GENERAL AGENCIES OF THE UNITED METHODIST CHURCH BENEFIT PLAN

FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

GENERAL AGENCIES OF
THE UNITED METHODIST CHURCH BENEFIT PLAN
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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

To the General Council on Finance and Administration
The United Methodist Church – Plan Sponsor and

To the Committee on Audit and Review
The General Council on Finance and Administration
The United Methodist Church

We have audited the accompanying financial statements of the General Agencies of The United Methodist Church Benefit Plan (the "Plan"), which comprise the statements of benefit obligations and net assets available for plan benefits as of December 31, 2019 and 2018, and the related statements of changes in benefit obligations and net assets available for plan benefits for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Plan as of December 31, 2019 and 2018, and the changes in its financial status for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Cherry Bekaert LLP

Charlotte, North Carolina
July 20, 2020

GENERAL AGENCIES OF
THE UNITED METHODIST CHURCH BENEFIT PLAN

STATEMENTS OF BENEFIT OBLIGATIONS AND NET ASSETS AVAILABLE FOR PLAN BENEFITS

DECEMBER 31, 2019 AND 2018

	2019	2018
Benefit Obligations:		
Incurred but not reported health plan claims reserve	$ 678,000	$ 608,000
Postretirement benefit obligations:		
Current retirees	43,247,983	56,909,267
Other participants fully eligible for benefits	21,629,349	21,757,261
Other participants not yet fully eligible for benefits	25,075,292	27,636,310
Total Postretirement Benefit Obligations	89,952,624	106,302,838
Total Benefit Obligations	90,630,624	106,910,838
Net Assets Available for Plan Benefits:		
Assets:		
Cash	210,637	255,820
Due from GCFA short-term pooled investment fund	7,353,553	6,632,683
Participant contributions receivable	25,238	114,417
Prepaid expenses	31,173	34,227
Investments at the United Methodist Church Foundation and the Texas Methodist Foundation, at fair value	5,810,576	4,921,247
Total Assets	13,431,177	11,958,394
Liabilities - accrued expenses	301,977	173,961
Net Assets Available for Plan Benefits	13,129,200	11,784,433
Excess of Benefit Obligations over Net Assets Available for Plan Benefits	$ 77,501,424	$ 95,126,405

The accompanying notes to the financial statements are an integral part of these statements.

GENERAL AGENCIES OF
THE UNITED METHODIST CHURCH BENEFIT PLAN
STATEMENTS OF CHANGES IN BENEFIT OBLIGATIONS AND NET ASSETS AVAILABLE FOR PLAN BENEFITS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Net decrease in benefit obligations:		
Increase (decrease) during the year attributable to:		
Demographic impact on liability	$ (976,687)	$ 888,293
Update to claim costs and participant contributions	(5,115,612)	6,365,376
Update to trend assumptions	(963,286)	(1,061,583)
Change due to update in discount rate	11,752,983	(9,693,618)
Passage of time	3,431,875	4,857,684
Change due to Mortality Table Change	(1,875,206)	(4,113,850)
Plan change	(22,604,281)	-
Change in incurred but not reported claims reserve	70,000	(94,000)
Total net decrease in benefit obligations	(16,280,214)	(2,851,698)
Net increase in net assets available for plan benefits:		
Additions:		
Participant and plan sponsor contributions	13,443,923	16,654,966
Contributions – flexible spending accounts	365,775	453,884
Interest income	98,208	113,399
Net appreciation (depreciation) in investments	791,121	(446,919)
Total additions	14,699,027	16,775,330
Deductions:		
Insurance claims paid	9,961,679	12,023,277
Premiums paid	1,187,842	1,056,091
Benefits paid – flexible spending accounts	384,338	434,181
Administrative expenses:		
Medical and dental fees	726,985	738,895
Flexible spending accounts	13,680	30
Plan sponsor service fees	625,760	671,181
Consultant fees	56,736	58,285
Maintenance and support	206,745	251,185
Wellness	136,909	189,842
Audit fees	24,650	27,179
Other	28,936	34,325
Total expenses for administration	1,820,401	1,970,922
Total deductions	13,354,260	15,484,471
Net increase in net assets available for plan benefits	1,344,767	1,290,859
Decrease in excess of benefit obligations over net assets available for plan benefits	(17,624,981)	(4,142,557)
Excess of benefit obligations over net assets available for plan benefits:		
Beginning of year	95,126,405	99,268,962
End of year	$ 77,501,424	$ 95,126,405

The accompanying notes to the financial statements are an integral part of these statements.

