Summary Report of the 101st Annual Meeting

"…and let us run with endurance the race that is set before us"

The Pension Boards
United Church of Christ, Inc.

The 101st annual corporate meeting of The Pension Boards-United Church of Christ, Inc. (Pension Boards) was held Friday, June 5, 2015, at the Hamilton Park Hotel and Conference Center in Florham Park, New Jersey. Fifteen proxies representing the six geographical regions of the United Church of Christ (UCC) attended on behalf of Pension Boards members. We were pleased to have a seminary representative from Eden Theological Seminary in St. Louis, Missouri participate as a non-voting student attendee.

Trustee Chairman Dan J. Carwile convened the meeting at 8:39 a.m. (Eastern Time), and welcomed attendees. He introduced the Rev. David Popham, Associate Conference Minister of the Central Atlantic Conference of the United Church of Christ, who brought greetings from the host Conference and gave the invocation.

Mr. Carwile called General Counsel and Corporate Secretary James T. Herod to call the roll. Mr. Herod introduced guests; the Directors of the United Church Board for Ministerial Assistance; and Pension Boards staff.

Mr. Herod affirmed that, in accordance with the laws of the State of New Jersey, in which the Pension Boards is incorporated, there was a quorum as represented by the proxies, and the meeting was called to order.

Mr. Herod introduced the business items requiring a vote: 1) the election of Trustees, and 2), the authorization of the President and Corporate Secretary to approve the meeting minutes.

The Rev. Dr. Sheldon Culver was presented for reelection for a one-year term ending in 2016. The Rev. Dr. Arthur L. Cribbs, Jr. and the Rev. Dr. Rodney Franklin were presented for reelection to four-year terms, ending in 2019.

The proxies voted to authorize the President and Corporate Secretary to approve the minutes of the Annual Meeting. Following the votes, Mr. Carwile called on Michael A. Downs to present the Report of the President and Chief Executive Officer.

Mr. Downs called attendees' attention to this year's Annual Report, the theme of which is "…and let us run with endurance the race that is set before us." He then shared the Pension Boards' Vision Statement ("To strengthen the church by helping participants achieve health and economic security") and Values Statement ("In all that we do, the core values of The Pension Boards-United Church of Christ, Inc. are to Act Ethically, Build Trust, Communicate Transparently, Demonstrate Excellence"). These two key tenets inform and undergird all the work of the Pension Boards.

Mr. Downs stated that, with $3.3 billion in assets, the Pension Boards ranks 494th out of the top 1,000 retirement plans in America. The UCC Medical and Dental Benefits Plan serves 8,000 participants in all 50 states, spread out over 860 of the 904 postal ZIP codes.

In 1981, UCC membership stood at 1.7 million and Pension Boards assets were $280 million. In contrast, in 2014, UCC membership was a little more than half of what it was in 1981: 944,000. Pension Boards assets, in spite of two sharp economic downturns in 2002 and 2008, had risen to $3.4 billion by year-end 2014. Retirement accounts have grown and continue to support annuitants for increasingly longer lifespans. At present, there are 2,800 members over 85 years of age, and 40 who are over 100.

Administrative and investment fees were held to 66 basis points, a top decile performance among all church plan administrators. Mr. Downs noted that a balance must be struck between containing costs and providing excellent service and engendering trust. Self-assessment is a necessary part of this process. He pointed to three years of survey data in which respondents were asked to rate their satisfaction with the Accumulation, Annuity, Non-Medicare Health, and Medicare Supplement Plans. Results show that satisfaction has been steadily increasing over the last three years, with rates now ranging from the high 80s to the low 90s.

As of the end of 2014, the Pension Boards served 22,474 members, responded to over 70,000 requests for service, made 126,308 annuity payments, filled 146,418 prescriptions, processed 185,644 health and dental claims, attracted 237 attendees to pre-retirement seminars, submitted 1,084 domestic corporate proxy votes, and averaged 23,445 views per month on its website. The Annuity Plan, as of December 31, 2014, was serving 10,738 annuitants. Annuity assets stand at $1.8 billion as of the end of 2014.

For the past 11 years, the Health Plan's increases have averaged about 4% and have been at or below trend, defined as a combination of utilization and inflation. This has resulted in more than $15 million in savings. Factors that contribute to these savings include the use of networks and generic drugs, and the purchasing power of denominational coalitions through the Church Benefits Association (CBA). For 2015, Non-Medicare rates rose by 4%, while the Medicare, Dental, and Vision Plans had no increase.

There is about $160 million total coverage in force in the UCC Life Insurance and Disability Income (LIDI) Benefit Plan, which includes active members and their dependents. The Long-Term Disability component of the LIDI Plan pays members' Annuity Plan dues and their UCC Medical and Dental Plan premiums through age 65.

The Flexible Benefit Plan for UCC Ministries received $831,500 in 2014, yielding tax savings of approximately $158,000 to its 485 participants in 253 churches and ministries.

Ministerial Assistance provides about $3 million annually in supplementation and grants from endowment income and the Christmas Fund Offering for the Veterans of the Cross and the Emergency Fund. The endowment totals approximately $70 million. Mr. Downs noted that 92 cents of every dollar from the Christmas Fund Offering goes directly to supplementation and grants.

The Pension Boards publishes quarterly newsletters for active members and annuitants. It also sends out e-blasts several times a month to 13,000 members. Further, the Pension Boards has both a Twitter feed and Facebook page, and provides WebEx teleconferencing to 32 Conferences and national settings of the church.

