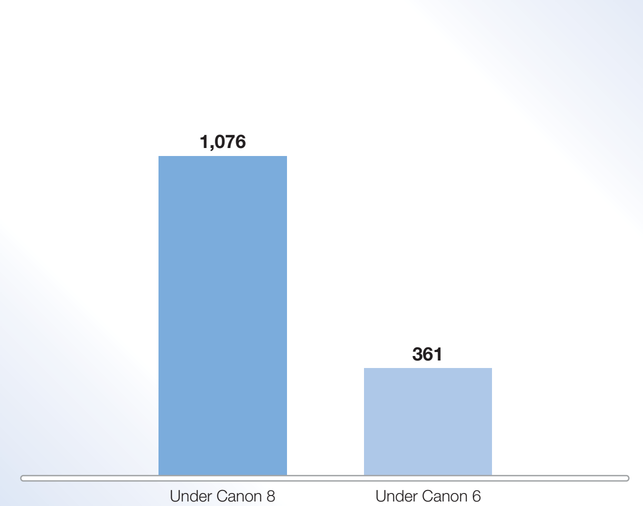
- Trends in ordination and early employment among the recently ordained
- Age, gender, and compensation trends among currently active clergy
- Trends in the average number of years of credited service clergy accumulate by retirement

Our basic clergy population for analysis consists of 6,095 clergy actively working in the Church, and 6,061 retired clergy. All data in this report is for the 100 domestic dioceses within the U.S. Our most comprehensive indicator of the number of priestly ordinations is the reported ordinations to the Transitional Diaconate under Title III Canon 8 Of the Ordination of Priests, and this is the number represented in the exhibits in this section.

Trends in Ordination and Early Employment Among the Recently Ordained

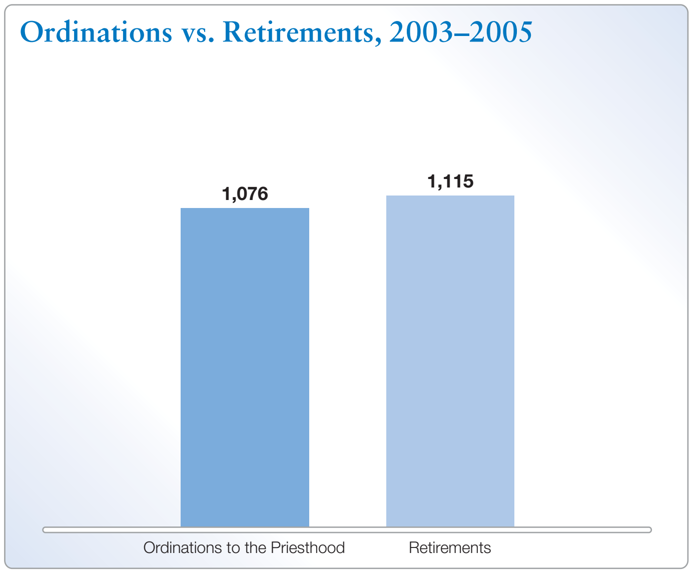
One of the most striking features of the ordination statistics over the last three years is the number of ordinations under Canon 6 to the Vocational Diaconate, which now represents a quarter of all ordinations. It is also noteworthy that, even accounting for the canonical changes, we have certainly seen a rebound in the number of persons being ordained to the priesthood from its low point in the late 1990s[6].

Ordinations by Type, 2003–2005



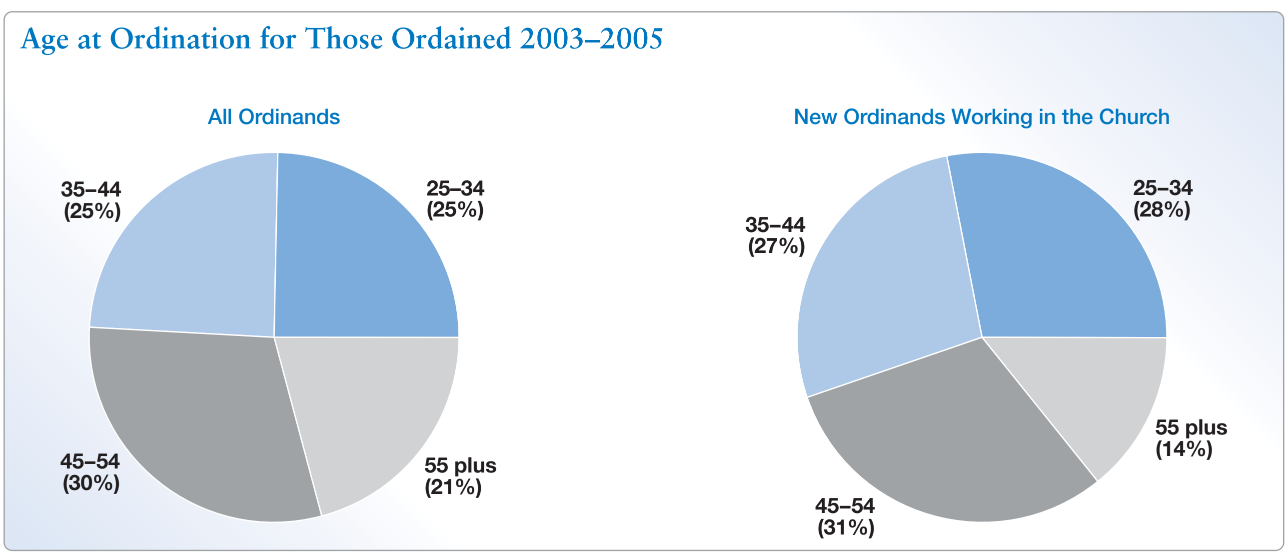
[6]Changes to the canons enacted by General Convention in 2003 ended the distinction between Canon 7 and Canon 9 priests. The end of the Canon 7/Canon 9 distinction complicates our ability to make comparisons across time on age at ordination and the proportion of ordained clergy entering employment.

The following exhibit shows that the number of ordinations to the priesthood is close to the number of retirements. Since not all those ordained are expecting to enter employment within the Church, there may be a greater gap between those retiring and those offering themselves for employment within the Church than would be apparent here.