Note 1—Nature of the Plan

The following description of the General Agencies of The United Methodist Church Benefit Plan (the "Plan") provides only general information. Participants should refer to the Plan Agreement for a complete description of the Plan's provisions.

General – The Plan, a health and welfare benefit plan, was established effective January 1, 1986 for the purpose of maintaining group insurance benefits, including medical, dental, vision, life, and short and long-term disability defined benefits, for active and retired employees of certain General Agencies of The United Methodist Church ("General Agencies") and two other United Methodist related organizations. Effective January 1, 1987, the Plan also began maintaining group insurance benefits for active and retired bishops provided through the Episcopal Fund of The United Methodist Church. The General Council on Finance and Administration of The United Methodist Church ("GCFA") sponsors the Plan. The Plan is exempt from compliance with the participation, vesting, and funding rules of the Employee Retirement Income Security Act of 1974.

Benefits – As of January 1, 2019, General Agency employees working a minimum of 30 hours per week, and their eligible dependents, are eligible to receive health, medical, life, and disability benefits from the Plan upon hire. General agency employees and their eligible dependents who were hired prior to January 1, 2019 and who were, and continue to, work at least 20 hours per week continue to be eligible to receive health, medical, life, and disability benefits from the Plan. Employees may be eligible to retire with medical and dental benefits for themselves and their dependents.

Effective January 1, 1997, GCFA adopted a policy whereby employees are eligible to retire with medical, dental, and life benefits if they meet one of four conditions:

- Retire with a total of 78 "points" (the sum of an employee's age and years of service);
- If hired after January 1, 1997, retire at age 62 or older with seven years of active service;
- If hired prior to January 1, 1997, retire at age 62 or older with five years of active service; or
- Employees who retire at an age less than 62 with 70 to 77 total points are eligible for medical benefits for themselves and their dependents, provided that 100% of the premiums are paid by the retiree until the retiree reaches age 62 or the retiree can provide proof of insurability for the retiree and their eligible dependents at age 62. At age 62, the agency resumes paying premiums on behalf of the retiree.

Note 1—Nature of the Plan (continued)

Contributions – In addition to deductibles and copayments, the costs of the Plan are funded by contributions from employees, retirees, and participating employers as follows:

These percentages differ based on the coverage election (i.e. HDHP, PPO 500, PPO 1,000).

	Participant Contribution		Employer Contribution	
	2019	2018	2019	2018
Employee $500 deductible	22%	20%	78%	80%
Employee $1,000 deductible	16%	15%	84%	85%
Employee $1,400 deductible	10%	10%	90%	90%
Employee with one dependent $500 deductible	27%	25%	73%	75%
Employee with one dependent $1,000 deductible	21%	20%	79%	80%
Employee with one dependent $1,400 deductible	16%	15%	84%	85%
Employee plus family $500 deductible	27%	25%	73%	75%
Employee plus family $1,000 deductible	21%	20%	79%	80%
Employee plus family $1,400 deductible	16%	15%	84%	85%
Retiree	N/A	15%	N/A	85%
Retiree with dependents	N/A	25%	N/A	75%
Retiree Age 62 - 64 $500 deductible	41%	N/A	59%	N/A
Retiree Age 62 - 64 $1,000 deductible	36%	N/A	64%	N/A
Retiree Age 62 - 65 $1,400 deductible	31%	N/A	69%	N/A

Retirees age 65 and over are eligible for annual reimbursement of healthcare costs up to $2,100 for themselves and up to $2,000 for their spouse. Any unused annual reimbursement amount is carried over to the subsequent year.

