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BENEFITS | INVESTMENTS

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Glossary for Use with the Comprehensive Benefit Funding Plan

Accumulated Post-Retirement Benefit Obligation (APBO) – See “Liability (Present Value of Benefits)”

Actuarial Assumptions – Expectations regarding future events and other factors used by actuaries to estimate the cost of funding a defined benefit pension plan and calculating benefits. Examples include the rate of return on plan investments, inflation, mortality rates and retirement patterns.

Actuarial Valuation – The calculation of the cost and value of future benefit obligations. This calculation uses assumptions, both economic and demographic, to estimate worth in today’s dollars assuming the assumptions are met. It provides a snapshot of future exposure based on a reasonable prediction of future events.

Administrative Services Only (ASO) – See “Self-Funded”

Advanced Funding Contribution – An advanced funding component that represents the increase in unfunded liability due to an increase in a conference’s Past Service Rate (PSR) or contingent annuitant percentage (CA%). It is required for the Pre-82 Plan minimum required contribution beginning in 2014 and is due before increases in the PSR or CA% may go into effect.

Amortization – A stated sum of money that is paid as a series of installments at a given interest rate, instead of as one lump-sum payment. In pension funding, the stated sum of money is commonly the unfunded liability.

Amount to Redirect – The portion of a conference’s Pre-82 surplus that is used to satisfy some or all of the conference’s CRSP or MPP contribution requirement.

Amount to Swap – The portion of a conference’s Pre-82 surplus that is used to satisfy some or all of the funding requirements of another conference.

Apportionment – The share of costs for international, national and regional (jurisdictional and annual conference) commitments borne by each annual conference or local church. Conferences determine the formula for cost-sharing by churches and sometimes refer to apportionments as mission shares, connectional giving, tithes or other names. The total of all apportionments typically comprise the conference budget. Clergy benefits are sometimes funded through an apportionment—most commonly Pre-82 Plan contributions and retiree health benefits.

Asset – Something of economic value (tangible or intangible) that has a cash value, such as accounts receivable, contributions receivable, property, facilities, equipment, investments, cash, etc.

Asset Classes – Categories of investment funds based on fund composition and risk factors.

Average Future Annual Increases – This is an estimate of a plan sponsors’ expectation of benefit increases over time.

Claims Incurred But Not Reported (IBNR) – Represents the estimated ultimate cost of settling claims pending as of the end of year. This estimate is calculated at net present value and is based on a % of total claims paid for the year. As a point of reference, IBNR could reasonably be expected to be 10-15% of total claims.

Clergy Retirement Security Program (CRSP) – The retirement program for eligible United Methodist clergy appointed to local churches or conference-responsible appointments effective January 1, 2007 (September 1, 2008 for bishops). The plan design includes a defined benefit plan component and a defined contribution plan component, both funded by the plan sponsors [annual conferences for clergy; the General Council on Finance and Administration (GCFA) for bishops].

Collection (vs. Direct Bill or Apportionment) – Incoming money derived from something other than direct billing or apportionments, such as a gift or a special collection.

Comprehensive Protection Plan (CPP) – A mandatory disability and death benefit plan for United Methodist clergy who satisfy specific eligibility requirements. It is administered by Wespath Benefits and Investments (Wespath).

Conference-Elective Ministry – An extension ministry (employer) for which the conference has elected to be the plan sponsor for the clergy retirement, health and welfare plans. When a conference becomes the plan sponsor for an employer, eligibility and billing are handled the same way as with a local church and follow the same conference rules and special arrangements. Eligible clergy under episcopal appointment to that employer are enrolled in CRSP (effective January 1, 2007) and CPP through the conference. *Before January 1, 2014, this term was referred to as a "Conference-Controlled Extension Ministry."*

Contingent Annuitant – The person designated by an annuitant or the plan whose lifetime—along with the account holder's—is used to calculate the amount and duration of an annuity benefit. The contingent annuitant receives the survivor portion of an annuity benefit after the annuitant's death.

