



Defined Benefit
Pension Plan

*Working
Together*
in the *Body*
for *Christ*

Rev. 6-1-2023

 **free
methodist**
CHURCH USA

Plan Purpose

The purpose of the FMCUSA Defined Benefit Pension Plan is to support the Free Methodist Church – USA by providing retirement and death benefits that will enhance the lives of ministers and church employees in recognition of their years of service, and their beneficiaries.

Plan Review

The FMCUSA Defined Benefit Pension Plan began in January 1981 for the purpose of providing a beneficial and collective benefit to church-related workers and their beneficiaries. It is a community plan that enables individual participants and their beneficiaries to have a stable income upon retirement and in many cases continue to serve the Free Methodist Church – USA in their later years.

This document is intended to help church leaders and all plan participants to understand the process that is followed to assure that your retirement benefits are being well cared for. The plan is reviewed thoroughly, and intentional steps are taken to add value for all participants including the use of the following:

- **Actuaries are utilized to verify the plan is on a reasonable funding path.**
- **Legal experts are consulted to certify the plan is in alignment with regulatory requirements.**
- **Investment advisors are consulted to ensure the funds are managed effectively.**
- **Auditors review the financial practices to assure that the plan adheres to the highest accounting standards.**
- **Administrative support for compliance and overall functions of the plan.**

Through this plan a substantial and meaningful value is provided to those who serve the Free Methodist Church— USA. The FMCUSA Board of Administration, the Benefits Committee and FM Financial are committed to enhancing the lives of our church pastors and employees, wise stewardship and to maintaining a healthy pension plan. Assistance pertaining to the plan may be gained through the World Ministries Center (WMC) Human Resources Department of the FMCUSA at 800.342.5531, email hrdept@fmcusa.org, or our website hr.fmcusa.org.

Plan Description

The following description details how benefits are calculated, funded, earned, and paid out through the plan. The rest of this document explains how the plan's actuarial, legal, investment, administrative, and audit functions work together to safeguard the value of these benefits.

Benefit Formula - Vested participants are offered a monthly benefit that will continue to pay through their lifetime for as long as the plan is in place. The monthly benefit paid to participants is based on a predetermined (defined) formula that takes into consideration years of service and average monthly compensation. This formula is $1.5\% \times \text{lifetime average salary} \times \text{years of credited service}$ (when contributions are paid into the plan).

Funding - The FMCUSA Defined Benefit Pension Plan is a community plan where collectively each church or organization pays into the plan on behalf of the employee. There are no personal contributions, only employer funds. Churches and organizations are currently assessed a 13.5% contribution based on a participant's compensation, including housing for appointed and ordained pastors. No rollovers or transfers are allowed from other pension plan accounts. Each local church or organization has a monthly automatic withdrawal for the level of the pension contribution required for their employee(s). There are no minimum contributions set. Since the plan started in 1981, the following has been charged for pension contributions:

- January 1, 1981-December 31, 2003 8.5%
- January 1, 2004-December 31, 2004 9.5%
- January 1, 2005-December 31, 2005 10.0%
- January 1, 2006-December 31, 2017 10.5%
- January 1, 2018-Present 13.5%

The FMCUSA Board of Administration and Benefits Committee are committed to evaluating a reduction in the contribution rate per active participant once the plan is believed to be adequately funded. As of January 1, 2023, the plan is funded at approximately 80% and is ahead of the actuary's original projected timing of reaching 100% when the contribution rate was adjusted in 2018.

Plan Description

Continued

Enrollees - Each appointed and ordained pastor, along with conference ministerial candidates that serve as lead pastors who receive compensation/housing, conference offices, WMC, and FMF employees are required to be enrolled in the plan. Others who may enroll voluntarily include VISA employees, local church and organization staff including conference ministerial candidates, and licensed pastors (with board approval), and ordained FM pastors released for service outside the denomination. Throughout the time of employment, all participants are responsible for ensuring changes in annual compensation are updated accordingly.

Vesting Years - This is service, based on full 12-month periods beginning with the employee's date of hire, while the employee remains active. A vested benefit is the portion of an accrued benefit to which a participant has a non-forfeitable right. If a participant terminates employment and is rehired within five years, their prior vesting and credited service years will continue to accrue. If a person is rehired after five years have passed, they will start over with a new vesting schedule. However, if they were re-hired as of January 1, 2023 and have 50% vesting from previous pension record, then they can use the previous vesting on their active record. The previous vested portion of their accrued benefit remains, if they met the minimum vesting percentage to entitle them to a benefit. Vesting for the Defined Benefit Plan is based on the following schedule:

Years of Credited Service	Vested Percent of Accrued Benefit
Less than 5 years of vested service	0%
5 years, but less than 6 years of vested service	50%
6 years, but less than 7 years of vested service	60%
7 years, but less than 8 years of vested service	70%
8 years, but less than 9 years of vested service	80%
9 years, but less than 10 years of vested service	90%
10 or more completed years of vested service	100%

Early Retirement Age - Early retirement benefits can begin as early as the first day of the month following the participant's 62nd birthday, if the participant has completed ten years of vested service. A participant can retire early and remain employed by the Free Methodist Church. The employer will still need to pay pension contributions into the plan as long as the participant is appointed/employed and receiving compensation. An actuarial re-calculation will be ran by our actuary at time of retirement to see if their benefit should be adjusted. This calculation takes into account the value of the payments received and compares them to the value of the additional benefit accruals at the time of retirement. Please note that the benefit will not be reduced at the time of retirement, but it may not be increased.

