

General Board of Pension and Health Benefits

Report One: Overview

Introduction

The General Board of Pension and Health Benefits (GBPHB) is an administrative general agency of The United Methodist Church “having the general supervision and administration of the support, relief, and assistance and pensioning of clergy..., lay workers..., and their families” (§1501.1a, *The Book of Discipline 2004*). We humbly care for those who serve the Church, guided by our agency’s vision and mission:

VISION

The GBPHB will be a model financial service and benefits agency, answerable to the laws of society and bound by *The Book of Discipline of The United Methodist Church*. Upholding the sacred calling of the Church in and through the covenant community, we strive for exceptional Christian service, individually and corporately, through prudent business decisions.

MISSION

To serve and support the financial well being of participants guided by the principles of The United Methodist Church.

The GBPHB administers retirement, health, disability and death benefit plans for clergy of The United Methodist Church, employees of United Methodist general agencies and lay employees of United Methodist churches and United Methodist-related institutions. These plans include the following:

- Clergy Retirement Security Program—a clergy retirement plan
- Retirement Security Program for General Agencies—a retirement plan for general agency staff
- United Methodist Personal Investment Plan—a voluntary retirement savings plan for both clergy and lay participants
- Horizon 401(k) Plan—a voluntary retirement plan for for-profit and other United Methodist-related entities
- Comprehensive Protection Plan—a clergy death and disability benefits plan
- Basic Protection Plan—a voluntary death and disability benefits plan
- HealthFlex—a voluntary self-insured health plan
- Long-Term Care—a voluntary benefits plan underwritten and administered by John Hancock Insurance Company

The GBPHB is the primary financial institution for long-term savings and benefits support for 91,000 clergy and lay employees of The United Methodist Church, serving 44,000 active participants, approximately 30,000 clergy, lay employees, surviving spouses and dependents who receive retirement plan benefits, and 17,000 terminated participants with balances on record or pre-82 service. All plans, programs, services and policies are designed to serve and support the financial well-being of participants and their families in accordance with the values and principles of The United Methodist Church.

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With over \$16 billion in assets under management, we are the largest faith-based pension fund in the U.S., ranking among the top 100 pension plans in the country. The GBPHB's various investment funds are designed similarly to traditional mutual funds and other investment vehicles and regularly meet or exceed benchmark investment returns. (*See Investment Section of this report.*)

We view our role as a sacred trust, managing retirement and benefit plan assets and institutional deposits for the Church and UMC-affiliated organizations that realize the advantage of lower fees and excellent market returns while adhering to the Social Principles. The GBPHB's financial achievements underscore the dedication to this stewardship role.

In 2008, the GBPHB (and its constituent corporations) celebrates 100 years of service to the denomination. Serving the Church is a privilege and a ministry. We are proud of our 100-year history and look forward to another century of caring for those who serve the Church.

Quadrennium Highlights

During the 2004-2008 quadrennium, the GBPHB implemented a number of changes to improve the way we support and serve United Methodist clergy and lay employees throughout the Church. These changes include:

- implementation of new retirement plans for clergy and for employees of general agencies,
- expansion and improvement of the retirement savings plan for clergy and lay employees,
- introduction of the LifeStage Investment Management Service,
- introduction of financial planning services, offered through Ernst & Young,
- introduction of long-term care insurance, offered through John Hancock,
- continued education of UMC leadership about the health challenges and concerns of clergy and ongoing *health as wholeness* program development,
- coordination of the Denominational Health Task Force's review of health care across the denomination and the completion and release of its summary report and recommendations,
- continued leadership of the Central Conference Pensions effort involving five general agencies, including the launch of a funding campaign in coordination with United Methodist Communications (UMCom),
- identification of the GBPHB's future headquarters, and
- major reinvestment in technology platforms to support service improvements.

Further information on GBPHB activities can be found at www.gbophb.org.

New Retirement Plans for Clergy and Employees of General Agencies

Following approval by General Conference 2004, the GBPHB introduced the Clergy Retirement Security Program (CRSP) and the Retirement Security Program for General Agencies (RSP) on January 1, 2007. These plans replaced the Ministerial Pension Plan (MPP) and Staff Retirement Benefits Program (SRBP) as the denomination's two mandatory retirement plans. They are structured to provide both a *defined benefit* and a *defined contribution*, giving participants a basic level of security along with the ability to accumulate assets. In addition, the GBPHB conducted a benefit study for the general agencies and made recommendations to agency General Secretaries and the Committee on Personnel Policies and Practices.