Contingent Annuitant Percentage (CA%) – The percentage of contingent annuitant benefits payable to the surviving spouse of a United Methodist clergyperson. In the Pre-82 plan, each annual conference determines the percentage—70%, 75%, 85% or 100%—based on the recommendation of its Board of Pensions.

Contribution – For defined benefit plans, the amount of money a conference or other plan sponsor must pay to a general funding account on behalf of all covered participants in order to fund its pension liabilities.

For defined contribution plans, the amount of money contributed by a participant and/or plan sponsor to the participant's individual account.

Contributions are due annually for the Pre-1982 Plan and the defined benefit components of the Ministerial Pension Plan (MPP), also known as "annuities," as well as CRSP.

Cost-of-Living Adjustment (COLA) Assumption – Expected future benefit increases, usually expressed as an annual percent. For the Pre-1982 Plan, the COLA assumption is identical to assumed future annual PSR increases.

Defined Benefit (DB) Plan – A retirement plan that distributes a specific amount, generally monthly, for a participant's life or for two lives. At retirement, the benefit is based on a stated value, or formula that usually incorporates years of service and the average salary in the period before retirement. In a DB plan, individual participant accounts are not maintained as in defined contribution plans. Rather, all contributions are placed in a common pool. The plan sponsor must make any contributions required to cover all benefits.

Defined Contribution (DC) Plan – A retirement plan in which the benefit payable at the time of retirement is the accumulated contributions and investment earnings (or losses) posted to the participant's individual account.

Demographic Assumptions – Expectations of future changes in the plan population that are used in the actuarial valuation, such as mortality rates, turnover and retirement age.

Direct Billing – A means by which annual conferences collect from each local church the cost of benefits that are directly incurred by that church. This cost is not included in the conference's budget.

Discount (or Discount Rate) – The interest rate used to convert future payments or cash flows to an equivalent amount in today's dollars.

Economic Assumptions – Expectations regarding long-range financial trends, such as investment earnings and COLA assumptions that are used in actuarial valuations.

Equity Investments – Equity investments include, but are not limited to, any instruments representing ownership shares in an enterprise (e.g., common, preferred and other capital stock).

Expected Post-Retirement Benefit Obligation (EPBO) – See "Liability (Present Value of Benefits)"

FASB ASC 715 – Authoritative literature from the Financial Accounting Standards Board (FASB) that refers to Accounting Standards Codification (ASC) Topic 715–Compensation–Retirement Benefits. This guidance was used to develop Post-Retirement Medical requirements for the Comprehensive Benefit Funding Plan (CBFP).

FASB ASC 965 – Authoritative literature from the Financial Accounting Standards Board (FASB) that refers to Accounting Standards Codification (ASC) Topic 965—Plan Accounting—Health and Welfare Benefit Plans. This guidance was used to develop Active Health and Post-Retirement Medical requirements for the CBFP.

Fixed Income Investments – A type of investing for which real return rates or periodic income is received in regular intervals and at a reasonably predictable level. The most typical fixed income security is the bond.

Full-Time Equivalent (FTE) – The expression of less than full-time appointments as a decimal equivalent of a full-time appointment. For example, a half-time appointment is equivalent to 0.50.

Funded Ratio – A plan's assets divided by its liability, generally expressed as a percentage.

Funded Status – The difference between a plan's assets and liabilities. Positive numbers indicate a surplus; negative numbers indicate an unfunded liability.

Funding Plan or Policy – An actuarially sound plan or method that ensures contributions are sufficient to provide for benefit obligations by the time they are due.

Funding Plan Liability – See "Liability (Present Value of Benefits)"

IBNR – See "Claims Incurred But Not Reported (IBNR)"

Insured – A type of health care program provided where the plan sponsor limits its claim risk by paying a predetermined premium for the policy year regardless of current claims experience.