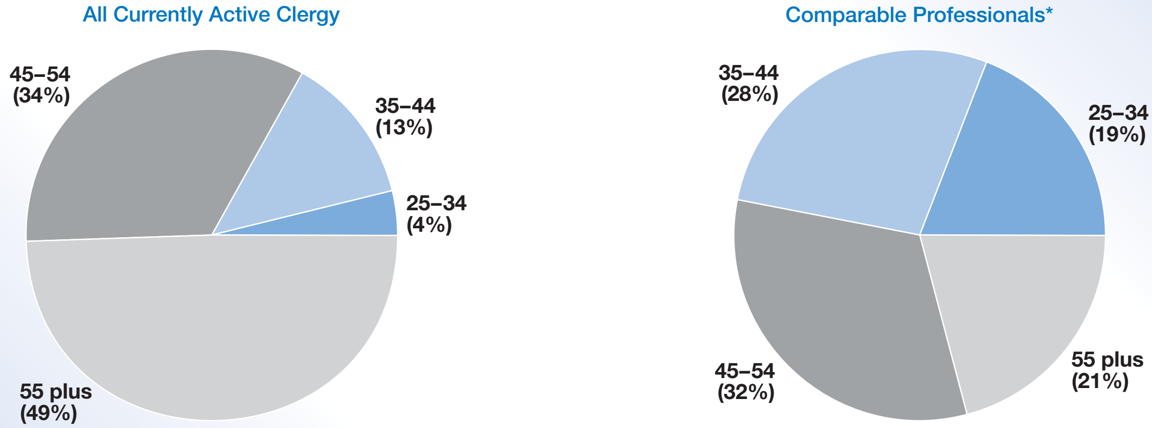
Age, Gender, and Compensation Trends Among Currently Active Clergy

While the number of ordinations has increased, the overall average age at ordination — 44 years old — has not changed significantly from 2000, when it was 45. Even if one attempts to take account of the changes in the Canons, which might have affected the overall averages, the average age of those being ordained who had attended one of the Episcopal seminaries was still 42. Thus, while it is true that we are ordaining more young priests, we are ordaining more priests in every age group, with the 45–54 group still being the largest.



When one looks at the numbers of those ordained in the last three years who are becoming active in the Church Pension Fund, there is some difference, but, as shown in the exhibit below, the age structure of new entrants will not significantly change the high average age of clergy — which is 53 — as compared with an average age of 45 for other professionals.

Average Age of Active Clergy and Comparable Professionals



*Data for comparable professionals is drawn from the Current Population Survey 2005 March Supplement.

While it does not appear that the age distribution of the Church is about to change, the gender balance will.

Changing Demographic of Active Clergy Population by Gender

Gender	Percentage by gender of those ordained to priesthood during 2003–2005	Percentage by gender of those who are now employed in the church who were ordained during 2003–2005	Percentage by gender of those who retired during 2003–2005	Percentage by gender of all active clergy 2005
Male	54%	53%	85%	69%
Female	46%	47%	15%	31%

There is a significant difference in the gender distribution between the newly ordained and actively employed clergy, and those retiring. We expect the trend towards a more evenly balanced gender profile for active clergy to continue. It is worthy of note that the number of female ordinands becoming active in the Church is almost exactly in proportion to the number ordained, although whether this balance continues as clergy move through the Church is a question we are examining in more detail. It should also be noted that there is a compensation gap between newly ordained men and women, although it is not as large as the gap between all active male and female clergy.

Average Compensation by Gender

Gender	New Ordinands Now Employed	All Active Clergy
Male	$47,295	$62,923
Female	$45,000	$52,325

Looking at compensation trends for all active clergy, there is a marked trend over the last two years towards smaller average increases in the median reported total compensation for full-time clergy. In addition, although full-time clergy compensation increased slightly ahead of inflation from 2000 to 2003, we have seen the increase in the average clergy compensation start to fall behind inflation in the last two years; we will follow this trend very carefully over the next few years.

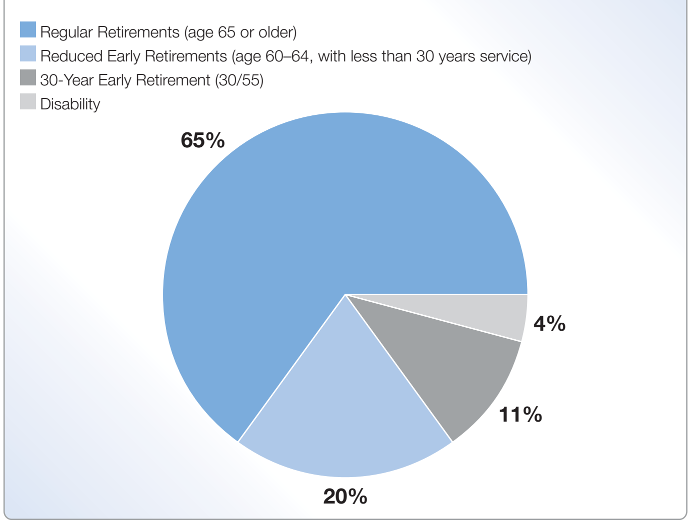
Trends in Average Clergy Compensation, 2000–2005

Year	Median	Percentage of Increase	Consumer Price Index Change	Difference
2000	$52,428			
2001	$54,786	4.5%	2.8%	1.7%
2002	$56,930	3.9%	1.6%	2.3%
2003	$58,818	3.3%	2.3%	1.0%
2004	$60,000	2.0%	2.7%	-0.7%
2005	$61,427	2.4%	3.4%	-1.0%

Trends in the Average Number of Years of Credited Service Clergy Accumulate by Retirement

Among retirees, two statistics are of note. The first is that, although the 30-Year Early Retirement Option (30/55) is attractive to many, it has not induced clergy to retire in droves. During the period 2003 to 2005, 125 clergy retired under the "30/55" option, just 11% of retirements in this period. This is more significant considering there are 537 currently active clergy who have more than 30 years of credited service and are age 55 or older. Moreover, this group's average compensation is approximately $82,000, well above the $60,000 for all full-time clergy, which would provide a higher than average pension. Hence this option has not led to a significant number of our more experienced clergy choosing to curtail their service to the Church.

Retirements by Type (2003–2005)



We are also seeing the effects of the rise in the age of ordination, with our most recent retirees showing a trend towards accumulating fewer years of credited service than was the case in the past; we expect this trend to continue.

Changes in Average Years of Credited Service for Retirees

Year	Average Years of Credited Service
1970	33
1980	27
1990	26
2000	24
2005	23

In conclusion, we can say that, in comparison to three years ago, the number of clergy being ordained has rebounded, although with this pattern of ordination, the age profile of the clergy is still very much older in comparison with the populations of other professions. In regard to gender percentages, the active clergy population is becoming more female, and is looking more like other professions. Average clergy compensation has not kept pace with inflation, though it is too early to tell whether this is a long-term trend and what might be driving it. Finally, many clergy who could retire continue to work within the Church, although the number of those who will reach 30 years of service at retirement will gradually decrease over time.

