



**Wespath**

BENEFITS | INVESTMENTS



# NAACT Meeting

September 20, 2023

# Wespath's Ministry

- Among the world's largest faith-based pension funds
- More than \$24 billion in assets under management (as of December 31, 2022)
- Serving more than 100,000 participants
- Nearly 300 employees

*“Wespath’s priorities are grounded in our mission of caring for those who serve. We’re focused on taking care of you in a way that is sustainable for the long term.”*

– Andy Hendren,  
Wespath’s General Secretary



# Our Team



**Tony Prestipino**  
Director – Plan Sponsor  
Relations



**Joe Halwax**  
Managing Director –  
Institutional Investment  
Services



**Frederick Hyland**  
Managing Director –  
Actuarial Services



**Dale Jones**  
Managing Director –  
Church Relations



# General Conference



# Refreshing Our GC Focus

## A lot has changed in 4 years!

- **September 2019:** 26 petitions (ADCA)
- **August 2023:** Amended legislation for a changed Church environment

### Top Priorities

Benefit plans  
legislation

¶1717 proposals/  
Sustainable Investment

Regionalization





**Compass  
Proposed Clergy  
Retirement Plan**

# Foundational Principles



Upholds longstanding values of Church retirement programs: long-term benefits



Addresses emerging needs and financial realities



Considers changing Church and U.S. demographics





# Current vs. New Clergy Plan

## CURRENT (CRSP)

Hybrid plan: pension  
+ account-based

## NEW PLAN (Compass)

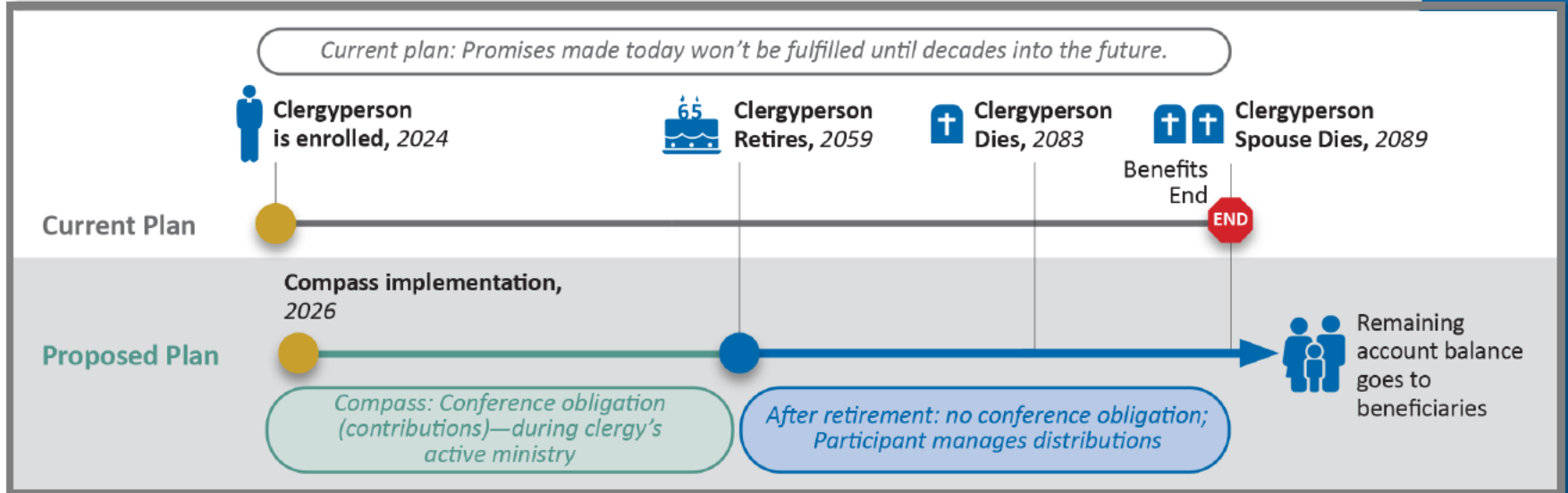
Account-based  
plan

### What doesn't change:

- **Active clergy**—keep benefits previously earned
- **Retired clergy**—Compass has no impact
- **Eligibility**—same rules as current plan



# Increasing Plan Sustainability



Conferences/local churches can no longer afford pension liabilities that continue decades after retirement.

