

Financial Overview – Christine Dodson

The detail of each report can be found in the Conference Workbook at nccumc.org/ac2013.

In preparation for your vote at Annual Conference, we will review the financial reports and explain briefly the main points within each report. The detail of each report is in the Conference Workbook on the Annual Conference page on the [Conference website](#).

Financial Overview

We will review the reports from the Board of Pension, Commission on Equitable Compensation, Insurance Committee, Committee on Clergy Medical Leave, and the Council on Finance and Administration, as well as, the Conference Board of Trustees.

Board of Pension

The board of pension report contains information on those who are retiring this year – you will find that in section A of the report. Section B includes the funding plan for our pension liability for years of service prior to 1982. The funding plan was originally approved in 1991 and includes a special apportionment to raise funding to pay the pension benefits – which we will see later in the past service liability section of the budget proposal. The past service liability is calculated based on the per service year rate that is approved as the pension amount to be paid under that plan. The per service year rate is set by vote of the Annual Conference in consideration of report B in the Board of Pension report. The Board of Pension has recommended that the per service year rate for 2014 be increased from \$655 to \$672 for a 2.6% increase over the 2013 rate.

Another change to Report B includes a change in the assumed increase for the past service year rate moving forward. You will recall that the original funding plan approved in 1991 included planned increases in past service year rates of 5% each year and increases in the Past Service Liability apportionment of \$200,000 per year until the liability is funded in full. The board of Pension reviewed information provided from the actuaries at the General Board of Pension and also the recent changes in the rate and the PSL apportionment. With concern for the ability of local churches to fund apportionments with recent economic struggles, past service year rates

have not been increasing by 5% and the apportionment has not been increasing by \$200,000. The actuaries asked that the Board of Pension look at this funding plan and make sure these assumptions are still realistic since we are getting close to the end of the funding period for the liability. With that in mind and the recent changes in past service year rate, the Board of Pension has changed the proposal for the funding plan to anticipate 2.5% increases in the per service year rate and no increases over the current Past Service Liability apportionment amount in the conference budget. With these changes, the unfunded liability decreases by just under \$6.5 million dollars. If market returns continue to hold, the liability has the potential to be funded in 2016.

Section II of Report B outlines the pension plan that is currently in place, the Clergy Retirement Security Program that became effective January 1, 2007. There was a funding rate that was in place through the end of 2013 defined in paragraph A. The 2012 session of general conference adopted some changes to the pension plan. Those changes are included in Report B in section III, paragraph B where benefits are outlined effective January 1, 2014. The defined benefit for years of service for full-time appointments beginning in 2014 will be 1% of the denominational average compensation. This is a reduction from 1.25% for the years 2007 through 2013. This reduction will result in a reduction of cost to the local churches for this portion of the pension plan from 10.4% for 2013 to 8.8% of plan compensation beginning in 2014.

Changes to the defined contribution portion of the pension plan are provided in Paragraph C of Section III. General conference adopted a matching principle for the defined contribution portion and the Annual Conference board of pension recommends the same matching that is provided in the guidance from the General Board of Pension. The General Board recommended this change to better encourage participants to use the Personal Investment Plan to save more to prepare for retirement. The board of pension has recommended the same match of 1% such that if a pastor contributes at least 1% of plan compensation to the Personal Investment Plan, that 1% will be matched along with the other 2% that is provided anyway for a total contribution of 3%. If a participant does not contribute 1%, they will only receive the 2% nonmatching portion.

Another change is addressed in Section V of the Report B regarding the costs of the plan. The reduced defined benefit cost and the costs for the

defined contribution plan for full-time clergy are provided in paragraph A.2. of Section V. For less than full-time clergy, there is a change to the pension plan that will provide for contribution to the United Methodist Personal Investment Plan instead of participation by part-time clergy in the Clergy Retirement Security Program. This will provide a contribution to the PIP in the amount of 11.8% of plan compensation, which is the same billing rate used for the full-time clergy. This defined contribution is added to the clergy's Personal Investment Plan account instead of accumulating a defined benefit for years of service at retirement. The general conference adopted language to give flexibility to Annual Conferences to choose if part-time clergy would participate in the CRSP plan or in this defined contribution plan. The NC Board of Pension has recommended that part-time clergy participate in the Personal Investment Plan at the same billing rate for full-time clergy to allow flexibility in investment of the funds and roll-over to other plans if needed in the case of clergy who may be second career who have other retirement accounts elsewhere. In discussions with part-time clergy, most shared that they would prefer that flexibility and moving to this option from the General Board provides that.

