# hark!

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*Bringing you great tips for responsible investing*

October 2012


'RESPONSE.ABLE' PLANNING:

## Make Sure You Are Prepared for Plan Changes

In the July issue supplement, we informed you about General Conference 2012 changes to the Clergy Retirement Security Program (CRSP), the Ministerial Pension Plan (MPP), the Pre-82 Plan and the Comprehensive Protection Plan (CPP). As the responsible choice, we focus on steps you can take to protect your retirement security in this issue's supplement.

The supplement is attached for CRSP and MPP participants, and online at **www.gbophb.org**. If you receive electronic statements, the supplement is available in the online version of *Hark*.

RETIREMENT SAVINGS:

## What's Your Number?

**A popular commercial depicts individuals carrying around a "number"—representing the amount of money they expect will provide a comfortable retirement. Are you like the individual who has a well-researched and realistic goal, or are you throwing money at a "gazillion-dollar" target?**

How much do you need in savings and investments to support your retirement lifestyle? The median savings goal of American workers is $500,000, according to the *13th Annual Transamerica Retirement Survey*. For many, it is only a guesstimate—only about half of Americans have actually calculated how much they will need. However, determining your retirement income requirement can make a big difference, since people who create a plan—and stick to it—are generally in much better financial shape.

### SAVING STRATEGICALLY IS SAVING WITH 'RESPONSE.ABILITY.'

When you begin saving for retirement early in your career, you can set aside relatively small amounts that can grow to significant savings over time. Here's some guidance: The median contribution level for workers with defined contribution (DC) accounts is 7%, according to the Transamerica survey—but you may need to save much more. It is generally accepted that *young workers* must save 15% of their gross salary (including employer contributions) to replace at least half of their pre-retirement income. If you are further along in your career when you start saving, the percentage you need to save is probably significantly higher. Of course, defined benefit (DB) plans such as CRSP DB, annuities and plan sponsor contributions to DC plans such as CRSP DC and the United Methodist Personal Investment Plan (UMPIP) may reduce these savings needs.

*continued*

# What's Your Number? *continued*

## YOUR PLANNING TOOLS

While rules of thumb and industry predictions are nice concepts to help start the thought process, retirement planning should take into account your individual goals.

That's why the General Board of Pension and Health Benefits (General Board) offers no charge options to help you create a customized plan.

1. **The Retirement Readiness Tool**—provides guidance by showing how much you are projected to have, how much you may need, and the shortfall or surplus of expected funds in your first year of retirement. It includes:
   - General Board-administered retirement plan benefits and account balances
   - Estimated Social Security benefits
   - The ability to enter retirement savings held outside of the General Board

   The tool offers illustrations showing how different retirement planning and lifestyle choices (e.g., housing, health care, discretionary spending, retirement age and risk tolerance) will impact your income needs, as well as a slider to show you how increasing your contribution rate affects your retirement readiness. The tool is available on Benefits Access (**www.benefitsaccess.org**).

2. **The Retirement Benefits Projection**—walks you through choices you will make at the time of your retirement—such as benefits commencement date and distribution options—and creates a report showing your projected benefit amounts for your retirement plans. Your report includes tips for improving your retirement financial health and details the inputs used to calculate benefits. The tool is also available on Benefits Access.

3. **Professional financial counseling**—helps you determine your retirement income needs and develop a funding plan. Ernst & Young can walk you through your finances and identify opportunities to reduce debt and increase savings, as well as share recommendations in a personal financial report. Call as often as you'd like for as long as you need at no charge. Representatives are available Monday through Friday (excluding holidays) from 8:00 a.m. to 7:00 p.m., Central time at **1-800-360-2539**.

*Call Ernst & Young representatives at 1-800-360-2539.*

# New Distribution Payment Option–Coming Next Year

**When you retire, you have to determine how you will make your savings last for your lifetime. If you are clergy, some of your retirement savings may be converted into an annuity, which takes the guesswork out of taking distributions. However, if you are not clergy, or if you have a defined contribution account in addition to your annuity (e.g., UMPIP or CRSP DC), you must evaluate your options carefully.**

Should you take your balance as a lump sum? Should you take periodic payments and continue to invest the balance? How about another option from which to choose? Next year, the General Board is adding one more option to your retirement planning toolkit. This new service will determine the amount of money you can comfortably take in distributions each month to help maximize the likelihood that your account will last for your lifetime, while maintaining your purchasing power over the years. Your monthly payments will be adjusted annually to take into account changes in your age, account balance and the cost of living.

