

NEWS & views

Summer/Fall 2010

A Quarterly Update from the Pension Boards



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Are We Heading For A Double Dip Recession?

Catherine Waterworth, Chief Investment Officer

In our view, it is unlikely that the United States economy is heading for a double dip recession. Nonetheless, the second quarter was marked by increased volatility and weakness across global stock markets, as investors questioned the strength of the economic recovery amid elevated concerns over the solvency of Greece and other European countries. The high debt burden and associated problems in Greece and other countries, such as Spain and Portugal, raised investor fears that the global economic recovery was losing steam. Indeed, the U.S. economy slowed to a 2.4% annual growth rate in the second quarter from 3.7% in the first quarter. The current recovery is clearly not as strong as other post-recessionary economic recoveries. Unemployment is high at 9.5% at the end of July and expected to remain at elevated levels for some time. With sluggish job growth and consumer spending likely to be restrained, significant improvement in the economy is likely to come over a prolonged period.



US Federal Reserve Building

The Federal Reserve Open Market Committee (the Fed) at its August 10 meeting kept the federal funds rate at the target range of 0 to 0.25% and reiterated its plans for “exceptionally low levels of the federal funds rate for an extended period.” The Fed also recognized that inflation measures have trended lower and that with “substantial resource slack continuing to restrain cost pressures...inflation is likely to be subdued for some time.”

With the release of second quarter earnings, equity markets have recovered somewhat from the poor environment in May and June. Earnings for more than 76% of S&P companies that have reported second quarter earnings so far have beaten earnings estimates. Although stock valuations look attractive, continued uncertainty over the sustainability of economic growth combined with the prospect of eventual removal of monetary stimulus and concerns about an exploding fiscal deficit will likely result in a bumpy road ahead for financial markets.



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MESSAGE FROM THE PRESIDENT/CEO

Risk is part of our everyday lives. Walking down the street, driving to the store or starting a new exercise routine all require taking a variety of risks, even if they are relatively small ones. In managing our money, we also take risks. "It's always a good time to reassess what level of risk you are comfortable with," says Bryan Olson, Vice President and Head of Portfolio Consulting at Charles Schwab & Co., Inc. "You can't eliminate risk entirely, but you can make informed decisions about how much to take on." Olson emphasizes that managing risk begins with identifying your goals, understanding your personal comfort level with risk, and creating a well-rounded financial plan. On the subject of risk management, the Pension Boards has launched an Enterprise Risk Management program this year that is assessing every aspect of our operations from a risk perspective. More will be reported in the months ahead.

The next adjustments to the Participating and Basic Benefit Annuity, if applicable, will occur January 1, 2011, based upon performance of Funds supporting these annuities as of September 30, 2010. The next adjustment to the Equity and Balanced Benefit Annuities will occur on October 1, 2010 based upon performance of these Funds at June 30, 2010. The result are reductions of 3.83% in the Balanced Benefit Annuity and 8.54% in the Equity Benefit Annuity. At a recent meeting of the Pension Boards' Board of Trustees, Buck Consultants provided a special review of the calculations that semi-annually adjust the

Equity and Balanced Benefit Annuity payment amounts. That review, which reached back to 1994, confirmed to the Trustees that the methodology for recognizing changes in the value of reserves and in the annuity payments has been consistently applied over the years. A summary of this analysis may be found on the Pension Boards' website at http://bit.ly/Buck_EqBal. (Please see the article by Chief Investment Officer Kate Waterworth on p. 1 for our views on the economy.)



At its June 4-5, 2010 meeting, the Board of Trustees approved adding qualified adult children to the Medical Benefits Plan effective July 1, 2010, six months in advance of the January 1, 2011 implementation date mandated by the new healthcare reform law. There will be no additional charge for this enhancement in 2010. For more details, please see the article by Health Plan Operations Director Frank Loiacono (p. 4).

Dramatic changes in the administration of 403(b) retirement plans went into effect January 1, 2009. The Pension Boards was fully compliant prior to this IRS-mandated implementation date. All UCC church employers received information packets last year to ensure their specific compliance. These forms must be updated annually, and information packets for 2010 will be mailed again to all UCC church employers during September 2010.

