

Report of The Board of Pensions to the 2006 Session of The Holston Annual Conference

BOARD OF PENSIONS GUIDELINES

The United Methodist Church acknowledges that pensions are "deferred compensation" earned at the same time and in the same manner as salary. Of the total compensation package, including salary, housing, utilities, health insurance, death/disability benefits, and other cash or non-cash allowances, the purpose of a pension is to assure retirement with dignity in an often unpredictable future.

SERVICE YEARS STARTING ON JANUARY 1, 2007

Effective January 1, 2007 the new pension plan for United Methodist Clergy, known as the Clergy Retirement Security Program (CRSP) will go into effect. This new pension plan provides a core benefit at retirement with two components: 1) a defined benefit component which will be calculated by multiplying the total eligible clergyperson's compensation, as defined by the Denomination Average Compensation (DAC), times 1.25% times the years of service starting in 2007; and 2) a defined contribution component which will be equal to 3% of actual annual compensation for each clergyperson in active ministry.

Benefits accrued under the Ministers Pension Plan (MPP), a "defined contribution" plan in place from 1982-2006, will continue to provide retirement benefits based on the respective earnings of each participant's account.

Those participants with service years prior to 1982 will continue to receive defined benefits based on the Past Service Rate approved by the Holston Annual Conference. The successful Legacy of Commitment Campaign resolved our unfunded liability for Pre-1982 Pensions and this apportionment item for Pre-1982 Pensions was removed effective January 1, 2004. Future contributions are funded from reserve funds on deposit at the General Board of Pensions. The formula for Pre-1982 will continue as in previous years. (Pre-1982 Years x Past Service Rate = Annual Pension)

To implement our Pension and Benefits Program for 2007, the Board of Pensions submits the following guidance:

1. The Board of Pensions recommends a past service retirement rate of \$456 per year of approved Pre-1982 ministerial service in Holston Annual Conference.
2. The total budget amount to provide for the Ministerial Pension Plan (MPP), the Comprehensive Protection Plan (CPP), and the Health Insurance shall be determined each year. Churches should remit 1/12th of their apportionment to the conference treasurer each month.
3. The pension rate for the surviving spouse of a ministerial conference member eligible to receive pension benefits for service rendered before January 1, 1982, shall be 70% of the 2007 pension rate.
4. The Contribution Base shall be the active Participant's Plan Compensation up to the Denominational Average Compensation (DAC) as computed by the General

Board of Pension and Health Benefits of the United Methodist Church.

5. The 2007 Plan Compensation shall include cash salary, plus tax-deferred contributions, plus 25% for housing where the minister lives in a parsonage or the housing allowance where such is provided.
6. Effective January 1, 2007 the new pension plan for United Methodist Clergy, known as the Clergy Retirement Security Program (CRSP) will go into effect. The Holston Conference's annual liability will be calculated by the General Board using a formula with two components: 1) a defined benefit component which will be calculated by multiplying the total eligible clergyperson's compensation, as defined by the Denomination Average Compensation (DAC), times 1.25% times the years of service starting in 2007; and 2) a defined contribution component which will be equal to 3% of actual annual compensation for each clergyperson in active ministry. It is projected that the Holston Conference's annual liability will increase from the previous amount due under the old pension plan.
7. An active participant in CRSP should contribute a minimum 3% of the Plan Compensation as a personal contribution to the Personal Investment Plan (UMPIP). These contributions may be made on a before-tax or after-tax basis. The salary-paying unit must issue the checks. The participant and the salary-paying unit must complete a Before-tax and After-tax Contribution Agreement.
8. The cost of the Comprehensive Protection Plan (CPP) under the new plan will be 3.0 % of the Participant's Plan Compensation not to exceed 200% of the Denominational Average Compensation (DAC) for all active full-time ministerial members and full-time local pastors.
9. Continue retirement moving expense, upon receipt of an itemized statement, an amount not to exceed \$1,500. This is a one-time benefit for those taking the retired relationship, those being placed on disability leave, or the spouses of active ministers who died during the year.
10. A Retired Minister's Sunday shall be observed annually on the third Sunday in May with an opportunity being given for persons to make an offering and/or special gifts or bequests in memory or in honor of a beloved pastor. All gifts will be used for special need situations.
11. The Holston Conference Board of Pensions recommends the conference health insurance continue with the Blue-Preferred Network with Blue Cross and Blue Shield of Tennessee, which began on January 1, 1999. This program continues to be a cost savings to the subscribers and the churches.
12. Premium rates for 2006 are listed on the Rate Sheet included in this report.
13. The Board of Pensions endorses the Long-Term Care Insurance Plan provided by John Hancock through an agreement with the General Board of Pensions and Health Benefits. This endorsement permits eligible clergy and lay participants from the Holston Conference to purchase this insurance but the Conference does not participate in premium costs. Information can be obtained at www.gbobhb.org.

