2013 Annual Meeting Summary

The Pension Boards
United Church of Christ, Inc.

Partners in Ministry Since 1914

The 99th annual corporate meeting of The Pension Boards–United Church of Christ, Inc. (Pension Boards) was held Friday, June 7, 2013, at the Hamilton Park Hotel & Conference Center in Florham Park, New Jersey. Seventeen proxies representing the six geographical regions of the United Church of Christ (UCC) attended on behalf of Pension Boards members; one elected proxy from the Great Lakes Region was unable to attend. Also present was a seminary representative from United Theological Seminary of the Twin Cities, a seminary of the United Church of Christ.

Trustee Chair Dan J. Carwile convened and presided over the meeting. Michael A. Downs, President and Chief Executive Officer, offered the opening prayer and called the meeting into session and to order.

Pension Boards' General Counsel and Corporate Secretary James T. Herod, J.D., LL.M. (Tax), CEBS, called the roll and reported that there was a quorum of members of the corporation as represented by the proxies and introduced the proxies, seminary representative, members of the Board of Trustees, Directors of the United Church Board for Ministerial Assistance and Pension Boards staff. Mr. Herod explained the two formal votes before the proxies at this year's meeting: 1) to elect Trustees; and 2) to authorize the President and Corporate Secretary to approve the meeting minutes. Mr. Herod presented the slate of Trustee nominees. Mr. Neal Miller was presented for re-election for a one-year term ending in 2014. Mr. Carwile, Ms. Linda Cary and Mr. Robert Medvey were presented for re-election for four-year terms ending in 2017. Ms. Jeanette Carpenter Schreiber was presented for election for a four-year term ending in 2017.

Mr. Carwile then called on Mr. Downs to present his report.

Mr. Downs prefaced his formal remarks by thanking the Rev. Dr. Arthur L. Cribbs, Jr., a Pension Boards Trustee and former Director of the United Church of Christ Office of Communications, for his narration of the Pension Boards' 100th Anniversary video, and expressed his deep gratitude for the many prayers offered on behalf of the Downs family during a period of illness.

Mr. Downs began his presentation by citing the Pension Boards' core values – to act ethically, build trust, communicate transparently and demonstrate excellence. He discussed the Pension Boards' stewardship of members' money, which is held in individual accounts.

Mr. Downs noted the growth of the Pension Boards' total assets over the past decade. At year-end 2002, net assets were $2.128 billion; as of year-end 2012, the total had grown to $3.054 billion, an increase of over $900 million over a 10-year period in which there was an economic recession, a loss of 11% of UCC churches, and a 23% reduction in worship attendance. He cited the reasons for the increase in assets to be favorable investment returns and increases in individual personal contributions.

Presenting the breakdown of the core operating expenses, Mr. Downs explained the categories of administrative expenses and investment expenses. Administrative and investment expenses, combined, amount to 66 basis points, or 0.66% of assets under management. The number of basis points is significantly lower than most commercial plans.

At year-end 2012, there were 21,914 members. During the year, there were 69,000 requests for service. Feedback from the Pension Boards' annual all-member survey showed that 92% of members rate the Pension Boards as trusted or highly trusted, and 83% rate benefit plans as valued or highly valued. Over the past 16 years, membership has shifted from 10,000 active members and 5,000 retirees to 5,000 active members and 10,000 retirees.

Mr. Downs described the health and dental plans administered by the Pension Boards. He discussed the components of the increase in health care rates – utilization and inflation. Inflation usually represents 2-4%, and utilization accounts for two-thirds of the increase. The numbers of prescriptions, doctor visits, and claims have increased so that within a 10-year period, utilization has doubled. He described the new three-year Church Benefits Association (CBA) pharmacy coalition contract with Express Scripts, which will yield savings of $130 million. The collective purchasing power through the CBA, as well as participants' use of in-network providers, will increase savings. For 2013, there was no increase in UCC Non-Medicare Plan rates, and a decrease in UCC Medicare Supplement Plan rates. Mr. Downs explained the Plan's Patient Safety Program, in which participants' prescriptions are automatically tracked to detect potentially life-threatening drug interactions.

Next, Mr. Downs explained the UCC Life Insurance and Disability Income (LIDI) Benefit Plan. For a cost of 1.5% of salary, the LIDI plan provides a death benefit and short- and long-term disability income. In the event of long-term disability, the Plan provides continuing health care coverage under the UCC Medical and Dental Benefits Plan, and makes contributions to the member's Annuity Plan account.

Mr. Downs announced that last year, the Pension Boards received $1.5 million in offerings to the Christmas Fund for the Veterans of the Cross and the Emergency Fund, and expressed gratitude to individuals and churches for their contributions. Ninety-two cents of every dollar received will go back out in ministerial assistance in 2013.