With this service, you will be able to continue taking advantage of our funds' low expenses and competitive returns, as well as unbiased, professional financial counseling provided by the General Board through Ernst & Young Financial Planning Services.

Look for additional details in the coming months.

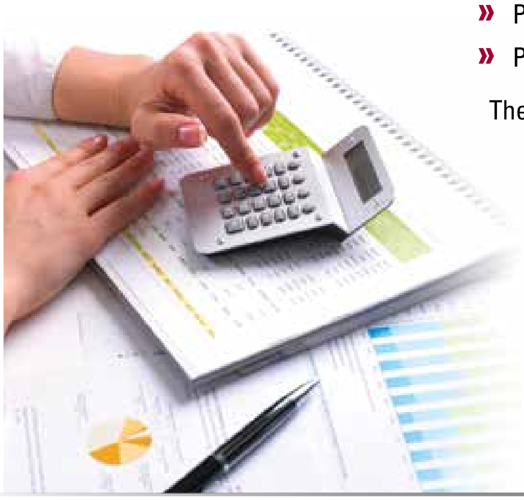
BALANCED INVESTING:

# Diversifying With and Within Equities

**In April, we wrote about the importance of asset allocation and diversification in your investments. In July, we highlighted the Stable Value Fund (SVF) and how it may provide some protection from swings in market value. This quarter, we continue our investing focus and review ways to diversify your investments through equities, such as stocks or other types of investments that involve ownership of a company or partnership.**

When you diversify, you add balance to your investment strategy. It's a great way to help protect against volatility. Diversification means spreading your account dollars among different types of investments—such as bonds, real estate, commodities, positive social purpose loans, venture capital and inflation protection securities—rather than investing in only one fund or even in one type of investment. Diversification increases the probability that you will have at least some of your money in investments that are performing well when other investments are not.

Ideally, with an appropriately diversified account, you can minimize the roller coaster ups and downs in your returns (and protect your "profit.ability."). However, to receive the benefits of diversification, you must diversify not only ***across*** your investments by holding different types of investment funds (e.g., equities and fixed income), but also ***within*** your investment types.



## TWO EQUITY FUND CHOICES FOR TRUE ONE-STOP SHOPPING

Consider it our way to provide more "manage.ability." for you. In an increasingly complicated world of investment options, the General Board offers two equity funds that provide broad diversification, streamlined access and wide-ranging geographic market exposure. By investing in the General Board's U.S. Equity Fund (USEF) and International Equity Fund (IEF), you gain exposure to a variety of equity strategies, including:

- Domestic and international stock markets (both developed and developing countries)
- Large and small company stocks
- Companies with high earnings growth
- Companies classified as having attractive relative value
- Publicly-traded real estate investment trusts
- Private real estate
- Private equity investments

The General Board's U.S. Equity Fund invests with a mix of 28 investment advisors who manage 43 different portfolios. USEF manages risk through exposure to a wide range of equity strategies representing highly competitive, long-term return opportunities.

The International Equity Fund invests with 10 investment advisors in 11 broadly diversified strategies. Similar to USEF, IEF's broad diversification manages investment risk through exposure to a wide range of equity strategies.

The diversification of the General Board's equity funds helps manage your risk and provides a one-stop shop for access to highly competitive, long-term investment opportunities. Other advantages of investing through the General Board include efficient operations and an advantageous cost structure. For example, because of its size, the General Board is able to reduce operational costs through economies of scale; USEF and IEF generally have lower annual expense ratios than peers—roughly only 0.7% and 0.8%, respectively. Additional benefits include shareholder advocacy and portfolio screening honoring the Social Principles of The United Methodist Church, as well as the integration of environmental, social and corporate governance considerations.

*When you diversify, you add balance to your investment strategy.*

## NO-CHARGE GUIDANCE

Investing in General Board funds also enables you to take advantage of investment guidance at no charge. The LifeStage Investment Management Service automatically allocates your investments based on your personal profile. Or, you can receive confidential, one-on-one guidance from a financial counselor at Ernst & Young Financial Planning Services (eligible participants).