Investment Mix – The overall combination of various investment vehicles, such as stocks and bonds, in a portfolio.

Liabilities (Accounting) – An organization's debt or obligations incurred during the course of operations that will generally be settled with cash. Some examples of liabilities are accounts payable, accrued expenses and notes payable.

Liability (Present Value of Benefits) – The actuarial present value of future benefit obligations using assumptions for future expected demographic and economic quantities. The term “liability” also is often used as a shortened version. There are many different ways to calculate liabilities, depending on their intended purpose.

- **Accumulated Post-Retirement Benefit Obligation (APBO)** – The actuarial present value of retiree medical benefits for current and future retirees, their spouses and dependents based on their service to date. The APBO is an appropriate funding target for past-service benefits when there are regular, ongoing contributions for current and future accruals.
- **Expected Post-Retirement Benefit Obligation (EPBO)** – The actuarial present value of future retiree medical benefits for current and expected future retirees based on service to date and expected future service. The EPBO is an appropriate funding target when there are not regular ongoing contributions to fund current and future accruals.
- **Funding Plan Liability** – The liability calculated based on a plan sponsor’s future assumptions, which is used by individual plan sponsors for assessing benefit obligations. It is often used for long-term funding plans.
- **Minimum Contribution Liability** – An estimate of the value of a DB plan’s benefits based on the amount of contributions necessary to fund the plan, if any. Wespath uses conservative projections of expected return on assets over the long term (i.e., 20 or more years) to derive the interest rate used when calculating funding value liabilities.
- **Normal Cost** – The actuarial value of benefits attributed to service earned during the year under the actuarial cost method used for funding plan benefits.
- **Service Cost** – The portion of the EPBO attributed to service for the year following the valuation date.

Loss Ratio – The ratio of total losses incurred in claims (paid and reserved) plus adjustment expenses, divided by the total premiums earned.

Minimum Contribution Liability – See “Liability (Present Value of Benefits)”

Minimum Required Contribution – The smallest funding payment due from the plan sponsor to the plan. For the Pre-82 plan, the unfunded liability is required to be fully funded as of 12/31/2021. Beginning with the 2017 contribution year (and each year thereafter) any gains or losses due to demographic changes or the economic environment will be amortized over five years and included as part of the contribution for five consecutive years. In any year where the funded status returns to a positive state, the remaining amortization payments will be discontinued.

Ministerial Pension Plan (MPP) – The retirement plan for clergy of The United Methodist Church for service from January 1, 1982 through December 31, 2006. When a participant begins receiving benefits, at least 65% of his or her balance must be annuitized. Note: For annuities set up January 1, 2014 or later, exactly 65% of the balance must be annuitized. Effective January 1, 2007 (September 1, 2008 for bishops), the plan was amended and restated as CRSP.

Mortality – One of the many demographic assumptions used in the valuation of future continuing events. The expected mortality assumption is based on tables created for different populations.

- **Improved** – Improved mortality represents the inclusion of future anticipated extensions of participant lifetimes. Currently there are three scales used for projecting mortality improvement, Scale AA, Scale BB (recently developed) and Scale MP-2014.
- **Table** – The mortality table contains age-related mortality rates, often differentiated by gender.
- **Projection** – A mortality projection scale (along with a mortality table) begins the process of recognizing mortality improvement. There are at least two methods for projecting mortality improvement. The oldest method recognizes the expected future increases to longevity in one year, and requires additional recognition in each future valuation. The generational method recognizes the improvement to longevity on an individual basis immediately.

New Incoming Money – This refers to money expected to be collected or received by an annual conference on an annual basis for the purpose of paying their contributions or benefits.

Normal Cost – See "Liability (Present Value of Benefits)"

Ongoing Funding Contribution – Contribution designed to fully fund, over an amortization period, the plan liability accounting for future benefit increases and outside assets, and assuming no future actuarial gains or losses.

