2012 Annual Report

Yesterday • Today • Tomorrow

The Pension Boards
United Church of Christ, Inc.

Partners in Ministry Since 1914

2012
Annual Report

Report of the Chairman and President/CEO

Partners in Ministry Since 1914

"You never want a serious crisis to go to waste…"

– Rahm Emanuel

The past decade was one of the most challenging in the Pension Boards' 99-year history. The market decline in 2002 from the deflating tech bubble resulted in reductions of up to 25% in annuity payments for some retirees. This impact was the basis for restructuring the Annuity Benefit Plan three years later – a decision that served us well during the dramatic 59% equity market decline in 2008. There have been no reductions in annuity payments in the Basic and Participating Annuities as a result of the 2008 market crisis. This financial crisis was followed by the deepest recession since the 1930s, and the "lost decade" for Standard and Poor's (S&P) 500 equities – the worst on record.

There were other challenges in the past decade. In 2002, participating denominations in the Church Alliance successfully defended a challenge to the clergy housing exemption and prepared an *amicus* brief for use in future challenges. We are monitoring another federal challenge that is working its way through the courts, and have just learned of a state challenge intended to remove the clergy housing exemption from permitted deductions on that particular state's income tax.

This decade has also included a significant increase in legal and regulatory compliance stemming from the Sarbanes-Oxley Act of 2002, new IRS regulations for 403(b) plans, the Patient Protection and Affordable Care Act (PPACA) and the Dodd-Frank Act. And, as reported last year, the number of UCC churches declined more than 12%, reported membership declined by more than 24%, and church school attendance declined by more than 41% in the past decade.

In spite of these challenges, total Pension Boards' net assets at year-end 2012 were $3,053,767,000, compared with $2,127,700,990 at year-end 2002. The 2012 "all in" fees for all investment management and administration of the Pension Boards' Equity Fund were 0.70%, compared with the average expense ratio of 1.46% for investment management alone, as reported by Morningstar for equity funds with global securities like those in our Fund. Most importantly, in our most recent church-wide, all-member survey, the Pension Boards was rated "trusted" or "highly trusted" by 92% of responders, and a "valued" or "highly valued" service provider by 88% across all benefit plans and programs. During the decade, we have improved all policies, procedures and systems. We reduced full-time equivalent employees from 122 to 68 while improving productivity fourfold.

So, what does the next decade look like? We do not know the unknowns. We are planning for the known knowns and the known unknowns. We know that the future will be different with new challenges, and indeed, new opportunities. We start from a position of resiliency and strength. Our financial strength is excellent, staff is adaptive and nimble, we are efficient, and we have organizational capacity and a plan as we lean into the next century of service to our members, and thus, the Church.

Some Highlights from 2012:

100th Anniversary

In preparation for the Pension Boards' 100th Anniversary, which will be launched at General Synod 29 in Long Beach, California, we have reviewed decades-old records and archives. Historical facts and anecdotal nuggets will be used in writing a milestone narrative. We have also interviewed former Pension Boards' executives, board members and constituent members for their comments. These interviews will be used in preparing a 100th Anniversary video that will be previewed at Synod, and shown at regional gatherings that we will host across the Church in 2013 and 2014.

Investments and Member Services

All Pension Boards' Funds outperformed their benchmarks for 2012. The Equity Fund was up 16.53%; the Balanced Fund, up 12.64%; and the Bond Fund, up 6.14%. The Stable Value Fund beat Money Market rates by a wide margin and the four Target Annuitization Date (TAD) Funds were up between 7.12% and 13.34%, depending on the Fund selected. Performance is net of all fees. We increased the number of Member Education seminars and webinars over those offered in 2011, and added an online chat feature to the Pension Boards' website. Weekly Member Services reports show improvement in year-over-year performance, and evaluations received at the end of each Member Education seminar continue to be outstanding.

Information Technology, Accounting/Treasury, Enterprise Risk Management

SunGard has been selected as the Pension Boards' new recordkeeping software provider, following a more than two-year study period that was informed by recommendations from an independent consultant report, then vetted by a series of stakeholder work sessions that involved more than 40 staff, and finally through an RFP process with full-day on-site interviews with finalists. The engagement is under way, with an expected "go live" date of January 1, 2014. This is an "all hands on deck" effort with the same 40+ staff participating as needed in addition to their normal day-to-day responsibilities. There are about 30 million bits of data that are processed monthly by our various systems.