To learn more about all of the investment funds offered by the General Board, please visit our website at **www.gbophb.org**.

# Don't Let an Emergency Derail Your Retirement Planning

Even when savers have the best intentions, the unexpected can happen. If you don't have emergency savings, financial emergencies (e.g., job loss, significant medical expenses, home or auto repairs) can require you to dip into retirement savings. That's why financial advisors recommend that you set aside at least three to six months of living expenses in a savings account, money market or CD.

In addition to your retirement savings in UMPIP, you should consider keeping separate accounts for:

» **Everyday expenses**

» **Savings for a large purchase, such as a car or the down payment for a house**

» **Emergency savings**

If you deposit a percentage of your check into UMPIP and each savings account every pay period, then the amount you save will rise with your income.

Automatic savings strategies make it easier to set aside money to reach your goals. You may consider choosing direct deposit of your paycheck, if it is available, and then you can transfer funds out of your main account into accounts dedicated for a specific purpose on each payday. Most major banks will allow you to link checking, savings and money market accounts for easy, immediate transfers. If you hold accounts at separate banks, you can often transfer funds between banks for free using the automatic clearinghouse (ACH) system.

When you're setting up your bank accounts, make sure you consider credit unions. They are non-profit institutions and often offer lower interest rates on loans and higher interest rates on interest-bearing accounts than banks. Your accounts are protected by the National Credit Union Administration (similar to the FDIC) up to $250,000.

**Remember: With an emergency fund, the rate of earnings is less important than having funds available when you need them.**

# Center for Health Website Re-launch

Have you visited the Center for Health (CFH) website lately? In April, we introduced an enhanced webpage with increased focus on the multiple dimensions of health and well-being—physical, emotional, spiritual, social and financial. Research shows that improving your health in one area can positively affect other dimensions.

The website is designed specifically to address the unique needs of the UMC population. Information is organized according to:

- **Dimensions**—in-depth information on each dimension of health and how it affects a healthy lifestyle
- **Offerings**—information about unique offerings through the CFH, such as the Virgin HealthMiles walking program, health risk assessment and health coaching
- **Research trends**—results from clergy health studies, with references including timely wellness information and data
- **Initiatives**—collaborations with United Methodist organizations, such as the UMC Health Ministry Network (with the United Methodist Committee on Relief [UMCOR Health])
- **Resources**—tools, materials, information and ideas to help individuals, congregations, clergy and their families make healthy living choices.

Visit **www.gbophb.org/cfh/** to explore the enhanced website.

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October 2012 Supplement

*Bringing you great tips for responsible investing*


# General Conference 2012: Changes to Eligibility, Beneficiaries and Disability Benefits

**Last quarter, we reviewed General Conference 2012 legislation that will change the retirement and welfare plans. Here are additional changes that may affect your benefits.**

## ELIGIBILITY CHANGES COMING FOR CRSP

Legislation passed during General Conference 2012 changed the eligibility rules for CRSP. Currently, clergy who serve in quarter-time or greater appointments receive benefits under CRSP. Under the new plan rules—effective January 1, 2014—each annual conference will determine whom to include in their eligible group. (Clergy serving less than half-time are no longer eligible.) They must decide whether to cover:

- Clergy serving half-time or more,
- Clergy serving three-quarter time or more, or
- Only clergy serving full-time.

### Impact on Less Than Full-Time Clergy

What does it mean if you are appointed less than full-time and your conference does not cover your appointment percentage?

If you currently participate in CRSP, or have in the past, you will keep any credited service you already earned under the Defined Benefit (DB) portion of CRSP. At retirement, your DB for service before January 1, 2014, will be based on your credited service earned before that date and the Denominational Average Compensation (DAC) at the time of retirement, unless you have a break in service. You also will keep your account balance in the Defined Contribution (DC) portion of CRSP, and it will continue to be invested. While you will not receive additional credited service or contributions in CRSP, your conference may decide to contribute to the United Methodist Personal Investment Plan (UMPIP) on your behalf.

