CHURCH PENSION GROUP
Passionate About Our Purpose

General Convention Resolution D045
Report Summary from The Church Pension Fund

In 2018, the 79th General Convention passed Resolution D045 asking The Church Pension Fund (CPF) to

- study necessary steps for providing pension equity, which it defined as providing equal projected financial benefits for lay and ordained church workers given equivalent compensation;
- compare possible plans with pension benefits offered by comparable non-church organizations; and
- report the results of this study to Executive Council by July 1, 2020, for communication with the wider Church, including but not limited to the 80th General Convention.

This report summarizes CPF's findings related to pension equity for domestic lay and ordained church workers. These and additional findings on the topic of parity and equity, including pension equity for international lay and ordained church workers, will be incorporated into CPF's response to Resolution 2018-A237, which urges CPF to study compensation and pension disparity across a variety of demographic categories and to propose supplemental pension models while the Church works toward parity.

As the Church continues the conversation on pension equity, it is important to recognize the diverse viewpoints that exist across the Church. These include (but are not limited to)

- the many types of ministry within the Church, including different compensation levels for different roles;
- varying views about the definitions of parity and equity;
- contrasting pension equity philosophies (bring everyone to highest benefits level vs. lower to an affordable common denominator); and
- differing beliefs about the Church's pension benefits, including the feeling by some that clergy benefits are overly generous when compared to the market and clergy expressing concern that their benefits will be reduced, while many lay employees feel less valued than clergy due to lower compensation and pension benefits.

Though we recognize that multiple viewpoints exist, CPF's position is neutral. We do not advocate for any particular approach. Each of the considerations regarding pension equity comes with pros and cons. Our hope is that the information in this report will help the Church advance these important conversations and support its decision making. While the information in this report is data driven and provides supporting details, we know that retirement readiness is more than a set of numbers. It is ultimately about the quality of life and well-being of lay employees and clergy during their retirement years.

Major Findings

Following are the major findings of CPF's study, with more detailed information starting on page 6:

- CPF continues to support defined benefit and defined contribution plans for eligible lay and ordained workers, even as most U.S. employers outside the Episcopal Church have shifted away from defined benefit plans. CPF's support of defined benefit plans, which is based on in-depth analysis, also has been confirmed by outside experts. Analysis shows that in the vast majority of cases, assuming the same employer contribution levels, defined benefit plans would produce higher benefits to participants than defined contribution plans would. That stated, defined contribution plans continue to be an important component of clergy and lay employees' retirement strategies.
- 96% of Episcopal employers that are subject to the authority of the Church offer pensions to eligible lay employees, although we hear the change in employment status for certain lay employees from full-time to part-time (under 20 hours per week) is becoming a more prevalent practice. Of those offering pensions, an estimated 90% offer The Episcopal Church Lay Employees' Defined Contribution Retirement Plan (Lay DC Plan) and only 10% offer The Episcopal Church Lay Employees' Retirement Plan (Lay DB Plan), both of which are administered by CPF. Lay employee participation and savings in the Lay DC Plan have increased by 88% and 220%, respectively, since the Lay Pension System was mandated by General Convention Resolution 2009-A138 in 2009.
- Under the Lay Pension System, employers are required to pay up to 9% in assessments, which is lower than the 18% assessment rate that is mandated for eligible clergy under The Church Pension Fund Clergy Pension Plan (Clergy Pension Plan). However, it is worth considering that employers must pay Social Security taxes for lay employees, but are not required to pay Social Security taxes for clergy, although we understand that many employers increase clergy taxable compensation to cover these taxes.
- The Clergy Pension Plan and related plans provide an array of benefits beyond pension payments that are funded by the 18% assessment and investment income. The Lay DB Plan provides pension payments, death benefits, and long-term disability retirement benefits to active participants, while the Lay DC Plan only provides pension benefits.
- Employer base plus matching contributions of up to 9% to the Lay DC Plan significantly exceed the level provided by non-profit organizations (average of 3.8%) and the broader industry (average of 4.3%).
- The Clergy Pension Plan, Lay DB Plan, and Lay DC Plan are all designed to help participants maintain their standard of living in retirement, but Social Security, Medicare, and personal savings are also needed to achieve this goal.