For 2012, we again received clean audits from our external and internal auditors. For the eleventh consecutive year, we have finished the year under budget. The primary reason this year is that we are already realizing significant savings in changes in our Information Technology Department as we move from using consultants to creating and filling staff positions.

The year 2012 was the third year in the development of a multi-year Enterprise Risk Management (ERM) plan. Such ERM systems are used to assess overall risks to organizations, and to coordinate risk control measures. Accountability and authority were delineated in the Pension Boards' Enterprise Risk Oversight Model, the ERM Governance Structure–Division of Responsibility Chart, and the formal charters. PBUCC-specific risk definitions and processes were developed, existing risk management processes were inventoried, and strengths and gaps were noted. The business continuity planning portion of the ERM plan was unexpectedly tested toward the end of the year by Superstorm Sandy. Most systems worked and we have corrected deficiencies. Operationally, we did not miss a beat.

Health and Welfare Benefits Plans

Premium allocation increases for the UCC Medical and Dental Benefits Plan have been about one-half of the industry trend for 10 consecutive years. For 2012, there was no increase in Non-Medicare rates, and a 3.7% reduction in Medicare Supplement rates. There have been no premium increases in the UCC Life Insurance and Disability Income Benefit Plan for several years. All Pension Boards benefit plans are designed with deep and broad coverages to support as many clergy and lay workers as possible with a safety net during their working and retirement years. The Medical Benefits Plan is considered a "Cadillac Plan," although many of us would say that the Plan provides essential coverages for church employees. We like to think of it as a covenant with one another for the benefit of church employees, the UCC and God's realm. The insurance term for this is "shared risk." This covenant has been fraying for many years. Reasons in our view include the downside of our congregational polity, defined contribution benefit plans replacing defined benefit plans, the challenging economy and other external pressures, and cuts in church budgets due to an aging and declining membership. An unintended consequence of the Patient Protection and Affordable Care Act (PPACA) is that 23% of our UCC Non-Medicare Health Plan participants will qualify for subsidies that will be available on the state exchanges, and it is estimated that 17% of Plan participants will leave the Non-Medicare Plan within three years. The percentages reported by most other self-insured denominational health plans are much higher. We are increasing staff to assist in complying with the hundreds of new PPACA regulations and helping our participants understand coverage differences between our "Cadillac Plan" and the new Bronze, Silver and Gold Plans. Additionally, there will be significant tax advice needed for those seeking a subsidy from the exchanges because employer contributions to Health Plan premiums will be taxable for those receiving subsidies.

For the UCC Medicare Supplement Plan, the January 1, 2013 conversion to an Employer Group Waiver Program (EGWP) for pharmacy benefits has gone well, although many participants are not happy with the language required by the Centers for Medicare and Medicaid Services (CMS) contained in the mandatory CMS mailings.

Our wellness program, UCC Healthy Stewards (**www.ucchealthystewards.org**), is now eight years old. A couple participating in the Non-Medicare Plan can receive up to $600 in incentives for taking part in wellness activities, yet only 12% of those eligible choose to do so. The Plan also provides for free annual healthy checkups, but only 44% of our eligible participants use this benefit. And, only 53% of our Plan participants adhere to their medically-prescribed treatment plans. As the Downs family well knows and will testify to, early detection saves lives.

Ministerial Assistance

The transition in Director of Ministerial Assistance duties has gone smoothly. We are hopeful that 2012 Christmas Fund Offering receipts will exceed 2011 totals. It appears that Naples United Church of Christ in Naples, Florida is once again the highest contributing church, with more than $23,000 in donations.

The Next Generation Leadership Initiative (NGLI): Target 2030, which was conceived, funded and led by Ministerial Assistance, now includes 47 exceptional clergy in their 20s and 30s. The application process for the fourth class is under way. All NGLI clergy attended two week-long comprehensive experiences during 2012, and all 47 will spend time in the Pension Boards' display at General Synod 29. These young clergypersons will indeed be among the finest UCC leaders over the next generations.

The Pension Boards finished the year ranked 423rd out of the top 1,000 retirement plans in the United States in terms of assets under management. As evidenced in this report, the mission and mandates given to the Pension Boards are accomplished in a timely manner with competency, care and within budget by an extraordinary staff who are assisted by exceptional trustees and directors. We thank you for your continued confidence and trust in us.

