2012 Annual Meeting Summary

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The Pension Boards
United Church of Christ, Inc.

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475 Riverside Drive, Room 1020
New York, NY 10115-0059

2012 Annual Meeting Summary

Proxy Representatives to the 98th Annual Meeting

The 98th annual corporate meeting of The Pension Boards–United Church of Christ, Inc. (Pension Boards) was held Friday, June 8, 2012, at the Radisson Hotel at Gateway in Cleveland, Ohio. 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 New England Region was unable to attend. Also present was a seminary representative from Pacific School of Religion, one of the seven seminaries of the United Church of Christ.

Trustee Chair Dan J. Carwile convened and presided over the meeting. The Rev. M. Linda Jaramillo, Executive Minister of Justice and Witness Ministries, offered the opening prayer and extended a welcome on behalf of the Collegium of Officers and the national staff of the United Church of Christ.

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. After welcoming Annuitant Visitors the Rev. Erwin Koch and the Rev. Dr. Donald Nichols, Mr. Herod introduced the proxies, members of the Board of Trustees, Directors of the United Church Board for Ministerial Assistance and Pension Boards staff, and called the meeting into session and to order. Mr. Herod explained there were three formal votes before the proxies at this year's meeting: 1) to elect Trustees; 2) to vote on the resolution on an amended and restated certificate of incorporation; and 3) to authorize the President and Corporate Secretary to approve the meeting minutes. Mr. Herod presented the slate of Trustee nominees. The Rev. Dr. Martha A. Baumer was presented for re-election for a one-year term ending in 2013. The Rev. Dr. Geneva M. Butz, the Rev. Dr. Barbara Kershner Daniel, Mr. John B. Kleiman and the Rev. Dr. Leslie M. Schenk were presented for re-election for four-year terms ending in 2016. Ms. Jane Tedder was presented for election for a four-year term ending in 2016. Mr. Herod explained that the resolution on an amended and restated certificate of incorporation had received and exceeded the required two-thirds majority vote of Pension Boards members.

Mr. Carwile then called on Pension Boards' President and Chief Executive Officer Michael A. Downs to present his report.

Mr. Downs began his presentation by quoting the vision statement adopted in 2003 by the Board of Trustees: "To strengthen the church by helping participants achieve health and economic security." He explained how the work of the Pension Boards strengthens and benefits the church as a whole.

Mr. Downs noted that there had been significant senior staff changes over the past year. David A. Klassen joined the staff of the Pension Boards as Chief Investment Officer in July 2011. Todd A. Muchnicki was named to the position of Chief Operating Officer in May 2011. Thomas Nolan became Director of Information Technology in October 2011, and Wynonia Y. Leak, a 25-year veteran of the Pension Boards, was promoted to the position of Director of Member Services/Member Education in February 2012 after having served in an interim capacity throughout most of 2011.

Mr. Downs spoke about the Pension Boards' budget, which increased by 10.47% over the five-year period from 2007-2012 compared to the Northeast Region and nationwide urban Consumer Price Index increases of 11.58% and 11.11%, respectively. Combined administrative and investment expenses for all funds managed on behalf of members average 80 basis points (.80%), about one-half the investment expenses for similar funds as reported by Morningstar Financial Services. This means members benefit positively from higher net returns (returns after fees) than would otherwise be the case. Mr. Downs noted that of the more than $938 million in total giving in the United Church of Christ in 2010, the Pension Boards received about 10% in the form of pension contributions and insurance premiums paid by local churches on behalf of members.

Between 2007 and 2011, the total number of members increased slightly despite the overall decline in church membership. The number of actively employed members decreased during the same period, while the number of inactive and annuitant members rose. At year-end 2011, combined net assets were $2.9 billion. In terms of assets under management, the Pension Boards ranks 415 in the top 1,000 retirement plans in the United States.

Mr. Downs described the benefit plans and programs administered by the Pension Boards. The UCC Medical and Dental Benefits Plan was at or below trend for 10 consecutive years as a result of members' use of network providers and generic medications, as well as the savings achieved through the Pension Boards' coalitions and partnerships with other church plans through the Church Benefits Association (CBA). The CBA has been successful in negotiating tens of millions of dollars in contract savings by leveraging its combined group purchasing power. Mr. Downs reported that after a year marked by a high number of "shock" or high-cost claims in 2010, claims experience reverted back to normal in 2011.

