



An Explanation of Changes in the Defined Benefit Portion of the Brethren in Christ Pension Fund

THE DECISION TO FREEZE THE DEFINED BENEFIT PLAN

Effective January 1, 2010, the defined benefit (DB) portion of the Brethren in Christ Pension Fund will be [frozen](#), thereby ending pension accruals for current as well as future pastors and missionaries serving with the denomination. This change will not affect any retiree who is already receiving benefits through the Pension Fund. Benefits that have been earned to this point will still be available, but no additional benefit will be accrued. In addition, no new participants will be added to the DB plan.

WHY THE DECISION TO FREEZE THE DB PLAN?

The Pension Fund was launched in 1964 to help care for Brethren in Christ pastors in their retirement, with an initial monthly benefit of \$2 per year of service with the denomination. Over the years, the monthly benefit was increased incrementally, growing slowly to the current \$9 per month. In each case, when an increase in the monthly benefit was approved, it was applied retroactively. Shortly after the most recent increase in the monthly benefit, financial markets in the United States weakened. Periodic increases in statistical longevity tables added to the liability of the fund. The current prolonged economic recession has eroded the assets of the plan even further, even as payments made to retired pastors and beneficiaries will continue to grow as more pastors retire.

For many years the DB plan was able to be operated with an annual payment of \$300 per pastor from BIC congregations. When congregations were unable to make this payment, shortfalls were absorbed into the fund. Starting in 2002 and continuing in subsequent years, annual contributions toward the underfunding have been increased to keep pace with actuarial requirements. This became an increasing hardship to congregations, and yet the pension fund continued in a position of significant [underfunding](#), reaching \$5,931,700 as of 1/1/2009.

SELECTING AN APPROPRIATE ROAD TO RECOVERY

One solution to the underfunding would be to simply terminate the DB plan and pay each participant the present value of his/her full share of accrued benefits. However, this scenario requires an infusion of cash equal to the underfunded amount of \$5.9 million dollars. A defined benefit plan can be dissolved only if [fully funded](#) or in the case of bankruptcy. Pension plans are not permitted to pay out accrued benefits to active participants who have not attained the plan's retirement age unless the plan is completely terminated. The General Conference Board did not view this as a realistic option because it would require an immediate infusion of \$5.9 million.

As an alternative, the General Conference Board has approved a "hard freeze" of the DB plan, with no further accruals of benefits and no new participants added to the DB plan after January

What is a pension freeze?

A defined benefit plan can be frozen in different ways. An employer may close its defined benefit fund to new hires, while existing participants continue to accrue benefits. This is known as a "close" or a "soft" freeze. Or, an employer can stop accruals for all participants, limiting benefits to those that have already accrued as of the freeze date. This is known as a "hard" freeze. The BIC Church is applying a "hard" freeze to its defined benefit plan.

How is the underfunding determined?

The underfunded amount is an actuarially determined number based on several factors, including the life expectancies of all participants and their spouses and anticipated future investment returns. Life expectancy is based on standard life tables and the assumed rate of return on investments is 5 percent. Given these assumptions, it is determined that the fund would presently need on hand about \$9.4 million dollars to pay out all future contractual commitments. The underfunded amount—\$5,931,700 as of 1/1/2009—is simply the difference between the actual fund balance of \$3,439,634 and the actuarially determined figure of \$9,371,334.

What is the definition of "fully funded"?

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1, 2010. This also will require a sizeable infusion of funds, but freezing the plan allows the financial challenge to be spread over a number of years. Concurrent with the freeze, the existing TSA portion of the plan, which contains the retirement income accounts, will be spun off as a new plan. Pastors who are new to the BIC Church will participate in the new TSA plan only. These two moves together will make it possible to:

- honor all existing commitments and obligations;
- provide a more attractive retirement plan for pastors and missionaries; and,
- reduce the exposure and liability for the denomination to a manageable level.

All present and future TSA accounts will be in the “spun-off” plan with account growth or loss as per the pastor’s chosen investment. At retirement, the individual can either keep the funds in the Pension Plan and withdraw funds as needed, annuitize via a commercial contract for a guaranteed monthly income for life, or roll the funds into an IRA. TSA investors will be responsible for their own investment choices.

OPTIONS FOR PASTORS AFTER JANUARY 1, 2010

- **Remain in the frozen DB plan:** All pastors have the option to remain in the plan and begin to receive at normal retirement (65 years of age) the benefits earned for the accumulated years of service he or she had accumulated by January 1, 2010. After January 1, 2010 no additional benefits will be accrued. Future retirees will continue to have the option to receive a lump sum at retirement or begin monthly benefit payments for the remainder of their life and the life of their spouse. During the years until early retirement age (55 years of age and 20 years of service) or normal retirement age (65), the first \$1,200 of the congregational retirement fund contribution for pastors who remain in the DB plan will be allocated toward the operational expenses and possible reduction of the underfunding in the frozen plan. The years of contribution to DB are limited to ten (10) years. During those years the remainder of the congregational contribution will be directed to the participant’s TSA. After the contribution years, the entirety of the contribution will then be directed to the participant’s TSA.
- **Opt out of the DB plan and continue with a TSA only:** Active participants who have not yet reached retirement age can opt out of the DB, forfeit the present value of accrued benefits, and no longer have any portion of their retirement contributions allocated to the DB plan. This decision is irrevocable. The present value of the waived benefits by plan participants will be absorbed into the DB assets. The entirety of future contributions to the pastor’s retirement fund by his/her congregation will go to the participant’s TSA. It is anticipated that this option will be most attractive to younger pastors and /or those who have served with the BIC Church for a relatively short period of time.

Each pastor will need to weigh carefully the pros and cons of the two options and select the course of action that best fits his or her long-term financial and retirement plans. Pastors may find it helpful to consult with a financial planner before deciding upon an option.

What is the definition of “fully funded?”

“Fully funded” means there are funds on hand which are sufficient to provide the promised benefits for both active and retired participants in the DB plan, including those former members with vested years of service. If the DB funds become depleted, the denomination bears sole responsibility for the funding of the commitments made.

What is a defined benefit plan?

A defined benefit pension plan is a type of pension plan in which an employer promises a specified monthly benefit on retirement that is predetermined by a formula based on the employee’s earnings history, tenure of service and age, rather than depending on investment returns.

What is a TSA?

A TSA (tax sheltered annuity) is a retirement plan in which an employee makes tax-deferred contributions from his/her pre-tax income. The employee is not taxed on the contribution until he/she begins to make withdrawals after retirement. The term especially applies to a 403(b) plan, which is directed at teachers and employees of tax-exempt organizations such as charities or churches.