The Committee on the State of the Church
Church Pension Group Subcommittee
Background and Context
Questions for CPF

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  - What is the goal of the pension fund? Who are the stakeholders of the pension fund — only those contributing to pension plan or all employees and congregations of the church?
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Responses To Questions:

Thank you to the Church Pension Group Subcommittee for this very thoughtful set of questions. We have answered them under the same headings that the Subcommittee has used in its questionnaire, reproduced above. We have also incorporated the answers to additional questions raised by the Subcommittee under the related questions originally posited in the questionnaire. We would be delighted to provide any clarification or additional information that the Subcommittee needs.

As the Subcommittee has correctly indicated, the legal name of the organization is The Church Pension Fund ("CPF"), and we will use "CPF" in our responses. One may sometimes also hear us referred to as the Church Pension Group ("CPG"), which is the colloquial name often used to refer to the totality of our operations.

PENSION: Relationship

What is the history of the relationship between CPF and the Church? To what extent is CPF independent of General Convention? DFMS?

History

The history of CPF— and its relationship with the Church — began over a century ago. The reality of a large population of clergy with inadequate resources to support a dignified retirement had long been a concern of the Church. In 1910 Bishop William Lawrence advocated for, and the General Convention approved, the creation of the Joint Commission on the Support of Clergy to study the feasibility of a mandatory pension system for Episcopal clergy.

In response to the recommendation of the commission, the General Convention of 1913 authorized the commission members to create an independent corporation, The Church Pension Fund, to take the necessary steps to establish a clergy pension fund. The General Convention of 1916 also enacted a canon (now Title I, Canon 8) of the Constitution and Canons of the Church to give CPF the authority to administer pensions and other benefits for Episcopal clergy and to collect assessments to fund such benefits.

In 1914 CPF was incorporated in the State of New York. New York was selected because of its comprehensive fiscal oversight by state regulators, as well as its being home to the country's principal financial markets. CPF's charter, the official founding document, gave the original trustees the authority to adopt a constitution that, among other things, would prescribe the number and qualification of trustees.

The constitution of CPF, adopted in its current form by the trustees almost 50 years ago, provides that there will be 25 trustees, 24 of whom are to be elected by General Convention and one of whom is to be the president of CPF. This is consistent with Canon 8, which provides for the election of 12 of our trustees at each General Convention, which trustees are to be nominated by a Joint Committee of General Convention.

The pension fund required seed money in the form of donations to begin its work, and Bishop Lawrence led a multi-year fund-raising effort. Although his original goal was to raise $5 million, he ultimately raised $8.5 million from over 47,000 donors across the Church.

With a legal framework and initial funding in place, CPF opened its doors in 1917 and sent out its first pension check. Thus, our mission of serving the Church by providing retirement and other employee benefits to its clergy, and eventually lay employees, commenced. Our dedication to that mission has enabled our work and our close collaboration with the Church over the past century.

Since its establishment in 1917, CPF has evolved from a relatively simple pension fund with limited assets to a far more complex financial institution. Over the years CPF has come to serve the Church by providing a broad array of retirement benefits, including disability and life insurance, as well as providing medical benefits, financial and wellness education resources, property and casualty insurance, and liturgical and other publishing materials. For more than 50 years CPF has been run by teams of professionals who have been recruited for their high level of expertise in financial services coupled with their passion for serving our unique client base.

Legal and Governance Structure

The formal relationship of CPF with the Church and General Convention is dictated by a defined legal and governance structure. Beyond that structure, however, are the critical relational and collaborative connections that are discussed under the next heading below.

The legal and governance structure of CPF is typical of that of most pension funds in that it is designed to protect CPF's assets for the benefit of its participants. For instance, as trustees (i.e., directors) of a New York incorporated company that is subject to examination by the New York State insurance regulators, the CPF trustees are responsible to CPF and, through CPF, to the clergy and lay participants in our benefit plans. In this respect, CPF is independent of General Convention because the trustees are required at all times to act in the best interest of CPF (and, therefore, the participants). For example, this means that CPF must manage its assets at all times such that it can honor its ongoing commitments to its participants.

Although the primary legal relationship of CPF and the Church is transactional, with CPF as a provider of services and the Church as its client, the General Convention has two formal avenues to influence CPF. First, as the General Convention elects 24 out of 25 trustees, it can influence the strategy and policies of CPF through the choice of such individuals. Regardless of the choice of individuals, however, all trustees remain bound first and foremost by their fiduciary duty to CPF and its participants.

Second, after ample opportunity for the trustees to be heard, General Convention could make certain amendments to Canon 8, which authorizes CPF to provide benefits to clergy and, more recently, lay employees. Annotated Canons prepared by White & Dykman explain the requirement for the trustees to be heard as follows: "The requirement that the trustees be given ample opportunity to review and be heard with respect to any proposed amendment of the canon has been part of the canon since its inception, and is intended to insulate the pension system from the passions and pressures of the moment. In practice, this limitation has been interpreted to give the Fund until the next General Convention to respond, effectively deferring any action by Convention until then." As an example, the Denominational Health Plan was proposed at General Convention in 2006 and was approved in 2009 at the next General Convention. A lay pension system was proposed at several General Conventions since 1991 before finally being adopted in 2009.

As a separate corporation, CPF has no legal or governance relationship with DFMS. However, we do have a strong and collaborative relationship with DFMS leadership and meet regularly to share information and ideas.

Relationships and Collaboration

Of course, the legal relationships between CPF and the Church and General Convention are only a part of the story. What cannot be overstated are the non-legal relationships with the Church and General Convention, which are of tremendous importance to CPF's management, employees, and trustees.

The management, employees, and trustees of CPF are deeply inspired by our mission. We are devoted to serving the clergy and lay employees of the Church by assisting CPF's participants to pursue their callings without fear of financial distress in retirement. To do this, we hold ourselves responsible to be proactive in understanding the ongoing evolution of the Church and trends in ministry. Our aim is to be forward thinking and out in front of changes in the Church by anticipating the needs of our participants and providing them with professional, compassionate, and trustworthy service.

We actively seek partners from around the Church when needs arise that may not be entirely within our mission. We prize and nurture our relationships with DFMS, DFMS leadership, and other Church institutions and leaders. They provide us with important insights into the needs of the clergy and lay employees of the Church and rich opportunities for collaboration.

What is the goal of the pension fund? Who are the stakeholders of the pension fund — only those contributing to the pension plan or all employees and congregations of the Church?

A mantra of Bishop Lawrence was that "the object of pensions is security". We are passionate about our purpose of providing that security to our participants. Honoring our roots, our ongoing vision is to provide our participants with the highest possible level of financial security in retirement that is consistent with the evolving needs of the Church and is consistent with exemplary financial discipline. In other words, we want to do the very best we can for our clergy and lay participants with the resources we have and in ways that proactively address the needs of the Church within the scope of our mission.

Our immediate responsibility is to our individual participants — those for whom payments have been made to CPF — and as fiduciaries we must put their interests first. That being said, we strive to develop strong and supportive relationships with dioceses, parishes, and other Church institutions that make pension and other payments on behalf of our participants. We strive to ensure that our benefit plans and services meet employers', as well as individual participants', needs and are competitive with what could be obtained outside CPF. We also strive to provide benefits support for dioceses, parishes, and other Church institutions. For example, we run a variety of programs, including our annual Episcopal Business Administrators Conference (EBAC) and our Benefits Partnership Conference, to assist diocesan and parish administrators with the work of administering benefits for clergy and lay employees, and our CPF employees are continuously on the road visiting dioceses, parishes, and other institutions throughout the Church.