Faithfully,

Dan J. Carwile
Chairman, Board of Trustees

Michael A. Downs
President/CEO

Report of the Chief Investment Officer

Market Review

The calendar year 2012 was a rewarding one for our members, with positive returns coming from both equity and fixed-income markets. The major global equity market indexes were up anywhere from 16% to over 18%, representing a completely different story from 2011. Bonds, as represented by the Barclays Capital U.S. Government/Credit Index, were also positive and returned 4.82% for the year, as the asset class remained the beneficiary of slow growth and Fed influence.

The backdrop, of course, was a fair amount of uncertainty both economically and politically. The year-long tug of war included headwinds such as a softening of economic data around the world, election uncertainty in Europe and in the U.S., and scrutiny over the (in)ability of developed nations (including the U.S.) to address high levels of government debt. In contrast, supportive monetary policy around the globe proved overwhelmingly positive for markets. The “safety net” provided by the European Central Bank (ECB) assured investors that the threat of the Eurozone breaking up was not imminent. The Federal Reserve also participated in the stimulus action, and the combined efforts of the two central banks set the stage for a strong rally throughout the late summer and fall.

At the close of the year, the most recent advance in global equity markets was not led by U.S. markets and, thus, different from what we have been used to over the past few years. In fact, preliminary numbers indicated that the U.S. economy shrank for the first time in more than three years in the fourth quarter. However, following three years of relative market underperformance and policy inaction, the expanded safety net put in place by policymakers in Europe finally has paid some dividends in markets, if not in economies. There have also been numerous expansionary monetary actions by others around the world, including China and now Japan.

The previously mentioned rise in bond prices (and lower interest rates) reflected U.S. Treasuries’ standing as “safe havens” despite their historically low yields, and favorable price action by U.S. corporate bonds. Mutual fund flows continued to favor bond funds as opposed to equity funds throughout 2012, despite what appear to be limited potential returns in the latter. Investors, in uncertain times, remain more concerned with return of investment as opposed to return on investment, hopefully not to their long-term detriment.

There were positive developments, especially here in the U.S. where it is clear we can avoid recession for now, despite the more tenuous economic tone in Europe. Although fourth quarter GDP came in right around .4%, underscoring the halting nature of the recovery, the strength of consumer spending and business investment suggest that the economy will grow, albeit slowly, this year. New unemployment claims have fallen recently and the unemployment rate dropped below 8% (although part of the improvement is being caused by a lowering of participation rates). Housing, in particular, looks like it will no longer be a drag on the U.S. economy, with some economists estimating that housing, with its multiplier (outsized impact), may add .75% to GDP growth in 2013. Business spending has been improving, buffered by record corporate profitability and margins.

Market Outlook

For 2013 it is again difficult to imagine that real GDP will be anything but moderate – in a range from 2.0% to 3.0%, while inflation is generally expected to be in the 2-2.5% range. The Federal Reserve is likely to keep its benchmark interest rate at 0-0.25% for an extended period while it undertakes unprecedented forms of monetary easing to help re-ignite the economy. Here at home, unemployment is falling slowly, house prices are rising, and consumers have delivered and are feeling more confident. On the other hand, challenging budget dynamics and sluggish global growth make it highly likely that there will be a tight lid on U.S. growth possibilities.

Looking globally, risks include a continued sluggish economic backdrop in Europe where German growth is fading, France has stalled, and recent Spanish growth has only been weaker during its civil war. China will likely avoid an economic hard landing, and represents an increasing percentage of global growth and GDP. It is important to mention, however, that policymakers around the world have started to cut interest rates, and there is much room to lower rates further as global inflation expectations moderate.

As we look to 2013, we are watching the U.S. economy and the continued deliberations by policymakers on U.S. budget issues. Globally, our eyes are on the Eurozone to see whether politics will derail progress made in 2012, and whether emerging markets can thrive without help from slower-growing developed economies.

As for equities, valuations still remain at reasonable levels at year-end, with the Standard & Poor's (S&P) 500 Index trading at 12.7 times the next-twelve month earnings forecasts, but somewhat less attractive than this time last year. Our constructive view of equity markets is hitched to the supportive Federal Reserve, ECB, and Bank of Japan, and renewed signs of growth, especially in U.S. housing. U.S. corporate profits have been impressive, especially with less-than-robust top line sales growth. But while the markets had a great year in 2012, the economy did not advance as much; the spread between the S&P 500 performance and the U.S. Purchasing Manager's Index (a leading economic indicator) had not been this wide since 2007, indicating that either the economy needs to pick up or the market may be in store for a correction.