The full report will be available at General Convention in June, and will also be available on the CPG website: *www.cpg.org/research*.

Disaster Relief Efforts

In formulating benefit enhancements, products, and services, the CPF Board and staff seek to address the needs of the various segments of our constituency — the retired, the not-yet-retired, surviving spouses, and churches and institutions. But we also strive to serve our participants one person or institution at time, respecting their individual needs and appreciating that one size does not fit all. In times of trouble, the board and staff try to be responsive to special circumstances, recognizing that we are all members of the same community of faith.

The Church Pension Group, through its affiliates, provides property insurance to many of the churches affected by the hurricanes of recent years, healthcare benefits to clergy and lay employees in most of these areas, and pension coverage to all of the clergy and many of the lay employees. Because of this connected set of products and services, CPG was able to act immediately during 2004 and 2005 to help relieve short-term needs, and to collaborate with the most severely affected dioceses to address long-term needs and concerns. The quality and rapidity of assistance provided by the Church Insurance Company of Vermont under difficult circumstances during 2004 was widely recognized, including a letter of gratitude from the Presiding Bishop. Empathy with those we serve, as well as our ability to respond quickly and flexibly, enable us to offer meaningful assistance in a timely manner.

Katrina, Rita, and Wilma

The devastation caused by the number and severity of hurricanes across the Gulf Coast last fall was unprecedented. During this terrible series of disasters, CPG assisted our constituents in a variety of ways: from insurance and restoration assistance for property destruction, to financial assistance for dioceses and retirees, to pastoral care, to joint efforts with the Office of the Presiding Bishop.

We immediately deferred collecting payments of assessments, life insurance premiums, health benefit charges, and property insurance premiums from parishes and dioceses most severely affected by Katrina and Rita, assuring them that all benefits would continue without regard to payment for the time being.

Because some retirees might have had trouble accessing their money as a result of mail delivery interruptions and temporary bank closures, we empowered dioceses to advance money to any cleric and lay retiree in need of funds related to benefit checks in cases where access to a bank was restricted or nonexistent.

Because of our standing as a property insurance carrier and our concern for the Church, Church Insurance claims managers were able to go immediately to affected areas to assess the damage and find ways to help. Just after Katrina hit New Orleans, for example, Property Claims Manager John Webster traveled the city in an RV, accompanied by a police escort, checking the state of every church we insure and offering assistance. CIC-VT personnel did similar work in other affected areas too. In addition, we were able to use long-standing relationships with Church Restoration Group (a highly regarded restoration company) and ServiceMaster to bring direct and immediate assistance to churches we insure, while many churches insured by other companies were still waiting.

Because the churches we insure in the states hardest hit by Katrina, Rita, and Wilma all had blanket flood insurance automatically included in their Church Insurance policies, they were protected. It was a far different story for churches with other insurers, none of which offer flood insurance. According to the Rt. Rev. D. Bruce MacPherson, Bishop of Western Louisiana, a number of congregations in his diocese had moved their business to a different provider with the result that approximately 20 Louisiana congregations will have to underwrite the loss of their buildings and property from this year's storms.

The CPF Board adopted a policy permitting the complete forgiveness, for up to 18 months as of September 2005 through the end of February 2007, of pension assessments for clergy who were working in areas where their congregations were destroyed or dispersed. In the case of Katrina, this will alleviate payments for some 30 to 40 clergy.

CPG sponsored the *Weathering the Storms* conference, in collaboration with the Office of the Presiding Bishop, CREDO Institute, Inc., the Office of the Bishop Suffragan for Chaplaincies, and Episcopal Relief and Development, on January 4-7, 2006. This expense-paid conference was attended by the bishops, clergy and diocesan staff members and their families from dioceses ravaged by the Gulf Coast hurricanes, including the Dioceses of Louisiana, Mississippi, Texas, Western Louisiana, Southwest Florida and the Central Gulf Coast. Nearly 220 participants received needed respite and counseling at this unique outreach effort.

We continue to participate in the "We Will Stand With You" effort, coordinated through the office of Bishop Packard, Suffragan Bishop for Chaplancies, which raises funds specifically for diocesan disaster relief in areas hardest hit by Katrina, Rita, and Wilma.

APPENDIX A

The Future of Healthcare Benefits for Active Employees of the Episcopal Church in the U.S.A.

A Proposal for a Church-Wide Feasibility Study

Presented to
The Board of Trustees of the Church Pension Fund
on November 17, 2005

by
T. Dennis Sullivan, President
and
The Managements of the Episcopal Church Medical Trust and
The Church Pension Group

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EXECUTIVE SUMMARY

This document presents the rationale for conducting a church-wide feasibility study that would address the potential value to the church of a denominational healthcare benefits program, and the recommendation for an "A" resolution to the 2006 General Convention by the Church Pension Fund.

The rationale for conducting the feasibility study can be summarized as follows:

1. The cost of healthcare benefits is high and rising rapidly toward levels that are unsustainable.
2. Healthcare benefits costs are growing as a percentage of clergy compensation.
3. The percentage of a parish budget that is devoted to clergy healthcare benefits cost will continue to rise at rates that will become unsustainable.
4. Economics of the U.S. healthcare environment require that purchasers strive for scale, as larger groups yield lower unit costs.
5. Lay employees are asked to fund the cost of healthcare benefits in whole or part, and the result is that significant numbers go without coverage.
6. Two other major denominations have national church-endorsed plans that may be better solutions than ours.
7. Churches with younger and/or healthier clergy are cherry-picked by other health insurance companies, thus driving costs up for others. Combined, the costs are likely higher than they would be if all churches were considered in one group.
8. It is difficult to provide incentives for healthy behavior over the long term with healthcare benefits delivered by disparate and uncoordinated insurance companies.

This document provides an overview of what a *denominational healthcare benefits program* might encompass, the issues facing the church, the feasibility study proposed to analyze them, and a timeline for presenting a recommended solution and actionable implementation program to the General Convention in 2009.

It is requested that the Church Pension Fund Board agree to support this feasibility study with an "A" resolution to the 2006 General Convention.