# Compass (Effective January 1, 2026)

## Contributions from Conference/Church



Help lower-paid clergy



Flat-dollar contribution

**\$150\* per month**

\* 2026 amount; increases 2% per year in \$5 increments.



Relate retirement income to pre-retirement earnings



Pay-dependent contribution

**3% of pay**



Promote clergy engagement and savings



Matching contribution

**\$1/\$1 match on up to 4% of pay**





# Future Webinars

- Increase in Parsonage Value
- Help Clergy with Student Debt
- Automatic Features
  - Enrollment
  - Escalation
- Maximize Spending Phase Payout/LSRI
- Billing Model



## Other Wespath Legislation



# Clergy Retirement Security Program (CRSP)

## Wespath's Petition



Freeze participation and benefit accruals under CRSP when Compass becomes



Earned benefits still grow for active clergy, with increases to denominational average compensation (DAC)



## WHY: Long-Term Plan Sustainability

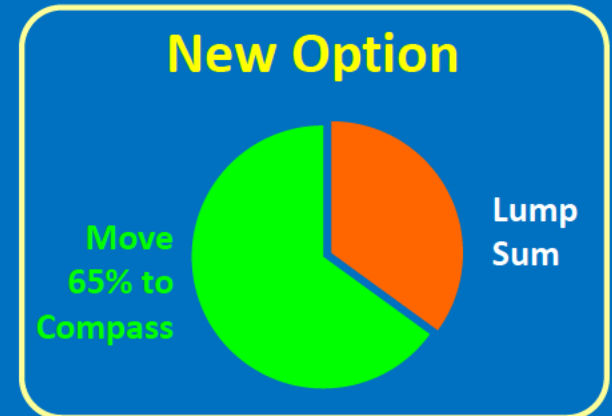
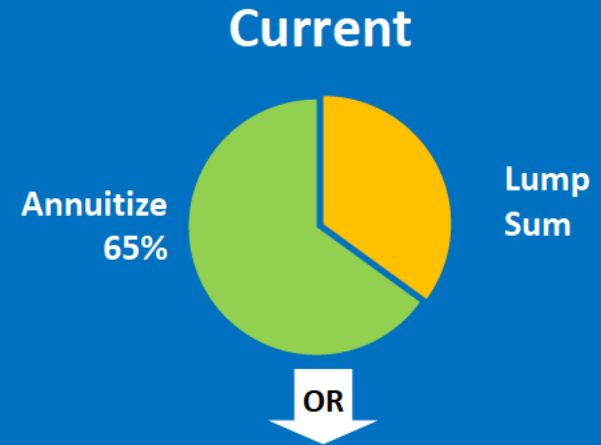
Essential for UMC to continue providing reliable and sustainable retirement income for those who serve

# Ministerial Pension Plan (MPP) Distribution Provision

## Wespath's Petition

<b>WHAT</b>	Option to <b>move 65% of account balance into Compass</b>
<b>WHY</b>	<b>Flexibility</b> for retirees Can <b>leave balance to heirs</b> at death





- Affects those who started serving before 2007
- GC 2012 change **required annuitization** of 65% of MPP account balance—(current rule)



# Comprehensive Protection Plan (CPP)

## Disability and life insurance benefits (mandatory clergy plan)

### Wespath's Petition:

	Streamline death benefits— <b>flat dollar amounts</b> (indexed for inflation)
	<ul style="list-style-type: none"><li>• Create <b>new temporary disability benefit</b> while participant's claim is being evaluated</li><li>• <b>Waive reduction</b> for anticipated Social Security disability (SSD) benefits pending SSD determination (with Wespath-designated advocacy vendor)</li></ul>
	Resurrect <b>Voluntary Transition Program (VTP)</b> at close of General Conference; sunset <b>December 31, 2028</b>
	Permit CPP to support <b>funding of UMC legacy pension plans</b> in certain circumstances

