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GC 2020 Wespath Contingencies for Potential UMC Restructure or Disruption

Wespath has been planning for various potential scenarios that might affect the future structure of the Church and has been focused on assuring that clergy benefits remain as secure as possible.

Wespath's stance on any potential restructure is neutral. Our priorities remain protecting clergy pensions and other participant benefits for the long-term, and serving the Church in whatever form it takes.

As GC 2020 approaches, Wespath continues to be in dialogue with key stakeholders who are exploring various potential paths for The United Methodist Church (UMC), to help assure that retirement benefits are appropriately considered.

The following set of questions relate to the mediated proposal for separation/formation of a traditionalist Methodist expression, as described here:

- **UM News article** (January 3, 2020)
- **Protocol website** (Protocol of Reconciliation & Grace Through Separation)
- **Protocol summary and FAQs**
- **Petition text (legislation)**

Note: The proposal becomes effective only if it is approved by the 2020 General Conference.

Q1: I read that the UMC may split into two or more denominations. How are pension and retirement benefits secured if a split is approved by the General Conference?

A1: You may have read about a mediated proposal (Protocol) to reorganize the denomination by creating a new traditionalist Methodist church in addition to the UMC (details above).

A provision of that Protocol incorporates by reference a GC 2020 petition to manage the clergy pension plans in such a reorganization/division scenario that Wespath drafted and submitted to GC 2020 (Wespath's **petition** to add a new ¶2555 to *The Book of Discipline*). This petition is designed to protect clergy pensions if annual conferences or groups of local churches separate from the UMC to form or join a new Methodist church, without imposing financial hardship on these groups or leaving undue risk to the UMC. The petition would work in harmony with the mediated Protocol.

Q2: How would pensions be managed under the mediated Protocol for separation/restructure?

A2: Wespath's **petition for a new ¶2555** to *The Book of Discipline* would apply in the event that one or more annual conferences or a group of local churches change their affiliation from the UMC to create or become part of a new expression of Methodism, such as a new "traditionalist Methodist church" or other new Methodist expression. A group changing affiliation in this manner would remain or become the plan sponsor of a sequestered portion of the UMC's clergy pension plan [the Clergy Retirement Security Program (CRSP) which includes predecessor pension plans, i.e., the Pre-82 Plan and Ministerial Pension Plan (MPP)] if Wespath determines that the group has sufficient membership and organizational structure and is financially viable. Wespath would manage the spun-off plan for the new Methodist expression.

- Earned pensions of the clergy and retirees whose membership moves to the traditionalist Methodist church or other new expression would be preserved and supported by the new expression. Pension benefits would be secure provided that the traditionalist Methodist church or other new expression continues to support its spun-off portion of the clergy benefit plan.

Q3: How are pensions secured if the traditionalist Methodist church or other new expression cannot or chooses not to remain a plan sponsor?

A3: It is likely that a traditionalist Methodist church formed under the Protocol will have sufficient scale and organization to be a separate plan sponsor.

However, if a group changing its affiliation does not meet the sufficiency/viability standards, or chooses not to remain a plan sponsor, the local churches making up the group would be required to make a withdrawal payment to cover their share of pension obligations for their associated active and retired clergy. Clergy changing or terminating membership in the UMC would have accrued pension benefits converted into an account balance, which would be transferred to their United Methodist Personal Investment Plan (UMPIP) account.

Q4: Would defined contribution (DC) accounts (such as UMPIP accounts) be affected by the proposed reorganization of the Church?

A4: No. Defined contribution (i.e., account balance) plans maintained by Wespath (such as UMPIP and some other plans) have individual accountholders. Generally, those accounts are not affected by a separation or reorganization of the UMC like described in the Protocol.

Q5: Will Wespath's relationship with retirees change if the mediated Protocol is approved?

A5: No. Wespath will continue to support retirees and participants regardless of changes that may be approved in the UMC.

Q6: Would this proposed reorganization of the UMC affect Wespath's ability to serve its institutional investors?

