The Path to Retirement

The Pension Boards
United Church of Christ, Inc.

When you retire, and change from accumulating to receiving benefits, your total accumulation is converted into monthly payments (annuitized). The greater your accumulation, the greater your retirement income.

There are five principal choices to be made that will also affect your retirement income:

1. When to retire and start annuity benefits
2. Which annuity income option to choose
3. Whom to name for survivor benefits
4. Whether to elect the Basic Annuity or the Participating Annuity
5. Whether to trade off part of the lifetime income for an up-front cash payment

To help your decisions, this booklet discusses each of these choices. But words alone cannot tell the whole story. The personal illustrations of monthly benefits you receive show the financial impact of these choices.

Introduction

When to Retire and Start Annuity Benefits

The normal retirement age of members of the Annuity Plan for the United Church of Christ (sometimes referred to as the Annuity Fund) is 65, but retirement and benefits may begin either before or after that age, as explained below. Retirement effective dates are always the first day of the month. The later you begin to receive annuity payments, the larger they will be. If you die at any time before annuity payments begin, your full accumulation is payable to the beneficiary you have named, generally as a monthly annuity if your beneficiary is your spouse or another dependent.

Retirement Before Age 65

You can start your annuity income before age 65 if you are age 55 or older and either:

- permanently terminate all employment with your employing UCC church or other participating employer, or
- work no more than 20 hours per week.

Your benefit can start as early as the first of the month following your termination of employment or your commencing part-time employment (no more than 20 hours per week).

Early retirement benefits will be considerably smaller than for retirement at an older age. At early retirement smaller accumulations, resulting from fewer years of investment earnings and contributions, must be paid out over many more years of assumed life expectancy. Monthly benefits begun at age 60, for example, are typically 40% to 50% smaller than benefits begun at age 65.

Health is a material factor for many who consider early retirement, but if your health is satisfactory, you probably should delay taking your benefit until the amount to be received will adequately provide for your needs without outside employment.

Choice 1

The cost of health insurance coverage is also a consideration. Before you become eligible for Medicare at age 65, premiums are considerably higher than for UCC Medicare Supplement Health Plan coverage at 65 and older. If you continue UCC Medical Benefits Plan coverage after retirement, premiums are deducted from your monthly annuity payment.

Retirement At or After Age 65

At any time after you reach age 65, you can start your annuity income or delay the start until you instruct us to begin payments. If you continue in UCC employment beyond age 65, your pension plan participation can continue. Here too, of course, the deferral of the annuity starting date has a powerful upward leverage on the amount of monthly annuity payable at the later age.

Under current law, your annuity benefits must begin no later than April 1 of the calendar year following the year in which you reach age 70½. However, if on that April 1 you are still employed in the denomination, you can delay the start of payments while such employment continues.

Additionally, if you retire but later become employed in the UCC, that later employer may contribute to your Annuity Plan account.

Which Annuity Income Option?

As a member of the Annuity Plan, you may elect any available option. All of these options provide a lifetime income for you, as the Annuitant, and all but one also make provision for others, to be named by you.

- If you select one of the Joint Life Options, the Joint Life Annuitant you name becomes your annuity partner, the person to receive lifetime monthly benefits after your death.

- You name another person (or persons) as beneficiary if the Joint Life or Single Life Option you select includes the 10-year guaranteed period. The beneficiary receives any death benefits payable during the balance of the 10-year guarantee period.