I. THE CASE FOR A CHURCH-WIDE FEASIBILITY STUDY

The high and rising cost of healthcare benefits for active clergy and lay employees is placing a progressively unsustainable financial burden on many dioceses and parishes, and raising the issue of equity and justice for the church as an employer. This growing problem is so severe that it demands that the church consider new approaches that could restrain or reduce the growth of these costs. Potentially, the approaches would take some form of a national health plan

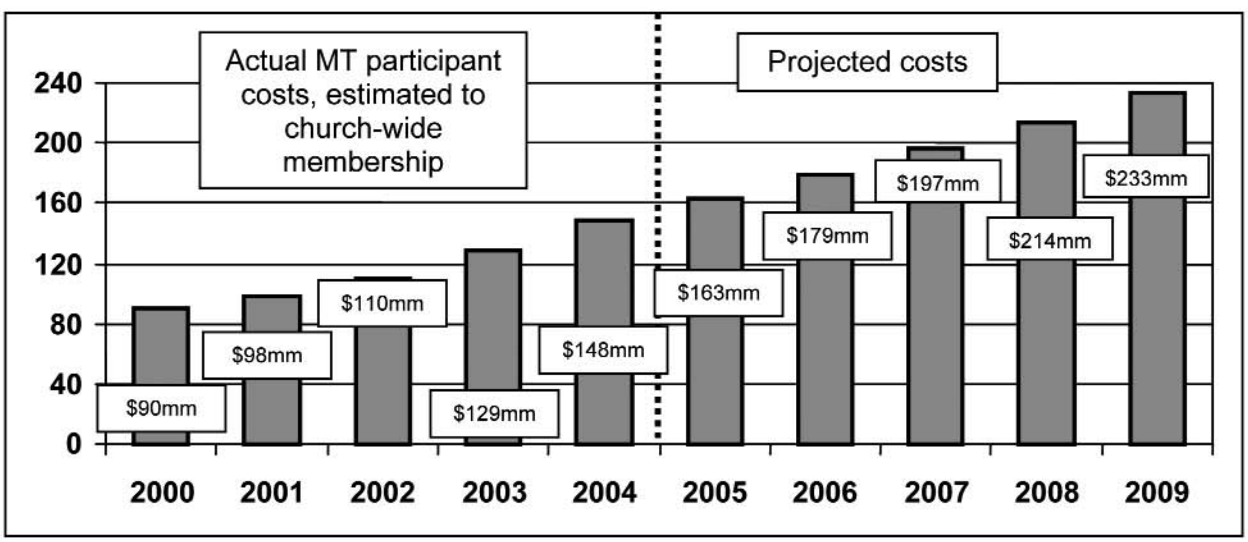
A church-wide feasibility study is needed to explore alternative solutions and their probable impact on individual church employers and build a consensus within the church on the best long-term strategy for institutions and individuals. A church-wide effort over several years is necessary because of the complexity of the subject and the many constituencies whose voices need to be heard. The feasibility study would address the six key *reasons why change is necessary*.

1. <u>The cost of healthcare benefits is high and rising rapidly toward levels that are unsustainable</u>.

In the five-year period 2000-2004, healthcare benefits costs for active clergy and lay employees of the entire church increased from $100 million to $150 million, averaging annual increases of 11 percent. In the five-year period from 2005-2009, we anticipate that healthcare benefits costs for that same population will rise to $163 million in 2005 and then climb rapidly to $233 million. This is an average annual increase of 10 percent for that five-year period (Exhibit 1).

Even though we forecast a modestly lower rate of healthcare benefits cost inflation in years 2005-2009 (10 percent vs. 11 percent per year), the cost of this benefit is still increasing at about three times the rate of national inflation (about 3-4 percent per year), making it less affordable with each passing year.

Exhibit 1: Episcopal Church Healthcare-Benefits Cost 2000-2009



2000-2009 healthcare costs for all active clergy and lay employees employed at parishes and diocesan offices

The 2000-2004 healthcare benefits costs in Exhibit 1 were derived from two sources. The first is Medical Trust's actual healthcare benefits cost data and CPG's clergy and lay demographic data, which represented approximately 50 percent of total "lives" in ECUSA. The balance of the cost data were extrapolations provided by the actuaries, Hewitt Associates, based on the employee demographics.

In turn, the 2005-2009 projections were developed from Hewitt Associates' model and Medical Trust assumptions.

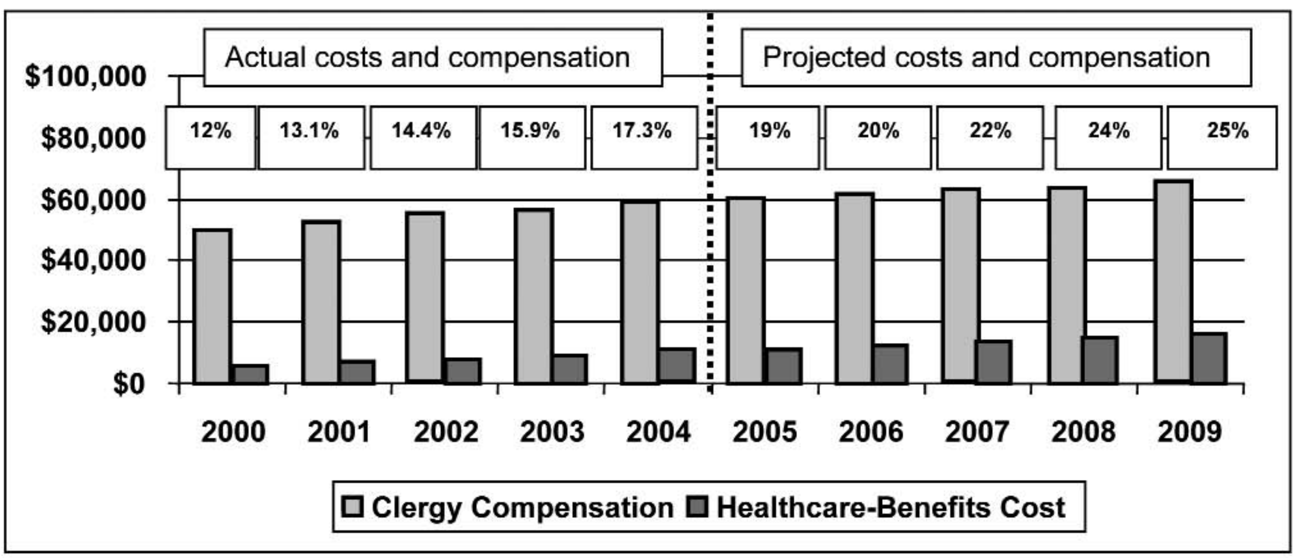
2. <u>Healthcare benefits costs are growing as a percentage of clergy compensation</u>.

In the five-year period 2000-2004, healthcare benefits costs increased from 12 percent of clergy compensation to 17.3 percent (Exhibit 2). During that period, healthcare benefits cost inflation averaged 11 percent per year while clergy compensation increased only 4 percent per year.*

For 2005-2009, we project that healthcare benefits costs will increase to 18.7 percent of clergy compensation in 2005 and then to 24.6 percent at the end of the period. As noted earlier, healthcare benefits cost inflation is expected to average 10 percent per year.** For the purposes of this analysis, we have used a modest clergy compensation increase of an annual 2 percent through 2009.