A6: No. Under federal and church law, Wespath can and will continue to serve its institutional investor clients. Wespath, through its subsidiary Wespath Institutional Investments LLC (WII), can serve a broad range of investors that share common bonds and convictions with or are related to the UMC. Under the mediated Protocol, a new expression of Methodism would share Wesleyan/Methodist roots, and likely would share close ecumenical and missional relationships with the UMC. Wespath and WII can continue to offer an array of professional services and support to organizations, clergy and lay employees that are affiliated with the UMC or new expression.

The following set of questions further explain Wespath's petition for a new paragraph to The Book of Discipline (¶2555).

- **Petition**
- **Rationale**

Q7: What is the purpose of a new paragraph 2555?

A7: A new paragraph (¶2555) would address how pensions are to be handled if an annual conference or a group (or groups) of local churches change their affiliation with or disaffiliate from The United Methodist Church.

- In some circumstances (likely including the mediated Protocol described above), the disaffiliating group(s) would remain a plan sponsor of a separate portion of CRSP (including Pre-82 and MPP). The group would be responsible for plan assets and pension liabilities for clergy who serve in the separated group (i.e., the new Methodist expression).
- In other situations, the disaffiliating group would cease to have any responsibility for pensions. In this case, the disaffiliating group or local church would be required to make a withdrawal payment to cover the group or church's share of pension obligations for clergy serving those annual conference(s) prior to disaffiliation from the UMC. The withdrawal payment would be made to their annual conference(s) or to Wespath, depending on the circumstances.

Q8: Under what circumstances would a disaffiliating group remain a sponsor of CRSP, as opposed to making a withdrawal payment?

A8: A disaffiliating group would remain a sponsor of a sequestered portion of CRSP if the group is deemed by Wespath to have sufficient membership and organizational structure and is financially viable to remain a plan sponsor (and chooses to remain a plan sponsor).

If a disaffiliating group does not meet the sufficiency/viability standards, or chooses not to remain a plan sponsor, it would be required to make a withdrawal payment to cover its share of pension obligations.

Q9: How will Wespath measure whether a disaffiliating annual conference or group of local churches is viable enough to continue plan sponsorship?

A9: Under the petition that would create a new ¶2555, a disaffiliating group would need to be sufficiently large in membership, financially viable and sufficiently structured organizationally in order to remain a plan sponsor of a sequestered part of CRSP.

- For example, 30 geographically dispersed local churches might not be viable as a plan sponsor, but even a small annual conference likely has sufficient scale and organization to be a separate plan sponsor.

Wespath will be developing guidelines and considerations related to this determination prior to GC 2020.

Q10: Under proposed ¶2555, are pension assets and liabilities assigned based on the affiliation decisions of clergy, local churches, or a combination of both?

A10: Pension assets and liabilities would generally be assigned to a disaffiliating group based on decisions of clergy (i.e., whether individual clergy terminate their UMC relationship or remain with the UMC). In practice, this means that pension assets and liabilities would be assigned based on individual participants' earned pensions that the group changing affiliation would retain or become responsible for.

However, there would be exceptions for situations where the normal procedures under ¶2555 create a material risk of a plan sponsor being unable to make future contributions. In such cases, the assignment of plan assets and liabilities would instead be determined by a joint distributing committee with representatives from the disaffiliating group and the impacted annual conference or conferences.

Q11: Under proposed ¶2555, are funding factors or market factors used when assigning pension assets and liabilities to disaffiliating/separating groups?

A11: Generally, pension assets and liabilities would be assigned by measuring such liabilities using *funding factors.* (Funding factors are the same factors used when determining required contributions to the plan.)

However, in situations where the disaffiliating group either declines to continue being a plan sponsor or cannot meet its obligations as a plan sponsor, such liabilities would be measured using *market factors.* (Market factors are similar to what a commercial annuity provider would use.)

Q12: What if a disaffiliating group does not want to continue to sponsor its portion of CRSP?