Normal Retirement Age – The normal retirement date is the first day of the month following the participant's 67th birthday.

Retirement Options – Active participants will receive an annual benefit statement that shows the accrued benefit to date and projected benefit amounts based on a life only option. Upon a participant's request, the Human Resources Department provides benefit estimates showing all options and amounts based on whatever date is desired. Individuals may also generate estimates at Nyhart's online portal.

Contact hrdept@fmcusa.org to access the portal.

Defined Benefit Plan Options

- 1. Life Annuity:** This option provides a monthly income for life only. A monthly benefit will be paid during the participant's lifetime and no further benefit payments will be made after death.
- 2. Life Annuity With Period Certain: This option provides a monthly life income with payments guaranteed for 120 months.** A monthly benefit will be paid during the participant's lifetime, and if 120 payments have not been paid at the date of death, the remaining guaranteed payments will be paid to the designated beneficiary.
- 3. Joint and Survivor Annuity:**
 - **Joint-and-one-half (50%) -to survivor income** - A monthly benefit will be paid during the participant's lifetime, and after death, an amount equal to one-half of such payment will continue to the surviving joint annuitant during his or her lifetime.
 - **Joint-and-two-thirds (66 2/3%)-to survivor income** - A monthly benefit will be paid during the participant's lifetime, and after death, an amount equal to two-thirds of such payment will continue to the surviving joint annuitant during his or her lifetime.
 - **Joint-and-full (100%) -to survivor income** - A monthly benefit will be paid as long as either the participant or their joint annuitant survives.

A participant who has terminated employment for five or more years may withdraw their accrued benefit as a lump sum amount if it is valued less than \$25,000.

Plan Description

Continued

Death Benefits Before Retirement – If a participant dies before retirement payments begin, the designated beneficiary will have two options:

1. A monthly benefit beginning at the participant's earliest retirement age,

or
2. A lump-sum actuarial equivalent payment in lieu of the monthly benefit option.

Death Benefits After Retirement – A \$2,000, lump sum death benefit will be paid to the participant's designated beneficiaries or their estate. This is in addition to any monthly options selected.

Disability Benefits – If a participant, while still employed, becomes disabled prior to their early retirement date, they may be eligible for disability benefits. Payments will equal the accrued benefit calculated as of the termination date and will be reduced to allow for the early retirement factor.

The governance structure ensures the plan is reviewed regularly and utilizes the elements of actuarial, legal, investment, administrative, and audit functions collaboratively to ensure that the plan's stability and appropriateness are maintained.

FMCUSA Board of Administration – This board retains fiduciary responsibility for the plan which includes:

1. **Establishing a Benefits Committee of the Board to assist in more direct oversight of the actuarial, legal, investment, administrative, and audit elements of the plan.**
2. **Setting the Investment Policies and reviewing these policies annually.**
3. **Retaining an Advisor to manage the investment portfolio.**

Benefits Committee – As an extension of fulfilling its fiduciary responsibility, the FMCUSA Board of Administration has delegated administrative responsibility for monitoring the plan's actuarial, legal, investment, administrative, and audit elements to the Benefits Committee.

Actuarial – Engage with a qualified and credentialed actuarial firm and systematically evaluate their calculations, processes, and recommendations.

- Since 2012 the Benefits Committee has had a consulting agreement with Nyhart for providing actuarial calculations. Nyhart is a nationally recognized actuarial and retirement firm who provides premier consulting services for over 300 plans including 21 church affiliated plans. The Benefits Committee works with Malcolm Merrill, Principal/Actuarial Consultant to conduct regular and ongoing plan assessments and valuations.

Legal – Engage with a qualified and credentialed legal expert and systematically evaluate their advice.

- Since 1997 the Benefits Committee has engaged G. Daniel Miller, an attorney and partner at Conner and Winters LLP in Washington, D.C, as the plan's legal counsel. He is recognized nationally as an expert on denominational benefit plans and a longtime contributor to the Church Benefits Association. He also is actively engaged in policy formation and legislative work on regulatory issues involving church benefit programs.

Plan Governance

Continued

Investment — Engage with a qualified and credentialed investment firm and systematically evaluate their processes, recommendations, and performance.

- Since 1991 the Benefits Committee has engaged FM Financial (FMF) as the plans' investment manager and advisor. FMF shares fiduciary responsibility with the FMCUSA Board of Administration. FMF's highly qualified specialists and their board, with assistance from their third-party counsel Syntrinsic, provide recommendations to the investment policy, help the Benefits Committee set the target asset allocation and select/monitor a wide range of fund managers. FMF provides performance reports at least quarterly for the Benefits Committee and as needed to the FMCUSA Board of Administration. FMF's subsidiary GuideStream Financial also provides initial financial planning consultations to all plan participants free of charge.