Clearly, these rising costs are going to be an even heavier burden on parish budgets and fund-raising requirements.

Exhibit 2: Clergy Healthcare Benefits Cost as a Percentage of Cash Compensation



2000-2009 actual and projected healthcare benefits cost for ECUSA active clergy: Aggregate cost and percentage of clergy compensation

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*Healthcare benefits inflation based on ECMT trend; clergy compensation increases based on Pension Fund research

**Healthcare inflation projection from Hewitt

Exhibit 2 utilizes actual healthcare benefits cost data for those clergy enrolled in Episcopal Church Medical Trust (ECMT) plans, estimates for non-ECMT participant clergy and clergy compensation data maintained by the Church Pension Fund.

When viewing the cost percentage of compensation at the diocesan level, one can see significant differences from the low to the high ends of the range (Exhibit 3). Even those dioceses at the low end, e.g., Arizona at 12 percent, face a significant cost burden.

Exhibit 3: 2003 Diocesan Median Compensation and Healthcare Benefits Cost

Episcopal Diocese	2003 Median Clergy Compensation	2003 Median Health Benefits Costs	Median Healthcare Benefits Cost as % of Clergy Compensation
Maine	$50,367	$ 8,532	17%
Long Island	$63,805	$ 8,268	13%
Maryland	$58,900	$ 8,580	15%
Mississippi	$53,400	$12,060	23%
Indianapolis	$61,889	$ 8,376	14%
Montana	$45,094	$ 5,724	13%
Dallas	$57,052	$ 8,064	14%
Arizona	$58,620	$ 6,828	12%

Sources: Church Pension Fund, Episcopal Church Medical Trust.

Healthcare benefit costs can differ greatly by region as local economics and market forces are major determinants of cost. This is a national problem, if not a crisis, and the Episcopal Church cannot control many of the cost components associated with the U.S. healthcare delivery system.

3. <u>The percentage of a parish budget that is devoted to clergy healthcare benefits cost will continue to rise at rates that will become unsustainable</u>.

In 2003, actual clergy healthcare benefits costs were 4.5 percent of the average parish budget. Over the past three years, there has been a 2.5 percent per year increase in the parish budget, a trend we estimate will continue into 2009. Based upon the projected 10-percent-per-year rate of healthcare benefits cost inflation, we estimate that healthcare benefits costs will grow to 7.0 percent of the parish budget in 2009. A move from 4.5 percent to 7.0 percent over six years will put continued pressure on clergy compensation as well as the ability of churches to provide benefits to other employees and to sustain and enhance program and mission activities (Exhibit 4).

Exhibit 4: Healthcare Benefits Costs as a Percentage of Parish Budget, 2003 vs. 2009

Year	Average Parish Budget	Average Clergy Healthcare	Percentage of Budget
2003	$200,962	$9,000	4.5%
2009	$233,054	$16,000	7.0%

We need to do additional analysis on this issue, and the feasibility study would allow for that analysis, but our working hypothesis is that slow revenue growth at the parish level is putting a great deal of pressure on parish budgets, and even modest increases in overall clergy compensation, including health and pension benefits, can be catastrophic because the parishes don't have the financial reserves to cover budget shortfalls.

Our analysis uses 2003 clergy salary, healthcare benefits cost and budget data because we have not completed data gathering and analysis for lay employees. We do know that the median lay compensation (2003 estimated at $25,200) is less than the median clergy compensation (actual 2003 is $58,818). Additionally, we know that when developing coverage rates for church employees, health-benefits plans (including ECMT) will typically not establish different rates for clergy and lay employees. Therefore, the current and projected future cost to the church of providing healthcare benefits for lay employees measured against lay compensation would show a more alarming picture. Taken to the extreme example, it is possible for a lay employee within the Diocese of Mississippi to have a salary that is less than the cost of his or her healthcare benefits plan.

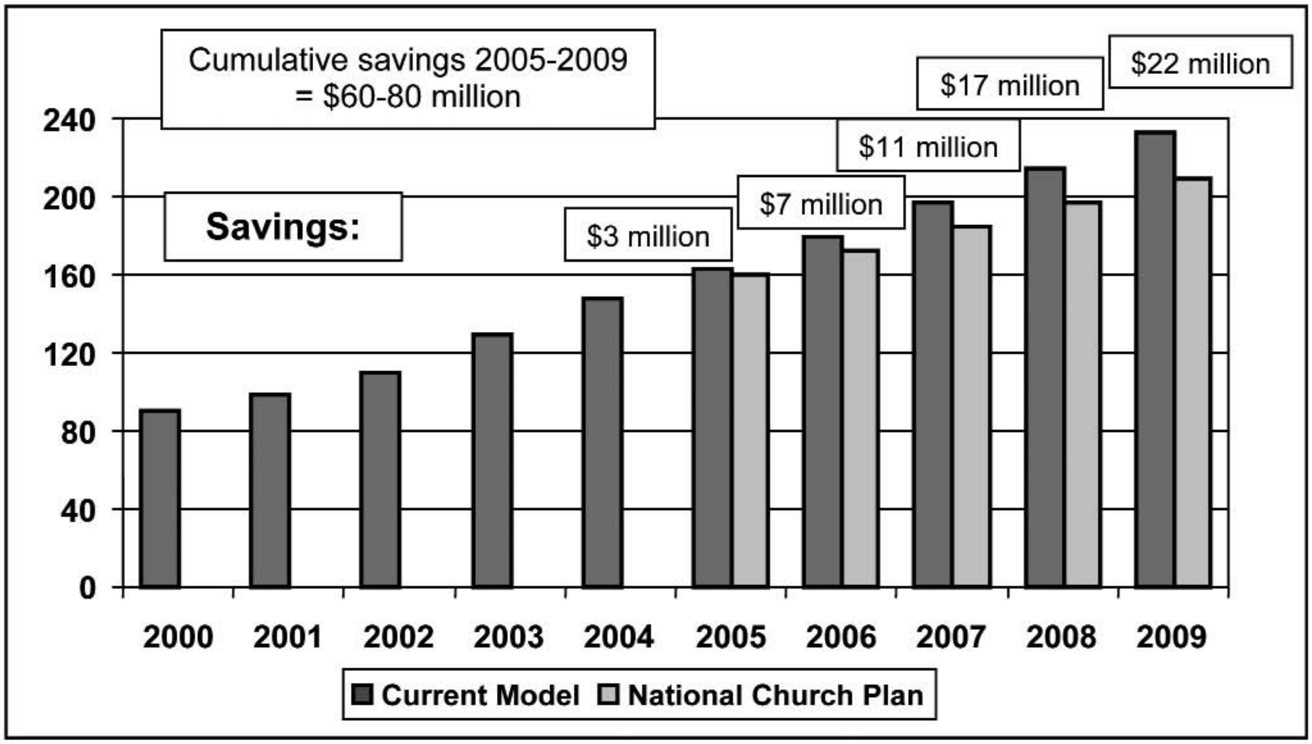
Because the costs to the church of providing healthcare benefits to clergy and lay employees are generally the same, their relationship to parish budgets is the same. There is, however, a difference in how benefits are funded by parishes. Typically, healthcare benefits for clergy, spouses and dependent children are paid in full by the parish. We have not completed our quantitative work, but based upon our initial research, lay employees make substantial contributions to the cost of their healthcare benefits program.