Many insights on the topic of parity and equity have been compiled from nearly 20 listening events hosted by CPF over the past year. Here are some of the key takeaways:

- While many individuals expressed concern about parity and equity in benefits, these terms mean different things to different people.
- Many lay employees perceive their pension benefits to be generous in comparison to the broader industry, but express concern about parity and equity when compared with clergy pension benefits.
- Philosophies differ in terms of potential actions to provide equity. Some want everyone brought up to the highest level of benefits, while others believe benefits should be lowered to a common denominator that all Church employers can afford.
- Many stakeholders around the Church agree that before parity is possible, longstanding issues of equity in compensation for lay employees need to be addressed.

As mentioned earlier, these findings and additional insights will be incorporated into CPF's response to Resolution 2018-A237, which will look at compensation and pension disparity across various demographic categories and propose supplemental pension models as the Church works toward parity.

Resolution D045 asks CPF to study necessary steps for providing pension equity, which it defined as providing equal projected financial benefits for lay and ordained church workers given equivalent compensation. In the industry, a retirement income replacement ratio (i.e., the percentage of final compensation needed in retirement to maintain the same standard of living) is typically used to illustrate the projected financial benefit provided by a pension plan. There are two additional major findings in this regard:

- All things being equal (age at start date and retirement, compensation), Clergy Pension Plan participants are projected to receive somewhat higher income replacement in retirement than Lay DB and Lay DC Plan participants.
- Attaining similar retirement income replacement levels may require employers to increase their contributions to the lay plans (and potentially higher employee contributions in order to receive the full employer matching Lay DC Plan contributions) and/or clergy to accept reduced benefits to a common level that is affordable. Considerations for taking potential steps to provide pension equity (as defined in Resolution 2018-D045) are on pages 10 and 11.

Background

CPF commenced in 1917 to provide retirement and disability benefits to eligible clergy of the Episcopal Church. Over the years, CPF has been asked by the Church to provide a broader array of employee benefits, including retirement benefits to lay employees and medical benefits for clergy and lay employees.

CPF has offered pension benefits for lay employees since 1980. In 1991, the 70th General Convention approved Resolution 1991-D165, requiring that pension plans be provided to the Church's lay employees. In 2009, the 76th General Convention passed Resolution 2009-A138 and its associated Canon, establishing the Church-wide Lay Employee Pension System, and naming CPF as the administrator. As it has done for years, CPF continues to offer two types of pension plans under the Lay Employee Pension System:

- **Lay DB Plan:** Under this defined benefit plan, employers are required to pay an assessment equal to 9% of each participating employee's compensation.
- **Lay DC Plan:** Under this defined contribution plan, employers are required to contribute 5% of each participating employee's compensation to the plan and to match up to 4% of each employee's contributions. Employers can choose to contribute higher amounts.

In a typical defined benefit plan, an employer makes contributions on behalf of its employees. The plan then pools and invests the contributions and promises to pay employees a fixed (i.e., "defined") benefit for each year of retirement as long as they (or their spouse, if a joint and survivor payment option is elected) live.

In contrast, in a typical defined contribution plan, an employer (and potentially the employee) makes contributions to individual accounts "owned by" its employees. Each employee must choose from the investment options offered by the plan. At retirement, the amount accumulated in an individual account may be paid out to the employee. That amount must be managed carefully by the employee to last for the rest of his or her life. Under some defined contribution plans, including the defined contribution plans sponsored by CPF, participants may use some or all of that amount to purchase an annuity that would provide some level of guaranteed payment for life.

While both defined benefit and defined contribution plans provide retirement income, they differ in important ways:

	Defined Benefit Plan	Defined Contribution Plan
Church plans:	• Lay DB Plan • Clergy Pension Plan	• Lay DC Plan • The Episcopal Church Retirement Savings Plan (RSVP)**
Key plan features:	• The plan guarantees specific periodic payments to each participant, generally for his or her lifetime. The periodic amount is based on several factors, such as Highest Average Compensation and years of Credited Service.* • The plan sponsor bears the risk that (a) investment returns will not cover the cost of benefits promised to employees and (b) that retirees may live longer than anticipated and receive higher than expected pay-outs from the plan. • Participants remain eligible for a pension benefit (i.e., based on service credited prior to termination) at the time they leave the employer, only if vesting requirements are met. However, Credited Service in the Clergy Pension Plan and the Lay DB Plan is generally transferable from one Church employer to another, making these plans more "portable" than most non-Church plans. • When choosing investment approaches, the plans take a long-term view (for example, 100-year timeframe), which allows for access to unique investment opportunities.	• Employees may receive a lump sum payment or installments when they retire, but there is no guarantee of lifetime income unless the participant purchases an annuity. • Employees bear any investment risks and the risk that they may outlive their benefits. • Employees choose investments from the options made available by the plan sponsor. • Benefits are owned by each participant and are portable. Employees may roll their account balance into another retirement plan or IRA. • Employees have an account balance that allows them to view the current value of their benefit at any time. • Employee contributions are typically made before taxes are withheld, which reduces their current taxable income.

* *Under the lay and clergy DB plans, as of January 1, 2018, Highest Average Compensation is the average of the seven highest-paid, non-overlapping, 12-month periods during which an employee earned Credited Service over his or her entire career. Credited Service refers to the period of years and months for which full assessments have been paid.*

** *The Retirement Savings Plan (RSVP) is available as a supplemental plan to lay employees whose employers have adopted the Lay DB Plan or who work less than 1,000 hours annually. It is also available as a supplemental plan to clergy.*

All else being equal, including the same employer and employee contribution levels, a defined benefit plan in the vast majority of cases would produce a higher pension benefit to a participant than a defined contribution plan would. The main reasons for this include the fact that the employer bears the investment risk and the longevity risk rather than transferring those risks to the participant. Also, the employer has the ability to take a much longer-term investment view than participants could in defined contribution plans, and to access a broader array of high performing assets.

Plan Participation

Currently, 96% of employers that are subject to the authority of the Church offer pensions to eligible lay employees, although we hear the change in employment status for certain lay employees from full-time to part-time (under 20 hours per week) is becoming a more prevalent practice. Of those offering pensions, an estimated 90% offer the Lay DC Plan and 10% offer the Lay DB Plan. Two percent of employers that offer the Lay DB Plan also offer the RSVP to lay employees. Lay employee participation and savings in the Lay DC Plan have increased by 88% and 220%, respectively, since the Lay Pension System was created by General Convention Resolution 2009-A138 in 2009.

As of 12/31/2019	Lay DB Plan	Clergy Pension Plan
Active participants	1,077	5,645
Average age	53.1	54.2
Average service	9.1	12.7
Average compensation	$46,741	$81,384
Participants with RSVP balance	404	1,816

As of 12/31/2019	Lay DC Plan
Participants with an account balance	11,847
Average age	50.0
Average service	7.6
Average compensation	$37,416
Average account balance	$41,800
Average contribution rate (employee and employer)	12.9%

The shorter tenure of lay employees (shown in the charts above), as compared to clergy, supports the notion that lay employees are more likely to have other sources of retirement income.

How Clergy Pension Plan and Lay DB Plan Benefits Are Calculated

Benefits payable under CPF's defined benefit plans are determined using Highest Average Compensation and years of Credited Service. While Highest Average Compensation and Credited Service are the same for both plans, the pension formula is different:

Clergy Pension Plan	Lay DB Plan
Highest Average Compensation x 1.6% x Credited Service + Up to the first $10,000 of Highest Average Compensation x 1.15% x Credited Service	Highest Average Compensation x 1.5% x Credited Service

Retirement Readiness

Several variables generally affect how well prepared financially an individual will be for retirement, including these:

	Lay DB Plan and Clergy Pension Plan	Lay DC Plan
Compensation	✓	✓
Years of Credited Service	✓	
Age of plan entry	✓	✓
Age at retirement	✓	✓
Employee contributions		✓
Investment returns		✓
Other retirement income sources	✓	✓

Data Sources

The following data sources were included as part of our research for this report:

- Demographic and compensation data for active lay employees and clergy enrolled in plans offered by CPF
- Statistics on broad market trends were compiled from the following sources:
  - Aon Benefit Index and SpecBook
  - Fidelity Investments
- Church Pension Group Lay Retirement Readiness Survey of 2018
- Listening events that have been held with various stakeholders from May 2019 through March 2020

Research Findings

The prevalence of defined benefit plans has been declining for decades, as employers shift to defined contribution plans.