From time to time a suggestion is made that we provide pensions or other benefits to non-stipendiary clergy who have not had assessments paid on their behalf to CPF. The clergy pension plan has not been structured to allow pensions to be paid to those for whom assessments have not been paid, and to do so would threaten the financial viability of the plan. That being said, the CPF board and management have considered what, if any, services we can appropriately provide to non-stipendiary clergy. As part of our study, we have determined that approximately 40 percent of Episcopal clergy who are currently non-stipendiary have been compensated at some point in their careers and are already participants in the clergy pension plan. Also, as noted in more detail below, recent revisions to the clergy pension plan include additional flexibility for clergy at minimal levels of compensation to participate in the plan. We expect to provide commentary on this topic in our Blue Book submission to General Convention.

Occasionally we are asked to provide assistance to congregations and other groups that is outside the scope of our mission. In those instances, we often forge collaborations with other Episcopal groups to address the expressed need. An example: we frequently heard in our travels around the Church that many clergy were unprepared to handle not only their own individual financial issues but also the financial issues of their parishes. We believe that assisting clergy with their individual financial literacy is an important component of helping them ensure security in retirement, but we believe that educating clergy with respect to the management of parish finances is outside of our pension fund mission. Nevertheless, in search of a full solution to the concerns we were hearing, we recently collaborated with the Episcopal Church Foundation (ECF) to pilot clergy conferences in which CPF covers the issues of personal financial literacy while ECF covers the issues of parish finances. The first such pilot was very successful, and we look forward to working with ECF on successive programs. As another example, we have ongoing collaborations with Episcopal Relief and Development to assist our clients in areas affected by natural disasters.

All of the above relates to our benefit plans, which have individual participants as their primary stakeholders. It should be noted that we also have a wholly-owned property and casualty insurance business, the Church Insurance Companies, which provides insurance to over 90 percent of the Episcopal churches in the United States. The clients of that business are the dioceses and parishes rather than the individual clergy or lay employees. In addition, Church Publishing Corporation is a subsidiary of CPF, and it provides educational, liturgical and spiritual materials to individuals and institutions across the Church.

Will you make public the minutes of board meetings? If so, in what form? If not, why?

We do not make our board minutes public because we want to encourage healthy debate and the expression of a variety of viewpoints around the board table. Like many organizations, we believe that publishing minutes would discourage that open, candid discourse that we believe is critical to arriving at sound and fully informed decisions.

We do widely publicize any significant policy and benefits-related decisions made by the board. Typically we provide background and context for the decisions that are made, which often go well beyond information that would be reflected in board minutes.

Communicating with individual clients and with the Church is a major priority for us. We devote significant time and resources to regular and comprehensive communication through channels such as webinars, our CEO newsletter (*Perspective*), our annual report, our website, various press releases, our reports to General Convention, and numerous in-person meetings throughout the Church. In addition to a large number of other forums for sharing information, we meet semi-annually with DFMS leadership to apprise them of important developments and board actions, as well as to discuss issues of mutual interest and opportunities for collaboration.

A few examples of our typical approach to communicating various types of board actions and deliberations include the following:

1. **Annual Cost-of-Living Adjustment Decisions.** Each year the CPF Board decides whether to provide a COLA for clergy and lay participants in our defined benefit plans. That decision and the underlying rationale is communicated through letters to all retired participants, emails to bishops and diocesan administrators, announcements on our website, articles in *Perspective*, and sections of our annual report.
2. **Extension of Benefits to Same Gender Spouses.** Several years ago the CPF Board voted to extend pension benefits to same gender spouses that equated to those of opposite gender spouses. This decision and the rationale for the decision were communicated through a press release, a letter to all active clergy and lay employee participants, letters to vestry leaders, an announcement on our website, a section of our annual report, and a section of our Blue Book submission to General Convention. The decision also was communicated by our Education & Wellness instructors at our in-person conferences.
3. **Clergy Pension Plan Revisions.** In December of 2016 the CPF Board approved significant revisions to our clergy pension plan, which we discuss in more detail later in this document. Prior to adoption, proposed changes were broadly communicated through a series of in-person meetings and webinars to which all active clergy and bishops, all diocesan administrators, and other Church leaders were invited to provide input. Significant changes to our proposals were made as a result of that input. During the course of this year, the final changes and the rationale behind them have been communicated by press release, by multiple emails and letters to active and retired clergy, in *Perspective*, through interactive programs on our website, in our annual report, through educational meetings and webinars for all clergy and diocesan administrators, through conversations with our Client Counsel (a representative group of Church leaders whom we have selected to serve three year terms as an advisory board), and at numerous Church conferences and meetings we have hosted or to which we have been invited.

What exactly are the fund's holdings, and to what extent do those investments reflect the mission of the Church? Would the CPF consider divestment from particular companies or sectors if instructed to do so by General Convention?

The Fund's Holdings

Our investment success through the years has been based on (i) pursuing a broadly diversified portfolio to maximize returns while mitigating risk, (ii) ensuring sufficient liquid assets at all times to meet our commitments to our participants, (iii) employing an active, as opposed to passive, investment strategy, and (iv) attracting the very best internal talent and external investment managers to implement that strategy. Our investment portfolio is approximately 30 percent bonds and other fixed income assets, 40 percent alternative investments (private equity, hedge funds, and private real estate), and 30 percent publicly traded equities. We invest around the world and in a broad range of industries, companies, and public and private assets.

We invest primarily in funds run by outside managers, and we currently have over 200 such managers across our various asset classes. Through our managers, we are invested in almost 500 different funds, which in turn hold a wide array of individual investments. We rely on our managers to select the individual stocks, bonds, and other assets that comprise their fund portfolios. The exception is a relatively small TIPS (Treasury Inflation Protected Securities) portfolio that we manage directly at CPF. The work of our internal investment team includes sourcing, recruiting, and hiring our outside managers, which are some of the most highly regarded managers from around the world in each asset class, and providing ongoing oversight and evaluation of their performance.

The fees we pay our managers are within industry norms and are competitive. They generally range from about 12 basis points for less complex fixed income investments to around 2 percent for more involved private equity and other private investments. In some cases there are additional investment performance sharing arrangements with the manager. In every case, we focus on investment returns net of all fees in evaluating the success of our investments. We are willing to pay higher fees to those managers who have track records of producing the most exceptional returns net of fees. This strategy has allowed us to grow the assets of the fund over time at a rate significantly above that which would have been the case with a more passive (e.g., index fund) strategy.

Reflecting the Mission of the Church

Our mission at CPF requires us to protect and grow our assets so that we can provide our participants the security of knowing that they can pursue their ministries without fear of financial plight in retirement. By being excellent stewards of our assets for that purpose, we believe that we are faithfully following our calling to provide critical support to the mission of the Church.