A12: A disaffiliating group may choose to decline sponsorship of CRSP. Under the petition that would create a new ¶2555, such a disaffiliating group would be responsible for making a withdrawal payment to cover its share of the pension obligations. Once the group disaffiliates, it could decide if and how to provide pension/retirement benefits for any future clergy service.

Q13: Do accruals of new benefits cease when the disaffiliation becomes effective?

A13: Under the petition language, new service-based accruals would cease at the end of a two-year determination period. This period would begin when a group changing its affiliation votes to leave either its annual conference or the UMC. Until the end of that period, annual conferences would remain responsible for plan contributions, and accruals would continue, as if the disaffiliation were not occurring. The determination period gives clergy and local churches time to choose whether to affiliate with a new Methodist expression or remain with the UMC.

The new Methodist expression may choose to sponsor UMPIP or a similar defined contribution (account balance) plan for its clergy who change affiliation to the new Methodist expression.

Q14: How would a new ¶2555 work in tandem with ¶2553? How is it determined which paragraph applies?

A14: If approved by GC 2020, the new ¶2555 would apply in situations where an annual conference or a group of local churches chooses to change their affiliation with the UMC, and the group is deemed by Wespath to have sufficient membership and organizational structure and be financially viable to remain a plan sponsor of a sequestered portion of CRSP.

- If a group changing its affiliation does not meet the sufficiency/viability standards by the end of the determination period, ¶2555 would not apply. In this case, the individual local churches that make up the group changing affiliation would be subject to the terms of ¶2553 and ¶1504.23, which require a withdrawal payment to their annual conference(s).
- Thus, *either* ¶2555 *or* ¶2553/¶1504.23 would apply to a change of affiliation—*both would not apply at the same time*.

Q15: If a local church stays with the UMC but its annual conference changes its affiliation, would the local church have to pay a withdrawal payment?

A15: No. Local churches that remain part of the UMC would *not* be required to make a withdrawal payment—even if their annual conference changes its affiliation. Instead, the local church likely would become part of another UMC annual conference. The local church's pension obligations would transfer to its new annual conference.

Similarly, annual conferences or groups of disaffiliating local churches that satisfy the sufficiency/viability standards would *not* be required to make a withdrawal payment; they instead would remain plan sponsors of a sequestered portion of CRSP.

A withdrawal payment generally would only be required if the disaffiliated group does not remain a plan sponsor.

Q16: Would ¶2555 cover a scenario under which a group of churches disaffiliates, but later seeks to join a different group that also disaffiliated?

A16: The proposed new ¶2555 would permit Wespath to work with groups changing their affiliation regarding amendments to and administration of their separate portion of CRSP. This language would also permit Wespath to work with multiple groups that have changed their affiliation and that seek to merge and combine their separate portions of CRSP (combining retirement plan assets and liabilities, while keeping such combined pool sequestered from plan sponsors of the UMC).

Q17: What if a church or group of churches disaffiliate, but later seek to rejoin the UMC?

A17: If a disaffiliated group later seeks to rejoin the UMC, such a reunion likely would need to be approved by the General Conference. If such an action were to take place, Wespath would be permitted to combine the disaffiliated group's sequestered plan with the portion of CRSP sponsored by UMC annual conferences, giving such reuniting group the benefit of connectionalism once again.

Q18: How will pension benefits be handled in the future for the two or more denominations?

A18: For the legacy pension plans, Wespath will manage the divided separate pension plans for the UMC and new expressions as explained above.

Wespath has also **proposed a new retirement plan** to the 2020 General Conference, called the *Compass* plan, which is an account balance plan (defined contribution) for UMC clergy benefits beginning in 2023.

- If the General Conference approves *Compass*, Wespath will manage that plan for the UMC going forward.
- For a new traditionalist Methodist church: after the transition period described above, Wespath will manage a defined contribution retirement plan for the new Methodist church. That plan would be designed in consultation with the new traditionalist Methodist church to reflect the polity and capacity of that church, and may replicate the features of *Compass*.

A summary of the proposed *Compass* plan is **here**.

Wespath's General Conference webpage: www.wespath.org/gc2020
- Links to most of our petitions and rationales
- Links to support materials