Employers have shifted to defined contribution plans to reduce their financial risk while offering portability to employees, to address the increased prevalence of mobility (i.e., employees being more likely to change employers over the course of their careers) in the broader industry. Most companies offer a 401(k) defined contribution plan with company-matching contributions. This has been done notwithstanding the fact that defined contribution plans originally were designed only to provide supplemental retirement savings (as is the case for clergy and lay employees that participate in the RSVP) and were not intended to replace defined benefit plans as a primary retirement vehicle. Furthermore, for the same contribution level, a defined benefit plan in the vast majority of cases would produce a higher benefit than a defined contribution plan. Additionally, the Clergy and Lay DB plans are more portable than non-Church plans since Credited Service is generally transferable from one Church employer to another.

As of 2019, only 9% of the broader employer market (for profit and non-profit organizations) offered a traditional defined benefit plan (compared to 58% in 2000) to new employees. While defined benefit plans are far less common, over a third of non-profits (including universities) continue to offer defined benefit plans to new employees:

- 4% of for-profit employers (43 of 1,080 employers)
- 37% of non-profit organizations (73 of 197 employers)

The vast majority of all employers offered a defined contribution plan to employees. Approximately 90% of those employers offered a company match (average of 4.3% in 2019). In addition, employees contributed an average of 8.8% of their compensation in 2019.

While employer contribution rates under the Lay DC Plan are higher than the broader industry and non-profit organizations, employee savings for retirement is considerably lower.

Total retirement savings rates in the Lay DC Plan fall slightly below the broader market, but higher than non-profit organizations:

	Broader Market	Non-Profits	Lay DC Plan
Total savings rate	13.1%	10.7%	12.9%*
Employer contributions	4.3%	3.8%	7.9%**
Employee contributions	8.8%	6.9%	5.0%

* *24% of Lay DC Plan participants reach 15% savings in the plan, which is the industry goal to achieve adequate retirement income.*
*** Mandated employer contribution is 5% plus 4% matching contribution.*

Employers contribute less to the Lay DB and Lay DC Plans than the Clergy Pension Plan, but there are additional factors worth considering.

Employers pay lower assessments in the Lay DB and Lay DC Plans, which fund fewer retirement benefits overall:

Plan	Assessment	
Lay DC Plan	**5% – 9%**	5% plus 4% matching contribution, pension only
Lay DB Plan	**9%**	Pension, death and long-term disability
Clergy Pension Plan	**18%**	Pension, death, disability, child benefits, discretionary Medicare Supplement and discretionary Cost-of-Living Adjustments (COLA)

While the Clergy Pension Plan's assessment is greater than the assessments required by the lay plans, the 18% assessment goes toward funding pension benefits, plus an array of other employee benefits shown in the table above. However, the 18% assessment does not cover the full cost of benefits provided to clergy. For example, CPF collected about $85 million in annual assessments for clergy and paid out about $393 million in benefits to clergy in 2019. This significant gap is funded by CPF's successful investment of Clergy Pension Plan assessments over the past century. Even if assessments paid to the lay plans were increased from 9% to 18%, it would take decades to accumulate the assets needed to provide the full menu of benefits offered by the Clergy Pension Plan.

In comparison, the Lay DB plan collected $4.8 million in annual assessments and paid out $10.7 million in lay benefits in 2019. The Lay DC plan collected $37.9 million in employer contributions and $26.2 million in employee contributions (pre- and post-tax) in 2019.

In addition, when comparing employer contributions toward retirement income, it is worth considering the additional amounts employers pay toward government retirement programs like Social Security and Medicare. For lay employees, employers not only contribute to employees' lay pensions, they are also required to pay 6.2% toward Social Security as part of the FICA tax. Clergy pay this on their own via the SECA tax. We have heard that many employers provide this amount to clergy in their paychecks, effectively increasing their taxable compensation to account for this tax.