CRSP

On January 1, 2007, CRSP began providing retiring clergy* with two distinct benefits:

- 1) A monthly payment, payable for life—called a *defined benefit*—that is calculated by multiplying the following factors and then dividing by 12:
 - 1.25%
 - the annual Denominational Average Compensation when the clergyperson retires
 - years of credited service after January 1, 2007.

The monthly retirement benefit increases automatically by 2% each year after benefits begin.

- 2) An account balance—called a *defined contribution*—established for each clergyperson. The annual conference contributes 3% of compensation to this account balance each month the clergyperson is in active ministry. Participants choose the investment funds for their account. The account balance, with all accumulated earnings, is available as cash at the time of retirement. Participants may receive one lump sum, several smaller lump sums or cash installment payments.

MPP was the Church's mandatory retirement plan for clergy until 2007. MPP plan provisions continue to govern the distribution of MPP benefits. At retirement, participating clergypersons will receive at least 75% of the account balance in the form of a monthly benefit and the balance as a single sum distribution or as an annual or monthly-certain payment.

* *CRSP for bishops becomes effective September 1, 2008.*

RSP

RSP is similar to CRSP—it provides both a *defined benefit* (based on compensation and years of service) and a *defined contribution*. On January 1, 2007, it became effective for general agency employees, replacing the former mandatory general agency plan, SRBP. As of January 1, 2007, all SRBP balances were transferred to RSP.

An Expanded Retirement Savings Plan

United Methodist Personal Investment Plan (UMPIP)

Before January 1, 2006, the voluntary Personal Investment Plan (PIP) was available to clergypersons and lay employees as a retirement savings vehicle for personal contributions. Many United Methodist churches, conferences, hospitals, nursing homes and other United Methodist-related organizations also sponsored the Cumulative Pension and Benefit Fund (CPBF) to provide retirement benefits for lay employees.

After General Conference 2004 mandated pastor (staff)-parish relations committees to recommend retirement benefits for lay employees, the GBPHB merged PIP and CPBF into a new plan, UMPIP, which accepts both personal and employer contributions. UMPIP offers expanded flexibility for employers to make contributions to the plan on behalf of employees and continues to offer participants the ability to make their own contributions. We encourage local churches and other United Methodist-related organizations to adopt this plan on behalf of their lay employees.

Health and Welfare Plans

Providing and paying for health benefits is a growing challenge for churches, conferences and other employers, particularly since UMC clergy have higher incidences of stress and weight-related claims than other groups. Significant health insurance cost increases have forced many health insurance sponsors to limit coverage or pass on additional costs to covered employees. Retiree health coverage is especially at risk.

HealthFlex

HealthFlex (the GBPHB's voluntary health plan) has implemented health and wellness initiatives focused on improving the health of participants. Since 2005, HealthFlex has been participating in a multi-denominational purchasing coalition for pharmacy benefit cost management. As a result, HealthFlex conferences have realized significant cost savings for pharmaceutical drugs. In response to eligibility requirements and health and chronic disease management initiatives, member conferences have had annual premium increases averaging in the single digits—significantly below the industry average.

As of January 2007, HealthFlex has been adopted by 28 annual conferences and three employer groups, covering more than 30,000 lives.

Basic Protection Plan (BPP)

The GBPHB is redesigning the Basic Protection Plan (BPP) to provide participants and plan sponsors greater flexibility in meeting death and disability benefit needs while offering enhanced administration and service capabilities.

Based on industry and denominational research and plan sponsor feedback, the following plan changes have been identified:

- enhance lay participant benefits,
- offer more competitive rates,
- provide a greater variety of benefits and services, and
- develop an enhanced administrative and service platform.

We seek to provide the best coverage at the lowest cost for participants, whether that means providing a benefit plan internally or outsourcing it to an external organization. As a result, BPP will be replaced with new fully insured plans administered by UnumProvident and targeted for implementation in 2008.

Long-Term Care Insurance

In its continuing efforts to respond to participant needs, the GBPHB introduced its first group long-term care insurance product in 2005. Underwritten and administered by the John Hancock Life Insurance Company, this insurance product helps protect financial resources and provides peace of mind by offering affordable coverage that provides benefits for most long-term care expenses, including:

- home care,
- qualified adult day care,
- alternative care facility, and
- nursing home care.

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Premiums for this program are at group rates, and eligible participants pay less than what they would pay for an individual plan. Nearly 60 conferences have elected to offer this insurance product.

John Hancock administers this plan and handles all enrollment, underwriting, billing, premium collection, claims and customer service.

Denominational Health Task Force

General Conference 2004 directed the GBPHB to examine the feasibility of a unified health plan for the denomination. To conduct the study, we assembled the Denominational Health Task Force (Task Force).

