

Report of the ELCA Board of Pensions



Evangelical Lutheran Church in America
God's work. Our hands.

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Mr. John G. Kapanke, *president and chief executive officer*

Statement of Purpose

The mission of the Board of Pensions is to provide retirement, health, and related benefits and services to enhance the well-being of those who serve through the Evangelical Lutheran Church in America (ELCA) and other faith-based organizations. The governing description of this unit appears in continuing resolution 17.61.A05., printed in Section X of this volume.

Report of Work for 2009–2011

In fulfilling the mission of the Board of Pensions as a separately incorporated ministry of the ELCA, the following areas have been or are being addressed in its service to those who serve:

- Focusing overall strategic efforts in 2009–2011 on a single objective to attract new and retain existing customer groups on a sustainable basis by enhancing customer experience and strengthening engagement. This objective is in direct support of the first and last of the ELCA's five strategic directions: to support congregations and bring forth and support faithful, wise, and courageous leaders.
- Extending benefits eligibility to eligible same-gender partners following the 2009 Churchwide Assembly adoption of the ELCA social statement, *Human Sexuality: Gift and Trust*.
- Improving the long-term health of the ELCA Participating Annuity and Bridge Fund (the Fund, from which we make annuity payments) since it was first closed to new entrants in April 2009. As of April 30, 2011, the Fund's funded ratio (assets divided by the benefit obligation) was 0.999; essentially closing the funding gap as a result of positive investment market returns and reductions in annuity payments that went into effect in 2010 and 2011.
- Re-opening the redesigned ELCA Participating Annuity to new entrants in August 2011.
- Providing one-time payments from the Special Needs Retirement Fund to 339 eligible plan members, who are among those most adversely affected by annuity reductions. This action fulfilled one of the requests the ELCA Church Council made in November 2010 (based on its *Ad Hoc* Committee recommendations in response to synodical resolutions about the ELCA Participating Annuity and Bridge Fund). The Church Council's other requests related to the committee's recommendations have been or are being fulfilled.
- Responding to a proposed class action lawsuit related to annuity payment reductions that was filed in December 2010 by four individuals. The Board of Pensions believes it has acted in the best interests of plan members by seeking to return the Fund to fully-funded status. The steps implemented by the Board of Pensions are intended to support continued annuity payments to participating plan members during their lifetimes.

Health Care

This church's collective efforts to become healthier and use benefits more wisely are paying off. The Board of Pensions:

- Made progress toward two interrelated goals with the health plan—to improve the health of plan members (and, by extension, their service in ministry) and to manage health care costs for both employers and plan members.
- Experienced a drop in potentially avoidable medical and pharmacy claims from more than 42.0 percent in 2004 to 38.2 percent for the 12-month period ending June 30, 2010. Decreasing potentially avoidable claims by 0.5 percent saves approximately \$1 million for both employers and plan members. Existing health plan benefits and resources that help to drive this percentage lower focus on prevention, early detection, and behavioral change.
- Held steady or reduced nine of 11 health risks in members' self-reported health assessment results as of 2010. Industry studies have shown that reducing health risks can lead to lower health costs in the future.
- Continued efforts to control costs in collaboration with national benefit administrators and other church plans. About 90 cents of every \$1 collected goes back to plan members as benefits (the rest provides for administrative costs and funding of the plan's contingency reserves).
- Increased percentage of prescriptions filled with a generic drug from 72.6 percent to 76.1 percent in 2010, saving plan members approximately \$1 million and the health plan more than \$3 million. Claims results like these helped minimize health plan rate increases for ELCA employers.
- Integrated medical and mental health benefits into a single benefit (saving \$300,000 in annual administrative costs) to comply with the Mental Health Parity and Addiction Equity Act.
- Held health contribution rates for employers to no increase in 2011, compared to a 2 percent increase in 2010. After a 10-year suspension (with no contribution required from employers), the survivor benefit contribution rate was reinstated at 1 percent of defined compensation to cover expected claims and expenses.
- Continued efforts with colleagues from 36 other denominations through the Church Alliance to help ensure that legislative and regulatory bodies understand the unique needs of clergy and lay memberships of the Board of Pensions. While it is still too early to say how health care reform will affect the ELCA health plan going forward, plan members and employers can count on the Board of Pensions to respond in a timely fashion to changes in the health care landscape.
- Thanks, in part, to Church Alliance efforts, the IRS has allowed qualifying congregations to apply for the small business health care tax credit.