Section VI.D.H. provides the information for the retiree health care proposal that will be discussed in a separate briefing session video.

There are no substantial changes to reports C and D for the Board of Pension other than changes to dates and IRS limits. Report C is the retiree housing exclusion resolution and report D is the plan document for the Ministers' Transition Fund.

Equitable Compensation

The report of the commission on equitable compensation sets the minimum salary for full-time local church appointments in section one of the report. The commission has voted to recommend that there be no change to minimum salary for 2014 so the minimum amount for 2014 is proposed to be \$41,770. We currently set the minimum student pastor salary at 65% of the full-time minimum salary so that would also remain the same at \$27,151.

The report also includes some minor wording changes to the policies for eligibility for equitable compensation grants in sections two and three of the report. Section three includes proposed wording for supplemental

grants to be paid in addition to base compensation for years of service provided by full-time pastors at minimum salary. These grants would be funded from the conference equitable compensation budget line.

Included in the conference report for 2012 was a proposed change to the way minimum salary is structured in the conference. This recommendation came from study done by the commission at the request of the 2008 Annual Conference. After the conclusion of the 2012 Annual Conference, a survey was done along with further study of the proposal. The commission has voted not to propose the change in structure that was provided for feedback in 2012. The minimum salary structure providing one amount for all full-time appointments remains in the 2013 equitable compensation report.

Insurance Committee

The Insurance Committee report in the Conference Workbook provides minor updates in wording and dates along with a proposed change in benefits and rates. The Insurance Committee is recommending that the insurance benefits remain the same in 2014 as is available in 2013 for the health and life insurance portions of the plan. The committee has recommended that the dental program be pulled out of the main plan and be offered as a voluntary plan that is paid for by the participant. The costs for the same dental coverage that we currently have if purchased by the participant vary by the type of plan chosen. For single coverage, the premium is \$35.10 per month, for parent/child coverage, 63.08 per month and for family coverage \$99.10 per month. Each person on the active plan will choose during open enrollment if they want to participate in dental coverage for the 2014 plan year.

After moving dental coverage to voluntary participation, the Insurance Committee has proposed that all other benefits for the active plan participants remain the same. There is a proposal from the Insurance Committee and Conference board of Pension that changes the plan structure for retiree health coverage and that proposal is discussed in detail in a separate video. For the active plan, to keep the same benefit offerings through the base and buy-up plans, premiums will need to increase by 9%. This increase would be applied to the church portion and the personal portions for both the base and buy-up plans. We have been blessed to have kept rates for the church portion the same for eight years in a row and for

the personal portion for two years but will be unable to continue that for 2014 and keep the same copay and coinsurance benefits.

The medical rates for the church portion will increase by 9% to \$1,000.64 per month and the personal portion will vary by type of coverage. The personal portion for the base plan will be \$162.91 for single coverage, \$301.55 for parent/child and \$415.05 for family coverage. If the participant has chosen the buy-up plan, the monthly premiums will be \$189.10 for single coverage, \$350.01 for parent/child and \$481.75 for family coverage.

The Insurance Committee is not recommending any changes to the conference life insurance for benefits or premiums. Those premiums will remain at \$14.50 per month for single coverage and \$18.75 per month for family coverage.

Clergy Medical Leave Committee

The report of the Joint Committee on Clergy Medical Leave, formerly the Joint Committee on Incapacity, in the Conference Workbook provides updates on dates and names of persons receiving medical leave benefits. There are no proposed changes to the benefits for those on medical leave for this Annual Conference session.

Council on Finance and Administration

The report of the Council on Finance and Administration can be found on the Annual Conference website in the Conference Workbook and reports link.

2015 Budget

Section 1 details the 2015 Budget to be approved. The column that is titled Requested, Request 2013, Raised 2014, for 2015 is the column which Annual Conference will be considering for approval.

Budget Process

The Book of Discipline defines the process through which the budget is brought to Annual Conference.