Mr. Downs then reported that the search to replace him as President and CEO resulted in the election of Brian R. Bodager as President and CEO, effective July 1, 2015.

At the conclusion of his report, Mr. Downs called upon David A. Klassen to deliver the Chief Investment Officer's report. Mr. Klassen noted that 2014 was an interesting year, in that established rules on the benefits of diversification did not work as well as usual. The Barclays Capital U.S. Government/Credit Index (BCGC), which is the standard-bearer of United States and corporate bonds, was up about 6%. Yet some well-established asset classes did not do as well in comparison. High-yield bonds gained, but made 3.5% less than the BCGC Index; bank loans, 4.2% less; and emerging markets/fixed income had losses by year's end. In stocks, the Standard & Poor's (S&P) 500 Common Stock Index rose 13% for the year, but the Dow Jones Industrial Average was up 6% less than the S&P 500. Emerging markets had losses, as did international stocks.

Mr. Klassen showed that European investors, if they invested in European stocks, saw gains; but that if those gains were converted to dollars, investors such as those in the U.S. suffered losses. The strength of the dollar in 2014, therefore, hurt American investors. He said that, at the beginning of 2014, there had been broad agreement among economists that interest rates would go up, yet over the course of the year, they went down.

As of the end of 2014, the Equity Fund was up 5.8%, close to the Equity Policy Index of 6.0%. The Bond Fund did less well, up 3.48% against the BCGC index of 6.01%. Mr. Klassen again noted that the Pension Boards made a deliberate decision to deviate from the benchmark in this instance. The Balanced Fund, which combines Equity and Bond Funds, rose 4.57%, compared with 6.08% for the Policy Index. Finally, the Stable Value Fund rose 1.8%, which is better than current money market returns.

While the Pension Boards assesses how well Pension Boards' funds do compared to common benchmarks, it also looks at how well they do compared to approximately 1,000 similar institutional funds. For 2014, the Equity Fund, representing $1.7 billion of Pension Boards' total assets, was in the top quartile, net of all fees; its 3-year performance was at the 38th percentile, and 5-year performance, in the top 25th percentile.

Similarly, the Balanced Fund was approximately at the median for 2014, but its longer-term track record was better: 3-year performance was in the 45th percentile, 5-year performance in the 39th percentile, and 10-year in the 40th percentile. All figures are net of all fees.

Mr. Klassen reported the following annuity changes: the Participating Annuity and Basic Annuity both increased 3% on January 1, 2014. The Equity Benefit Annuity (closed to new investments) increased 14.01% on April 1, 2014, and 4.87% on October 1, 2014. The Balanced Benefit Annuity (also closed to new investments) increased 7.25% on April 1, 2014, and 3.26% on October 1, 2014.

In summary, Mr. Klassen noted that the Equity Fund did not benefit from diversification, due mainly to the currency effects of international holdings. Still, it finished in the top quartile. He said that Balanced Fund results were hurt in 2014 due to fixed income relative underperformance in a year that was surprisingly positive for the core fixed asset class. Mr. Klassen also reported that, historically, the Fixed Income Fund had lowered exposure to the core-fixed strategy of the U.S., but that the percentage of longer-term bonds was increased in October 2014.

The Pension Boards is committed to diversification. Investing globally increases long-term returns while reducing one's risk profile. It is a strategy that works, but sometimes requires patience. Mr. Klassen then introduced Treasurer and Chief Financial Officer Maxine Seifert to deliver the Report of the Treasurer/CFO.

Ms. Seifert greeted the meeting attendees, and reported that gifts and legacies totaled $324,000 in 2014, including one large bequest and a substantial gift from a church that was closing. She reiterated that the Pension Boards values and appreciates the trust that these gifts represent, and works hard to apply best practices in all aspects of financial and risk management.

Each Trustee is independent of management and must comply with a strict conflict-of-interest policy.

Ms. Seifert also reported that the Pension Boards uses the same standards as are used by public companies. For example, the Audit Committee Chair is a financial expert as defined by the Securities and Exchange Commission.

Four years ago, an Enterprise Risk Management Committee was established by the Board of Trustees – ahead of many companies, particularly in the not-for-profit sector. This is important, Ms. Seifert stated, because it provides Board oversight, which is vitally important in the face of the volume and complexity of the risks faced, and the speed of change.

All financial information presented in all communications is the responsibility of management. The CEO and CFO certify that the information has integrity and objectivity; that the Pension Boards has an effective internal control system; and that management sets the ethical tone for maintaining and enforcing the highest standards of conduct within the organization.

The external independent auditors for the Pension Boards, McGladrey LLP, performed their work in compliance with U.S. Generally Accepted Auditing Standards, and issued a "clean opinion," reporting to the Board that there were no material weaknesses in internal controls.

While the Pension Boards employs actuaries on staff, it also hires external actuaries to review the Annuity Fund. After conducting an actuarial evaluation, The Hay Group declared the fund to be actuarially sound.

Ms. Seifert concluded by expressing her hope that her presentation conveyed something of the rigor of the Pension Boards' stewardship of the funds that are entrusted to us. She said that the Pension Boards is well aware that trust must be earned every day.

Following the formal reports, Mr. Downs opened the meeting to questions. At the end of the Q&A session, Chairman Carwile called on Mr. Herod for the Trustee vote count. The three nominated candidates, the Rev. Dr. Culver, the Rev. Dr. Cribbs, and the Rev. Dr. Franklin, were reelected.

There being no further business, Mr. Carwile adjourned the meeting at 9:52 a.m.

2015 Proxies and Seminary Representative