Medical and Dental Insurance Funding – The medical and dental insurance benefits are provided under a self-insured, administrative services only arrangement. The individual stop loss for the years ended December 31, 2019 and 2018 was $300,000 and $350,000, respectively. This arrangement requires that GCFA pay United Healthcare, the Plan administrator, a per-person fee each month to provide the network access and process the claims for participants. The administrative fee is paid via monthly invoice while claims are funded weekly.

Life and Disability Insurance Funding – GCFA collects amounts from the General Agencies and other participants for the premiums for life and disability insurance. Employees of all General Agencies are grouped together for experience rating purposes and the premiums for these agencies are remitted in full to the insurance company.

The life and disability plans are fully insured on a straight premium basis with any surplus or deficit remaining with the insurance company. Premiums paid for these benefits were $946,877 and $843,312 for the years ended December 31, 2019 and 2018, respectively.

Flexible Spending Accounts – The Plan allows employees to participate in two flexible spending account programs. The Health Care Spending account allowed a participant to set aside up to $2,500 for the years ended December 31, 2019 and 2018 on a pretax basis to pay for unreimbursed healthcare expenses. The Dependent Care Spending account allowed a participant to set aside up to $5,000 for the years ended December 31, 2019 and 2018 on a pretax basis to pay for unreimbursed dependent care expenses. Any amounts remaining in the spending accounts at the end of the year must be forfeited to the Plan; additionally claims that exceed deposits are paid by the Plan. Claims may be submitted for expenses incurred during the previous year until the following March 31. Forfeitures were $-0- and $19,703 for the years ended December 31, 2019 and 2018, respectively, and are used to decrease the GCFA's contribution into the Plan.

Note 1—Nature of the Plan (continued)

Plan Termination – Although it has not expressed any intention to do so, the Committee on Personnel, Policies, and Practices (the "Committee"), consisting of representatives from participating General Agencies, has the right to modify the benefits provided to active employees. In addition, the Plan may be terminated by the Committee at any time. Upon termination, the assets then remaining shall be subject to the applicable provisions of the Plan then in effect and shall be used until exhausted to pay benefits to participants in order of entitlement.

Note 2—Summary of significant accounting policies

Basis of Accounting – The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Benefits are recorded when paid and an accrual is made at period end for an estimate of claims incurred but not reported.

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, claims incurred but not reported, and postretirement benefit obligations as of the date of the financial statements, and the reported amounts of changes in net assets available for plan benefits and plan benefit obligations during the reporting period. Actual results could differ from those estimates.

Due from GCFA Short-Term Pooled Investment Fund – The amounts presented as due from GCFA in the accompanying financial statements represent the Plan's portion of the short-term investment portfolio managed by GCFA on behalf of certain agencies and related organizations of The United Methodist Church. The amount due from this fund effectively represents the amount of cash deposits that are available to the Plan to be disbursed out of GCFA's centralized cash management system. Since these deposits are legally invested in GCFA's name and not in a separate demand account in the Plan's name, they are not classified as cash and cash equivalents, but rather are considered an amount due from GCFA. The short-term investment portfolio includes funds invested in demand deposits, taxable municipal bonds, mutual funds and notes from other United Methodist Plans. The Plan did not receive an allocation of interest from GCFA during the years ended December 31, 2019 and 2018.

Income Recognition – Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Interest income is recorded as earned. Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold, as well as held, during the year.

Postretirement Benefits – The postretirement benefit obligations represent the actuarial present value of those estimated future benefits that are attributed to employee service rendered through December 31, 2019 and 2018. The actuarial report was prepared as of January 1 of the respective years, for the periods ending December 31. Postretirement benefits include future benefits expected to be paid to or for (1) current retirees, (2) other participants fully eligible for benefits, and (3) other participants not yet fully eligible for benefits. Prior to an active employee's full eligibility date, the postretirement benefit obligation is the portion of the expected postretirement benefit obligation that is attributed to that employee's service rendered to the valuation date.