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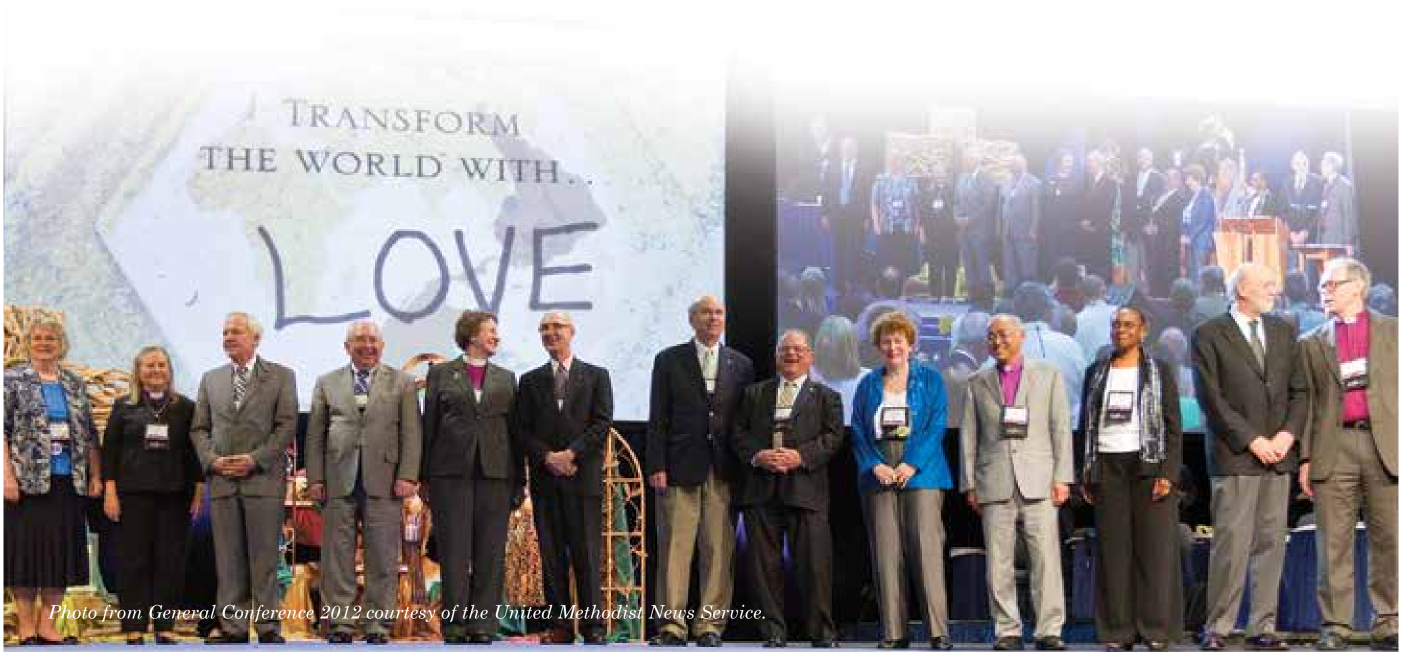


*Photo from General Conference 2012 courtesy of the United Methodist News Service.*

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### Beneficiaries No Longer Grandfathered for CRSP, MPP and Pre-82

Current CRSP, MPP and Pre-82 plan rules require spousal consent for a participant to choose a different beneficiary than his or her spouse. However, spousal consent was not required before 1993. Designation of Beneficiary forms submitted before the plan rule change were grandfathered, provided the participant had not updated that designation. Effective January 1, 2013, the grandfathering provision will be eliminated, and spouses will receive benefits payable at the time of a participant's death, unless they have provided spousal consent to the designation of another beneficiary.

### Return-to-Work Benefits Begin in 2013

Beginning January 1, 2013, CPP changes passed by General Conference 2012 will enable you to earn and retain both disability benefits and "other income" while transitioning back to work. The General Conference legislation also included provisions for other tools to support your transition, and a disincentive for individuals who choose not to participate. More information about the return-to-work program will be available in the coming months.