The Task Force began its work by establishing broad objectives to guide the assessment of the Church's progress toward improved health across the denomination. It continued by:

- exploring approaches across the denomination to support the health of clergy and lay employees;
- examining the employment systems and culture that affect their health;
- considering ways to ensure group health plan access for full-time clergy and lay employees; and
- seeking to foster the health and wholeness of retired clergy, lay employees and their spouses.

The Task Force released a *Summary Report* in 2007 (*See Report Three for the complete Denominational Health Task Force Summary Report.*)

Death Benefit Plan for Clergy in the Former Evangelical United Brethren Church (DBP-EUB)

This program provides death benefits for itinerant elders in the former Evangelical United Brethren (EUB) Church. The Death Benefit Plan of the EUB (DBP-EUB) was established by action of the Board of Pensions of the EUB on October 27, 1964. It was financed from Board of Pension surplus assets. The former EUB Church had maintained the program prior to the 1968 union of the Methodist Church and the EUB Church to form The United Methodist Church. The merged church decided to preserve the program after the union for former EUB clergy. It has been administered since that time by the GBPHB.

The program pays a lump sum death benefit based on status and age at the time of death. The benefit amount, as set in 1964, has remained the same as shown in the chart below.

This benefit is in addition to the death benefits that active and retired United Methodist clergy receive through the Comprehensive Protection Plan.

Status and Age	Death Benefit
Active Under Age 50	\$2,000
Active Age 50 and Over	\$1,000
Retired	\$500

At the beginning of 2007, there were 1,061 former EUB clergy eligible for the benefit; 41 were active and over age 50; the others were retired. There were no active clergy under age 50. If all eligible clergy had claimed the benefit in 2007, the total cost of benefits would have been approximately \$550,000. At the start of 2007, the program's assets exceeded \$5.9 million.

In addition, since 1973, the General Council on Finance and Administration (GCFA) has been paying from the World Service Fund certain pension benefits to retired former EUB clergy for service rendered prior to the union in 1968.

Although the program's overfunding is significant, it is too small to have an impact on the denomination as a whole. In order to avoid potential unfavorable tax consequences, assets of the program should be used to provide pension benefits. Therefore, in consultation with GCFA, the GBPHB has decided to pursue the following course of action in regard to this program:

- Maintain a sufficient reserve in the DBP-EUB to cover the face value of benefits;
- Forgive unpaid arrearages;
- Use a portion of the excess assets in the DBP-EUB to reimburse the World Service Fund for EUB-related pension benefits;
- Donate a portion of the excess assets of the DBP-EUB to the Central Conference Pension Initiative; and
- Contribute the remainder of the excess assets of the DPB-EUB to an endowment fund to be used to provide relief for retired clergy or surviving spouses whose income does not provide an adequate standard of living.

Investment Resources

With over \$16 billion in assets under management, the GBPHB is the largest denominational pension fund in the United States. All plan contributions are received, invested and disbursed for the benefit of the clergy and lay workers who serve the Church. In addition, various UMC institutions (conferences, endowment funds and others) invest long-term assets with the GBPHB.

With the advice of professional investment managers and under the supervision of the Fiduciary Committee of the Board of Directors and GBPHB staff, the assets entrusted to us are invested in a variety of investment vehicles. Careful and prudent stewardship remains a priority. Through diversification, a disciplined allocation of assets and regular monitoring of investment portfolios, we devote considerable resources to ensure that investments are made wisely, investment risk is carefully controlled and investment returns are sufficient to meet the security needs of plan participants.

Socially Responsible Investing

The GBPHB follows an investment policy that is consistent with its fiduciary duties and is in keeping with the Social Principles and investment ethics of the Church.

The GBPHB is an active and responsible shareholder. We adhere to the Social Principles and will not hold securities in companies that derive more than 10% of revenue from the manufacture, distribution or sale of tobacco, alcohol, weapons, gambling or pornography. We also manage our investment program in a manner that focuses on environmental, social and governance issues through an active advocacy program that seeks to positively influence corporate behavior to be consistent with the values of The United Methodist Church as expressed in the Social Principles.

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We seek to make investments in a manner that accomplishes a positive social purpose and have done so by funding mortgages that support affordable housing and other community development programs. Additionally, through our microfinance lending program, the GBPHB has funded loans to impoverished entrepreneurs in lesser developed countries.