First, budget requests are accumulated among all Connectional Ministries and submitted to CFA. Teams, boards and agencies were asked to prepare budget requests using a zero-based approach. This means that each ministry area was to prepare a budget from scratch in order to identify what is really needed to fund the ministry instead of trying to justify a certain percentage increase over the previous year's budget. This approach was used for all lines within the Conference Connectional Ministries budget that are not determined through some outside source – such as the case with General Church apportionment funding.

CFA reviewed the current budget and apportionment levels and recommended a total budget to be raised based on their subjective evaluation of local church economics.

Connectional Ministries and ministry teams evaluated the budget requests in order to determine how to align ministry visions within the total as recommended by CFA. The result of this was presented to the Council and the Council voted to accept the budget as proposed by the Connectional Table. The budget as proposed is being presented for consideration for approval at Annual Conference.

The total 2015 budget request for all general, jurisdictional and Annual Conference apportionments is \$20,703,100. This represents an increase of 0.92% over the total 2014 budget approved last year.

The Discipline requires that Annual Conferences pass 100% of the general church apportionments assigned to it through to the local church without reduction.

You can find this information in the summary presented at the end of the budget in section I.

18.23% or \$3,775,007 of the budget proposed is assigned to us by the General Church according to a formula adopted by General Conference.

Likewise Jurisdictional apportionments are assigned to Conferences based on the same formula for the quadrennium as a whole. This amount represents \$76,696 or 0.37% of the total budget requests.

The Discipline also requires that the Conference Board of Pensions present a budget which is sufficient to fund retiree benefits as adopted by the Annual Conference. This request for health insurance, life insurance and pre-82 pension funding represents 28.98% of the total budget requests or \$6,000,000.

The Annual Conference Ministry and administrative budgets of which we have control, total \$10,851,397 or 52.41% of the total budget recommended to Annual Conference members for approval.

Outreach Ministry Team

The Outreach Ministry Team recommends no change in the budget lines within this team. All requests for 2015 ministries are proposed at the same levels as the 2014 requests. The total of the Outreach Ministry Team requests are \$885,925 or 4.28% of the total budget.

Christian Formation Team

The Christian Formation Team can be found in lines 12 through 30. The Christian Formation Team recommends a net increase of \$51,290 or 2.04%. The largest change in the Christian Formation Team budget lines is in line 26 for emerging church support with an increase for that line of \$68,150. This increase is needed to fund commitments for emerging churches and new faith communities already in process as well as for potentially new areas as recommended by the cabinet and office of New Faith Communities. Smaller decreases in the Christian Formation team were to lines 12 for evangelism and line 27 for New Faith Communities salaries and benefits. The decrease in the evangelism line was due to programs for evangelism not being done with the frequency planned for in previous years and in line 27 for changing the allocation of the housing allowance to the line in the Conference trustees funds.

Leadership Team

Beginning in line 31 and continuing through line 57 is the funding for the Leadership Team. This team recommends an increase of \$89,137 or 2.75% over the amount previously included in the Conference budget. The changes come mostly from changes in lines 43 for the costs of the district superintendent and district administration. There is an increase in line 35

for the ministerial education fund, which is a general church apportionment and passed through as calculated by the General Council on Finance and Administration. The lines 42 through 47 detail the allocation of costs for the district administration. You will recall in the 2014 budget, there was some funding provided in general categories for district costs as the district expenses were changed to be provided through the conference budget versus a separate district work fund apportionment. I call your attention to the note at the bottom of the second page in Section I of CFA's report. As the district transition was implemented, we were able to get a better break out of the cost structure for district operation. As a result, we have reallocated the total funding for districts to more accurate areas in the 2014 budget. The total dollar amount of the 2014 budget remains the same, but this report reallocates those district lines to provide a clearer reflection of the district costs. Again, the 2014 total remains the same, but CFA felt it was important to show the truer allocation of those costs now that the implementation is done and the expenses can be better tracked for clarity.

The lines 42 to 47 include some of that reallocation as well as a planned increase in the salary and benefits line to help provide funding for increases in insurance and other payroll costs. The changes from the 2014 reallocated amounts to the 2015 requests are broken out in the table at the bottom of Section I.