### WHY:

- Flexibility during SSD transition
- Grace-filled exit from ministry
- Sustainability of legacy plans

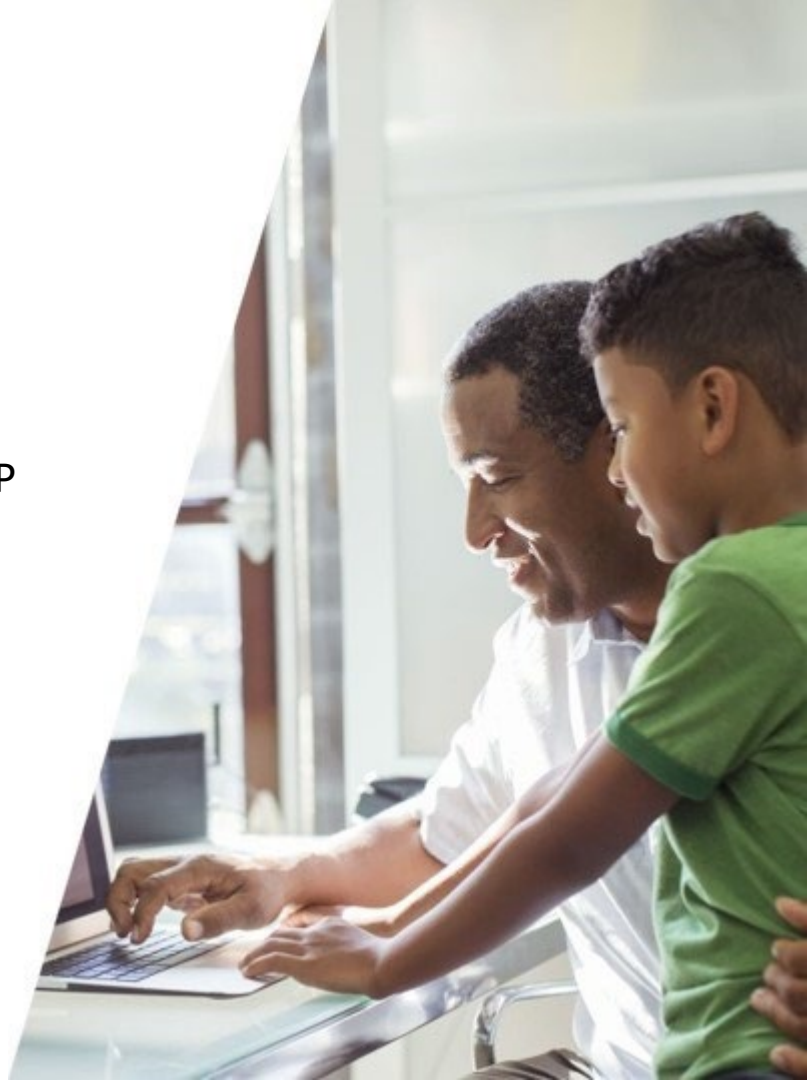
# Legacy Plan Support

## Wespath's Petition:

- Formalizes longstanding ties between CPP and retirement programs
- Establish a shared funding mechanism to allow CPP assets to be accessed in case of potential future funding needs in legacy pension plans

## WHY:

- Sustainability of legacy plan
- Secure benefits for participants
- Shared funding mechanism
  - Support legacy plans if they become underfunded





# Wespath's Board of Directors—Smaller

## Petition: Reduce from 32 to 25

### Representation (*elected by*):

- **2** U.S. bishops (*Council of Bishops*)
- **1** central conference member (*GC*)
- **2** jurisdiction members (*GC*)
- **10** members (*jurisdictional conferences*)
  - *3 from SEJ, 2 each from SCJ, NEJ and NCJ, and 1 from WJ*
- **10** members with specialized knowledge (*Wespath board, per bylaws*)
- *Diversity aspiration: 30% women and persons of racial and ethnic minorities*

## WHY:

- **Cost savings**  
(travel, administration)
- **Flexible** for changing needs
  - **9 of 13** UM agencies trimmed boards since GC 2012; average size: 23\*
  - **9** Wespath-elected: **specialized knowledge** in investments, benefits, law, etc.