Mr. Downs noted that the UCC Life Insurance and Disability Income (LIDI) Benefit Plan, at a cost of 1.5% of salary basis, offers a safety net to church employees that is not available in the commercial insurance marketplace. The Flexible Benefit Plan for UCC Ministries saved participants an estimated $182,000 in federal income taxes in 2011. Two hundred and fifty UCC employers currently offer this benefit to their employees.

The annual Christmas Fund Offering for the Veterans of the Cross and the Emergency Fund received $1.537 million in 2011. Ninety-two cents of every dollar goes to providing direct support in the form of pension supplementation, health premium supplementation, Christmas "Thank You" Gift checks and grants to lower-income UCC clergy and lay annuitants and families facing unforeseen financial crises. Mr. Downs noted that in the minutes of every General Synod between 1969 and 1981 were mandates related to Pension Boards' activities.

Mr. Downs emphasized that in all its public relations and communications efforts, the Pension Boards strives for transparency. The Pension Boards communicates to members through webinars, newsletters, e-blasts and social media. A new section has been added to the Pension Boards' website with information for seminarians. Thirty Conferences and the national ministries of the church are utilizing WebEx conferencing technology provided at no charge by the Pension Boards.

Mr. Downs concluded his report with the Strategy Roadmap adopted by the Board in 2011, which set out three specific corporate goals: 1) maintain Pension Boards' organizational momentum; 2) prepare for new opportunities; and 3) assure retention of the most competent staff available to accomplish the mission and strategic goals. He then introduced Chief Investment Officer David A. Klassen, CFA.

Mr. Klassen began his report by expressing his appreciation for the opportunity to serve at the Pension Boards. He then reported that the performance of equities, as represented in the Standard & Poor's (S&P) 500 Common Stock Index in the fourth quarter of 2011, made it possible to end the year in positive territory. Mr. Klassen spoke of the benefits of diversification over the long term. He noted that 2011 was a difficult environment in which to beat the indexes. Fixed-income investments, such as the Bond and Stable Value Funds, performed better than equities in 2011, increasing 7.15% and 2.40%, respectively. The Equity Fund's -4.19% return in 2011 underperformed the benchmark because of its diversification strategy. However, this strategy is expected to outperform the S&P 500 over the long term. The Balanced Fund increased slightly by 0.18% in 2011, benefitting from its allocation to fixed-income investments but hurt by the allocation to equities. The 2015 Target Annuitization Date (TAD) Fund increased by 3.51% in spite of the tumultuous investment environment. There were no changes to the Basic and Participating Annuities in 2011. The Equity and Balanced Benefit Annuities, which have been unavailable to new investments since 2006, increased by 22.01% on April 1, 2011 and 3.98% on October 1, 2011, while the Balanced Benefit Annuity increased by 12.18% on April 1, 2011 and 2.57% on October 1, 2011.

In 2011, the Pension Boards' Corporate Social Responsibility (CSR) program focused on issues of corporate governance, corporations' political spending policies, and board diversity, while also providing leadership in socially responsible investing through participation in the Interfaith Center on Corporate Responsibility (ICCR). At the conclusion of his remarks, Mr. Klassen introduced Chief Financial Officer Maxine Seifert, CPA.

Ms. Seifert reported on the due diligence involved in producing the Pension Boards Annual Report. She noted that the Chief Executive Officer and Chief Financial Officer are responsible for the integrity and objectivity of the financial information contained in the Annual Report. Ernst & Young, the external auditors, gave a clean opinion, and no material weaknesses were noted. Ms. Seifert reported that although the Pension Boards has two certified actuaries on staff, external experts are retained to review the Annuity Plan. The annual actuarial valuation performed by The Hay Group found the Annuity Plan "actuarially sound, with reported assets sufficient to satisfy the actuarially determined liability." Ms. Seifert reported that gifts and legacies totaling $354,000 were received in 2011 and expressed appreciation for the trust that each gift and legacy represents.

Ms. Seifert noted that as a complex financial services organization, the Pension Boards must monitor and develop responses to legislative, judicial and regulatory changes. The Pension Boards has undertaken a formalized Enterprise Risk Management (ERM) initiative. The Board of Trustees has overall responsibility for ERM, and formed a standing committee to oversee the program. A staff committee consisting of the CEO and his direct reports was formed in 2011 to lead the process of risk identification, risk assessment and risk treatment in all departments and functions of the Pension Boards.

Following the formal reports, Mr. Downs opened the meeting to questions. At the end of the Q&A session, Mr. Herod reported that all six 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.