More to the Story

Did you know the legacy of Lutheran care for pastors, churchworkers, and their families can be traced to 1783? The

Board of Pensions is excited about the publishing of *More to the Story: The Legacy and Promise of Lutheran Pension and Benefit Plans* by the Rev. Lowell G. Almen in 2010. Pr. Almen calls the book an account of visionary and courageous endeavors, adding, "It provides examples of people who used their skill, dedication, and wisdom to care for this aspect of the life of the church." Copies of *More to the Story* are available upon request.

Members Served as of December 31, 2010:

Total members served	51,133
• In active service	13,849
• Not in active service	8,801
• On leave	701
• Disabled	392
• Retired	10,537
• Survivors	3,974
• Serving related institutions	12,879

Benefit Plan Assets*

Net assets available for plan benefits as of December 31, 2010: \$6.369 billion

- ELCA retirement plans: \$3.917 billion
- ELCA Participating Annuity and Bridge Fund: \$2.032 billion
- All other plans (health, disability, survivor, retiree medical obligation, other): \$420 million

* Benefit plan assets are rounded to the nearest million. For more information and details, download the Board of Pensions 2010 Annual Report at www.elcabop.org.

Investments

- Economic recovery and financial market performance over the past two years have helped strengthen financial results and absolute fund performance.
- In the 2010 calendar year, for example, the Board of Pensions earned positive returns for all ELCA investment funds except for the Money Market Fund (which experienced a slight negative return due to continued low-interest rates on high-quality short-term fixed-income securities). All but three of the ELCA funds posted positive double-digit returns.
- Please visit www.elcabop.org on the Web for the most recent ELCA retirement fund performance.

Total ELCA Retirement Plan fund returns¹ are net of fees and, for periods greater than one year, are annualized as of December 31, 2010:

Fund**Ten year (%) Five year (%) One year (%)****Select Series**

ELCA 80e Balanced Fund ²	n/a	3.9	13
ELCA Social Purpose 80e Balanced Fund ²	n/a	3.8	12.9
<i>80e Balanced benchmark</i>	<i>4.9</i>	<i>4.5</i>	<i>15.1</i>
ELCA 60e Balanced Fund	5.2	4.6	12.7
ELCA Social Purpose 60e Balanced Fund	5.2	4.7	12.6
<i>60e Balanced benchmark</i>	<i>5.5</i>	<i>5.1</i>	<i>15</i>
ELCA 40e Balanced Fund ²	n/a	5.2	11.9
ELCA Social Purpose 40e Balanced Fund ²	n/a	5.2	11.7
<i>40e Balanced benchmark</i>	<i>6.4</i>	<i>5.5</i>	<i>13.5</i>

