



Report of the ELCA Board of Pensions

Organization

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¹ Appeals

² Audit

³ Corporate Social Responsibility

⁴ Executive

⁵ Finance

⁶ Investment

⁷ Nominating

⁸ Products and Services

*Resigned effective April 14, 2009

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Statement of Purpose

The mission of the Board of Pensions (BOP) 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 the ELCA *Constitution, Bylaws, and Continuing Resolutions*, 17.61.A05., in Section X of this volume.

Report of Work for 2007–2009 Significant Achievements

To achieve real-life outcomes of fulfilling the Board of Pension's mission in the Evangelical Lutheran Church in America (ELCA), the following activities were accomplished:

- Completed the 2006–2008 strategic plan, supporting the ELCA's strategic direction to "assist this church to bring forth and support faithful, wise, and courageous leaders whose vocations serve God's mission in a pluralistic world."
- Adopted a new three-year strategic plan for 2009–2011, with a single objective of attracting new, and retaining existing, customer groups on a sustainable basis by enhancing customer experience and strengthening engagement. BOP expects that the new plan will have the greatest impact on the first and last of the ELCA's five strategic directions: to support congregations and to bring forth and support faithful, wise, and courageous leaders.
- Transitioned the ELCA health plan from a "disease" model to a "wellness" model in order to help plan members and their families toward greater health while containing health-care costs and the accompanying increases in the cost of sponsorship.
- Helped set a new standard for health and wellness in this church through the "Live well: Healthy leaders enhance lives" initiative in partnership with the Conference of Bishops, the Vocation and Education unit, and other leaders of this church. BOP expresses appreciation to Presiding Bishop Mark S. Hanson and the 2007 Churchwide Assembly for "challenging our leaders to make healthy living a daily discipline."
- Added new features to ELCA primary health coverage that reward members (and spouses) for pursuing wellness. Employers also received a 2 percent discount on their health contribution rates for years 2008 and 2009 when 75 percent of eligible participants within their assigned synod, seminary, or other churchwide ministry completed a confidential health assessment from the Mayo Clinic.
- Measured improved health assessment scores for participating plan members. Four of five medical risks and five of six lifestyle risks decreased from 2008 to 2009.
- Experienced a drop in the percentage of claims deemed potentially avoidable from 43 percent to 39 percent.
- Extended disability benefits coverage for intentional interim pastors who are between assignments.
- Amended the disability benefit plan to provide that all sponsored members are eligible for disability benefits regardless of age (subject to a maximum period of payment), in response to the 2007 Churchwide Assembly

action in response to a memorial from the Northern Great Lakes Synod.

- Improved overall corporate efficiency through strengthened and enhanced internal financial controls, new technology, and other quality-improvement initiatives.
- Responded to the ELCA Church Council’s request to bring a progress report related to the costs of medical benefits for rostered people and staff to the November 2007 meeting of the council’s Program and Services Committee. BOP has shared its ongoing work to keep health costs as low as possible and engaged synodical bishops in conversation about this concern, which had been raised by the Southwestern Texas Synod Council. BOP’s efforts have included a comprehensive benefits study in 2008, with the assistance of Hewitt Associates, which examined the ELCA philosophy of benefits as it relates to level of benefits, bundled program, contribution policy, and sharing of health costs. In summary, the board has acknowledged that rising health care costs are a continuing challenge for this church. The philosophy of benefits has provided a sound basis for sharing these costs among sponsoring employers and between employers and health plan members. BOP continues to encourage ongoing dialogue within this church on these issues and welcomes those who have concerns to contact BOP to express them.
- Studied the ELCA’s financial services to enhance mission and add value through an initiative led by the Office of the Presiding Bishop with the Foundation of the ELCA and the Mission Investment Fund. BOP also completed two other comprehensive studies in 2008, examining ways to leverage BOP’s asset management capabilities and improve the effectiveness of the ELCA benefits program.

Members Served For Period Ended Dec. 31, 2008

Total members served:

- In active service: 14,636
- Not in active service: 8,402
- On leave: 727
- Disabled: 362
- Retired: 10,436
- Survivors: 3,680
- Serving related institutions: 13,739

Benefit Plan Assets

Net assets available for plan benefits for year ended Dec. 31, 2008: \$4.9 billion

- ELCA retirement plans: \$4.6 billion
- All other plans (health, disability, survivor, retiree medical obligation, other): \$333.8 million

Note: Benefit plan assets are rounded to the nearest tenth. For more information and details, download the Board of Pensions 2008 annual report at www.elcabop.org or contact BOP by e-mail (mail@elcabop.org) or telephone (1-800-352-2876).

Investments

Plan members and people around the world witnessed one of the most dramatic and historic global economic downturns in modern financial times as investment markets tumbled worldwide. The severity and rapidity of these investment declines, especially in the fourth quarter of 2008, cast the global economy into uncharted territory.

The market downturn had a dramatic impact on pension plans throughout the country and abroad. The combined loss in pension and retirement accounts for workers in the United States has been estimated to be in the trillions of dollars. Unfortunately, ELCA plan members are not immune from the effects of those same forces as they participate in the gains and losses of the investment markets.

While ELCA investment funds overall performed well against their benchmarks, demonstrating the value of diversification in tumultuous investment markets, absolute investment losses in 2008 were deep and painful for most everyone with money in the ELCA retirement plans. It was disappointing that 17 of 20 ELCA investment funds posted double-digit negative one-year returns for 2008. For the most recent ELCA retirement fund performance, please visit www.elcabop.org.