The actuarial present value of the expected postretirement benefit obligations is determined by an actuary and is the amount that results from applying actuarial assumptions to historical claims-cost data in order to estimate future annual incurred claims costs per participant, and the probability of payment (by means of decrements such as those for death, disability, or retirement) between the valuation date and the expected date of payment.

Note 2—Summary of significant accounting policies (continued)

Assumptions used in the postretirement benefit valuation as of December 31, 2019 and 2018 are as follows:

	2019	2018
Discount rate	3.07%	4.15%
Mortality	RP-2012 Table with improvement scale MP-2019	RP-2014 Table with improvement scale MP-2018
Average retirement age	66	66
Initial Annual Healthcare Trend rates - Medical premiums:		
Pre-65	4.50%	4.50%
Post-65	N/A	7.50%
Initial Annual Healthcare Trend rates - Dental premiums	4.70%	4.71%
Ultimate Annual Healthcare Trend rates - Medical premiums:		
Pre-65 with excise tax	3.90%	3.90%
Pre-65 without excise tax	3.80%	N/A
Post-65	N/A	4.20%
Ultimate Annual Healthcare Trend rate - Dental premiums	3.70%	3.72%
Year Ultimate Healthcare Trend Rate is Reached:		
Medical		
Pre-65 with excise tax	2084	2074
Pre-65 without excise tax	2073	N/A
Post-65	N/A	2088
Dental	2075	2075
Participation Rates	50% of future retirees are assumed to elect spousal coverage upon retirement. Males are assumed to be 3 years older than their spouse. Actual plan participation is used for retirees and their spouses. 100% of future retirees will be Medicare eligible and elect to participate in the HRA upon retirement and all future retirees elect dental and life insurance.	50% of future retirees are assumed to elect spousal coverage upon retirement. Males are assumed to be 3 years older than their spouse. Actual plan participation is used for retirees and their spouses. 85% of future retirees elect medical coverage upon retirement and all future retirees elect dental and life insurance.

Note 2—Summary of significant accounting policies (continued)

As described in Note 1, effective January 1, 2019, eligibility requirements for general agencies employees was changed from working a minimum of 20 hours per week to a minimum of 30 hours per week. Also effective January 1, 2019, new Medicare eligible retirees age 65 and over are eligible for one post-65 medical benefit: the retiree health reimbursement account. The December 31, 2019 valuation reflects this change.

The forgoing assumptions are based on the assumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of the postretirement benefit obligation.

The healthcare cost trend assumption has a significant effect on the amounts reported in the accompanying financial statements. If the assumed trend rates increased by one percentage point each year in the future, the postretirement benefit obligation as of December 31, 2019 and 2018 would increase by approximately $10,811,000 and $19,120,000, respectively.

Incurred but Not Reported Health Plan Claims Reserve – Plan obligations for health claims incurred by all participants but not reported as of December 31, 2019 and 2018 are estimated based upon actual claims expense trends. Estimates of $678,000 and $608,000 for claims incurred by all participants are included in the current benefit obligation as of December 31, 2019 and 2018, respectively.

Risks and Uncertainties – As of December 31, 2019 and 2018, the Plan utilized an investment instrument including the Balanced Fund of The United Methodist Church Foundation (see Note 4). Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the financial statements.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

Fair Value Measurements – The Plan's investments are reported at fair value. U.S. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value. Assets recorded at fair value in the statements of benefit obligations and net assets available for plan benefits are categorized based on the level of judgment used in the measurement of their fair value. These judgment levels, as defined by Financial Accounting Standards Board Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, are as follows:

Level 1 – Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date;

Level 2 – Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies; and

Level 3 – Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

Note 2—Summary of significant accounting policies (continued)

The Plan's investments are held by The United Methodist Church Foundation and the Texas Methodist Foundation. Fair value is determined using the fair value of the underlying net assets of the fund divided by the number of shares outstanding, or net asset value ("NAV"), as a practical expedient. In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

The Plan believes its valuation methods are appropriate and consistent with other market participants; however, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 3—Benefit obligations

The Plan's unfunded accumulated postretirement benefit obligation was approximately $76,725,000 and $94,500,000 as of December 31, 2019 and 2018, respectively. It is expected that premiums for future years with respect to the Plan's postretirement benefit obligations will be funded by the participating General Agencies.