4. **Economics of the U.S. healthcare environment require that purchasers strive for scale, as larger groups yield lower unit costs.**

Large groups have substantially more purchasing power than small and mid-sized groups because of their economies of scale. As a real-life example, in 2003, the Episcopal Church Medical Trust entered into a cross-denominational pharmacy purchasing coalition that effectively increased our group size from 15,000 households to 150,000 households. The coalition group was able to renegotiate individual existing contracts, including ours, which saved the church $2 million in pharmacy and administration costs in 2004. Additionally, each denomination was relieved of the burden of individually negotiating and maintaining separate vendor contracting and vendor management staff, allowing the groups to redeploy staff and eliminate intra-denominational redundancies.

The feasibility study would develop a projection of the financial benefits derived through the introduction of a single medical-benefits purchasing group, or a national church plan. If future savings were similar (on a percentage basis) to those achieved by the church in the pharmacy purchasing coalition, they would be significant (Exhibit 5).

Exhibit 5: Healthcare Benefits Cost Estimates: Decentralized Purchasing versus National Plan



Through discussions with participating and non-participating dioceses, we find that the prospect of continuing double-digit healthcare benefits cost increases is the single largest concern of church leaders; however, the voluntary nature of ECUSA makes cost containment challenging as it fosters significant adverse selection and lack of scale.

- The Episcopal Church Medical Trust provides healthcare benefits for active church employees in 67 dioceses and 3,000 parishes.
- The church, in partnership with the Medical Trust, has benefited by implementing strategic initiatives such as participating in cross-denominational purchasing coalitions; while participating in purchasing coalitions has reduced and will continue to contain, the rate of healthcare benefits cost inflation, by itself, is not enough to solve systemic problems.
- Clearly, at some 4,500 parishes a large number of active clergy and lay employees are getting their health benefits outside of the Medical Trust.
  - When younger and presumably healthier clergy and lay employees find their own insurance at preferred rates, it drives up the costs for those unable to find cost-effective alternatives—a never-ending spiral if left unchecked.
  - Employers and employees are not benefiting from economies of scale.
  - Fixed costs are spread over a relatively small group, driving up unit cost.

- Small groups have less predictable utilization trends; therefore, claim fluctuation factors are higher, increasing cost.

- The church experiences an increased administrative burden, with staff and committees spending too much time (redundantly) addressing healthcare.

- Individual dioceses and churches may lack the expertise required to navigate a complex and sophisticated healthcare environment.

- As relatively small employer groups, Episcopal parishes are particularly disadvantaged in their attempts to secure and fund cost-efficient health benefits plans.
  - Several dioceses that are self-funded have told us that they are either in or approaching financial difficulty with respect to funding their own healthcare benefits programs.
  - Employers will implement increased cost shifting through payroll deductions, increased co-pays, co-insurance and/or deductibles; this cost-shifting effectively reduces compensation and doesn't address the underlying problem.
  - Those looking to purchase from the commercial marketplace find their options for coverage are narrowing due to carrier consolidation and limited market leverage.
  - Some dioceses and parishes may be forced to reduce or drop benefits.

5. <u>Lay employees are asked to fund the cost of healthcare benefits in whole or part, and the result is that significant numbers go without coverage</u>.

Based upon a polling of our participating and non-participating group administrators, we have learned that lay employees are asked to contribute to the cost of healthcare benefits (via payroll deduction) at a much higher rate than clergy. For that reason, many lay employees opt out of the diocesan-endorsed plan.

Also, our analysis of claim data for participants in the Medical Trust 2003 healthcare benefits program discloses that lay employees typically utilize the benefits at a much lower rate than their clergy counterparts (Exhibit 6).

Exhibit 6: Clergy versus Lay Employee Healthcare Costs

Healthcare Costs: Per Member, Per Month Costs by Household Type			
2003 Costs	**Clergy Households**	**Lay Households**	**Overall Average**
Medical	$397.10	$280.51	$349.46
Pharmacy	$111.42	$ 88.38	$102.24

Lay participants in Medical Trust-sponsored plans have tended to temper overall plan cost increases because their risk characteristics are significantly better than clergy, as evidenced by their actual claims and utilization. If lay employees continue to opt out of diocesan-endorsed plans, cost will be shifted to remaining participants, largely clergy.

6. Two other major denominations have national church-endorsed plans that may be better solutions than ours.

Based upon our discussions with two other denominations, the Presbyterians (PCUSA) and the Evangelical Lutherans (ELCA), national church-endorsed plans may offer significant savings and other advantages for ECUSA. The benefits that they have cited include:

- Gaining significant membership scale by having a single church-wide risk pool (The implication here is cost containment by leveraging centralized purchasing power.)
- Creating a church-wide, uniform health-benefits standard
- Relieving individual churches and judicatories of the administrative burden of developing and maintaining a health-benefits program, e.g., vendor contracting and management
- Developing the skills and expertise to navigate a complex and challenging healthcare environment, e.g. centralized underwriting, pricing, plan design using a combination of staff and outside resources
- Creating a fair and equitable funding mechanism, e.g., cost to the member/employer are balanced against ability to pay
- Maintaining clergy and lay wellness by providing a health-benefits program with plan and benefits continuity

In summary, this is how each of these denominations has structured its national program:

- **Evangelical Lutheran Church of America:** The Evangelical Lutheran Church of America (ELCA) has one medical plan applicable to all eligible members. The primary plan is a PPO plan (90/80), but there is an indemnity for those out of area, and members who participate in the pension plan must participate in the medical plan; those who do not participate in the pension plan cannot participate in the medical plan.
- **Presbyterian Church (U.S.A.):** The Presbyterian Church (U.S.A.) offers one medical PPO plan (80/60) for all eligible members. The member and employer must also participate in the pension program. Unlike most health benefits programs and insurance products, Presbyterian churches enrolling employees in their denominational program are not charged medical premiums based on the ages, genders, levels of coverage required and, possibly, the health status of their employees. Instead, churches and other employing organizations pay medical dues based on the salary paid for each covered position.