Bonds remain a safe haven in this period of uncertainty and volatility, but the favorable recent performance of U.S. Treasuries, in particular, makes it hard to imagine that the upcoming decade can be as strong versus equities.

The Pension Boards' fixed income team has taken advantage of the price appreciation in bonds in order to lessen the impact that any future interest rate increases may have. Since the 30-year bull market in bonds has resulted in the lowest bond yields in 50 years, we continue to look for strategies designed to offset the interest rate risk inherent in our traditional core fixed-income approach and focus on U.S. treasuries and corporate bonds. These include emerging market country local currency bonds, high-yield bonds, and floating rate senior secured bank loans.

In summary, your Pension Boards' investment team continues to execute on strategies designed to lower the volatility in our equity portfolios, and is continuing to prudently implement ways to increase the yields of our bond portfolios in the current low interest rate environment. In this light, we are continuing to tilt the balanced portfolios (those that own both stocks and bonds) toward equities.

David A. Klassen
Chief Investment Officer

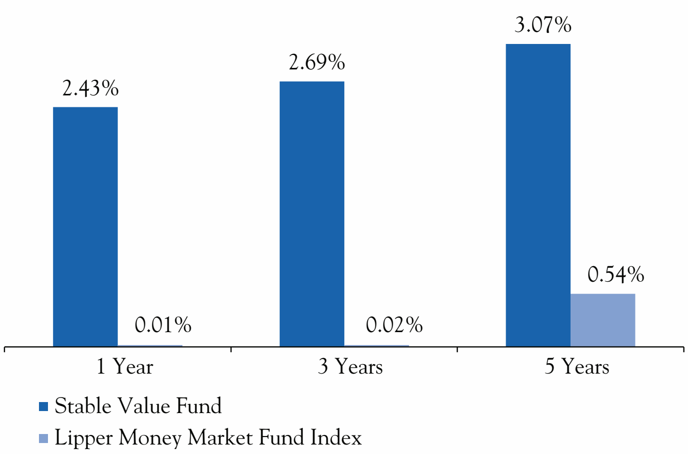
Accumulation Fund Performance

The following are charts illustrating fund performance and comments for various periods as of December 31, 2012. Asset allocation at year-end is shown as well. Fund performance, as shown, is net of all expenses.

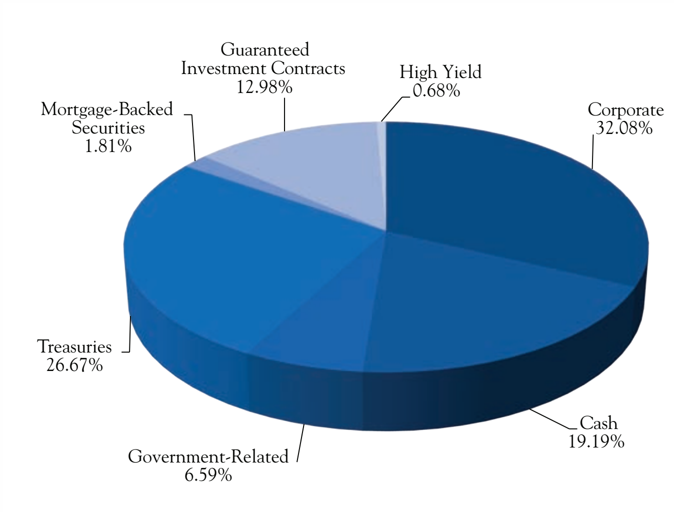
Stable Value Fund

In 2012, the Stable Value Fund had a total return of 2.43% versus 0.01% for the Lipper Money Market Fund Index. The Stable Value Fund has continued to maintain a higher yield than the Lipper Money Market Fund Index, as money market yields remained low throughout 2012. The Fund seeks a principal preservation strategy that expects to maintain a stable unit value of $1.00 per unit while earning a level of income that is consistent with short- and intermediate-term bonds.