Committee members have inquired about whether there is a role for General Convention in developing investment policy for CPF with respect to reflecting the mission of the Church. In that regard, CPF is a separate entity from the Church. Our governing documents and legal requirements provide that the CPF trustees have ultimate oversight over the investment of the Fund's assets, and their fiduciary responsibilities preclude them from relinquishing that responsibility. That being said, both the board and management of CPF pay keen attention to the values of the Church as expressed by General Convention. Our desire is to align with the Church and reflect its mission and values in our actions whenever possible.

More specifically, we are inspired to reflect the mission and values of the Church through three intentional and, we believe, highly-effective strategies: (i) through investing assets for positive social impact; (ii) through shareholder engagement; and (iii) through thought leadership that allows us to convene and connect people who wish to join in these efforts. These three strategies, outlined in a bit more detail below, garner significant attention both within the organization and around our board table.

Positive Impact Investing. Although as fiduciaries we must at all times focus on maximizing portfolio returns for the benefit of our participants, we strive constantly to identify investments that both meet our performance objectives and have a positive social impact. We spend considerable incremental effort and resources to identify opportunities that meet these two criteria, and we are very proud that at this point in time we have over $1 billion of our assets invested in or committed to opportunities with a dominant social or environmental purpose. We invite the Subcommittee to click on the following link for a brief video discussing one of these investments: https://vimeo.com/207521487/2f540b0a90. Our library of socially responsible investing videos can be found at www.cpg.org/SRIvideo.

Shareholder Engagement. We also use our shareholder position to attempt to influence the actions of our portfolio companies in positive ways that are consistent with the values of the Church. In conjunction with the Executive Council's Committee on Corporate Social Responsibility (CCSR), we have identified three areas of particular focus, those being climate change, diversity on corporate boards, and human trafficking. We share the work of our consultant on these topics with CCSR and work collaboratively with its members to formulate strategies for shareholder engagement. In addition, we coordinate proxy voting of shares in our respective investment portfolios with CCSR and DFMS. We join forces with other denominations both directly and through our involvement with the Interfaith Center on Corporate Responsibility and the Investor Network on Climate Risk. We have been significantly increasing our resources and energies over the past several years in order to enhance the quality and impact of these shareholder engagement efforts.

Thought Leadership. We also express the Church's values through our presence in the investment world. Members of our investment team, our CEO, and other executives network actively with other investors in the socially responsible investing area. We exert thought leadership by hosting events to encourage the sharing of investment ideas and strategies and by connecting other faith-based investors with our investment managers who have a socially responsible investment focus. As an example, we recently partnered with one of our managers to design an innovative investment vehicle to provide energy efficient sources of power to individuals in developing countries, and we recruited the United Methodist pension fund to be our co-anchor investor.

Please click here www.cpg.org/mediaroom to see press releases regarding this investment and other socially responsible investment topics. As another example, we are in dialogue with the Church Commissioners of the Church of England to identify areas where we can collaborate in shareholder engagement, and we are sharing information with them on our positive impact investment managers.

Divestment. We at CPF share the passion of the Episcopal Church on issues of climate change and social justice and are equally concerned about identifying solutions that are mission appropriate. With our particular mission as a pension fund and the related fiduciary duties that the law imposes on us, we have less flexibility than most Church-related organizations to adopt a divestment approach to effectuate environmental and social policies. That does not mean that we would never divest; to do so, however, we would have to believe that divesting would not negatively impact the financial performance of our portfolio.

Given our particular constraints with respect to divestment strategies, we are all the more dedicated to expressing our values and those of the Church through our strategies of (i) investing in high performing assets with significant social and environmental impact (including our LEED Gold certified headquarters), (ii) enhancing our presence in the shareholder engagement arena, and (iii) "showing up" as thought leaders to encourage the exchange of ideas and strategies. We believe that these strategies are highly effective, and we are confident that our actions in these areas are a forceful expression of the mission and values of the Church.

Individual Investors. The Subcommittee was interested in how we might assist individuals to reflect the Church's mission in their investment decisions. On that point, as discussed in more detail below, we offer defined contribution plans (so-called 401(k) and 403(b) plans) to both clergy and lay employees of the Church. Those plans offer an array of investment choices for the participants and for many years have offered a socially responsible investment option. That option has not had significant uptake by participants, with only about two percent of aggregate monies going into the option. For that reason, a year ago we surveyed our participants to gauge their interests in socially responsible investment alternatives. Despite repeated requests for responses, the survey had a disappointingly low response rate. Moreover, most of those responding indicated that their priorities were high returns and low fees rather than socially responsible investing. Notwithstanding that outcome, we conducted an extensive review of investment options and have replaced the existing option with a newer fund that has a record of strong returns and competitive fees. We continue to look for a second high-quality socially responsible fund to add to the investment line up.

Communicating How We Reflect the Mission of the Church. We have been intentional over the past several years to communicate our activities with respect to positive impact investing, shareholder engagement, and thought leadership. Our activities are quite specific to pension funds of our size, and we are not well-positioned to advise other Church organizations as to their own strategies in this space; however, we do attempt through our communications to inspire other Church organizations to pursue strategies that are relevant to their own investment portfolios, and we engage in conversations with other Church entities on this topic.

Our communications in this area have included press releases on particular investments, videos posted to our website, regular articles in our *Perspective* newsletter, and presentations and discussions at a variety of Church meetings and conferences. Over the course of this coming fall and winter we are hosting events in four cities around the country to discuss opportunities in positive impact investing, and invitations are going out to CPF participants, Church leaders, and other interested persons in those cities. Lessons learned from these discussions will be shared broadly with the Church in a variety of ways. Feel free to click on this link www.cpg.org/Insights&Ideas to view the registration page for these events. We also are seeking opportunities at General Convention to share our work on these important topics. Our website https://www.cpg.org/SRI has additional information about our work in the socially responsible investment space.

We would be delighted to receive feedback from the Subcommittee on our communications on this topic. We welcome suggestions for other ways in which we can effectively inform the Church about our socially responsible investment strategies.

Have you compared our pension plan with that offered by other denominations? If so, how do they compare?

CPF is a member of, and currently leads, an organization called the Church Benefits Association (CBA). The CBA is composed of almost 50 denominational organizations that provide retirement and other employee benefit plans. Given our involvement in the CBA and our close relationships with the benefits organizations of many of the denominations that are most similar to CPF, we gather a great deal of information about our relative offerings. We meet frequently with our colleagues in the CBA, and this information is refreshed on a regular basis.

Moreover, we have just adopted and will soon launch some major revisions to the clergy pension plan in response to the evolving needs of the Church, which are discussed in more detail below. As part of our research, we conducted an in depth review of the plans of our peer organizations, although only a couple are similar in terms of design and size to ours. We concluded that the benefits we offer compare favorably to those plans as well as to the package of benefits offered by our broader group of denominational peers.

The Presbyterian clergy benefit plans are most like ours in that their primary retirement vehicle is a defined benefit plan, and they also maintain a medical plan. Their level of retirement benefits is linked to their median clergy compensation of approximately $57,000, which compares to approximately $75,000 for our clergy. Those below the median receive a set benefit and those above receive a higher, graduated benefit.

The Methodists have a medical plan and, since 2007, have had a hybrid defined benefit/defined contribution plan for their clergy. Their model has shifted over the years. Prior to 1982 they maintained a traditional defined benefit plan, and from 1982 to 2007 their primary retirement vehicle was a defined contribution plan.