\* Average members excludes Church and Society (62) and Wespath (32)

# Plan Amendment Authority

## Wespath's Petition



Permit Wespath Board of Directors **to amend any mandatory plan** *only if it:*

- Does not reduce participant “benefits, rights or features”
- Does not add cost
- Is not prohibited by applicable law or Judicial Council ruling

**WHY:** Allows flexibility to amend mandatory plans between General Conferences

- Current authority for changes very limited:
  - Only if changes are required by law or the *Discipline*



**NET  
ZERO**



**Sustainable Investment**

# Sustainable and Responsible Investment Strategy

We organize our efforts through our **Sustainable Economy Framework (SEF)**, in which we define a sustainable global economy as one that promotes:



Social cohesion



Long-term prosperity for all



Environmental health

We also align with UMC values, as defined by *The Book of Discipline*:

¶717

“...make a conscious effort to invest... with the goals outlined in the Social Principles”



Alcoholic beverages



Tobacco products



Adult entertainment



Weapons



Gambling



Privately-operated correctional facilities



# Petitions to Revise ¶717

There are petitions being put forth at General Conference that add to the investment exclusions established in ¶717:

- Petitions to **add “fossil fuels” to the exclusions**
- Another petition seeks to **exclude government securities from countries conducting prolonged military occupations**



# Wespath's Perspective

We share the concern and urgency around environmental well-being, human rights and caring for creation.

However, we feel these petitions aren't the right path forward:

- There are economic realities and social justice implications that must be considered
- Removes the “Engage” pillar from our successful investment framework
  - Engagement has been successful in driving behavior change in companies. **Divestment does not drive behavior change**
- Broad-based exclusion and divestment can create unknown financial risks



# Fossil Fuel Exclusion— A Closer Look

Fundamentally  
different from  
other exclusions

Removes voice  
of accountability  
*Chevron would love  
for us to divest!*

“Squeezing the  
balloon” of  
climate risk



# Preferred Approach

## Wespath ¶717 Revisions

**We've proposed revisions to ¶717 that help us create positive change. Our petition:**

- Emphasizes need for engagement to support transition away from fossil fuels
- Prioritizes world's largest greenhouse gas emitters, supports "just and equitable" transition to net-zero
- Seeks to formally expand engagement efforts beyond corporations, adding same engagement focus to governments





# Engagement Has Delivered Progress at Oil & Gas Companies



- First oil and gas company to recommend a vote *for shareholder proposal on methane management*
- Passed with 98% support



- Aspirations to become **carbon neutral**
- First major oil and gas company at which shareholders supported **annual climate risk reporting**



- Joined Oil & Gas Methane Partnership 2.0 to **quantify and reduce methane emissions**
- Set goal to achieve **zero routine flaring by 2025**



# Industry Leadership Provides Outsized Influence



- 85+ institutional investors, representing over \$11 trillion worldwide, committed to transitioning their investment portfolios to net-zero by 2050
- **Wespath co-leads the Engagement and Communications working tracks**



- The largest-ever collaborative shareholder engagement initiative, focused on the world's highest emitting companies
- **Wespath co-leads four engagements**



- Leading provider of independent research and analysis on how companies are aligning with the low-carbon transition
- **Wespath chairs the Strategic Advisory Committee**

# For Those Choosing To Be Fossil Fuel Free

We also offer participants options with wider investment exclusions if they desire:

- Social Values Choice Suite of Funds
  - Excludes fossil fuel companies and others operating in certain conflict areas