Fund Performance



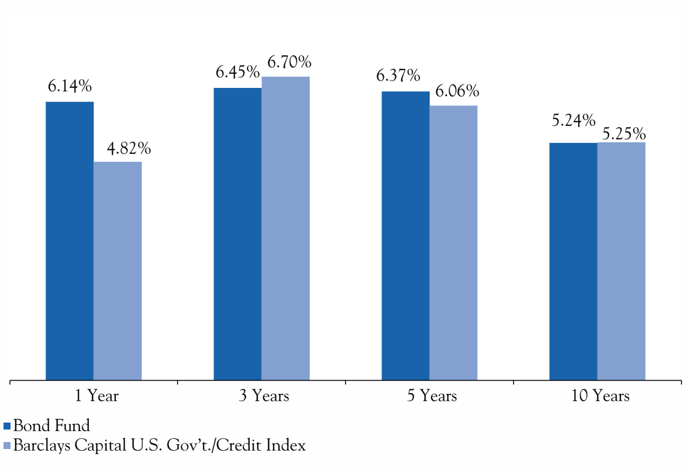
Asset Allocation



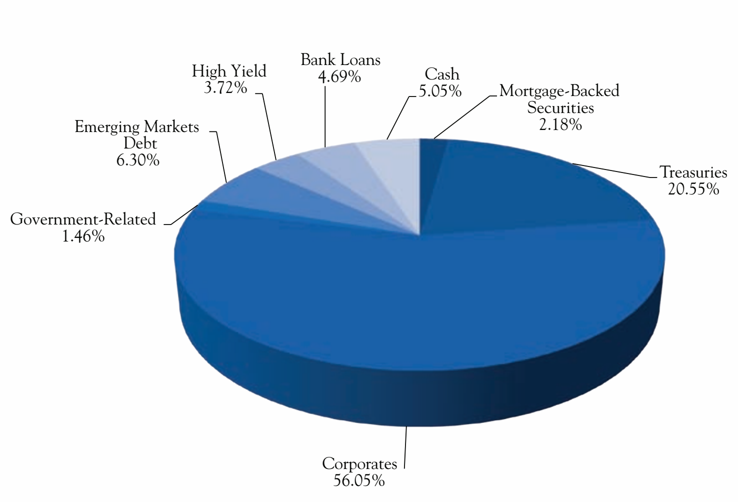
Bond Fund

In 2012, the Bond Fund had a total return of 6.14% versus 4.82% for the Barclays Capital U.S. Government/Credit Index. The Fund exceeded the benchmark, and produced a very competitive return for the year. Returns versus the benchmark over the past five years are also quite strong. The Fund had a modestly lower duration than the Index, which aided its relative return for 2012, as did the Fund's overweight to corporate bonds, where valuations were more attractive than U.S. Treasuries. Finally, prudent diversification away from core fixed income strategies in favor of higher-yielding investments also aided portfolio returns.

Fund Performance



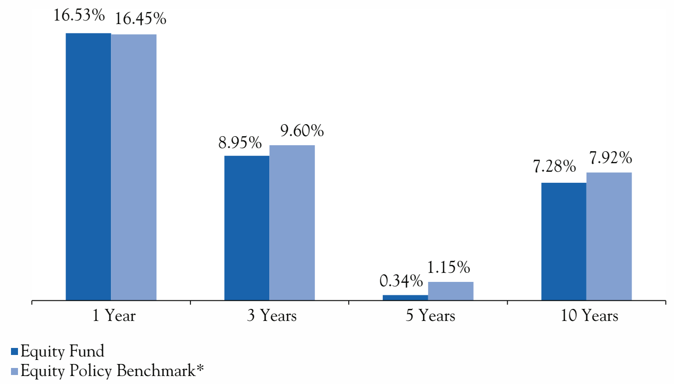
Asset Allocation



Equity Fund

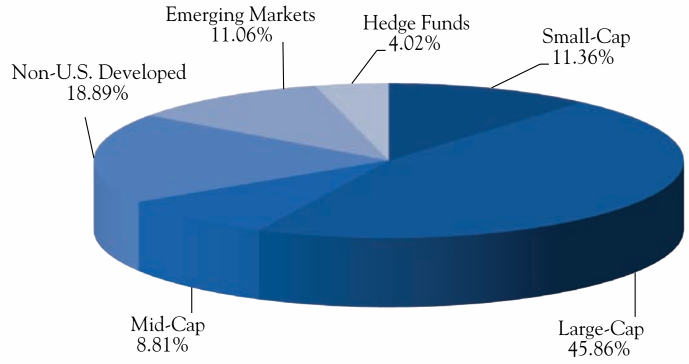
In 2012, the Equity Fund had a total return of 16.53% versus 16.45% for the Equity Policy Benchmark. The Equity Fund is diversified to include small, medium, and large U.S. stocks, developed market and emerging market international stocks, and hedge fund investments. In 2012, the Fund was bolstered by allocations across geographies. International markets, overall, bested U.S. markets with a strong finish to the year. The MSCI EAFE Index, a well-established benchmark of non U.S. Developed Country stocks, and the MSCI Emerging Markets Index, had total returns in 2012 of 17.3% and 18.2%, respectively. As the allocation chart illustrates, the Fund is well diversified by geography and market capitalization.