Mr. Downs described recent communications efforts. The quarterly *News & Views* newsletters for annuitants and active employees continue to provide updates on Pension Boards' plans and programs. E-blasts are sent out regularly, and Facebook and Twitter pages are growing in popularity. The Pension Boards is committed to maximum transparency in communicating with members. A video has been produced celebrating the Pension Boards' 100th Anniversary. The Pension Boards continues to provide the national ministries and Conferences of the UCC with licenses for WebEx online meeting technology.

Mr. Downs concluded his report with the three-year strategic plan. Goals include maintaining momentum with no slippage in terms of service and performance, and assessing current products to determine whether they continue to be ideal. Another goal is the conversion of the record-keeping system that has been in place since 1997 to a modern program to manage the over 30 million pieces of data generated each month. It is an enormous undertaking affecting the work of 40 staff members and touches every aspect of the Pension Boards' work. At the conclusion of his remarks, Mr. Downs introduced Chief Investment Officer David A. Klassen, CFA.

Mr. Klassen began his report by discussing 2012 financial markets and performance of the Pension Boards' investment funds. Pension Boards' funds outperformed benchmarks in 2012 and had a favorable outcome. The Equity Fund was up 16.5% at year-end 2012; the Fixed-Income Fund, 6.1%; the Balanced Fund, 12.6%; and the Stable Value Fund, 2.4%.

Mr. Klassen noted that in 2012, the performance of the Balanced Fund was in the top 25% in comparison to a peer set of 500 similar funds provided by Summit Strategies, our consultant. The return has been 8.12% for the past three years. This return was generated with lower risk, as measured by standard deviation, than similar-type funds.

Next Mr. Klassen explained the Target Annuitization Date (TAD) Funds, which are designed to automatically become more geared toward preservation of principal as the member approaches annuitization.

Mr. Klassen then reported on markets economy and strategy. The United States suffered from the large recession in 2008 but is recovering. Unemployment is decreasing, and housing is gradually improving. Europe's economy suffered in 2011, and is still experiencing sluggish growth and a 12.5% unemployment rate. Central banks are buying securities and providing the world with liquidity. While the U.S. stock market has fluctuated significantly since 1999, it is only marginally higher now than it was in 1999. However, earnings have doubled since that time.

The Pension Boards has two-thirds of the Equity Fund allocated to companies with headquarters in the United States but periodically takes advantage of global diversification. Recently the Pension Boards allocated a small amount to hedge funds, in order to be cost-effective and diversify. Additionally, the Pension Boards has expanded the asset class diversification both in equities and fixed income.

Mr. Klassen closed his remarks by emphasizing that the past year's performance was favorable. He noted that the Pension Boards is facing challenges head-on and preparing for the next five to ten years. At the conclusion of his remarks, Mr. Klassen introduced Chief Financial Officer Maxine Seifert, CPA.

Ms. Seifert began by reporting on the due diligence involved in producing the Pension Boards Annual Report. She noted that stewardship involves using best practices in all aspects of business. Each trustee is independent of management and complies with a strict conflict of interests policy. The Board formally approved the financial statements in the Annual Report upon the recommendation of the Audit Committee. Two of the Audit Committee members are financial experts, as defined by the Securities and Exchange Commission. The external auditor, Ernst & Young, and the internal auditor, McGladrey, are maintained based on recommendations by the Committee, and report to the Audit Committee Chair, who approves all compensation and services in advance. All financial information is the responsibility of management, who must certify that the information has integrity, is objective, and is prepared according to U.S. generally accepted accounting principles applied consistently. They set the ethical tone by maintaining and enforcing the highest standards of conduct. Ernst & Young performed their work according to generally accepted auditing standards, issued an unqualified opinion, and favorably concluded that there were no material weaknesses noted at the Pension Boards.

The Pension Boards has two certified actuaries on staff, but uses external actuaries for the Annuity Plan review. The Hay Group reported that the Annuity Plan is actuarially sound and that no changes needed to be made to the mortality assumptions.

Ms. Seifert expressed appreciation for all gifts and legacies, noting that they represent trust in the Pension Boards' good stewardship and that this trust needs to be earned in an ever-changing and increasingly complex world.

Ms. Seifert reported on enterprise risk management (ERM), an initiative to deal with uncertainty in a structured way. One goal in this process was to develop and implement a multi-year plan. An Enterprise Risk Management Committee was formed to review reports identifying significant risk and action plans regarding how to mitigate risk. Based on the American Institute of Certified Public Accountants' survey, only 10% of non-profit organizations have formal ERM processes in place and nearly 40% of all organizations surveyed have no ERM processes in place. The Pension Boards compares favorably against these benchmarks, and remains committed to building on progress that has been made. Ms. Seifert closed her report noting that a robust ERM program is critical to effective stewardship and the Pension Boards will report next year on progress of the Enterprise Risk Management initiative.

Following the formal reports, Mr. Downs opened the meeting to questions. At the end of the Q&A session, Mr. Herod reported that all Trustee nominees had been elected by votes cast by members through their proxy representatives. There being no further business, the meeting was adjourned by Mr. Carwile.