## Learn More about General Conference Changes!

Additional information about the retirement and welfare plan changes are available in the July issue of *Hark* and on the General Board website at **www.gbophb.org/GC2012.**

# Prepare for Plan Changes

**Now that you understand the changes resulting from General Conference, we offer ways to both minimize the impact of these changes and maximize your benefits under the amended plans. The following is intended to help you make decisions as you prepare for changes to the Clergy Retirement Security Program (CRSP), the Ministerial Pension Plan (MPP) annuitization rules and the Comprehensive Protection Plan (CPP).**

### PLAN CHANGES MAKE SAVINGS EVEN MORE VITAL

This may be the time to increase your savings. As detailed in the July issue of *Hark*, plan changes to CRSP will result in a reduction in the formula for benefits* based on service starting in January 2014. One way to offset the benefit reduction is by increasing your personal contributions to UMPIP. For 2012, you can contribute up to $17,000 (plus an additional $5,500 if you are age 50 or older).

### Take Advantage of Matching Contributions

So what happens if you decide not to make UMPIP contributions?

Not only will contributions to UMPIP help you offset the reduction in DB benefits, but they will *also impact your conference DC contributions*. Beginning January 1, 2014, the only way to avoid a reduction in CRSP DC contributions—from 3% to 2% of compensation*—is to contribute 1% or more of your compensation annually to UMPIP. You will then earn a matching 1% contribution from your conference into CRSP DC. If you choose not to contribute to UMPIP, you will be passing up a valuable opportunity for retirement savings.

One percent doesn't sound like much, but it adds up over time. For example, if a CRSP participant earns the 2014 DAC of $65,186 for the next 20 years and does not contribute the 1% to UMPIP required to earn the matching 1%, he or she will miss out on **more than $13,000** in matching retirement contributions. That doesn't even take into account increases in compensation, investment returns or compounding (the interest on your interest earnings) over that time period that could **more than double the amount**. As you can see, saving relatively small amounts now can make a big difference in your retirement.

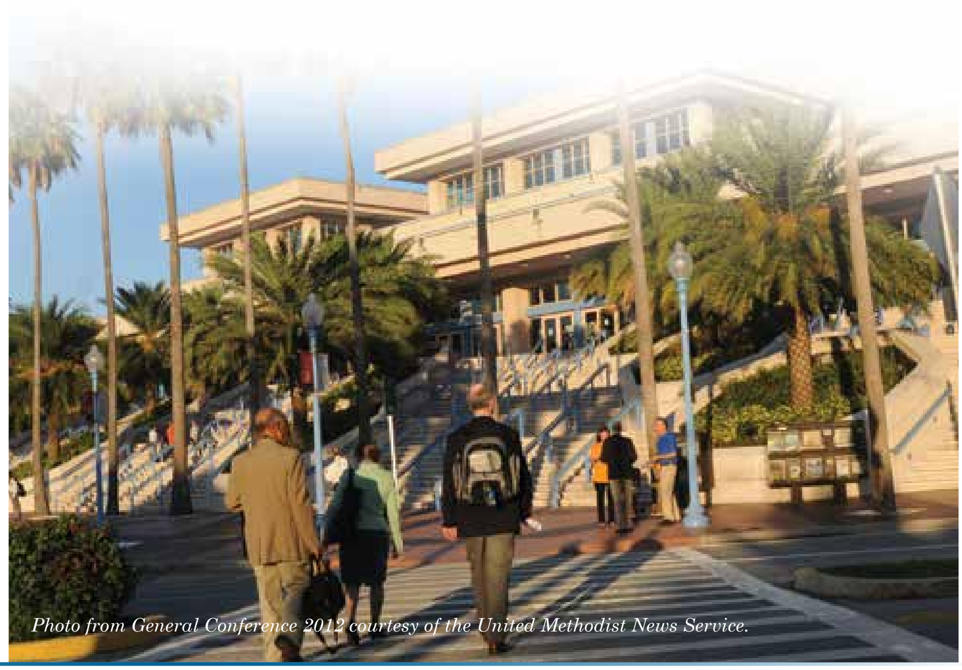

*Photo from General Conference 2012 courtesy of the United Methodist News Service.*

## Save for Tomorrow, Starting Today

While the matching contributions do not begin until January 2014, it's never too soon to begin saving in UMPIP. For more information about UMPIP, visit the General Board website at **www.gbophb.org**. Or visit Benefits Access at **www.benefitsaccess.org**, click "Learn More," then select a topic in the FOCUS ON YOUR GOALS menu.