There is a proposed realignment of some ministries to better reflect the work of those areas. Please see the note at the bottom of the budget. In summary, the Board of Ordained Ministries: Sexual Ethics Program and Seminary Visitation are included with line 36, Board of Ordained/Diaconal Ministry. The Bishop's Day Apart, Episcopacy and the Bishop's Discretionary Fund are now included with line 55, the Office of the Bishop. Lastly, the Cabinet Discretionary Fund has been realigned to be included in the Cabinet Meeting Expenses.

Stewardship Team

The budget for the Stewardship Team can be found in lines 58 through 88. The stewardship team budget shows a net decrease of \$701 or 0.01%. The overall decrease in the stewardship lines was small but there were some larger changes within the lines in the team. The changes in the stewardship team budget are primarily due to changes in the lines shown. Some of the larger changes include decreases in lines 62 and 64 for the Conference

Journal and Advocate to reflect reduced printing costs as publications are moved to electronic format and distribution. Lines 67 and 71 for salary and benefits for the Treasurer's Office and Information Technology show increases to help offset benefit cost increases. The Information Technology line also includes some reallocation of district administration salary from the 2014 request to add funding for IT help to support the district staff. This was included in the transition plan but had been included in the district section of the leadership team budget lines in the 2014 budget.

A large increase is shown in line 69 for treasurer bonding and insurance. The cost for the blanket bond the conference provides to cover all local churches for employee financial theft or fraud has increased dramatically over the last several years due to the increase in church theft all over the church, not only the UMC but other denominations as well. The other larger change is to line 81 for the costs of providing health and life insurance benefits to our clergy on medical leave. This cost has decreased due to the number of person we have on that roll and not due to a reduction in benefits. There are smaller changes also noted for line 80 for minister's moving expense and line 87 for the Connectional Ministries office and committee expense budget line.

Past Service

The Board of Pensions does not recommend an increase in the budget line for the funding plan for the pre-1982 pension plan. The funding plan is described in the Board of Pensions Report B. Earlier in this video we reviewed proposed changes to the funding plan for the pre-82 pension liability. For those reasons, the Board of Pension has proposed that the Past Service Liability apportionment remain the same as the amount in the prior year's budget at \$3,300,000.

The 2012 and 2013 actual Operating Budgets are published in sections 2a and 2b of the CFA report for your review.

The Financial Policies of the Council are reported in section 3. Items changed are shown in bold print for additions or with strike through for deletions. These changes are primarily updates of dates and amounts according to the financial policies. There is one change to note in the formula for new churches and new faith communities in section III.A.3. The additional text clarifies that the new faith community or new church

formula will go into effect the year after the church charters, which is the current formula, or five years from launch date, whichever is sooner. This addition was proposed by CFA in consultation with the Office of New Faith Communities to clarify apportionment participation for individual church starts as well as location launches for multi-site campuses.

Section four of the CFA report provides the policies for moving expense reimbursements. You will see from this section in the CFA report that CFA is recommending no change to the moving expense reimbursement limit for this year's policy. There are minor wording changes noted to clarify that moving expense reimbursement is also available for clergy Assistant to the District Superintendents on appointment change and to change the name of incapacity leave to clergy medical leave as per the action of the 2012 general conference.

Section seven of the CFA report provides a recommendation for the salary of the District Superintendents. The formula for calculation of that salary that is equal to the average of the top 25 salaries plus nonvouchered allowances for local church pastors for the year prior to the year in which the salary is to be paid. The formula proposed also includes language that the salary would be no less than the salary approved for the previous year. That formula yields a salary of \$105,153 for District Superintendents for 2014. This is no increase in salary from the 2013 level.

The Organization and Procedure of the Council is provided in section eight. Changes to this section are primarily updates of dates.

Board of Trustees

The Conference Board of Trustees is required by the discipline to meet within 30 days of Annual Conference so the report for the board of trustees was not ready by the time of this Briefing Session taping. Updates anticipated for the Board of Trustees include a report of the completion of the Wardlaw clergy retreat center at Camp Don Lee. Any other items for update will be added to the Trustees report in the Conference Workbook after the Trustees meet prior to Annual Conference.

Thank you again for your time and attention today. Please be sure to email your questions and comments to us at helpdesk@nccumc.org. We look forward to seeing you in June!