# Conclusion and Commitment

We share the desire and responsibility of divestment proponents to care for communities and our natural world

We believe the best way to fulfill this responsibility is through our holistic and engagement-centered approach to sustainable investing

**We request your active support with your delegation for Wespath's engagement petition, rather than for petitions which would expand exclusions**





**US**  
**Regional**  
 **Conference**



**A Christmas Covenant  
Our Gift of Hope**

An Equitable Structure of Global Regionalism

**Regionalization Proposals**

# Why a U.S. Regional Conference?



## EFFICIENCY

- Much General Conference time and resources spent on matters **irrelevant to entire Connection**
- Many petitions pertain largely or only to the U.S.



## CONSISTENCY

- Central conferences can amend parts of *Discipline* for their needs and contexts
- No current venue exists for U.S.-specific matters

## What Is Wespath's Interest?

- Enact benefit plans by the bodies to which they apply
- General Conference: an increasingly international body
- U.S. clergy plans depend on U.S. laws and tax codes

# Two Options for Regional Governance

1

## U.S. Regional Conference: Connectional Table

- Endorsed (and partially developed) by Wespath
- Addresses only U.S. UMC
- Two-stage proposal
  - General Conference committee
  - U.S. Regional Conference

2

## “Christmas Covenant”: Cavite Philippines Conference

- Regional conferences throughout global UMC
  - Central conferences become regional conferences
  - New U.S. regional conference
- More Disciplinary changes and constitutional amendments

# Connectional Table Proposal Overview

## Stage I: U.S. Regional Committee

- Disciplinary and non-Disciplinary changes
- Legislation for GC 2020

### *Intended To Be Temporary Step*

- *Effective immediately after GC 2020*
- *In place **until** U.S. Regional Conference (Stage II) is functional*

## Stage II: U.S. Regional Conference

- Changes to the Constitution and *Discipline*
- More challenging approval requirements for Constitutional amendments

# Christmas Covenant

- Organic proposal from central conferences and U.S. seeking to maintain UMC unity
- Common structure across all regions
- Regional autonomy on most matters, unless General Conference directs otherwise
- Extensive constitutional amendments







# Redirections and Swaps



# Legally One Plan

- CRSP, MPP and Pre-82 are legally one plan
- Allows flexibility in the way Pre-82 surplus is used
  - Cover the cost of PSR increases
  - **Redirection:** cover the CRSP contribution for your conference
  - **Swap:** cover the CRSP or Pre-82 contribution for another conference

# Redirection Example

## Valuation Results

Plan Sponsor	Pre-82 Surplus	Pre-82 Contribution	CRSP Contribution
Conf. A	\$5.0M	\$0	\$2.0M
Conf. B	\$0.2M	\$0	\$0.5M

## Contribution Payment

Pre-82 Surplus Use	Cash
\$2.0M	\$0
\$0.2M	\$0.3M

# Swap Example

## Valuation Results

Plan Sponsor	Pre-82 Surplus	Pre-82 Contribution	CRSP Contribution
Conf. A	\$5.0M	\$0	\$2.0M
Conf. C	N/A	\$1.5M	\$2.5M

## Contribution Payment

<u>Conf A</u> Pre-82 Surplus Use	Cash
\$2.0M	\$0
\$3.0M	\$1.0M
<hr/>	
\$5.0M	

Conference C would then also pay \$3.0M in cash to Conference A



# Pre-82 Surplus Is Notional

- 2023 Surplus was determined as of Jan. 1, 2021
- Plan assets are exposed to the market between 2021 and 2023
- Market performance may have eroded plan assets even though communicated surplus is still available for use