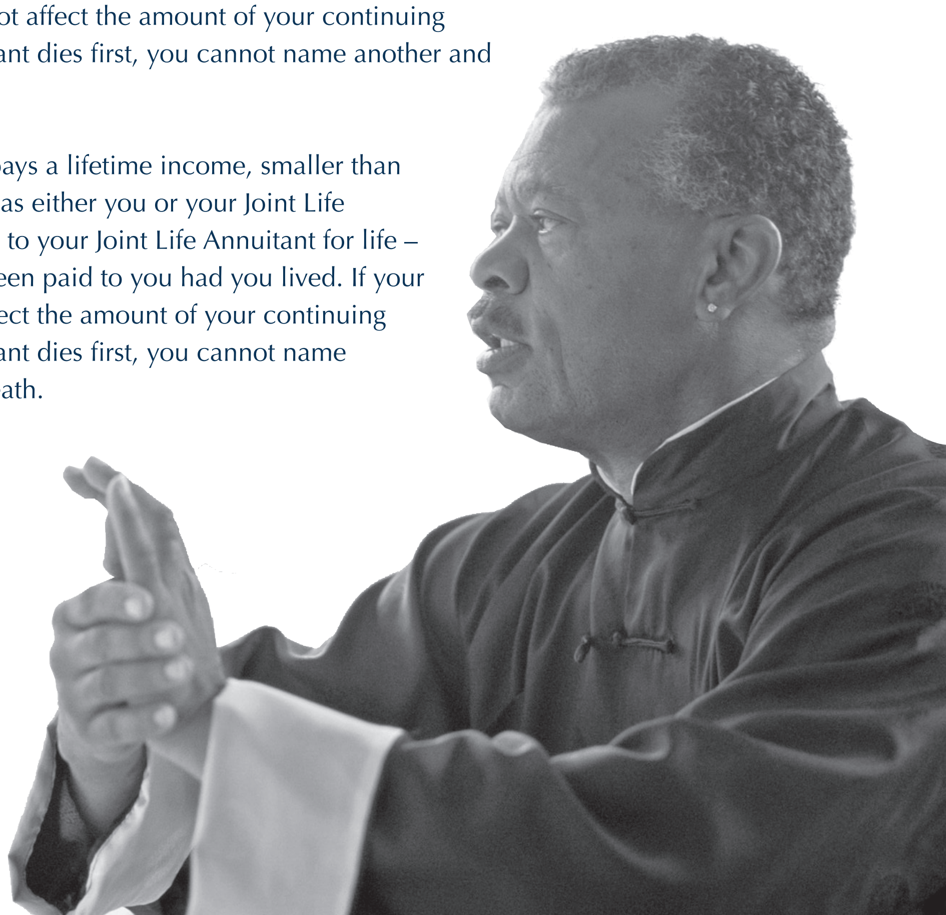
Benefits Without a 10-Year Guarantee

The Single Life Annuity Option pays you an income as long as you live, and is larger than any of the other options because it provides nothing for a survivor. It is rarely chosen other than by single people, widows, widowers, etc., with no dependents. In fact, a married member cannot select this option unless the Pension Boards receives the written, notarized consent of the spouse. Such choice by a married member is made only in unusual circumstances, such as when the spouse has a personal retirement income or other independent means.

The 66⅔% Joint Life and Survivor Option pays you an income, smaller than the Single Life Option, as long as you live. If your Joint Life Annuitant survives you, he or she receives continuing payments for life at 66⅔% of the amount you would have received had you lived. If your Joint Life Annuitant dies first, it does not affect the amount of your continuing monthly payments. If your Joint Life Annuitant dies first, you cannot name another and payments will cease at your death.

The 100% Joint Life and Survivor Option pays a lifetime income, smaller than any of the aforementioned options, as long as either you or your Joint Life Annuitant lives. The same benefit continues to your Joint Life Annuitant for life – if he or she survives you – as would have been paid to you had you lived. If your Joint Life Annuitant dies first, it does not affect the amount of your continuing monthly payments. If your Joint Life Annuitant dies first, you cannot name another and payments will cease at your death.

Choice 2



Benefits With a 10-Year Guarantee

The Single Life Annuity Option With 10-Year Guarantee is the same as the Single Life Annuity, but provides a smaller monthly benefit because it has the added provision that if you die during the first 10 years of payments, monthly payments will continue to your beneficiary for the balance of the 10 years at the monthly amount you would have received. If you live beyond the 10-year period, payments to you go on for the rest of your life, ceasing only at your death.

The 66⅔% Joint Life and Survivor Option With 10-Year Guarantee is the same as the 66⅔% Joint Life Option, but provides a smaller monthly benefit because it has the added provision that, if both you and your Joint Life Annuitant die during the first 10 years of payments, monthly payments will continue to your beneficiary for the balance of the 10 years, at 66⅔% of the amount you would have received had you lived. If you and/or your Joint Life Annuitant live beyond the 10-year period, lifetime payments go right on – as a full benefit while you are living, as a two-thirds benefit if your Joint Life Annuitant survives you, ceasing at the death of the last survivor.