## "Understand.Ability" to Clear Confusion About Retirement Planning

Some participants have asked whether they should retire to preserve their CRSP DB benefits; however, **retiring now will not result in a higher benefit**. While the General Conference changes will impact the benefits you will earn in the future, they do not affect the benefits you have already earned.* The decision to retire requires careful contemplation and planning. If you are eligible to retire or will become eligible in the next year, read "Is It Time to Begin Your MPP Benefits?" in this issue to see how changes to the annuitization rules could affect your retirement choices.

# IS IT TIME TO BEGIN YOUR MPP BENEFITS?

Clergy who have already retired and have not yet taken a distribution from their MPP account, as well as clergy who are eligible for retirement before 2014, have an important decision to make. Currently, MPP requires participants to convert ***at least 65%*** of their MPP account balance into a monthly benefit payment (annuity) at the time of or after retirement. Many participants, however, elect to annuitize more than 65%.

Starting January 1, 2014, legislation passed by General Conference 2012 will require you to annuitize ***exactly 65%*** of your account balance when you set up your benefits. The remaining 35% of your MPP balance may be rolled into UMPIP, which enables you to continue to invest in General Board funds and provides flexibility in how you withdraw this money during your retirement.

A new service will be available in early 2013 that will help you manage the payments you receive from your DC account over the remainder of your life. This service will calculate a monthly or annual payment that is customized to your circumstances. The payments you receive are designed to increase with the cost of living and to last for your lifetime. While this new service will not offer the guarantees available through an annuity, it will enable you to leave your remaining account balance to your beneficiaries after your death.

## Deciding How Much and When to Annuitize

There are pros and cons to annuitizing more than 65% of your MPP account balance. Annuities provide guaranteed income for you and your spouse that lasts for your lifetimes. If you choose to annuitize a larger percentage of your MPP account while you still have the opportunity, you will likely have higher guaranteed income during retirement. However, in exchange for the guarantees offered by annuities, you often lose flexibility. For instance, you will not have an account balance to access for unexpected expenditures or to pass on to your beneficiaries after your death.

Is 65% for you? Deciding whether or not to annuitize more than 65% of your account balance is an individual choice and requires an evaluation of your personal retirement financial situation and your goals. It is an irrevocable choice so make sure you're sure. Your responsible choice, the General Board,

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## Find Out How Much You Really Need!

While you should check periodically to determine whether you're saving enough for a comfortable retirement, plan changes make this step even more important—especially if you have several years or more until retirement. Just two more examples of "access.ability," your Retirement Readiness Tool and Retirement Benefits Projection—available at **www.benefitsaccess.org**—have been updated to reflect the plan changes passed at General Conference. To access the tools, log in to Benefits Access, click **"Take Action,"** then select **"Project Future Values,"** and choose either the Retirement Readiness Tool or Retirement Benefits Projection.

For help using these tools and for retirement planning at no charge, contact Ernst & Young Financial Planning Services at **1-800-360-2539**. Representatives are available Monday through Friday (excluding holidays) from 8:00 a.m. to 7:00 p.m., Central time.

*The multiplier is reduced from 1.25% to 1.00% for CRSP DB credited service earned after December 31, 2013, while surviving spouse benefits for credited service earned after December 31, 2013 are no longer subsidized; an UMPIP personal contribution of at least 1% of annual compensation is required for the full 3% conference CRSP DC contribution. CRSP DB benefits for credited service prior to January 1, 2014, will be calculated using the higher 1.25% multiplier and will not be reduced for surviving spouse benefits. Furthermore, the DAC used in the calculation will not be frozen due to the plan change. See the supplement to the July *Hark* for further details.

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offers financial planning services at no charge to help you determine the right choice for your retirement through Ernst & Young Financial Planning Services. Call as often as you'd like and speak to a financial planner for as long as you need. Representatives are available Monday through Friday (excluding holidays) from 8:00 a.m. to 7:00 p.m., Central time at **1-800-360-2539**.

## Remember Your Retirement Savings at Charge Conferences!

Fall is charge conference season. Make sure you indicate the amount or percentage of compensation you will contribute to UMPIP when you complete the 2013 clergy compensation agreement.

General Board
Pension and Health Benefits
*Caring For Those Who Serve*

# Extension Ministries—Ask About Adopting CPP

Are you appointed to an extension ministry that does not sponsor CPP? CPP provides disability, death and other supplemental benefits to clergy and their families. Generally, you are eligible to participate if a) your conference or salary-paying unit sponsors the plan; and b) you are appointed full time with plan compensation that is equal to or greater than 60% of the DAC or the Conference Average Compensation (CAC), whichever is less.