Administrative — Ensure the plan is in compliance and systematically maintained for all participants.

- The Human Resources Department of the FMCUSA provides the day-to-day administration of the plan which includes managing the budget, monitoring the collection of contributions, calculating all benefits utilizing Nyhart software with independent and internal controls, working with Nyhart's actuarial staff, disbursing benefit payments, and responding to frequent calls and emails regarding the plan from individual plan participants, churches, and conference offices.

Audit — Monitor the plan for areas of risk, internal controls, financial statement amounts, and disclosures.

- Since 2002 the services of Forvis (formerly BKD) have been retained. Forvis is a national CPA and advisory firm which provides consulting, tax and accounting solutions to businesses, government entities and not-for-profit organizations. Forvis provides assurance services by reporting on the plan's financial accounting under Generally Accepted Accounting Principles and auditing standards. The plan received a clean audit in 2022.

Plan *Investments*

Investment advisors are consulted to ensure the funds are managed effectively. As the investment advisor and manager, FM Financial conducts a layered evaluation when implementing the investment strategy that involves ongoing collaboration with the Benefits Committee and outside input from Syntrinsic which includes social screens on many fund investments.

The specific investment strategy includes:

1. Defining the portfolio investment objective which is currently 6.75% investment return.
2. Considering the long-term capital market forecast for each of the primary asset classes and evaluating whether there are any material tactical opportunities.
3. Developing asset allocation targets including private equity, credit and real estate.
4. Diversifying globally.
5. Selecting specific managers and accessing both active and passive strategies.
6. Systematically reviewing and modifying as deemed appropriate.

Each quarter every fund manager is evaluated for appropriateness.

A detailed recommendation of “retain,” “monitor” or “release” is provided that empowers the Benefits Committee to be active in fund manager evaluations.

Plan Assessment

Actuaries are utilized to verify the plan is on a reasonable funding path. There are three key factors that drive the assessment process: the benefits the plan is paying out, the level of contributions made to the plan, and investment returns.

These key factors are impacted by:

- Number of active participants contributing to the plan
- Number of retired participants receiving benefits from the plan
- Rate of contribution per active participant
- Return on investment of accumulated pension funds

There is not a linear relationship between these assessment components and there is a significant impact in terms of compounded interest in relation to the accumulated pension funds. As part of the assessment process, data is provided to Nyhart and assumptions are formulated to calculate valuations and projections. It is important that the Free Methodist Church understands the potential impact to the plan should these assumptions prove not to be met and possible ways that the risks could potentially be assessed or mitigated.

Demographic Risk – The plan's liabilities represent the present value of the benefits expected to be paid to participants in the future. Those expected payments rely on assumptions about salary increases, when participants will separate from employment, commence payment, their form of payment, and how long they will live, as well as the overall active population growth or decline which affects contribution revenue. The assumptions are periodically reviewed by the Benefits Committee and FMF with Nyhart to ensure they are reasonable for our population.

Investment Risk – Currently the plan assumes assets will return approximately 6.75% annually, net of expenses. To the extent asset returns out-perform/under-perform this expectation, the funded position of the plan will increase or decrease.

Denominational Risk – Since the plan is a non-ERISA (Employment Retirement Income Security Act) church plan, the FMCUSA is not liable beyond the funds available in the plan to make benefit payments to participants. Benefits are available as long as the plan is in place.

**Valuation and projections
provided by Nyhart effective January 1, 2023:**

- Currently there are 837 active participants contributing to the plan and 1,301 retired participants and beneficiaries receiving benefits. It is important for the long-term health of the plan to maintain and grow the number of active participants contributing to the plan.
- As of January 1, 2023, the plan was funded at approximately 80% which is similar to other church benefit plans. This funding level is impacted by the benefits paid out, the level of contributions, and investment returns.
- Management procedures are in place to pursue fully funding the plan at 100%. Based upon the contribution rate of 13.5% per active participant, the plan is projected to be fully funded within 15 years under the current assumptions. As noted above, investment returns, in particular, can make this objective easier or harder to reach. The FMCUSA Board of Administration and Benefits Committee will continue to be committed to evaluating a reduction in the contribution rate per active participant once the plan is believed to be adequately funded.

After careful review as outlined above, the most recent assessments and projections provided by our actuaries and ongoing evaluation by the Benefits Committee indicate the plan is on a healthy trajectory. Maintaining a healthy plan enables us to enhance the lives of those who serve the Free Methodist Church — USA, along with their beneficiaries, and provides a significant and meaningful value. With active participation in the plan by ministers and church employees, and ongoing oversight, the plan will be available and sustainable for all FM participants.



Serving those
who have *Served*
God's people
so *Faithfully*

The FMCUSA Human Resources staff is here to assist you.

Contact us at:

800.342.5531

hr.fmcusa.org

hrdept@fmcusa.org



**free
methodist**
CHURCH USA