The actuarial present value of benefit obligations is reported based on certain assumptions pertaining to interest rates, health care inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimation process and related assumptions, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

On December 8, 2003, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the "Act") for employers that sponsor postretirement health care plans that provide prescription drug benefits was signed into law. The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D.1. Under the Act, for multiemployer plans, the Medicare subsidy was received directly by the Plan and not individual employers participating in the Plan. The Plan adopted the Medicare Advantage Plan and as a result, the Plan is no longer eligible to receive the federal subsidy.

Note 4—Fair value of investments at The United Methodist Church Foundation and the Texas Methodist Foundation

In July 2007, the Plan invested $3,650,000 in the Balanced Fund of The United Methodist Church Foundation ("UMCF"). As of December 31, 2019 and 2018, the Plan's investment in UMCF was $5,809,715 and $4,920,395, respectively, and is carried at fair value. Investment income (loss), net of dividends, and interest on these funds totaled $889,329 and $(333,520) during the years ended December 31, 2019 and 2018, respectively. The UMCF fund is within the Balanced Fund and Balanced Fund Plus. The objective of the Balanced Fund is to provide a reasonable level of current income and, simultaneously, to protect the purchasing power of the principal against inflation. The targeted allocation of the fund is 35% invested in a fixed income fund, 30% in a domestic large capitalization equity portfolio, 10% in a domestic small/mid-capitalization equity portfolio, and 25% in an international equity portfolio. This fund is designed for those investors who are seeking a single fund to provide broad diversification, reasonable current income, and protection against inflation. The Balanced Plus Fund's objective is to provide similar investment returns as the Balanced Fund, but to reduce the volatility of the returns by increased portfolio diversification through the use of alternative investment strategies. The targeted allocation of the fund is 30% invested in a fixed income fund, 25% in a domestic large cap equity portfolios, 10% in domestic small/mid-cap equity portfolios, 15% in an international equity portfolio, and 20% in alternative investments consisting of funds of hedge funds and managed futures portfolios. This fund is designed for those investors who are seeking a single fund to provide broad diversification, reasonable current income, and protection against inflation.

Note 4—Fair value of investments at The United Methodist Church Foundation and the Texas Methodist Foundation

In April 2006, the Plan invested $8,965,578 in the Methodist Loan Fund with the Texas Methodist Foundation. The investment matured in June 2012. As of December 31, 2019 and 2018, the Plan's investment at the Texas Methodist Foundation was $861 and $852, respectively.

Note 5—Federal income tax exemption

The Plan is organized exclusively for charitable, religious, and educational purposes and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code under the group ruling for United Methodist affiliated organizations.

The Plan accounts for the effect of any uncertain tax positions based on a more likely than not threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the Plan include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, the Plan has determined that such tax positions do not result in an uncertainty requiring recognition.

Note 6—Related party transactions

During the years ended December 31, 2019 and 2018, the Plan sponsor provided services on behalf of the Plan for certain accounting and administrative services. Those amounts incurred by the Plan sponsor related to payroll and operating costs were allocated to the Plan in the amount of $625,760 and $671,181, respectively, and are included in the Plan sponsor service fees on the accompanying statements of changes in benefit obligations and net assets available for plan benefits. As discussed in Note 2, at December 31, 2019 and 2018, certain of the Plan's investments, totaling $7,353,553 and $6,632,683, respectively, are held by the Plan sponsor in the short-term pooled investment fund.

Note 7—Subsequent events

Management has evaluated subsequent events through July 20, 2020, the date the financial statements were available for issuance.

As a result of the spread of COVID-19 in early 2020, economic uncertainties have arisen, which are likely to negatively impact operation results of the Plan. Other financial impacts could occur though such potential impact is unknown at this time.