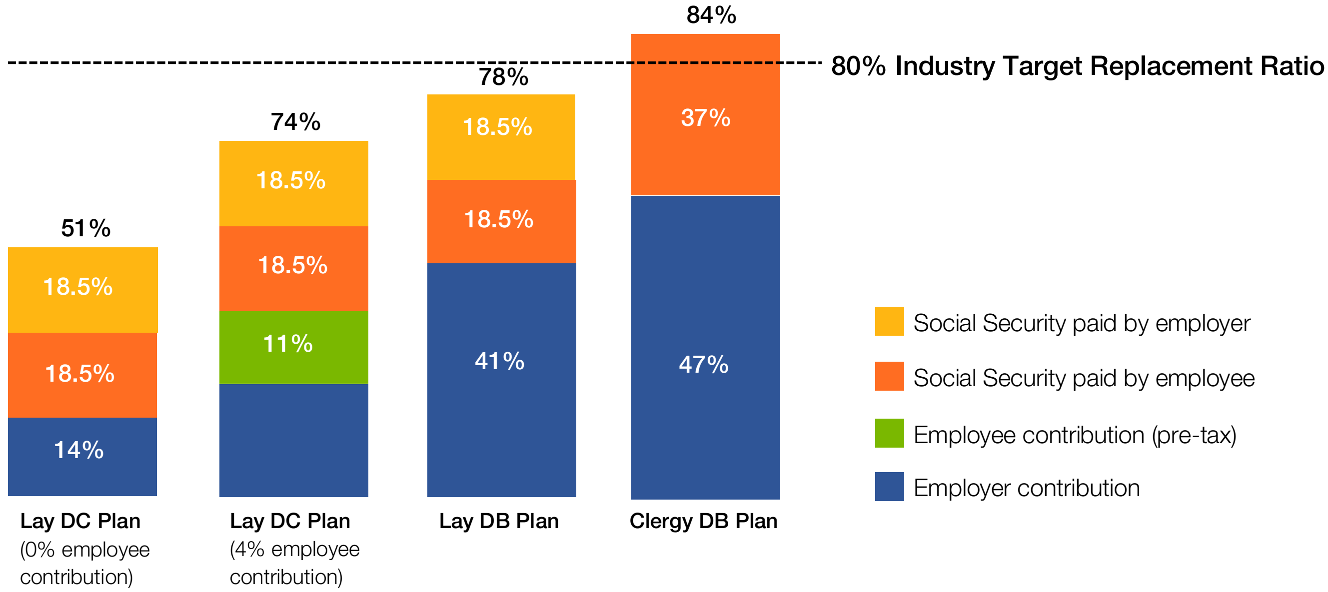
All things being equal, Clergy Pension Plan participants are projected to receive a higher income replacement in retirement than Lay DB Plan and Lay DC Plan participants.

In the industry, a retirement income replacement ratio (i.e., the percentage of final compensation needed in retirement to maintain the same standard of living) is typically used to illustrate the projected financial benefit provided by a pension plan. The widely accepted industry target retirement income replacement ratio is 80% of final pre-retirement compensation.

Example

Assuming starting compensation of $40,000, someone who participates in one of the CPF pension plans at age 35 and retires at age 65 would receive retirement income equal to the following percentage of their final compensation under each of the plans:

Income Replacement at Retirement (Hypothetical Participant)*



** For purposes of this illustration, the average per annum investment return is assumed to be approximately 6%. The Lay DC retirement income replacement ratio would change +/- 7% if investment returns are +/- 1% than assumed.*

The example above shows a 0% employee contribution in the Lay DC Plan, which results in no employer matching contributions, as well as a 4% employee contribution, which results in a full employer matching contribution of 4% to the Lay DC Plan.

As of December 31, 2019, there is a large percentage of participants on either end of the spectrum of contributions. Twenty-eight percent of participants (one out of every four) are not contributing to the plan, while 36% are contributing at least 5%. Overall, 63% are contributing at least 4% and therefore are receiving the full employer match. However, of the 37% who are not getting the full employer match, the majority are receiving no match at all. Employee contributions are generally deducted before taxes have been withheld, and grow tax-free until they are paid out.