The polity of a number of denominations (e.g., the Southern Baptists) does not allow for a mandatory retirement benefit for clergy, and those denominations primarily offer defined contribution plans and must “win the business” of their participants. Other denominations suffered financial set backs before or during the latest financial crisis that necessitated dropping their defined benefit plans. We are pleased to be able to say that our very careful and disciplined investment strategy over the decades has allowed us to weather financial crises and continue a healthy defined benefit plan for our clergy.

The Subcommittee has inquired whether we have considered moving to a pension plan design that “flattens out” the benefits paid to clergy regardless of their compensation levels during active service. The Presbyterian plan is a hybrid version of that approach.

As noted below, our clergy pension plan historically has followed a typical “income replacement” approach, with benefits reflecting active compensation levels. The Church has chosen to compensate clergy at different levels, and the objective of our plan has been to assist clergy to continue their accustomed lifestyle in retirement. It is important to note that there are certain provisions in the plan that work together to ensure that clergy at the lowest income levels receive at least a minimum pension regardless of their compensation and receive other benefits (e.g., retiree medical coverage) that are disproportionate to their income.

Canon 8, the pension fund canon, requires CPF to administer the clergy pension plan in a manner that is consistent with the original intent, and since the beginning pensions have been tied to compensation levels. Other than that, CPF has broad authority unilaterally to adopt a materially different plan design. However, moving to a future model that “flattens out” benefits would be a marked departure from historical precedent and expectations of clergy. For that reason, we would be highly unlikely to consider the possibility of such a move without strong indications from General Convention that such would be the will of the Church at large.

It may be useful to note that proposals to “flatten out” pensions came before General Convention in 1994 and again in 1997. The proposals were not adopted in either year.

PENSION: Sustainability

What is the minimal percentage for assessments at which the defined benefit plan is sustainable?

At this point the 18 percent assessment for the clergy pension plan is not adequate fully to support the benefits CPF provides to clergy, but the gap has been filled by outsized returns from CPF's investment portfolio. The 18 percent originally was designed to underwrite the benefits paid to typical clergy having 30-plus years of credited service. With the changing nature of ministry (e.g., later ordinands and more part-time and bi-vocational clergy), the 18 percent alone no longer covers the cost of benefits paid by CPF. To illustrate, CPF collects about $90 million in assessments for clergy each year and pays out over $350 million in benefits. That significant gap must be filled by exceptionally robust earnings on the assets in our investment portfolio, which reflects one reason that CPF keeps a highly disciplined focus on generating superior investment returns and maintaining a well-funded plan. As noted below, a material reduction in the amount of assessments would require a reassessment of the benefits currently provided.

It should be noted that the 18 percent assessment and investment income go toward purchasing an array of employee benefits, not only a pension benefit, and such benefits extend in many instances to spouses and other beneficiaries of participants. For instance, participants in the clergy pension plan currently receive short-term and long-term disability benefits, a life insurance benefit, and a retiree medical benefit. About four to five percent of the 18 percent assessment actually pays for those ancillary benefits, with the balance paying for pensions. If the ancillary benefits were not otherwise provided under the clergy pension plan, employers choosing to provide them would have to separately purchase those benefits from third party vendors.

The Subcommittee has inquired whether CPF has considered allocating some portion of the 18 percent assessment to the clergy, such that there would be a sharing of the cost of benefits between the clergy and the Church. In that regard, we note that Canon 8, the pension fund canon, gives CPF authority to require the collection of assessments for the clergy pension fund from institutions and not from individuals. Even if collecting some portion of the assessment from individual clergy were allowable, we would only even consider making a change of this nature if it clearly had broad support from the Church.

With what criteria do you make that assessment? Do you use a "traditional actuarial cost method" to calculate the contribution? Why or why not?

We use a set of sophisticated financial and actuarial tools to determine the necessary level of assets in the plan to satisfy current and future benefit obligations. This includes using traditional actuarial cost methods that involve a variety of assumptions such as number of individuals in the plan, retirement ages, compensation levels, and life expectancies. The most material of these actuarial assumptions are set forth in the notes to our financial statements in our annual report, which can be accessed on our website.

CPF's published financial statements follow Generally Accepted Accounting Principles (GAAP), as required by the New York State insurance regulators. Those financial statements provide a snapshot of our financial condition on the last day of our fiscal year (i.e., our liabilities on that date and the fair market value of the assets on that date): the GAAP financial statements essentially indicate what the financial results would be if the fund were liquidated on the last day of that particular fiscal year. Given that we seek to provide benefits for decades into the future and that relevant facts, especially the market value of our assets, may change dramatically over time, these GAAP financial statements do not give us reliable information to gauge our true financial health.

A far more important component of our financial discipline is our regular "stress testing" of our plan assets and liabilities to determine our level of confidence that we will have enough assets in the upcoming decades to meet our obligations to participants. This stress testing involves modeling thousands of potential financial market and inflation outcomes in the future and determining the likelihood that we will be able to continue to uphold our commitments. Based on these models, we know that we must maintain a cushion of assets to see us through turbulent and potentially disastrous financial markets.

This approach had us well positioned in the global financial crisis of the last decade. At that time we lost approximately $3 billion in market value of our assets and yet, unlike some of our peer denominations, did not find it necessary to reduce the amount of benefits paid to our participants. Given the relatively rapid recovery of the financial markets, we were able to recoup that loss over the ensuing several years. Nevertheless, we remain focused on the fact that we need to be prepared for future financial crises from which recovery realistically can be far more muted and protracted. Since the financial crisis we have further increased the sophistication of some of our financial models to better reflect possible outcomes from extreme market conditions and have also modeled lower return expectations for the portfolio.

Our stress tests of the clergy pension plan over the past few years have shown that we have a level of assets that makes us generally comfortable that we can honor our obligations over the upcoming decades, but we are operating in a “cautionary” zone. By “cautionary” zone we mean that we do not currently have sufficient assets in the clergy pension plan (i) to make any significant enhancements of benefits or (ii) to make any significant reduction in the level of assessments without revisiting the level of benefits that we currently offer. (Please note that the revisions we currently are making to the clergy pension plan are not in response to financial concerns with the pension fund but also do not add material cost to the plan.) Of course, if we ultimately were to receive strong direction from General Convention that the 18 percent assessment rate should be reduced, we would have to study the options for adjusting future benefits in a way that would ensure the continued financial viability of the plan.

How do these criteria compare with the plans of other denominations? Typical plans in other industries?

The objective in applying the “stress testing” criteria discussed above is to ensure that assets in a plan are sufficient to cover present and future liabilities. Other denominational defined benefit plans use similar actuarial tools to measure the amount of their liabilities and to try to predict the future value of their assets. We believe that the methodologies that we use are at least as sophisticated as those used by the other denominational plans.

CPF’s approach also is similar to the approaches used by corporate pension plans to measure the relationship of their assets and liabilities. An important difference, however, is that most corporations make contributions to their plans from their reservoirs of corporate cash if and when needed to ensure appropriate funding. In contrast, multiple employer plans such as CPF (which do not have a backstop of corporate cash available to “top up” the assets) typically receive assessments on an annual basis from the member employers on behalf of their employees. Another difference is that corporations often take a somewhat shorter-term view in their modeling than we do, on the theory that they could choose to freeze or eliminate their plans at any time.