As part of our ongoing relationship with the 95-year old Church Benefits Association and the Church Alliance, which represent church plans from 52 denominational benefits organizations, we vigilantly monitor periodic challenges to the clergy housing exemption, and IRS evaluations of church plans. Pension Boards' staff are fully engaged in these matters for the benefit of the whole Church. Please see the article by Pension Boards General Counsel Jim Herod (below) for a summary of recent challenges.

With our continued thanks for your confidence and trust in us, we wish you joy and renewal in these remaining weeks of summer.

Faithfully,

A handwritten signature in black ink that reads "Michael A. Downs". The signature is written in a cursive, slightly slanted style.

Michael A. Downs
President/CEO

The Church Alliance: Working to Protect Church Retirement and Health Plans

James T. Herod, Esq., General Counsel

The Pension Boards works through the Church Alliance to protect the interests of ministers and participants in church retirement and health plans. The Church Alliance is an association of mainline Christian and Jewish denominations and Catholic groups. Recent examples of the Pension Boards' work to protect the interests of ministers and church plan participants include:

1. Monitoring a federal lawsuit in California challenging the constitutionality of the minister's housing allowance,
2. Attending a White House meeting to discuss new grandfathered health plan rules,
3. Working with the IRS to clarify eligibility for the small employer tax credit contained in the healthcare reform legislation,
4. Responding to press reports and questions concerning certain church retirement plan failures, and
5. Monitoring other potential government actions that could affect ministers and church plan members.

Corporate Social Responsibility

CSR

Financial Reform Act Contains Corporate Governance Improvements

Kathryn O'Neill McCloskey, Director, Corporate Social Responsibility

The Dodd-Frank Wall Street Reform and Consumer Protection Act has been enacted by the U.S. Congress. Many of the provisions concerning executive compensation in the law are considered by socially responsible investors to be vital foundations for well-governed corporations. In fact, many of these provisions are mirrored in the proxy voting guidelines and shareholder engagements of the Pension Boards.

The legislation provides shareholders a say on pay with the right to a non-binding vote on executive pay. Corporations will be obliged to put this on their ballot every other year. The Pension Boards' Corporate Social Responsibility Office has actively advocated for companies to voluntarily adopt the right for shareholders to have a say on pay vote. Shareholders will also have an opportunity to vote on "golden parachutes," a corporation's obligation to its executives in the event of severance.

The law stipulates that a corporation's board-level compensation committee must be comprised of independent directors. This could lessen the opportunity for executives to have influence over this committee. The Pension Boards' proxy voting guidelines include a long-standing policy to oppose individual non-independent directors nominated to the compensation committee.

The Pension Boards' proxy voting guidelines call for a recoupment of performance-based executive compensation when a company has to significantly restate its earnings. Similarly, the Dodd-Frank legislation requires that corporations have a procedure to recoup executive compensation on inaccurate financial statements that are not aligned to accounting standards.

Another significant provision of the legislation directs the Securities and Exchange Commission (SEC) to clarify how corporations must disclose their



compensation plans. Specifically, corporations will be required to chart their executive compensation against the company's stock performance over a five-year period. Clarifying and simplifying the compensation disclosures of corporations' SEC filings will improve investors' ability to discern the best-in-class companies.

The Pension Boards will continue to work with other investors to call for governance improvements in the corporations in which it invests through the efforts of the Corporate Social Responsibility Office.

PBUCC Welcomes Keith A. Tussing as Major Gifts and Planned Giving Officer

The Pension Boards is pleased to announce that the Rev. Keith A. Tussing joined the staff as Major Gifts and Planned Giving Officer on June 30. In this capacity, he will be working with the Rev. Dr. M. Douglas Borko, Director of Ministerial Assistance.

The Rev. Tussing is an ordained minister in the United Church of Christ, and has served congregations in Wisconsin and Minnesota. Besides holding a Master of Divinity/Theology degree from United Theological Seminary of the Twin Cities, he also has a Master's degree in counseling psychology from the University of Wisconsin-Oshkosh, and a management certificate from the Carlson School of Management, University of Minnesota.

The Rev. Tussing comes to his position with 25 years of experience designing and implementing large-scale fundraising and gift-giving projects, in both Minnesota and Pennsylvania. In his capacity as vice president of Walker Methodist Senior Health Services, he designed a gift program that increased annual major gifts sixtyfold, while reducing the cost of fundraising by over 80%. When asked his viewpoint on stewardship in times of economic crisis, he said, "People in churches have a sense of community. Christianity is about being generous." He added, "In terms of percentage, those with lower incomes are

more generous in their giving."