In recent years, the GBPHB has held dialogues with companies such as Baxter, ExxonMobil, Sara Lee, General Mills, Dollar General Stores, Walt Disney, Whole Foods and Wal-Mart. These dialogues addressed a variety of environmental, social and governance issues as diverse as global warming, human rights, drug pricing, vendor standards, genetic engineering and sustainability reporting. We also cooperate with other socially responsible investors as an active member of the Interfaith Center on Corporate Responsibility, a coalition of faith-based socially responsible investors, and the International Interfaith Investment Group, a coalition of investors representing the world's faiths. We are also an active member of Ceres, a national network of investors, environmental organizations, companies and public interest groups dedicated to sustainability issues.

In 2005, former United Nations Secretary General Kofi Annan invited the GBPHB to participate with the world's leading socially responsible investors to develop the United Nations Principles for Responsible Investment. In April 2006, at a signing ceremony held at the New York Stock Exchange, the GBPHB became one of the 27 charter signatories of the Principles.

Through socially responsible investing, we are committed to being a catalyst for social change.

Information on our record of proxy voting, shareholder resolutions and corporate dialogues can be found at www.gbophb.org.

Positive Social Purpose Investing

In 1990, the GBPHB began its positive social purpose investment program with a commitment of \$25 million in affordable housing and community development projects. In 2007, the total commitment had grown to more than \$1.5 billion. These investments take the form of mortgage loans, loans to charter schools, loans to community facilities, loans to microfinance institutions and public securities guaranteed by Fannie Mae or Freddie Mac. They are designed to earn a market rate of return commensurate with the assessed risk while supporting underserved communities and the development of affordable housing units. Since inception, the affordable housing/community development investment program has earned an annualized rate of return of approximately 7.5%. Through this program, we have invested in affordable housing projects in all 50 states and have helped create or renovate more than 30,000 affordable housing units. In 2005, the program expanded to include commitments to fund international microfinance institutions. These institutions provide small loans to impoverished entrepreneurs in lesser developed countries. We have helped fund more than 60 microfinance institutions serving more than one million people.

Investment Funds

The GBPHB offers eight investment funds for plan participants and other organizations affiliated with the Church. These funds span a wide range of investment risk and accept both before- and after-tax contributions. The funds are as follows:

- **Stable Value Fund**—a low-risk bond fund offering principal protection and a monthly interest credit. It is available only to individual participants enrolled in the Horizon 401(k) Plan, CRSP and RSP (defined contribution plans), former Ministerial Pension

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- **Short Term Investment Fund**—a low-risk, short-term bond fund available to various institutional investors affiliated with the Church.
- **Inflation Protection Fund**—a fixed-income securities fund consisting primarily of U.S. and international government-issued inflation-protected securities.
- **Domestic Bond Fund**—a fixed-income securities fund composed of a broadly diversified selection of U.S. and international bonds, including loans originated under the positive social purpose investment program.
- **Multiple Asset Fund**—a fund composed of a pre-selected mix of four of the GBPHB’s funds (Domestic Bond, Domestic Stock, Inflation Protection and International Stock).
- **Balanced Social Values Plus Fund**—a balanced fund composed of equities and positive social purpose investments in fixed income with socially responsible investing guidelines that are more stringent than the guidelines for other funds.
- **Domestic Stock Fund**—a broadly diversified U.S. stock fund that includes investments in private real estate and private equity.
- **International Stock Fund**—a broadly diversified international stock fund that includes investments in small companies and companies from lesser developed countries.

Investment Performance

The GBPHB’s funds have consistently ranked in the upper tier of similar funds offered by the mutual fund industry. Participants and institutional investors benefit from our funds’ low expense ratios, services provided by high-quality investment management firms and access to a broad variety of asset classes. Additional information regarding historical fund performance and rankings compared to the mutual fund universe is available at www.gbophb.org.

LifeStage Investment Management Service

Because retirement investing is complex and because many clergy and other plan participants are not certain about the best methods of selecting funds and investing their personal contributions to UMPIP and the Horizon 401(k) plan, the GBPHB introduced the LifeStage Investment Management Service (LifeStage) in 2006. LifeStage is an investment management tool that “manages” individual account balances. LifeStage was adopted as a means of managing MPP participant balances.

Participants may also elect LifeStage for their UMPIP, Horizon 401(k) and the defined contribution plan accounts of CRSP and RSP. Participants enrolled in LifeStage complete a personal investment profile that is used to determine how best to allocate GBPHB investment funds for their retirement portfolios. LifeStage automatically monitors this investment fund allocation and makes changes as a participant ages or experiences other personal changes.

LifeStage is available at no direct charge to plan participants and provides a degree of professional investment management that most participants could not match on their own. Participants who prefer to make their own investment fund choices may do so.