Actual Employee Contributions to Lay DC Plan

Contribution Level	Percent of Employees
0%	28%
1% - 3%	9%
4%	27%
5% +	36%

Participants may elect to contribute a dollar amount (vs. percentage of pay).

It is also worth noting that for the hypothetical employee in the example above who contributes 4% to the Lay DC Plan, his or her contributions grow to provide 11% of the Lay DC Plan retirement income replacement ratio (of 74%).

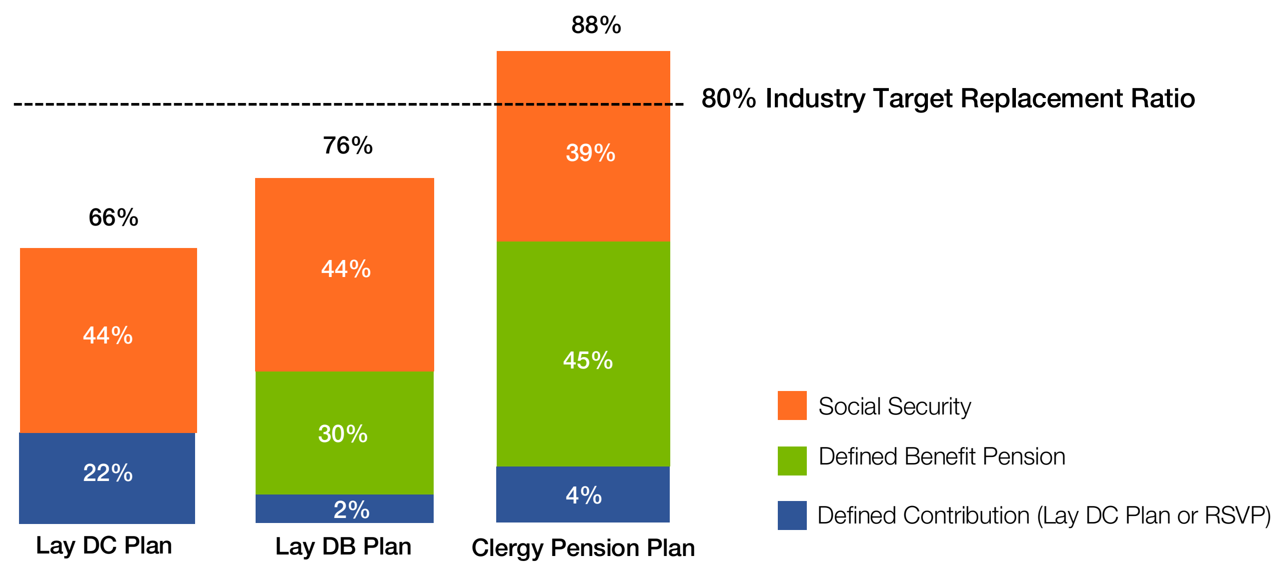
The example also assumes the hypothetical employee begins participating in the plans at age 35. For every 10-year delay in the entry age, replacement ratios decrease by about 11% to 15%.

Please note that the RSVP is not included in this hypothetical participant example because it is purely voluntary and does not require employer contributions.

Actual Data

Using CPF's actual participant data, currently active clergy are expected to achieve relatively high retirement income replacement ratios, while currently active Lay DB Plan and Lay DC Plan participants on average are expected to fall somewhat short of the 80% target retirement income replacement ratio. Across all currently active clergy and lay employees, following are average projected retirement income replacement ratios under each of CPF's pension plans, assuming participants continue to work in similar positions in the Church and participate in the same retirement plans until retirement:

Average Retirement Income Replacement Ratio (Active Participants)



Percentage of active participants expected to reach

	70% income replacement	80% income replacement
Clergy Pension Plan	66%	47%
Lay DB Plan	60%	40%
Lay DC Plan	35%	22%

While the hypothetical participant example on page 8 shows that, when all else is equal, all the plans provide strong income replacement ratios, the reality is that all else is not equal. The variances that most contribute to the gaps in the retirement income replacement ratios include these:

- Longer years of service for clergy, resulting in more time to accrue benefits that will provide a higher income replacement at retirement, while lay employees are more likely to have multiple employers during their careers and, therefore, other sources of retirement income from other employer pension plans.
- Some lay employees (37% in 2019) choose to contribute less than 4% of their compensation to the Lay DC Plan, resulting in these employees not receiving the full 4% employer match.