The 100% Joint Life and Survivor Option With 10-Year Guarantee is the same as the 100% Joint Life and Survivor Option, but provides a smaller monthly benefit because it has the added provision that, if both you and your Joint Life Annuitant die during the first 10 years of payments, monthly payments will continue to your beneficiary for the balance of the 10 years at the same amount you and your Joint Life Annuitant would have received. If you and/or your Joint Life Annuitant live beyond the 10-year period, a 100% lifetime benefit goes right on, ceasing at the death of the last survivor.

Benefit Illustration

For your income option choice, as with the other choices, all of the above can best be demonstrated through personal benefit illustrations. The illustration to the right is for a member age 65 at retirement who names a 62 year-old spouse as the Joint Annuitant:

Relative Annuity Incomes for a Member Age 65 and Spouse Age 62

Single Life Annuity	
Without 10-Year Guarantee	$ 1,000.00
With 10-Year Guarantee	$ 986.37
66⅔% Joint Life and Survivor Option	
Without 10-Year Guarantee	$ 892.50
With 10-Year Guarantee	$ 892.24
100% Joint Life and Survivor Option	
Without 10-Year Guarantee	$ 846.97
With 10-Year Guarantee	$ 846.62

Whom to Name for Survivor Benefits

Naming a Joint Annuitant

If you are married, in all probability you will select a Joint Life Option, with your spouse as your Joint Annuitant. In fact, the Pension Boards must receive the written notarized consent of the spouse if anyone but the spouse is to be named as Joint Life Annuitant.

Once payments have begun, the Joint Life Annuitant cannot be changed, nor can a replacement be named if the Joint Annuitant predeceases you.

Unmarried members rarely select a Joint Life Option – only in special circumstances, such as where there is a parent, brother or sister with little or no financial means, or an adult child who requires continuing support.

A word or two of caution: The younger the Joint Life Annuitant, the smaller the monthly payments for the Annuitant, since the ages of both determine how long the lifetime benefits are expected to be paid. Therefore, except for a spouse, it may not be appropriate to name as a Joint Life Annuitant a person considerably younger than the member.

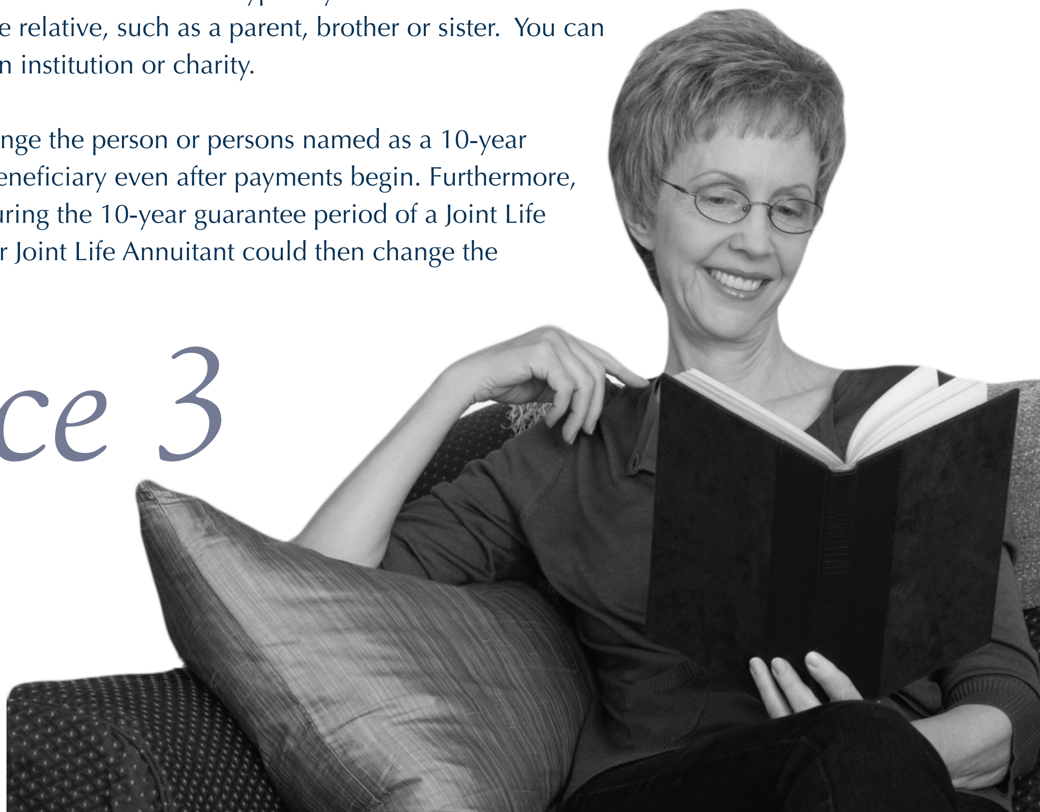
Young children can be protected to some extent, of course, by naming them as beneficiaries for the 10-year guaranteed period of the various options.