To what extent have you considered moving to a defined contribution plan for all employees? What would that plan look like?

A typical defined benefit plan (e.g., the clergy pension plan) is a plan to which an employer makes contributions on behalf of its employees. The plan then pools and invests the moneys contributed and promises to pay the employees a fixed (i.e., “defined”) benefit for each year of their retirements until they die.

In contrast, a typical defined contribution plan is a plan to which an employer (and potentially the employees) makes contributions to individual accounts “owned by” its employees. Each employee then must choose to invest the moneys in various investment options offered by the plan. At retirement, the amount accumulated in an individual account may be paid out to the employee, and that amount then must be managed carefully by the employee to last for the rest of his or her life.

As one might see from the above description, there are three particularly important differences between a defined benefit plan (such as the clergy pension plan) and a defined contribution plan (such as The Episcopal Church Retirement Savings Plan (RSVP) and the Episcopal Church Lay Employees’ Defined Contribution Retirement Plan administered by CPF). The first is that, in the case of a defined benefit plan, the plan takes the investment risk (i.e., that the investments will not perform well over time), whereas in the case of a defined contribution plan the employee takes the investment risk. In other words, a defined benefit plan is required to honor its obligation to pay the same annual pension benefits even if it has had some years of bad investment results; in contrast, an employee with a defined contribution plan will directly suffer the consequences of any bad investment results by virtue of having less in his or her account to fund retirement needs.

The second important difference is that in the case of a defined benefit plan, the plan takes the risk of the employee’s longevity, whereas in the case of a defined contribution plan, that risk is assumed by the employee.

What that means is that a defined benefit plan is required to pay an annual benefit to a retiree regardless of how long that retiree lives past retirement (e.g., whether five years or 35 years). In contrast, a retiree who only has a defined contribution plan must make the money in his or her account last for life, thereby facing the risk of outliving his or her retirement savings.

The third difference is that, because defined benefit plans are pooled accounts for all participants rather than individual accounts, they are more cost effective vehicles to deliver retirement income than are defined contribution plans. Participants in defined contribution plans typically are advised as they near retirement to opt for lower earning investments, such as Treasury bonds, to reduce risk. In contrast, the pooling of assets allows defined benefit plans to take longer-term investment views without the same need to manage the short-term investment risk relating to each individual participant's retirement. Also, the pooling of assets allows plans with substantial assets to access both high performing investment managers and high performing asset classes that are not available to individual investors through defined contribution plans. For instance, private equity investments, which have performed extremely well for CPF over the past decades, generally are not available through defined contribution plans.

In recent years many corporations have abandoned their defined benefit plans and moved their employees solely to defined contribution plans. This has been done notwithstanding the fact that defined contribution plans originally were designed only to provide supplemental retirement savings (as in the case of our clergy RSVP) and were not intended to replace defined benefit plans as a primary retirement vehicle. In some cases, the shift has been made at least in part to attract younger, mobile employees for whom "portability" of benefits is important, although this feature is far less significant for clergy because they are able to remain in our clergy pension plan as they move from one Church employer to another. Nevertheless, we understand that the primary motivation of most corporations in eliminating defined benefit plans has been to improve both the level and predictability of their quarterly earnings by eliminating the accounting expense of such plans; it has not been to provide a superior benefit to their employees.

We have considered the possibility of moving from a defined benefit plan for clergy to a defined contribution plan, and we have concluded that doing so would be irresponsible. Our analysis shows that, assuming the same contribution level, the defined benefit plan in the vast majority of cases would produce a higher benefit to a participant than would a defined contribution plan. In other words, whether the Church contributes 12 percent or 18 percent or 24 percent, the clergy would fare better financially with a defined benefit plan than with a defined contribution plan. This is particularly true in the case of shorter career clergy.

The reasons for our conclusion include the fact, as explained above, that CPF bears the investment risk and the longevity risk rather than transferring those risks to the clergy. CPF also has the ability to take a much longer-term investment view than could participants in defined contribution plans and to access a broader array of high performing assets.

If General Convention ever indicates a desire to move clergy out of the defined benefit plan and solely into defined contribution plans, we theoretically could effectuate that by freezing the defined benefit plan. However, we wish to serve the Church in the most effective way possible. In that regard, we strongly believe that for the same cost to parishes, whether that cost is 18 percent or more or less, the defined benefit plan provides a higher level of benefits to clergy than would a defined contribution plan and consequently best serves both the Church and the clergy.

Finally, it is important to note that although our defined benefit plan is the principal retirement vehicle for most clergy, defined contribution plans (such as the RSVP that we administer) are an important component of their retirement strategies. We advise all clergy that their pension from the clergy pension plan in most cases will not be sufficient to satisfy their entire financial needs in retirement and that they will need supplemental income from personal savings and Social Security. Accordingly, we urge all clergy to contribute to supplemental defined contribution plans (e.g., the RSVP) to maximize their retirement income.

PENSION: Equity

What are the possibilities for equal participation in the plan by non-stipendiary, part-time, and second-career clergy?

The clergy pension plan is structured according to several underlying principles. One principle is that it follows an "income replacement" approach with the objective of assisting participants to maintain a similar lifestyle in retirement to that which they had while working. For this reason, the formula for calculating pension benefits under the clergy pension plan includes a compensation component. That component currently is the cleric's average compensation for the highest compensated seven out of eight consecutive years of service, otherwise known as the "HAC".

A second principle is to reward long service to the Church. For that reason, years of credited service are a component of the formula used to calculate pension benefits. Participants who work more years in the Church have higher pensions than those, at similar compensation levels, who work fewer years.

A third principle is that the plan must be financially viable. Including the years of credited service and compensation in the formula helps to satisfy this principle as well, since it assures that the amount of assessments and level of pensions are correlated.

As noted above, we recently have finalized revisions to the clergy pension plan because of our commitment to respond to the changing needs of the Church and the evolving models of ministry, including the increasing prevalence of second-career and part-time clergy. While purely non-stipendiary clergy are not included in the plan, various revisions do assist clergy who are non-stipendiary at some points of their careers and are compensated at other points.

Our revisions to the clergy pension plan have involved several years of research and work. Over four years ago we commenced a comprehensive series of listening events around the Church hosted by CPF management and trustees. These listening events took the form of focus groups involving clergy in different demographic groups such as second-career, part-time, bi-vocational, non-stipendiary, recently ordained, and recently retired clergy. The events also included larger regional meetings involving lay leaders as well as clergy. With the benefit of insights from these meetings as well as from our day-to-day presence around the Church, we concluded that the objectives of the clergy pension plan revision should be three-fold: (i) increased flexibility to reflect evolving models of ministry; (ii) consistency to ensure that all clergy are treated equitably; and (iii) simplicity to ensure that the benefits under the plan are more easily communicated and administered.

Once we began our work of actually designing the terms of the new plan to meet the foregoing objectives, we adopted an iterative approach of testing our ideas with groups of clergy, bishops, administrators, and lay leaders, refining our ideas to reflect the feedback, and then repeating that testing. With this process, in approximately 15 months we were able to obtain direct input from over 1,500 individuals around the Church.