Considerations to Make the Pension Plans More Equitable

Resolution D045 defines pension equity as equal projected financial benefits for lay and ordained church workers given equivalent compensation. Under this definition, attaining pension equity would require employers to increase contributions to the lay plans or clergy to accept reduced benefits.

Following are potential considerations to provide pension benefits to lay employees that are expected to result in comparable retirement income replacement as clergy when compensation, age of plan entry, and retirement age are the same:

Increase employer and/or employee contributions to the Lay DC Plan

To raise retirement income replacement for Lay DC plan participants to the Clergy Pension Plan level, total employer and employee contributions would have to equal approximately 16%. Here are some of the ways to address the gap in current retirement savings:

- Increase the base employer contribution from 5% to 6% or 7%, while keeping the employer match at 4%. This would increase total potential employer contributions from 9% to 10% or 11% without requiring additional employee contributions.
- Increase the employer matching contribution from 4% to 5% or 6%, while keeping the base employer contribution at 5%. This would increase total potential employer contributions from 9% to 10% or 11%. This change would also encourage employees to contribute 1% to 2% more to their retirement savings in order to receive the full employer match, bringing total employee contributions closer to non-profit organizations and the high end of the broader market.
- Increase the base employer contribution and the employer matching contribution each by 1%, which would increase potential employer contributions to 11% while also encouraging employees to save 1% more in the plan in order to receive the full employer match.

It is important to recognize that the second and third considerations above require increasing employer contributions as well as the amount of employee contributions (in order to receive the full employer matching contributions).

Enhance Lay DB Plan provisions to more closely mirror pension benefits under the Clergy Pension Plan

When all else is equal (see page 8 for an example), retired participants in the Clergy Pension Plan will receive retirement income that is a somewhat higher percentage of their final compensation than Lay DB Plan participants. This gap is driven predominantly by the differences in the underlying pension formula and the Christmas Benefit provision* in the Clergy Pension Plan. By enhancing the Lay DB Plan to mirror the Clergy Pension Plan for these two provisions, participants with the same compensation, plan entry age, and retirement age would receive similar retirement income from their CPF pension plans. Because the required 9% employer contribution to the Lay DB Plan is needed to cover the cost of the current provisions in the Lay DB Plan, the required employer assessment would increase to 10.5%, which is a 17% increase.

While the Clergy Pension Plan covers a broader array of benefits than the lay plans, even if assessments in the lay plans were increased to 18%, it would take decades to accumulate the assets needed to provide all of the benefits available to participants in the Clergy Pension Plan, which has had over a century to accumulate the assets that allow it to offer additional benefits. In addition, the Clergy Pension Plan provides a discretionary cost of living adjustment (COLA), approved annually by the CPF Board if financially feasible, which is an increase in retirement benefits for clergy to account for inflation after retirement. In order to accelerate the time in which COLA adjustments could be provided under the Lay DB Plan, the plan's assets would need to be increased by approximately $150 to $200 million. Because they are separate legal plans, these additional assets cannot be moved from the Clergy Pension Plan to the Lay DB Plan.

Keep in mind that these additional assessments for the Lay DB Plan would benefit only the 1,089 lay employees who participate in that plan (vs. the 11,644 lay employees who participate in the Lay DC Plan).

* *Each December, retired participants and beneficiaries, or eligible children of deceased participants, receive an extra check in the amount of $25 times years of Credited Service.*

Reduce Clergy Plan Plan provisions to more closely mirror pension benefits under the Lay DB Plan
Another consideration for achieving pension equity would be to reduce benefits provided under the Clergy Penson Plan to more closely align with the lay plans. However, depending on the magnitude of any change, lowering benefits may not significantly reduce the 18% assessment, as it does not currently cover the full cost of providing the current level of clergy benefits.

While we recognize the many diverse viewpoints regarding pension equity across the Church, it is worth reiterating that CPF maintains a neutral position and does not advocate for any particular approach. Each of the pension equity considerations detailed here includes pros and cons. Our hope is that the data-focused and supporting details in this report will help the Church advance these important conversations and aid in its decision making.