Naming a Beneficiary

If you select an option, Single Life or Joint, that includes the 10-year guaranteed period, the person or persons you name as beneficiary will receive any death benefits payable during that period. Annuitants with children typically name the children as beneficiaries. Others often name a close relative, such as a parent, brother or sister. You can also name an institution or charity.

You can change the person or persons named as a 10-year guarantee beneficiary even after payments begin. Furthermore, if you die during the 10-year guarantee period of a Joint Life Option, your Joint Life Annuitant could then change the beneficiary.

Choice 3

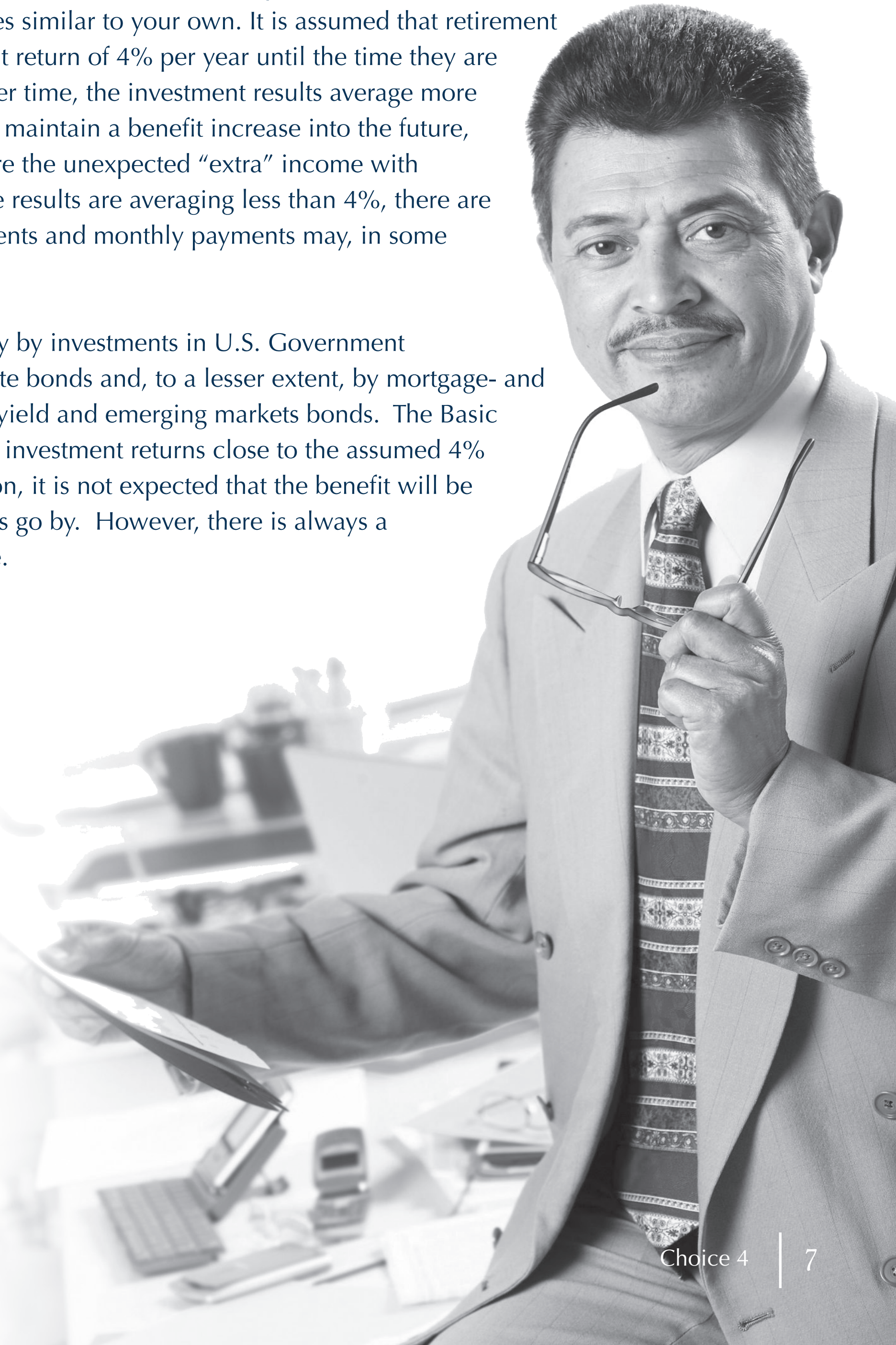


Whether to Select the Basic Annuity or the Participating Annuity

When you convert your accumulation account into an annuity, you must decide how those annuity reserves will be invested during your retirement. This choice will impact the amount of monthly annuity payments you receive in the future.

At the time you begin your annuity, a monthly retirement income is determined based upon your age (and that of your Joint Annuitant), the amount of assets in your accumulation accounts and your choice of the form in which your benefit will be paid (for example, Single Life Annuity, or Joint and Survivor). Your accumulation accounts are pooled with retirement reserves of persons who made investment choices similar to your own. It is assumed that retirement reserves will have an average investment return of 4% per year until the time they are needed for benefit payments. When, over time, the investment results average more than 4%, and sufficient reserves exist to maintain a benefit increase into the future, the monthly income is increased to share the unexpected “extra” income with retirees as adjusted payments. When the results are averaging less than 4%, there are no dollars available for increased payments and monthly payments may, in some instances, decline.

The **Basic Annuity** is supported primarily by investments in U.S. Government securities and investment grade corporate bonds and, to a lesser extent, by mortgage- and asset-backed securities, as well as high yield and emerging markets bonds. The Basic Annuity is expected to produce average investment returns close to the assumed 4% annual investment return. For this reason, it is not expected that the benefit will be adjusted to increase or decrease as years go by. However, there is always a possibility that the benefit could change.



Choice 4