These plans are different from each other, and different from ECUSA's voluntary program, but they seem to work well for each of their polities.

Summary

1. Based upon current trends in utilization and medical inflation, the cost of healthcare benefits for active clergy and lay employees of the church will increase by approximately $100 million over the next five years.

2. The rate of cost increase in providing healthcare benefits will far outpace increases in clergy and lay compensation and church budgets.

3. The current fragmented, de facto voluntary approach does not promote containing cost effectively for the church as a whole.

4. The current approach puts an undue administrative burden on the church, and fails to solve inherent justice and equity issues.

5. Many lay employees do not participate in diocesan-endorsed healthcare benefits programs because the financial incentive to participate is not compelling. This actually weakens the overall risk characteristic of ECUSA healthcare plan participants because lay employees generally have better risk characteristics than clergy.

6. Other denominations have implemented national church-endorsed healthcare benefits programs that show promise in addressing the systemic problems that exist in a decentralized and voluntary benefits program.

II. POSSIBLE SOLUTION: NATIONAL HEALTH PLAN

Our hypothesis is that a national single-employer healthcare benefits plan provided by the Episcopal Church would provide significantly better value than the current voluntary decentralized purchasing approach.

A national plan could build a single risk pool from our church's 7,500 clergy households (versus approximately 3,200 currently). Additionally, lay employees at diocesan offices, parishes, schools, camps, conference centers and other church groups could increase from the current 4,800 households to 40,000.*

Other denominations have realized the benefits and economies of scale available to large purchasing groups. The feasibility study would quantify the savings potential of a single national healthcare plan for our church.

Inherent flaws exist within the current decentralized and voluntary approach:

- It increases claims volatility by fragmenting risk pools.
- It fails to capitalize on scale and therefore loses leverage with carriers.
- Each diocese is able to sponsor and endorse a separate healthcare program for its employees. Thirty-four dioceses sponsor a healthcare program for their employees outside of the Episcopal Church Medical Trust. Cost data for these dioceses are not available in a central place in the church.
- In many cases, parishes within a diocese are not required to participate in the diocesan healthcare plan. Current estimates are that between 20 and 30 percent of parishes purchase healthcare benefits independent of their diocese. This is especially true of parishes with a large staff or with a staff that is younger than the diocesan average.
- We estimate that between 10 and 20 percent of church employees are covered by a spousal plan, allowing the parish to reduce its benefit costs. The net effect is the church is receiving a "healthcare subsidy" from secular employers. As secular employers face rising healthcare benefit costs, they may reduce benefits coverage and provide funding for single coverage only. In that case, the church will find that those who were covered under a spousal plan will be "shifted back" to the parish for benefits. This will result in an (unanticipated) increased cost of healthcare for the church.

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*Per CPF Director of Analytic Research.

Could Expand Access to Healthcare Benefits

A denominational healthcare plan has the potential of extending coverage to all employees of the church, i.e., universal coverage. The present system does not mandate dioceses or parishes to provide coverage to all employees. In dioceses that do have a policy about who should be covered by healthcare, in many cases the policy addresses only clergy and in limited instances full-time lay employees who work at the diocesan office; lay employees at parishes and other non-diocesan institutions are generally excluded from a diocesan policy.

Anecdotally, it is believed that fewer than half of lay employees are provided paid healthcare benefits. A comprehensive feasibility study effort is needed to obtain complete data in this area.

A well-structured denominational healthcare plan could offer a variety of options that would allow our church to have a choice of healthcare plans from which to choose. Low-cost options would undoubtedly be available and should provide dioceses, parishes and other church employer groups affordable options, therefore expanding the percentage of full-time lay employees who had their healthcare paid in full.

Potential Savings Are Significant

Based upon our experience in the pharmacy purchasing coalition and our discussions with other denominations relating to medical benefit plans, we believe that a larger risk pool, with good characteristics, could theoretically save the church significantly over a number of years (Exhibit 5) by spreading fixed costs over a larger base, leveraging size in negotiating with vendors and consultants, and sharing savings gained by establishing a larger, more predictable risk pool, e.g., reduction of claims fluctuation factors.

Streamlined centralized administration would save potentially $3-6 million per year by eliminating redundant administrative tasks and expenses, and relieve the church of current and future administrative burdens such as compliance with the many regulatory bodies, e.g., HIPAA. This does not include freed-up time of staff for other mission tasks.

At present, the amount of staff and volunteer time devoted to the administration of healthcare benefits is estimated to be extremely high. It is difficult to estimate the costs associated with the administrative burden at this time, but it could easily reach close to $1,000,000. Each diocese has at a minimum one paid staff person who is responsible for the administration of benefits (health, dental, life insurance, etc.). In the larger dioceses, this person often devotes 100 percent of his or her time to benefits administration. At the same time, some self-funded dioceses have some quasi-system in place to track eligibility, enrollment, continuation coverage and billing premiums. In a denominational healthcare plan, this function would be centralized and diocesan-based systems would become redundant.

Potential Reduced Administrative Burden

A large percentage of dioceses have an insurance committee (4-6 people) that is involved in reviewing and recommending healthcare benefits for the clergy and lay employees of the diocese. In dioceses that sponsor a self-funded program outside of the Episcopal Church Medical Trust, the amount of staff and volunteer time is considerably higher and would include additional responsibilities for finance and accounting staff as well as the services of outside actuaries, brokers and other consultants.

A denominational healthcare plan would virtually eliminate the need for a diocesan-based insurance committee to review and recommend healthcare plan options. This function would be centralized and be managed at the denomination level.

Finally, a centralized denominational healthcare benefit program would allow the church to leverage a single technology platform, spreading costs associated with the present and future technology investments that will be necessary to eliminate unnecessary administrative costs. As the Church Pension Group continues to improve its technology, the time and cost of administering benefits at the diocesan or parish level will continue to shrink further, reducing the administrative burden a denominational health plan would require. Naturally, such theoretical maximums will not be achieved, but they indicate directionally the scale of the opportunities for the church.