Fund Performance



* The Equity Policy Benchmark reflects the asset class targets established by the Pension Boards Investment Committee and is based on the following Index weightings: S&P 500 Index (42.5%), Russell Midcap® Value Index (10.0%), Russell 2000® Index (15.0%), MSCI EAFE Index (20.0%), MSCI Emerging Markets Index (7.5%) and HFRX Global Hedge Fund Index (5.0%).

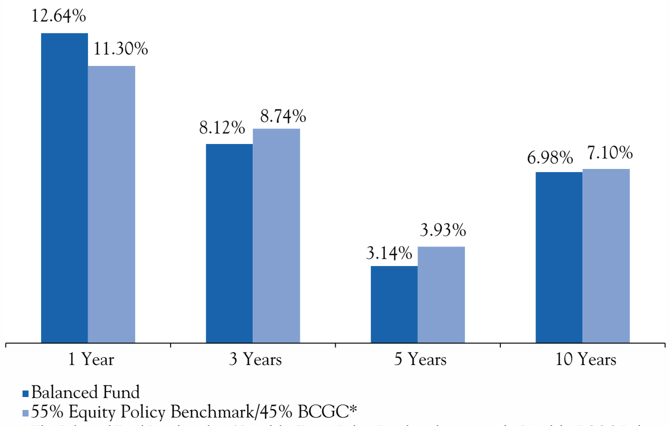
Asset Allocation



Balanced Fund

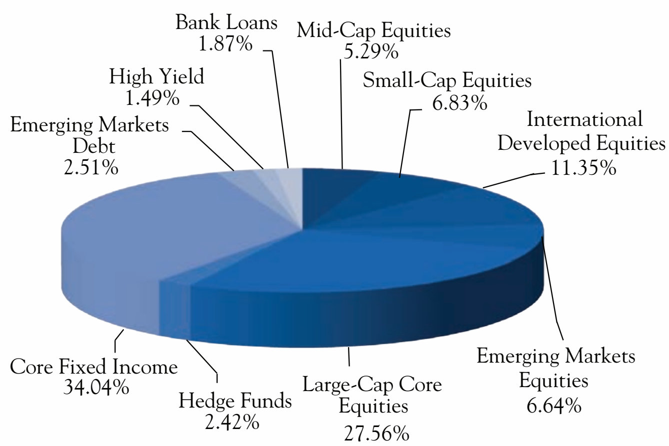
In 2012, the Balanced Fund had a total return of 12.64% versus 11.30% for the Policy Benchmark (55% Equity Policy Benchmark/45% Barclays Capital U.S. Government/Credit Index). The Balanced Fund invests in the Equity and Bond Funds. The Fund had a higher return than the benchmark return, as both the underlying Equity Fund and Bond Fund exceeded the benchmarks during this period. Heading into 2013, we continue to be more positive on equities than bonds, and have positioned the Fund accordingly.

Fund Performance



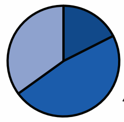
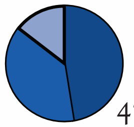
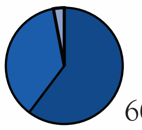
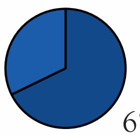
* The Balanced Fund Benchmark is 55% of the Equity Policy Benchmark return and 45% of the BCGC Index return.

Asset Allocation



Target Annuitization Date Funds

The Target Annuitization Date (TAD) Funds are invested in the Equity, Bond, and Stable Value Funds according to predetermined asset allocation glide paths that become more conservative as the annuitization date approaches. As the target date approaches, a higher allocation is given to the Bond and Stable Value Funds and less to the Equity Fund, which is more volatile than the other two Funds. Asset allocation is adjusted twice a year to conform to the established allocations. The performance of the TAD Funds reflects the underlying performance of the Funds in which they are invested. In a positive year for financial assets, we believe the TAD Funds achieved their objectives.