Extension ministries may choose to sponsor the plan at any time. To find out if your extension ministry sponsors CPP, contact the General Board at **1-800-851-2201**. Representatives are available Monday through Friday from 8:00 a.m. to 6:00 p.m., Central time (excluding holidays).

# Flexible Savings Account Limit Reduced in 2013

Your conference may offer a flexible spending account (FSA) through HealthFlex or another source. Starting next year, the maximum amount you may contribute to the medical reimbursement portion of your FSA will be reduced from $5,000 to $2,500 per employee by the federal health care reform law. An FSA allows you to use pre-tax dollars from your salary to pay for certain health care expenses that are not covered by insurance, including office visit co-payments, dental care expenses and eyeglasses. The money set aside in an FSA is exempt from federal taxes, Social Security (FICA) taxes and, in most cases, state income taxes. Depending on your tax bracket, you may save as much as 30% on eligible expenses by using an FSA.

The $2,500 limit does not apply to contributions for other cafeteria plan benefits—such as salary reductions for the employee's share of health coverage premiums, dependent care accounts (DCAs) or health savings accounts (HSAs) associated with high-deductible plans—or to amounts made available through a health reimbursement account (HRA).

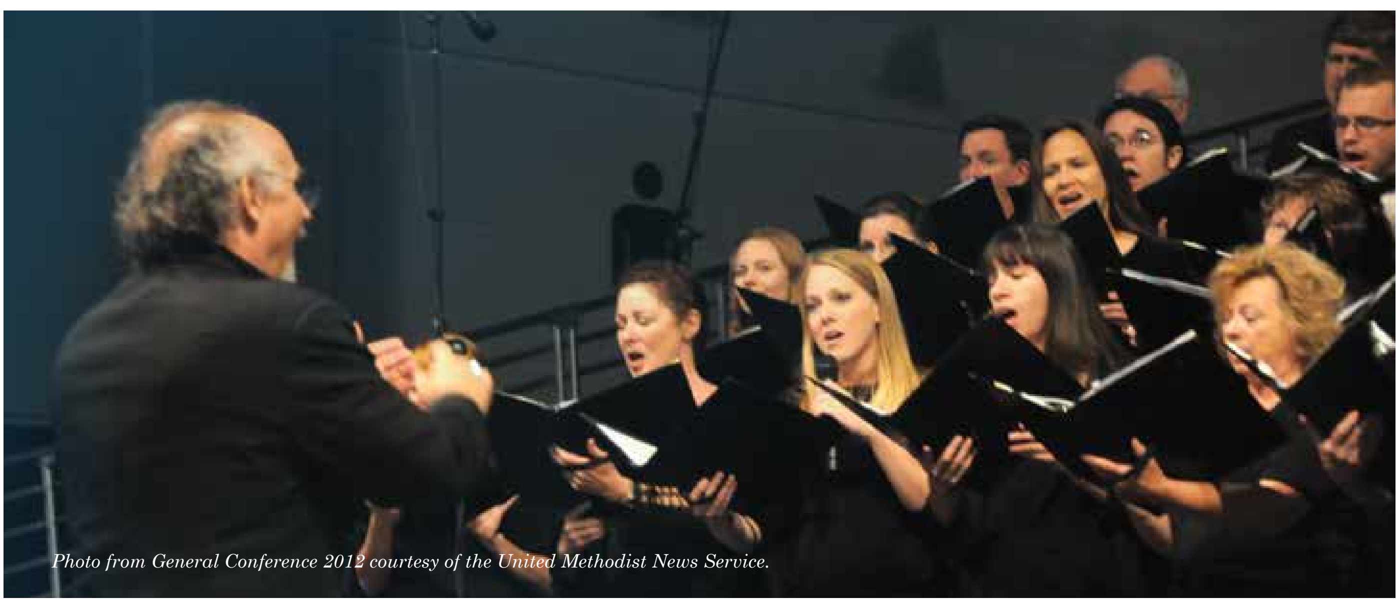

*Photo from General Conference 2012 courtesy of the United Methodist News Service.*