# Time Is Running Out

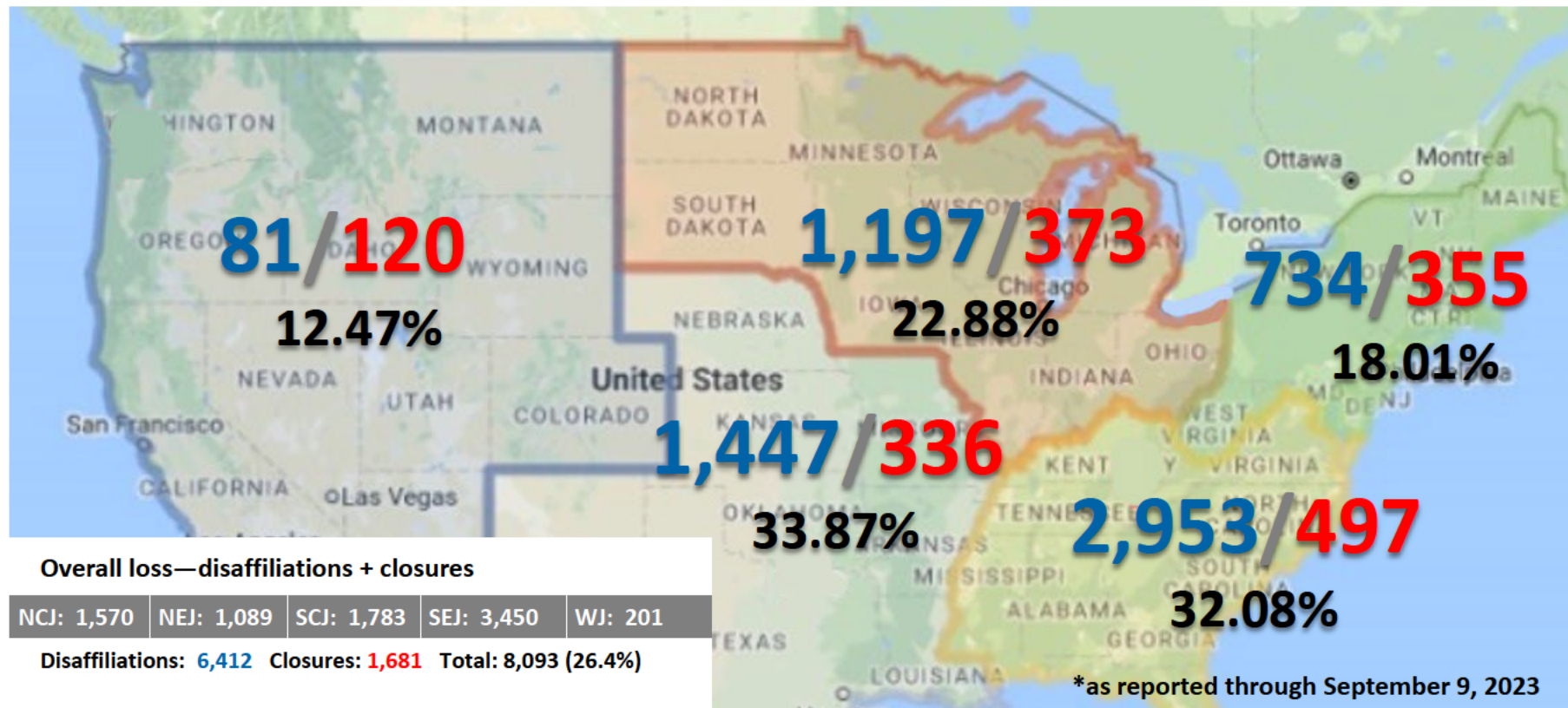
- Less opportunity to use Pre-82 surplus once Compass starts
- Wespath will reach out to conferences with over \$10M in 2023 surplus
  - Review the impact of recent market results
  - Find partners for swaps





# Disaffiliation Trends and Insights

# Church Disaffiliations/**Closures** Since 2019\*



\*Total UMC Churches in 2019 Stats Files = 30,541



# 1

## Insight

### Impact % of Jurisdiction

Jurisdiction	Expenditures
North Central	17.66%
Northeastern	12.64%
South Central	29.55%
Western	2.24%
Southeastern	24.38%
<b>Total</b>	<b>21.48%</b>