III. RESOLUTION FOR GENERAL CONVENTION

We propose that a church-wide feasibility study be undertaken, led by the Church Pension Group, during 2006-2009 and that the 2006 General Convention approve a resolution authorizing it. The proposed resolution is as follows:

Resolution A147 Church-wide Healthcare Feasibility Study

Resolved, the House of _______ concurring, that the 75th General Convention endorse the Church Pension Group's proposal to conduct a church-wide study of the costs and issues surrounding the provision of healthcare benefits to all clergy and lay employees serving churches, dioceses and other church institutions and to report their findings to the 76th General Convention; and be it further

Resolved, that all dioceses, parishes and other church institutions are urged to cooperate with the conduct of this study by responding to requests for data regarding employee census and healthcare costs; and be it further

Resolved, that this study will include an analysis of the potential for a mandated denominational healthcare benefits program and other viable alternatives, culminating in a recommended solution and an actionable implementation plan.

The approach recommended here is for broad participation of the many relevant constituencies across the church that would participate in the work of a set of teams and review groups in the study. CPG would provide project leadership, funding, and other resources. The study effort would create all appropriate collaborations among the Church Pension Group, the Episcopal Church Center, the Executive Council, the House of Bishops, dioceses, parishes, and many others.

IV. THE FEASIBILITY STUDY 2006-2009

The feasibility study would examine at least two alternatives for the Episcopal Church, including:

1. Retain the voluntary system currently in place but with recommendations for new cost reduction and growth restraints.

2. Create a national denominational healthcare benefits program that would include all (or most?) clergy and lay employees. This may require some form of mandatory participation provision while allowing for prudent cost-shifting alternatives.

Agreement would be required on certain underlying assumptions as part of the study. For example, these are the types of assumptions that need to be developed and consensus built for:

- All full-time active and retired clergy must be provided a core level of benefits.

- The core level of benefits must provide, at a minimum, catastrophic financial protection and promote good health.

- Consideration should be given to the completion of a Health Risk Assessment (HRA) as a factor in rating the initial "denominational" risk pool. A minimum participation rate of 50 percent should be established.

- Accumulated free surpluses must be maintained solely for the purpose of covering unforeseen deficits. If surpluses exceed the target free surplus amount, the excess amount may, based on a General Convention resolution, be used to fund programs expected to positively impact the denomination's overall healthcare costs.

The study would also need to address several critical areas in the delivery of healthcare benefits:

1. **"Standard benefit plan" definition** and major design components. The alternatives must make provision for a *minimum standard benefit plan* for all participants. However, the program would need to allow each diocese, parish or institution to provide optional benefits as its needs demand and/or its budget allows.

2. **Eligibility rules.** Uniform eligibility rules, i.e., which groups would be included or excluded, and why.

   A single set of eligibility rules would have to be established. The rules would need to make a distinction between who is eligible versus *employees who must have benefits paid for by their employer*. At present, the rules of the Episcopal Church Medical Trust make the following classes of individuals eligible to participate:

- Active clergy or lay employees who are receiving a W-2 from their employer and are salaried employees or are regularly scheduled to work a minimum of 20 hours per week
- Surviving spouses and/or domestic partners (where applicable)
- Employees who are on leave of absence, short-term disability or long-term disability, and who are not Medicare-eligible
- Postulants, novices or professed members of Episcopal Religious Orders, as defined in Title III, Canon 30, Section 1, Constitution & Canons 2000
- Interim rectors, priests-in-charge, diocesan-sponsored missioners, seminarian students not covered under the Association of Episcopal Seminaries, or other individuals engaged in official ministry of the diocese
- Seminarians
- Early retirees

3. **Funding mechanisms.** Adequate funding mechanisms that would allow individual clergy to "opt out" of the program while requiring that the employer "fund" the benefit. This would be necessary to avoid the financial consequences of adverse selection. Thus, all clergy would be funded; participation would be optional.

4. **Canonical issues.** There are a number of issues that would potentially require legislative action by General Convention, including but not limited to the following:

   - Mandating participation for clergy and lay employees
   - Mandating the plan administrator for the denomination
   - Granting the plan administrator the authority to assess parishes for healthcare benefits
   - Making the plan administrator accountable to the General Convention through reporting and governance

5. **National provider access.** The provision of *national provider access* to ensure that participants have reasonable access to providers across the country

6. **Management, governance and accountability** for any national program

   - Performance standards. Performance standards that would measure the program's ability to contain the growth in the cost of health benefits compared to national and denominational rates.
   - Capitalization of ECMT, cf. Presbyterians
   - A level of accountability to the General Convention that could be exercised through Trustees of the Church Pension Fund or through the establishment of a separate council or board that would exercise authority over the denominational program

V. THE REPORT TO THE 76TH GENERAL CONVENTION (2009)

The feasibility study group would present its proposed solution and recommendations for implementation at the 2009 General Convention.

The outline of the report is likely to take the following form:

1. Executive summary

2. The church's current healthcare benefits situation
   - The present approach to providing benefits across the Episcopal Church
     - The Episcopal Church Medical Trust
     - Self-insured dioceses
     - Dioceses/parishes purchasing benefits through the open market

   - The costs of providing healthcare benefits to the church—current, past and 5-10 years forward, e.g.:
     - To dioceses and parishes, by size and geographic location
     - For clergy and lay employees, spouses and dependents by compensation level

3. Evaluation of alternative approaches
   - Strengthen current voluntary model.
   - Establish a denominational health plan.
   - Resolution of critical issues for the church, i.e.:
     - Funding
     - Canonical choices
     - Justice and equity
     - Deployment
   - Conclusions based on established evaluation criteria

4. Recommended solution with broad-based support

5. Detailed implementation plan and an initial action program for 2009-2010

6. Request for approval of implementing resolution(s)

VI. HOW THE FEASIBILITY STUDY WILL BE CONDUCTED

The details of the church-wide study process will, of course, not be finalized until after the 2006 General Convention. However, the outline of the project leadership, participants and funding are currently as follows:

- CPG and the Episcopal Church Medical Trust will provide the study project leadership, planning and management.
- Constituencies within the church to participate officially, e.g., DFMS, House of Bishops, Executive Council, CODE
- Cross-denominational advice to be sought from CBA and individual pension boards of ELCA, Presbyterian Church (U.S.A.), South Baptists, etc.
- Input from healthcare industry experts and expert organizations
- Project funding and budgetary control by the Church Pension Group

It is envisioned that this collaborative effort would begin in the second half of 2006 with:

- Information gathered, analyses performed, and alternative solutions developed in Year 1 (2006-2007)
- Finalization of the recommended solution and building of a broad consensus behind it in Year 2 (2007-2008)
- Introduction of the solution and implementation program for approval at the 2009 General Convention in Year 3 (2008-2009)