The **Participating Annuity** is invested in a portfolio comprising both stocks and bonds, including domestic and international stocks, corporate and governmental bonds, treasury bills and similar investments that have fixed rates of return. The target allocation of assets will be roughly 60% to stocks and 40% to bonds. The performance of this portfolio may produce average returns that are higher than the assumed 4% annual investment return and is expected to provide for benefits that gradually increase over time. However, there is the risk that performance in certain years may be lower than the assumed return and adjustments resulting in benefit declines may occur.

At retirement, your initial benefit will be the same whether you choose the Basic Annuity or the Participating Annuity. Both the Basic and Participating Annuities will be reviewed annually for adjustments to the annuity benefit. If the experience of an annuity portfolio has exceeded the 4% assumption and the extra reserves are large enough so that the benefit increase can be sustained into the future, the benefit will be increased effective January 1. As discussed above, over time, the Basic Annuity is expected to remain relatively flat, while the Participating Annuity is expected to keep pace with inflation.

You must choose either the Basic Annuity or the Participating Annuity; you may not have a portion of your benefit paid under both. You cannot change your choice once it has taken effect. The best choice for you will be the one that gives you the greatest feeling of security for the future. You will need to ask yourself, "How do I feel about trading greater security for the possibility of greater income in the future?"

For persons who value security over the possibility of a benefit increase, the Basic Annuity would be a more comfortable choice. For persons less troubled by the stock market, the Participating Annuity would be a more comfortable choice. Unfortunately, all investment decisions can only be evaluated financially in hindsight. For this reason, your personal sense of security must be your own guide in making this choice. In addition, you should consult with your own personal financial advisor in making this decision so your individual financial goals and needs may be evaluated.

Historical Increases

Date	Basic Annuity	Participating Annuity
1/1/07	0.0%	3.5%
1/1/08	0.0%	6.0%
1/1/09	0.0%	0.0%
1/1/10	0.0%	0.0%
1/1/11	0.0%	0.0%
1/1/12	0.0%	0.0%
1/1/13	0.0%	0.0%
1/1/14	3.0%	3.0%

Do You Want a Partial Lump-Sum Withdrawal?

At retirement you can choose to have up to 20% of your employer's contributions with earnings and 100% of your personal contributions (if any) with earnings paid to you in a single payment. This reduces your annuity proportionately. You will have to pay income taxes on this distribution unless it is transferred to a Retirement Savings Account (RSA) within the Annuity Plan or to an IRA or qualified plan. Subsequent withdrawals from the RSA and IRA are taxable.