*Estimated data as of September 9, 2023*





## 2

# Insight

## Top Conferences Impacted

Conference	% Churches Leaving	Conference	% Expenditures
Northwest Texas	81.03%	Northwest Texas	82.98%
North Alabama	53.79%	South Georgia	56.13%
Texas	52.13%	AL – West Florida	52.50%
South Georgia	51.62%	Texas	50.07%

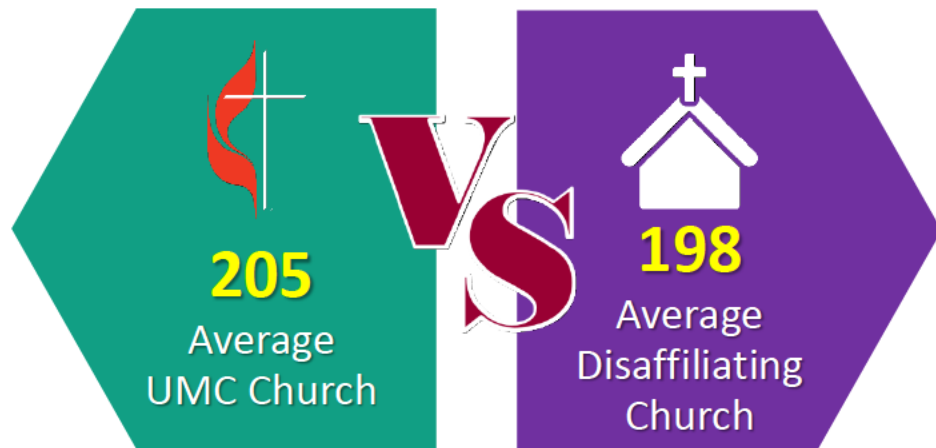
*Estimated data as of September 9, 2023*



### 3

## Insight

**Disaffiliated churches are similar in size (membership) to UMC churches**



*Estimated data as of June 30, 2023*



# 4

## Insight

Higher proportion of very large churches (4,000+ members) are disaffiliating

**29%**

Large churches

**VS**

**23%** All churches

*Estimated data as of September 9, 2023. Compares to 2021 Stats File.*

# Investment Governance Considerations – Options for “Special Situations”



# *The Problem:* **Unprotected Benefits Assets**



Conference sets aside assets to fund benefits

- Not committed to Wespath plan trust until needed

Earmarked assets not protected from creditors

- Example: Adverse judgments from lawsuits against local churches could reach conference assets

# How Can Wespath Help?

Annual conference could create an irrevocable trust

## Wespath has created a model trust

- Assets are legally designated for trust beneficiaries
- Assets no longer owned by annual conference
  - Protected from annual conference liabilities
- **Trust must be irrevocable**—cannot undo
  - But can be designed to provide flexibility
  - Especially important in disaffiliation context





# Going Forward: Governance and Fiduciary Duty

## Creating investment policy statements (IPS) and amendments

- What is an IPS?
- Why do nonprofits have an IPS for their assets?
- Who needs an IPS?
- Can I amend an existing IPS?



# Managing Asset Pools

## Segmenting asset pools and unique asset allocation

- **Segmenting** – each asset pool serves a unique purpose (i.e. general reserves, disaffiliation, property, etc.)
- **Other uniqueness considerations**
  - Liquidity
  - Time horizons
  - Risk tolerance
  - Restrictions



# Short Term Investment Fund (STIF)

Daily liquidity and attractive yield

Consider a segregated account for special situations

## STIF characteristics:

- Holds short-term fixed income investments
- Daily liquidity
- Current yield over 5%
- Inexpensive – 13 basis points



A hand is shown holding a heart-shaped yellow leaf against a sunset sky. The words "Thank You!" are written in a black, cursive font on the leaf. The background is a soft, hazy sky with a bright sun low on the horizon, creating a lens flare effect. A blue diagonal graphic element is present in the bottom right corner.

*Thank  
You!*



**Wespath**

BENEFITS | INVESTMENTS