RESERVE BALANCES AND HEALTH INSURANCE

The good news is that our reserve balances remain strong. The General Board Actuaries tell us that our Pension Reserve Fund (\$32,103,375) is large enough to ensure that Holston's Pre-82 Pension obligations to retirees can continue to be met without placing this line item back into our conference budget. Although health insurance claims and costs remain high, as they do throughout the country, our Insurance Reserve Fund (\$6,381,816) gives us some cushion if a major catastrophe happens. The other good news was that medical and drug claims increased only 7.5% in 2005 versus 24.1% in 2004! Instead of the astronomical deficit we initially projected, our deficit was \$114,025. Unfortunately, 2006 has seen these same numbers increase substantially over 2005.

Your Conference Pension and Health Board realizes that health premiums are high and our plan prices out lower income clergy families. And yet, our clergy families demand premium coverage that is costly. Our program is self-insured which means that premiums are driven by claims. Blue Cross/Blue Shield merely charges us an administrative fee and does not set our rates. We set our own premiums based on our projected claims and cost increases in the insurance industry. Unfortunately, we have to set rates almost 1 year in advance based on claims data that can change drastically as it did from 2004 versus 2005. If we end the year with a negative balance, as we have done in 2004 and 2005, it means that our premium rates were not high enough based on our coverage and claims paid.

We continue to review a Wellness component, which may help lower future claims and ultimately premiums. However, this is not free and thus would add additional costs, at least initially. Wellness starts with each of us looking at our life-style and determining whether something can be changed that will make us less prone to illnesses. We do not have any magical answers.

Please refer to the attached reports that will give detail financial information for each of our funds.

INCAPACITY LEAVE 2006-2007

In accordance with Para. 358, 2004 Book of Discipline, the Conference Board of Pensions recommends the following active ministers and local pastors be continued subject to the renewal of their eligibility for disability benefits from the Comprehensive Protection Plan for the conference year 2006-2007: Benny J. Bishop, Janice A. Cate, Thomas A. Conley, Raymond C. Deese, Jr., Gary Franklin Hill, William L. Hill, Charles R. McKinney, Alfred L. Newman, Lawrence L. Nuckolls, James Darrell Ray, John L. Sheldon, Jeffrey Taylor, and David R. Vaughn.

SPECIAL GRANTS 2006-2007 CONFERENCE YEAR

"Conference Board of Pensions may make special grants to clergy members or former clergy members and to local pastors or former local pastors of an Annual Conference who have served under appointment in that conference; or to their spouses, former spouses, surviving former spouses, or surviving dependent children (including adult

dependent children). A report of such special grants shall be made annually to the Annual Conference". Para 1506.14, The 2004 Book of Discipline.

MINISTERS

Leon Yost, 8.25 years at the current annual past service funding rate.

DEPENDENT ADULT CHILDREN

Mr. Thomas E. Byrd, birth date 9/25/44, dependent adult son of the Reverend Howard G. Byrd, deceased minister. Based on 13.00 years of service times 25% of the current pension rate.

Mr. Wendell R. Stock, birth date 12/4/58, dependent adult son of the Reverend Shirl F. Stock, deceased local pastor. Based on 5.50 years of service times 25% of the current pension rate.