Financial Planning Services

Concurrent with the introduction of LifeStage and in response to participant requests, the GBPHB arranged for Ernst & Young LLP, a global financial services firm, to provide financial planning advice

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Cost of Operations

In accordance with *The Book of Discipline*, the GBPHB receives no general Church funds. As a result, our operating costs are derived solely from investment income and the pass-through of investment management, bank custody and fund administration expenses related to various plans. We constantly strive to improve operating efficiencies in the context of good stewardship and fiduciary responsibility. As of December 31, 2006, we had total assets of approximately \$15.8 billion.

Year	Operating Cost (\$000,000)	Percent of Assets
2004	33.8	.58
2005	34.0	.59
2006	34.2	.59
2007 (estimated)	38.6	.59

Facilities Report

In December 2005, when GCFA and the General Commission on the Status and Role of Women moved out of The United Methodist Building in Evanston, Illinois, the GBPHB was left with space that it cannot efficiently use. A facilities task force was created and has been evaluating the renovation and utilization of the existing space or a possible new location within the Chicago metropolitan area, including areas north and west of Evanston, downtown Chicago and the area around O'Hare International Airport.

The search for new headquarters is an important long-term decision for the GBPHB. The Board of Directors anticipates a final decision before the end of 2007.

Central Conference Pension Initiative

The Central Conference Pension Committee (CCPC), an interagency task force guided by actions of General Conferences 2000 and 2004, is dedicated to the task of providing retirement security for clergy and lay employees in the central conferences who have dedicated their lives in service to the Church.

General Conference 2004 approved legislation authorizing the GBPHB to create, administer and encourage funding for the programs of the Central Conference Pension Initiative (CCPI), in consultation with the GCFA and supported by the General Board of Global Ministries, United Methodist Publishing House and United Methodist Communications.

Currently, there are 63 annual and provisional annual conferences outside of the United States with approximately 7,000 active clergy and 2,000 retirees. Although many of the central conferences are growing, they struggle to provide adequate support for clergy during their years of active service. Many of the areas served by the Church around the globe do not have government-funded pension systems. Without Church support, clergy often have no financial support at all when they reach retirement.

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Almost all of the annual conferences in the U.S. already donate their United Methodist Publishing House pension distribution checks to the CCPI. Individuals, local churches and general agencies have also contributed.

For additional information, see <http://ccpi.umc.org/interior.asp?ptid=22&mid=7207>.

Central Conference Pension Committee

(Clergy shown in italics.)

Neil M. Alexander, UMPH

Donald Avery, GCFA

Barbara A. Boigegrain, GBPHB

James Branscome, GBPHB

Bishop Ben Chamness, GBPHB

R. Randy Day, GBGM

Bishop Gaspar João Domingos, West Angola Central Conference

Bishop J. Woodrow Hearn, retired

Larry Hollon, UMCCom

Irene Kabete, Zimbabwe Central Conference

Sandra K. Lackore, GCFA

Dan O'Neill, GBPHB, Managing Director for Central Conference Pensions

Bishop Bruce Ough, GBGM

General Board of Pension and Health Benefits Board of Directors

(Clergy shown in italics.)

Bishop Benjamin Chamness, Chairperson

Bishop Michael Watson, Vice Chairperson

Penney Schwab, Recording Secretary

Lauolefiso Ali'ifua

Calvin Alston, Jr.

James Berner

Vidar Bjerkseth

Donald Brackey

James Branscome

Hazel Broadnax (at large member of the Fiduciary Committee)

Monica Butler (at large member of the Fiduciary Committee)

Deborah Dangerfield

E. Keith Ewing

Venita Fields (at large member of the Fiduciary Committee)

Janet Forbes

Ron Gebhardtshauer (at large member of the Fiduciary Committee)

Gary George

William Green

Miriam Hagan

Zedna Haverstock

Joseph Heyward

Daniel Ivey-Soto

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Cynthia Jones

B. Lum Lee

Jessica Mann (at large member of the Audit Committee)

Gregory McGarvey

Donald Neebes (at large member of the Audit Committee)*

Marilyn J. Outslay

Diane Peak

Mario Perez (at large member of the Audit Committee)

Jerry Pinkerton

Carl Rhoads

Karen Sandoval

Scott Selman

Karl K. Stegall

Rondall Thornton

Gary Valade

Idalene R. Williams

L. Norton Wrisley (at large member of the Audit Committee)

William C. Wyman, Jr.

Ex-Officio

Barbara A. Boigegrain, General Secretary

* *Deceased 2007*