Build-Your-Own Series

ELCA Global Stock Fund	3.2	2.5	13.1
ELCA Social Purpose Global Stock Fund	3.1	2.7	13.1
<i>Global Stock benchmark</i>	<i>3.5</i>	<i>3.4</i>	<i>15</i>
ELCA Non-U.S. Stock Fund	6	4.3	10.2
ELCA Social Purpose Non-U.S. Stock Fund	6	4.3	10.4
<i>Non-U.S. Stock benchmark</i>	<i>5.6</i>	<i>4.8</i>	<i>11.2</i>
ELCA U.S. Stock Fund	2.2	1.6	15.8
ELCA Social Purpose U.S. Stock Fund	1.9	1.8	15.3
<i>U.S. Stock benchmark</i>	<i>2.5</i>	<i>3</i>	<i>17.5</i>
ELCA S&P 500 Stock Index Fund ³	1.1	1.9	14.6
<i>S&P 500 Stock Index benchmark</i>	<i>1.4</i>	<i>2.3</i>	<i>15.1</i>
ELCA Social Purpose Stock Index Fund	1.9	2.9	16.9
<i>Social Purpose Stock Index benchmark</i>	<i>2.2</i>	<i>2.7</i>	<i>16.9</i>
ELCA Small- and Mid-Cap Stock Index Fund	6	5	28.4
<i>Small- and Mid-Cap Stock Index benchmark</i>	<i>6.4</i>	<i>5.5</i>	<i>28.6</i>
ELCA Global Real Estate Securities Fund	10.5	3.3	25.9
<i>Global Real Estate Securities benchmark</i>	<i>11.1</i>	<i>2.5</i>	<i>27.1</i>
ELCA High-Yield Bond Fund	7	7.8	13
<i>High-Yield Bond benchmark</i>	<i>8.6</i>	<i>8</i>	<i>13.9</i>
ELCA Bond Fund	5.5	5.7	6.7
ELCA Social Purpose Bond Fund	5.5	5.6	6.2
<i>Bond benchmark</i>	<i>6.1</i>	<i>6.2</i>	<i>6.6</i>
ELCA Money Market Fund	2.2	2.5	-0.2
<i>Money Market benchmark</i>	<i>2.4</i>	<i>2.4</i>	<i>0.1</i>

Note: Each benchmark represents a customized blended benchmark. Visit www.elcabop.org for a detailed description of each benchmark.

1. Fund returns are net fees (including direct investment management expenses and administrative expenses) and, for periods greater than one year, are annualized. Benchmark returns are gross of expenses and provide a relative comparison to the market. An investment in these funds could lose money over short or long periods of time. Past performance does not guarantee future results.
2. The Board of Pensions has maintained this asset category for more than 10 years and in 2003 made it available as an investment option within the Retirement Plan. The Board of Pensions believes the underlying asset pool provides an accurate historical performance record.
3. "S&P 500®" is a trademark of the McGraw Hill Companies, Inc. and has been licensed for the use by the Board of Pensions. The ELCA S&P 500 Stock Index Fund is not sponsored, endorsed, sold, or promoted by Standard & Poor's and Standard and Poor's makes no representation regarding the advisability on investing in the fund.

Major Directions for 2011–2013

Increasingly, the ministry focus of the Board of Pensions is on whole-person wellness as depicted through the Wholeness Wheel. Looking ahead, the Board of Pensions plans to concentrate its efforts on the need to:

- Stay focused on prudently managing the benefit plans and assets of those whom the Board of Pensions serve, utilizing investment strategies designed to perform well over time. The Board of Pensions believes diversified, disciplined strategies that are focused on investment fundamentals continue to work over most long periods.
- Apply the stewardship value of the Board of Pensions to an even greater degree by further reducing costs, improving efficiencies, and increasing our effectiveness wherever possible.
- Ensure that the Board of Pensions has proper risk-management controls to protect the long-term health of the ELCA benefits program, which includes retirement, health, disability, and survivor benefits and related services.
- Expand business capabilities and enhance service through new technology (ongoing).
- Develop an integrated, comprehensive retirement education and planning service delivery model focusing on the members' accumulation, transition, and distribution phases of retirement planning.
- Expand the program, *Living Well in Christ—A Journey of Renewal*, created in 2009 to walk alongside rostered leaders during a year-long interactive wellness experience.
- Embrace new leadership. For the first time since its formation in 1988, the Board of Pensions will experience a change in leadership. Mr. John G. Kapanke has announced that he will retire as president and chief executive officer when his sixth four-year term ends on September 30, 2011. "I am deeply honored and humbled to have served this church and those who serve. I am also confident that the competence, commitment, and steadfast loyalty of our management team and employees will help the Board of Pensions manage this transition," he stated.

Over the years, the Board of Pensions and its predecessor pension boards have worked diligently for the well-being of those who serve through this church and other faith-based organizations. It is how the Board of Pensions best fulfills its mission as a separately incorporated ministry of the Evangelical Lutheran Church in America. Together, we are freed in Christ to serve.

Ms. Lois A. O'Rourke, *chair*

Mr. John G. Kapanke, *president and chief executive officer*