Past Service Rate (PSR) – The minimum Pre-1982 pension benefit payable for each year of approved Pre-1982 service with pension credit rendered to a conference, prior to January 1, 1982. Each annual conference, on recommendation of its Conference Board of Pensions, determines its pension rate annually. Also known as the annuity rate.

Plan Sponsor – The entity or entities responsible for funding the plan. For CRSP, plan sponsors include the GCFA for bishops and the annual conferences for other clergy.

Post-Retirement Medical (PRM) – Health insurance that is provided to retirees, both current and future.

Premiums Due Under Insurance Arrangements – Occurs if a plan sponsor's insurance contract requires additional premium payments (retroactive) when the loss ratio exceeds a specified percentage.

Present Value – The estimated value today of future cash flows, expressed in today's dollars.

- **Present Value of Benefits (PVB)** – The estimated total of all benefits to be paid now and expected to be paid in the future, expressed in today's dollars. Benefits reflect expected future increases in the Denominational Average Compensation (DAC) or plan compensation, as well as future service not yet earned. This liability is the ultimate funding target, and it is calculated using funding assumptions.
- **Present Value of New Money** – The value of all future new incoming money to be received by a plan sponsor expressed in today's dollars.
- **Present Value of Required Contribution** – The value of all future required contributions owed by a plan sponsor expressed in today's dollars.

Rate of Return – A measure that indicates investment performance, including appreciation (or depreciation), realized gains (or losses) and income. The gross rate of return is the rate of return before deducting investment management fees. The net rate of return is the rate of return after deducting investment management fees.

Return on Assets – Synonymous to "rate of return."

Self-Funded – A self-insurance arrangement [also known as "Administrative Services Only (ASO)"] where a plan sponsor provides health benefits with its own funds. In a self-funded program, the plan sponsor assumes the direct risk for payment of the claims for benefits.

Self-Insured – see "Self-Funded"

Service Cost – See "Liability (Present Value of Benefits)"

Short-Term Investment – Securities that will expire within one year of the date of purchase. They are typically high-quality, low-risk securities, such as money market accounts or three-month certificate of deposits (CD).

Stop-Loss Insurance Coverage – Plan sponsors seeking to mitigate the financial risk of self-funding claims under their health plan will purchase stop-loss insurance from an insurance carrier. These policies typically establish risk-retention limitations—both on specific claims and aggregate claims. Stop-loss polices are critical in establishing a "worst-case scenario," or "aggregate" for any given year.

Supplement One to CRSP – A provision of CRSP that provides benefits for those who had eligible service prior to 1982. It is usually referred to as "Pre-1982" or the "Pre-82 Plan."

Supplement Three to CRSP – A provision of CRSP that provides benefits for those who had eligible service from 1982 through 2007 (2008 for Bishops). It is usually referred to as the Ministerial Pension Plan (MPP).

Surplus Redirection – In the Pre-82 Plan, any funding surplus (assets above the liability value) available for the contribution year may be redirected to offset any contributions due for CRSP DB or MPP annuities. In addition, conferences may redirect available surplus toward another conference's contributions (swap) for the Pre-1982 Plan, MPP Annuities or CRSP DB, as agreed between conferences. Wespath policy prevents redirecting surplus funds if it results in an unfunded liability, on a minimum contribution basis, projected to the contribution year.

Total Liability – The total of all benefits payable by a plan now and in the future, expressed in today's dollars (also known as the present value of benefits).

Unfunded Liability – The portion of a plan's or a conference's liability for which there are currently no funds on deposit to pay the liability. For example, if a conference has a defined benefit liability of $2 million and has $1.9 million deposited to pay that liability, the conference is said to have an unfunded liability of $100,000.

United Methodist Personal Investment Plan (UMPIP) – An Internal Revenue Code Section 403(b) voluntary defined contribution retirement savings plan effective January 1, 2006. The plan may hold participant contributions, plan sponsor contributions or both.