There are a number of provisions of the revised clergy pension plan that are intended to benefit part-time clergy. Examples include the following: (i) revisions to eligibility requirements that make it easier for clergy at lower compensation levels to become participants in the plan; (ii) revisions that make it easier for part-time and lower paid clergy to earn a full year of credited service, as opposed to fractional years, for 12 months of work; (iii) revisions that create more flexibility for making individual payments into the plan during breaks in service; (iv) removal of the "consecutive year" requirement for determining the HAC, thereby making it easier for clergy to risk leaving higher paid service to take lower paying positions; and (v) revisions that increase the minimum pensions for many clergy at the lowest compensation levels.

There also are provisions that particularly benefit second-career clergy. Examples include the following: (i) more liberal vesting requirements so that older clergy with less than five years of service can still receive benefits by the time they are of retirement age; (ii) a lump sum payment provision for those clergy who would otherwise receive very small pensions; and (iii) relaxed requirements for clergy to perform compensated service in retirement, thereby allowing second-career clergy to enhance their retirement income notwithstanding shorter tenure in the Church.

As mentioned above, there are also provisions that benefit clergy who might be non-stipendiary for some but not all years of their careers. Our data suggests that about 40 percent of pre-retirement age clergy who are non-stipendiary have been compensated at some time during their Church careers and consequently do participate in the clergy pension plan. Examples of the provisions that benefit this group are the following: (i) the relaxation of eligibility rules for those at lower compensation levels, including those who only receive Church-provided housing; (ii) additional flexibility to make individual payments into the plan during breaks in service; and (iii) the removal of the "consecutive year" requirement for determining the HAC, thereby also adding flexibility for breaks in compensated service.

Of course, even with the changes noted above, clergy will all earn different pensions based on the number of years that they work and their compensation levels, which are determined by the Church; however, we believe that the examples noted above and other changes to the plan provide significant flexibility for clergy to maximize their participation in the plan. We have had very positive reactions from the many individuals who have accepted our invitation to give input with respect to these changes. If the Subcommittee is interested in a more detailed overview of this work, we would be delighted to host a webinar or meet to give a more detailed presentation of the changes that have been made to respond to evolving models of ministry. Also, the Subcommittee is invited to access additional detailed information on our website at www.cpg.org.

Although the above question and a number of the previous ones relate primarily to pension benefits for clergy, we know from our conversations with the Subcommittee that it also is interested in the state of retirement benefits for lay employees of the Church. The following is a brief summary of the retirement benefits that we provide to our lay participants.

Since 1980 CPF has provided a defined benefit plan for lay employees whose Episcopal employers have elected to participate, and since the early 1990s CPF also has offered the alternative of defined contribution plans (so-called "401(a) plans" or "403(b) plans") for those employees. Over the years, various General Conventions have passed resolutions urging employers to provide lay pension benefits. The amendment to Canon 8, adopted by General Convention in 2009 with Resolution 2009-A138, finally made the lay pension system, administered by CPF, mandatory for employees who work at least 1,000 hours annually. (There are limited exceptions for employees who participate in certain alternative plans such as those provided by TIAA-CREF.)

Under the lay pension system, dioceses, parishes, and other Church institutions continue to have a choice of enrolling their lay employees either in the lay defined benefit plan or in the defined contribution plans administered by CPF. As mandated by General Convention, the required assessment for the lay defined benefit plan is nine percent, and the required assessment for the defined contribution plans is five percent with up to an additional four percent to match any employee contributions. The terms of the defined contribution plans for lay employees are very similar to those under the clergy RSVP plan. Because of the significant difference in assessment rates, however, the benefits provided under the lay defined benefit plan are less than those provided under the clergy pension plan. Moreover, the assets of the lay defined benefit plan, which is a much younger plan than the clergy pension plan, have not yet grown to a level that the payment of a cost of living adjustment (COLA) has been prudent.

Participation in the lay pension system has been strong, and at this point we estimate that approximately 90 percent of employers with lay employees that are required to be in our plans are participating. Most employers have chosen to enroll their employees in the defined contribution plans, and only about 15 percent of lay employees participate in the lay defined benefit plan. CPF has no enforcement power with respect to the lay pension system, but we have pursued a rigorous ongoing campaign since 2009 to educate Episcopal employers with respect to the requirements of the lay pension system and to enroll their lay employees in our plans.

Subcommittee members have asked what would be necessary to achieve parity in retirement benefits between clergy and lay employees, At a minimum, the Church would have to mandate that all lay employees participate in the lay defined benefit plan (rather than only in defined contribution plans) and that the assessment rate be raised from the current 9 percent to 18 percent. Even then, it would take some years for the assets of the lay defined benefit plan to grow sufficiently to afford the full menu of benefits offered by the clergy pension plan.

What is the demographic breakdown for compensation and pension payments by age, gender, and ethnicity?

CPG maintains data on compensation, age, and gender for all clergy, and we publish annual clergy compensation reports that are available to the Church on our website. We do not collect data on the racial or ethnic backgrounds of clergy. Some of the data we do collect suggests potential issues of parity in compensation, which compensation in turn ultimately affects pension levels. The following are observations from the compensation, age, and gender data that we maintain.

There is an overall compensation gap between male and female clergy in full-time positions of $11,200, with female clergy earning on average 14 percent less than male clergy. This is driven in part by the under-representation of women in senior positions, with women constituting 37 percent of full-time clergy but only 22.5 percent of those clergy in senior positions. However, even when the positions are equivalent, male clergy with similar levels of credited service earn more than female clergy. For instance, in the case of those with 20 to 29 years of credited service, the difference is about 10 percent. This compensation gap, of course, is one factor in female clergy generally having lower pensions than male clergy.

Compensation increases with years of credited service for both male and female clergy, but it increases more for male clergy than female clergy. This parallels patterns for other categories of professionals. Earnings for both male and female clergy peak at ages 45 to 64, with male earnings peaking at an average $84,000 and female earnings peaking at an average of $70,000. At age 65 or older, average clergy earnings decline, but the effect of age on earnings is more pronounced for female than for male clergy.

The average annual pension for male clergy is approximately $34,000 and for female clergy is $18,000. This is heavily influenced by female clergy having on average fewer years of credited service in the clergy pension plan, with females averaging 15 years as compared to males averaging 25.5 years.

Male and female pension levels are fairly similar for clergy with lower levels of credited service. Male retirees between age 65 and 75 with 10 to 20 years of credited service have an average annual benefit level of approximately $13,800, while female retirees in that category have an average annual benefit level of approximately $13,440. The disparity in average benefits is higher at higher levels of credited service. Male retirees between age 65 and 75 with over 30 years of credited service have an average annual benefit of approximately $55,200, while female retirees in that category have an average annual benefit level of approximately $49,200.

A younger age at ordination leads to higher compensation for both male and female clergy. Those ordained under the age of 35 earn on average more than one third more than those ordained over the age of 55. The compensation disadvantage of ordination at a later age begins immediately, with those ordained over the age of 55 earning approximately 25 percent less than all other ordinands.

What is the demographic breakdown for part-time and lower-compensated positions in the Church?