While the Rev. Tussing sees the the importance of "caring for those who served the church," he also has an eye to the church of tomorrow.

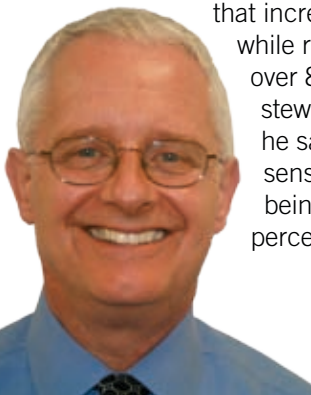
"The Target 2030 Leadership Initiative is a way of beginning to invest in the future of the church. It provides young clergy with an opportunity for professional development."

The Rev. Tussing is married; he and his wife Kris have two adult children. He enjoys tennis and travel.

"The Pension Boards is excited that the Rev. Keith Tussing has joined our team as the Major Gifts and Planned Giving Officer.

"With his wealth of experience, Keith adds a new dimension to the services we are able to provide to our members. Keith is able to help our constituencies as they engage in estate planning and consider gifts that will help support this critical ministry."

Rev. Dr. M. Douglas Borko



Health & Wellness

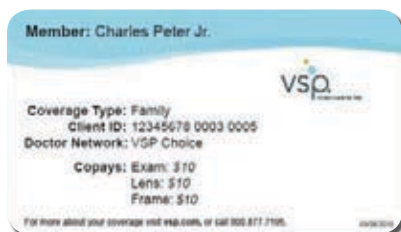
Frank Loiacono, Director, Health Plan Operations

Extension of Medical Benefits Coverage for Adult Children Under Age 26

With the passage of The Patient Protection and Affordable Care Act in March, Congress enacted the most far-reaching changes in the history of health benefit plans. This legislation requires our Plan to extend coverage to adult children under age 26 effective January 1, 2011. The Pension Boards is pleased to announce that, as of July 1, 2010, the UCC Medical Benefits Plan offers coverage to eligible adult children under age 26.

To enroll your eligible adult child(ren) under age 26 in the Plan, complete the application materials sent in the mail or visit our website, www.pbucc.org, for a copy of the enrollment form and eligibility information.

NEW! Vision Plan ID Cards



You asked and we listened! VSP's enhanced Member Vision Card is the solution for UCC Vision Plan participants who would like a vision insurance card. This print-on-demand card is available through the member site on vsp.com.

This enhanced card is a convenience for Plan participants and is not required for service. As always, full benefit information is available through the member site on vsp.com. Contact VSP toll-free at **1.800.877.7195**.

International Medical Care

The BlueCard Worldwide program enables you to receive inpatient and outpatient hospital care and physician services while outside the United States through an expanded network of healthcare providers.

If you need assistance finding a foreign provider, call **1.800.810.BLUE (1.800.810.2583)** toll-free. If you are unable to use the toll-free number, you can call BlueCard collect at **1.804.673.1177**. A medical coordinator will arrange hospitalization if necessary, or make an appointment with a physician. In an emergency, you should go directly to the nearest hospital. Any medical services you receive will be covered in accordance with the Plan limits. Please refer to the Highmark BlueCard Worldwide brochure found on our website, www.pbucc.org. Enter **Foreign Medical Care** in the **Search** box in the upper right corner of the web page.

Look for Your October Check Advice

Joan Roguski, Vice President, Member Services/Member Education

All annuitants, even those whose benefits are deposited directly to their bank account, will receive a check advice from our bank, Northern Trust, for their October pension. The advice will show your gross and net pension amounts along with any amounts that are withheld for taxes and premiums. The advice will also provide a form by which you can change your tax withholding elections. You do not need to complete that withholding form unless you wish to change your tax withholding.

Members who have direct deposit will receive three advices per year: January, April and October. These months correspond to the dates that annuity benefit adjustments, if any, take effect. Members with the Basic or Participating Annuities may have adjustments in January of each year. Members in the now-closed Equity and Balanced Annuities have adjustments in April and October.

In October, the Equity Annuity will decrease by 8.54%; the Balanced Annuity will decrease by 3.83%. These adjustments reflect performance of the respective portfolios from January 1, 2010 through June 30, 2010.