This option was created to provide a member with money to help make a down payment on a home, recognizing that many ministers had not previously owned the homes in which they lived. However, there is no requirement that a lump-sum distribution be used for housing.

How Much Is the Reduction?

Taking a lump-sum distribution reduces your annuity in exact proportion to your payment. A lump-sum payment equal to 20% of your total accumulation reduces your annuity by 20%; a 5% lump-sum payment reduces your annuity by 5%, etc.

Who Should Elect It?

The lump-sum payment should not be considered unless the remaining annuity will provide you with an adequate retirement income, or the lump-sum amount will be used in such a way as to reduce your future cost of living.

Choice 5

Further Information for After You Retire

The Retired Minister's Housing Allowance

Pension benefits are normally taxable. However, it often comes as a pleasant surprise to ministers that their pension benefits can be treated as housing allowance. Under current regulation and the Pension Boards' actions, 100% of a retired minister's pension can be spent on housing, including furnishings, utilities and other allowable expenses. Withdrawals from the RSA also qualify for the housing allowance; money transferred from the Annuity Plan to an IRA does not qualify for the housing allowance. The amount you exclude as housing allowance cannot exceed the fair rental value of your property, including utilities and furnishings, if that is less than your actual out-of-pocket costs.

If you are not a minister, a housing allowance is not available. A housing allowance is also not available to a minister's widow or widower for benefits arising from the minister's employment, even if the widow or widower is also ordained.

A housing allowance attributable to pension income should not be treated as self-employment income, and accordingly, should not be subject to Social Security taxes. That is a difference between the housing allowance of an active minister and the portion of pension income treated as housing allowance by a retired minister.

How Are Retirement Benefits Taxed?

Once you start receiving benefits, each year the Pension Boards will send you tax information and instructions to help you complete your tax return.

Annuities paid by the Pension Boards are generally taxable as income in the year you receive them – in part, because the money used to provide them was not previously taxed. However, if you have made contributions that were not tax-deductible, part of your annuity will be tax-exempt.

The IRS requires us to withhold taxes from your pension unless you tell us not to. When you retire we will supply all the proper forms. If you do not submit a tax form, we are required to withhold as if you are married with three exemptions.

You should check for possible changes in IRS rules and should consult with your personal tax advisor. If you wish to change your withholding election, please submit a new W-4P form, a copy of which is available on our website, **www.pbucc.org**.

Currently, Social Security benefits are tax-exempt for incomes below $25,000 if single or $32,000 if married filing jointly. Above those amounts, up to 85% is taxed.

What About State Taxes?

States vary in their tax policy on retirement benefits, so it is important for you to be aware of both local and state tax regulations. You will need to review this subject with your personal tax advisor. We do not currently withhold for state or local taxes.

If You Move

Please keep us informed of your current address. We need to be able to notify you of changes affecting your benefits and to send your Form 1099-R for tax purposes after the end of the year.

Changing Your Beneficiary

Once your annuity payments have begun under the Joint Life and Survivor Annuity, you cannot change the Joint Life Annuitant you named to receive lifetime payments after your death.

However, if you have selected the 10-Year Guarantee feature, you may change the 10-Year Guarantee beneficiary previously named at any time. (Such payments would be received after the death of the second to die of the member and the Joint Life Annuitant, if any, if such deaths occur before 120 monthly payments have been made.) You should notify us if a beneficiary dies or if you want to change a beneficiary. You can obtain a new beneficiary form on our website, **www.pbucc.org**.

If you are receiving annuity benefits under the Joint Life and Survivor Annuity Option, the death of your Joint Life Annuitant will not change the amount of annuity you receive, and you cannot select a new Joint Life Annuitant.

Social Security

If you are retiring at age 62 or older, you should telephone your Social Security office at least three months in advance to tell them of your planned retirement. They will tell you your expected benefit amounts and explain Social Security and the requirements for reporting income.

Medicare

Be sure to enroll for both Parts A and B of Medicare before your 65th birthday. If you are enrolled in the UCC Medical Benefits Plan, send us a copy of your Medicare cards so that we can enroll you in the UCC Medicare Supplement Health Plan at a lower cost to you. You do not need to apply for Medicare Part D, as prescription drugs are covered under the UCC Medicare Supplement Plan with Rx.

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