Between 2006 and 2016 there was a 20 percent decline in the number of full-time clergy positions, while the number of part-time positions occupied by active clergy rose by 12 percent. Survey data leads us to believe that a significant number of retired clergy are taking up part-time positions in the Church, with the result that the overall increase in the number of part-time positions likely is greater than 12 percent.

The highest proportion of part-time clergy is found in the Midwest. In the South there is a disproportionate number of full-time clergy, and the patterns of clergy deployment come closest to the “traditional model.” In the Northeast the pattern is somewhat nuanced, with many clergy having full-time employment by combining multiple part-time positions. The West has disproportionately more supply and non-stipendiary clergy than do other regions.

Clergy ordained later in life are disproportionately represented in the low compensation category. Independent of age at ordination, age itself does create a slightly higher probability of part-time status or lower compensation.

Women clergy occupy a disproportionate number of lower compensated positions. Female clergy are 38 percent of all compensated clergy but are 46 percent of those who earn less than the median compensation of $73,000. Women make up 49 percent of those who earn less than $18,200, which currently is the so-called “hypothetical minimum” that determines certain levels of benefits under the pension plan.

MEDICAL:

What were the goals of the DHP?

Resolution 2009-A177, passed by the General Convention in 2009, had the following two distinct and independent goals for the Denominational Health Plan (the “DHP”):

- Achieving cost containment for the Church in light of continually rising healthcare costs; and
- Providing equal access to and parity of funding for healthcare benefits for eligible clergy and lay employees in the domestic dioceses.

In July 2012, the General Convention passed Resolution 2012-B026 and its associated canon, affirming all of the requirements of Resolution 2009-A177 and urging the Episcopal Church Medical Trust (i.e., the sponsor of the medical plans administered by CPF) to continue to reduce the disparity in costs among dioceses and to continue exploring alternative strategies to arrive at a more equitable sharing of healthcare costs across the Church.

How has the cost of coverage changed since the DHP?

In addressing the cost containment goals of the DHP, the Medical Trust has focused on three primary objectives:

- **Slower Increases in Cost:** Slowing the increase in healthcare costs for the Church compared to the increase in such costs outside the DHP;
- **Local Price Competitiveness:** Ensuring that the actual cost of healthcare plans offered by the DHP are competitive with the cost of comparable plans offered in each local market; and
- **Reduced Disparity among Dioceses:** Reducing the disparity in the cost of healthcare plans offered by the DHP from one diocese to another while still remaining competitive in the local market of each diocese.

Some details on each of these are provided below.

Slower Increases in Cost.
A realistic goal of “cost containment” is not for the DHP to eliminate any increase in healthcare costs, which are driven by external forces, but rather for it to slow the increase of such costs compared to the increase of costs of other similar options in the marketplace. The Medical Trust has been successful in this regard since the introduction of the DHP in 2010.

From 2010 to 2014, U.S. employers’ health insurance premiums increased an average of 5.0 percent to 11.0 percent annually, while the Medical Trust’s increases averaged 4.3 percent to 6.0 percent for the same years. In 2015 and 2016, the market increases averaged from 7.0 percent to 10.0 percent, while the Medical Trust’s increases averaged from 5.0 percent to 6.0 percent. For the 2017 plan year, the Medical Trust was able to deliver a single-digit average rate increase of 5.5 percent, a very favorable result as compared to rate increases that averaged 24.0 percent on the Affordable Care Act (ACA) exchanges. We expect this trend to continue in 2018 as early signs point to high double-digit increases again on the ACA exchanges compared to the Medical Trust’s 2018 single-digit average rate increase of 6.3 percent.

Local Price Competitiveness.
For the DHP to be successful, it is important not only that the Medical Trust be able to slow the growth in healthcare costs for the Church but also that the plans it offers to the Church are priced competitively compared to alternative options. Again, the Medical Trust has been able to produce favorable results.

In 2016, the average cost of healthcare plans under the DHP was approximately four percent less than the average cost of comparable plans on the ACA exchanges. That position improved in 2017 with the Medical Trust average cost at 19 percent below the average cost of comparable plans on the ACA exchanges, and we expect that advantage to increase materially again in 2018. On a region-by-region basis, Medical Trust rates in 2017 are more competitive than the local exchanges in 89 percent of dioceses, and we expect that number to grow to 98 percent in 2018. With respect to the remaining two dioceses, we expect Medical Trust rates in 2018 to be no more than seven percent above the average local exchange rates. We are particularly pleased about this result given that our plans cover a population that, on average, is older than the populations that participate on the healthcare exchanges.

Reduced Disparity among Dioceses.
As has been evident from the pricing on the various ACA state exchanges, the cost of healthcare varies greatly from one area of the country to another. Notwithstanding that dynamic, the Medical Trust has been working diligently over the past several years to reduce the disparity in healthcare costs from one diocese to another.

We have continued to make progress reducing the cost disparities between the highest-priced and lowest-priced dioceses. For 2017, 75 percent of diocesan rates for the same plans are clustered near the average rate offered by the Medical Trust — that is, they are within a band of 10 percent below to 5 percent above such average rate. The remaining 25 percent of the dioceses have rates that are more than 10 percent below the average Medical Trust rate for the same plans. Offering lower rates in those dioceses has been necessary for the DHP to remain competitive with local alternatives. We expect similar results in 2018.

On-going Efforts.
The Medical Trust remains committed to containing cost increases while continuing to provide comprehensive healthcare benefits and compassionate service. In order to provide the lowest possible premium rates while maintaining competitive levels of coverage for its members, the Medical Trust continues to do the following:

- Evaluate its plan designs for quality and value;
- Reduce the number of plans in each category (i.e., platinum, gold, silver, and bronze) to consolidate purchasing power with fewer vendors while still maintaining meaningful participant choice and robust access to healthcare providers;
- Leverage purchasing power in negotiations with key vendors to achieve maximum savings on plan administration fees;
- Participate in the Express Scripts group purchasing coalition for pharmacy benefits (contract negotiations in 2016 will reduce future prescription drug costs over three years by approximately $37 million);
- Remain self-insured (i.e., the Medical Trust bears the financial risk of medical and prescription drug claims) with limited and judicious use of reinsurance for only the very largest claims;
- Manage its internal operations to drive continued cost efficiencies; and
- Explore additional cost-saving opportunities that develop in the emerging healthcare marketplace.

CPF administers the DHP to be of service to the Church by providing a superior aggregate level of healthcare benefits, both in cost and quality, than is otherwise readily available in the market. We note, however, that providing healthcare coverage to the Church is ancillary to CPF's principal focus, which is providing secure retirements for our pension plan participants. We remain optimistic that we can continue to be successful in our objectives as long as participation in the DHP remains mandatory. However, if we were no longer able to provide a better overall solution to the Church than it could access elsewhere, we would readily work with the Church to help it consider and understand other options.

What dioceses are not participating in the DHP? Parishes?

We are very pleased with the overall participation in the DHP. All domestic dioceses have been participating since January 2014. We deduce from our general data that, at most, only about 5 percent of all individuals who are required to be in the DHP or another approved plan (e.g., a spouse's or a Tricare plan) are not in one of those plans. That maximum 5 percent would translate into about 500 individuals in up to 150 parishes. Fifty-two other groups, including schools, camps, conference centers, and Church agencies, have voluntarily chosen Medical Trust plans over other available options.