Total ELCA Retirement Plan fund returns¹ are net of fees and, for periods greater than one year, are annualized as of Dec. 31, 2008:

Fund	10-year (%)	5-year (%)	1-year (%)
<i>Select Series</i>			
ELCA 80e Balanced Fund ²	N/A	1.1	-35.7
ELCA Social Purpose 80e Balanced Fund ²	N/A	1.2	-35.2
ELCA 60e Balanced Fund	3.6	2.0	-29.9
ELCA Social Purpose 60e Balanced Fund	3.1	2.2	-28.9
ELCA 40e Balanced Fund ²	N/A	2.8	-21.4
ELCA Social Purpose 40e Balanced Fund ²	N/A	2.8	-21.1

¹ Figures rounded to the nearest tenth. Past performance does not guarantee future results.

² The specific asset allocation and structure of this fund did not exist until February 2003.

Fund	10- year (%)	5- year (%)	1- year (%)
<i>Build-Your-Own Series</i>			
ELCA Global Stock Fund	1.7	-0.1	-40.3
ELCA Social Purpose Global Stock Fund	0.7	-0.3	-40.1
ELCA Non-U.S. Stock Fund	2.2	2.7	-46.8
ELCA Social Purpose Non-U.S. Stock Fund	1.3	2.5	-47.0
ELCA U.S. Stock Fund	-0.4	-2.5	-39.2
ELCA Social Purpose U.S. Stock Fund	-0.9	-2.4	-38.1
ELCA S&P 500 Stock Index Fund ³	-1.7	-2.5	-37.1
ELCA Social Purpose Stock Index Fund	-1.1	-2.1	-36.8
ELCA Small- and Mid-Cap Stock Index Fund	2.2	-0.8	-38.9
ELCA Real Estate Securities Fund	8.1	2.6	-35.3
ELCA High-Yield Bond Fund	1.9	0.4	-19.1
ELCA Bond Fund	4.9	3.5	0.8
ELCA Social Purpose Bond Fund	5.1	3.8	1.8
ELCA Money Market Fund	3.3	3.1	2.6

³ "S&P 500®" is a trademark of the McGraw-Hill Companies Inc., and has been licensed for use by the ELCA Board of Pensions. The ELCA S&P 500 Stock Index Fund is not sponsored, endorsed, sold, or promoted by Standard & Poor's, and Standard & Poor's makes no representation regarding the advisability of investing in the fund.

Major Directions for 2009–2011

In the coming biennium, the Board of Pensions will focus on the following goals and directions:

- Implement a new three-year strategic plan for 2009–2011, with the single objective of attracting new, and retaining existing, customer groups on a sustainable basis by enhancing customer experience and strengthening engagement. The greatest impact and influence will be on the first and last of the ELCA's five strategic directions: to support congregations and to bring forth and support faithful, wise and courageous leaders.
- Focus on prudently managing the benefit plans and assets of those whom BOP serves, utilizing investment strategies designed to perform well over time. While the recent period has produced sharply lower returns for virtually all investors, diversified, disciplined strategies that are focused on investment fundamentals continue to work over most long periods.

- Research an annuity product to replace the ELCA Annuity Fund, which includes the ELCA Annuity Bridge Fund. It was determined after careful study that recent investment losses in this fund have diminished its value for new entrants. The difficult, but prudent, decision was made to close that fund to new entrants on April 3, 2009. Research has already begun on a replacement annuity product that will be available in the near future.
- Apply BOP's stewardship value to an even greater degree by further reducing costs, improving efficiencies, and increasing effectiveness.
- Ensure that there are 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.
- Strengthen benefits, features, and health incentives, where appropriate, as BOP continues to invite plan members to use health benefits proactively to improve health and save money. Well-being is especially important in stressful and financially trying times, not only for the sake of healthy ministries but also because improving quality of life potentially reduces health care costs for plan members and their employers.
- Decrease potentially avoidable claims by 0.5 percentage points over the next three years. If achieved, estimated savings for plan members and employers will be \$2.5 million in 2009, \$4 million in 2010, and \$5.7 million in 2011.
- Explore a possible name change for the Board of Pensions in order to reflect the wide range of services that are offered through this church and other faith-based organizations.

Conclusion

In closing, the Board of Pensions would like to give thanks for the life and service of Dr. L. Edwin Wang, retired chief executive of the former Lutheran Church in America (LCA) Board of Pensions (predecessor to the ELCA Board of Pensions), who died January 28, 2009, at age 89. From the formation of the LCA and its Board of Pensions in 1963 until March 1987, Dr. Wang served as chief executive until ill health compelled him to retire. An Oregon native, he was asked to move to Minneapolis in 1956 to serve the Augustana Pension and Aid Fund. When the Augustana Synod and three other Lutheran church bodies merged in 1963 to create the LCA, Dr. Wang was named chief executive of the Board of Pensions. Under his able leadership, assets grew from \$7 million to about \$805 million. Known for his devoted, enthusiastic, and highly capable service, Dr. Wang kept the welfare of both the beneficiaries and benefit plans (current and prospective) front and center during his tenure.

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. The Board of Pensions will continue to faithfully fulfill its mission as a financial service unit of the Evangelical Lutheran Church in America.

Emried D. Cole Jr., *chair*
John G. Kapanke, *president*

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