How exactly are costs shared among dioceses?

Each year, the Medical Trust employs a two-step pricing process. In the first step, it calculates the aggregate cost of coverage for the overall group of participants in the DHP, and in the second step it allocates such cost to the various regional and local groups.

More specifically, in the first step, the Medical Trust pools the coverage needs of all participants in order to achieve economies of scale when negotiating the best financial terms from healthcare vendors. Based on those negotiations and a review of its overall claims experience, the Medical Trust then establishes the cost of coverage for all DHP participants in the aggregate.

In the second step, the Medical Trust allocates the aggregate cost among the various participating groups. In doing so, it balances cost disparities among dioceses with the need to remain competitive with rates available in the local market of each diocese.

As noted above, we have continued to make progress on reducing the cost disparities between the highest-priced and lowest-priced dioceses to allow for a more equitable sharing of healthcare costs. However, given the disparity of healthcare costs across the country, it is not possible for the Medical Trust to offer a single uniform rate for all dioceses without becoming completely uncompetitive in many areas of the country.

How has the DHP affected employment (full-time equivalencies) in parishes?

From time to time we have heard concerns that the requirement to participate in the DHP, as well as the requirement of parity between lay and clergy, might be affecting employment decisions in some parishes. However, we do not have reliable data as to any material changes in the number of full-time or part-time positions resulting from adoption of the DHP.

What are the cost comparisons across dioceses specific to particular plans with identical coverage?

As noted above, the rates for the same DHP plans may vary by diocese, but most do not vary greatly. They are clustered near the average DHP rate for each plan option. Specifically, in 2017, 75 percent of diocesan rates are within a band of 10 percent below to 5 percent above the average Medical Trust rate for the same plans. The remaining 25 percent of the dioceses have rates that are more than 10 percent below the average Medical Trust rate for the same plans. As noted above, the lower rates in those dioceses are necessary for us to remain competitive in their local markets since a rate closer to the DHP average would be significantly more costly than locally available alternatives. We expect similar results in 2018.

We continue to explore additional opportunities to reduce the disparity in healthcare costs among dioceses without materially impacting the competitiveness of the DHP at local and regional levels.

How do minimum standards of coverage differ between dioceses? Between parishes within dioceses?

The Medical Trust offers an array of plan options to suit the needs of various dioceses, ranging from platinum (i.e., the plans pay on average 90 percent of claims costs), gold (i.e., the plans pay on average 80 percent of claims costs), silver (i.e., the plans pay on average 70 percent of claims costs), and bronze (i.e., the plans pay on average 60 percent of claims costs). Almost all dioceses offer more than one plan option for their clergy and lay employees. On an overall basis, 79 percent of clergy and lay employees are enrolled in platinum and gold level plans, with 20 percent enrolled in silver plans and 1 percent in bronze plans. Although the Medical Trust continues to meet the demand by a number of dioceses for the highest quality and most expensive plans (i.e., gold and platinum), it also continues to educate decision makers about the opportunities to move into less expensive alternatives (i.e., sliver and bronze) that are offered as options.

Based on the diocesan cost sharing policies that we have seen, there appears to be significant similarity in minimum coverage standards from one diocese to another. While there are various approaches, the majority of dioceses offer at least single coverage with employers paying 100 percent of the premium and with employees having an option to buy up to higher coverage tiers. For those dioceses that pay 100 percent of the premium, the coverage is most often based on either the lowest cost plan or a high deductible health plan with some variation of health savings account funding. While cost sharing between employers and employees is still a minority practice, there appears to be some recent shift in that direction (with between 1 percent and 50 percent of premiums being paid by employees).

General Convention Resolution 2009-A177 required each diocese to set a minimum healthcare cost-sharing policy that would apply equally to eligible clergy and lay employees by December 31, 2015. Based on information available to us in 2016, 75 percent of dioceses have an approved cost-sharing policy in place that applies equally to clergy and lay employees. The Medical Trust continues to work closely with the remaining dioceses to assist them in their efforts to establish the minimum required employer cost-sharing policy for their clergy and lay employees.

It is important to note that the Medical Trust has no authority by which to enforce General Convention's cost-sharing policy. Rather, it must rely on the dioceses to ensure that parity in medical coverage between clergy and lay employees ultimately is achieved.

In how many dioceses would the marketplace (ACA) plans provide better and cheaper coverage? How might changes in the marketplace affect coverage options and costs within the Medical Trust?

As we continue to reduce the cost disparity between those dioceses that have had the lowest and highest rates, we also continue to improve our pricing compared to the local exchange markets. As noted above, in 2016, our overall average Medical Trust rates were approximately 4 percent below the average health insurance exchange rates across the country. That position improved in 2017 with the Medical Trust average cost at 19 percent below the average cost of comparable plans on the ACA exchanges, and we expect that advantage to increase materially again in 2018. On a region-by-region basis, Medical Trust rates in 2017 are more competitive than the local exchanges in 89 percent of dioceses, and we expect that number to grow to 98 percent in 2018. With respect to the remaining two dioceses, we expect Medical Trust rates to be no more than seven percent above the average local exchange rate.

The Subcommittee has inquired what would happen to premium rates charged by the Medical Trust if participation in the DHP were made optional. That question is perhaps best answered by considering recent experience with the ACA. Over the past few years the ACA system has been facing considerable instability due to lower than anticipated participation in the state exchanges by younger and healthier individuals in particular. That has resulted in less attractive risk pools for insurance companies, with the result that many of them have opted out of the market and those that have stayed in have dramatically increased their premium rates.

We would expect to see a similar result if participation in the DHP were made optional. Younger and healthier participants would be the most likely to opt out, leaving a higher population of older, less healthy participants in the plan. The average medical claims per participant would increase, and premiums would have to be raised to cover those claims. Although the ultimate result would depend on how many participants opted out, our best forecast at this point would be that in three to five years the financial viability of the DHP would be in question.

The future of the ACA remains uncertain. At this point none of the legislative proposals to replace the ACA would have had a material impact on the DHP, but the Medical Trust will continue to monitor the impact of legislative and other developments. We also will continue to maintain an active presence in Washington with our peer denominations through our leadership role in the Church Alliance. The Church Alliance is a lobbying coalition of the chief executive officers of 37 church benefit programs. All 37 members also belong to the Church Benefits Association, mentioned above.

What is being done by other denominations?

There are 27 member denominations of the Church Benefits Association that participate in its healthcare committee and that provided healthcare plans to their denominations prior to the ACA. As did the Medical Trust, most of those organizations analyzed the potential impacts of the ACA on their denominational plans and considered whether the new healthcare marketplace would provide healthcare coverage that was equal to or better than the denominational plans. All but a few decided to continue to provide healthcare coverage for their denominations and made changes to their plan offerings to comply with the ACA. Most of those denominations offer substantially fewer options to its participants than does the Medical Trust. At this point, like the DHP, these denominational plans (e.g., those of the United Methodists, Presbyterians, and ELCA) continue to remain competitive versus the options available on the ACA exchanges and in the broader marketplace.

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We again thank the Subcommittee for the opportunity to respond to its questions and to be able to talk about the work we do at CPF to further the mission of the Church. We would be delighted to answer any additional questions or to expand upon the answers we have already provided.

October 30, 2017