Target Annuitization Date Fund	Target Asset Allocation	Total Return			
		One Year	Three Years	Five Years	Since Inception
2015		7.12%	6.28%	2.95%	3.32%
2020		10.92%	7.66%	3.15%	3.46%
2025		12.43%	8.07%	2.31%	2.66%
2030		13.34%	8.36%	2.20%	2.53%

Equity Fund   Bond Fund   Stable Value Fund

Fees

Expenses (or expense ratios) are reported as the percentage of total expenses for the management and administration of the funds divided by the total average assets of the fund. Expenses in 2012 for the Equity Fund were 0.70%, compared to an average expense ratio of 1.46% as reported by Morningstar for equity funds with global securities similar to the types of securities in our Fund. Expenses for the Bond Fund were 0.36%, compared to the Morningstar average of 0.92% for similar funds. The Balanced Fund had expenses of 0.59%, compared to the Morningstar average of 1.34% for similar funds. Expenses for the Stable Value fund in 2012 were 0.47%. Expenses for the TAD 2015, 2020, 2025, and 2030 Funds were 0.46%, 0.54%, 0.57%, and 0.59%, respectively.

Annuities

Members have a choice of two annuities – the Participating Annuity and the Basic Annuity, which were introduced on April 1, 2006. Benefit payment adjustments, if any, for these Annuities are made annually at the beginning of each year. January 1, 2007 was the first adjustment date for these Annuities.

Annuitants who retired prior to April 1, 2006 and who chose to remain in the Equity Benefit and Balanced Benefit Annuities continue to receive payments as they have in the past, with payment adjustments effective April 1 and October 1.

Participating Annuity

The assets supporting this Annuity are invested in a balanced portfolio of stocks and bonds (targeted with a 60% allocation to stocks and 40% allocation to bonds). Over longer periods of time, this Annuity should produce average returns that are higher than the 4% return assumption built into the base level of annuity benefits and should allow for benefit increases from time to time that are expected to continue to be paid over the annuitant's lifetime. Of course, if investment and mortality experience result in decreased assets that no longer support the benefit levels, then monthly benefit payments may be reduced. Benefit payments increased 3.5% and 6.0% on January 1, 2007 and 2008, respectively, and were unchanged on January 1, 2009, 2010, 2011 and 2012.

Basic Annuity

The assets supporting this Annuity are invested entirely in fixed-income securities that overall have high quality ratings. Given that most of these securities pay a fixed amount of interest, it is expected that these securities will produce an average investment return that is close to the 4% return assumption built into the base level annuity benefits. For this reason, it is not expected that the benefit will be adjusted to increase or decrease in the near-term future. However, if interest rates rise or fall significantly above or below the 4% earnings assumptions, there is always a possibility that the benefit could change. Benefit payments have remained the same since inception of the Annuity on April 1, 2006.

Equity Benefit Annuity

(Closed to new investment since April 1, 2006)

Payments from this Annuity are supported 100% by equity securities and fluctuate with the movement in equities with a three-month lag. Payments are adjusted twice a year, effective April 1 and October 1, and incorporate the 4% annual growth assumption that is built into the levels of a member's initial annuity payment. On April 1, 2012, the Annuity decreased 11.03%, reflecting the weak market over the last six months of 2011. On October 1, 2012, the Annuity increased 4.92%, reflecting the increase in stocks over the first six months of 2012. Stock returns in the second half of 2012 were strong, resulting in a 6.89% increase effective April 1, 2013.

Balanced Benefit Annuity

(Closed to new investment since April 1, 2006)

Payments from this Annuity are supported by investments in fixed-income and equity securities and fluctuate with movements in equity and fixed-income markets with a three-month lag. Payments are adjusted twice a year, effective April 1 and October 1, and incorporate the 4% annual growth assumption that is built into the level of a member's initial annuity payment. On April 1, 2012, the Annuity decreased 5.87%, reflecting the weak market over the last six months of 2011. On October 1, 2012, the Annuity increased 3.82%, reflecting the increase in stocks in the first six months of 2012. Stock returns in the second half of 2012 were strong, resulting in a 3.88% increase effective April 1, 2013.

Selected Data

The table below highlights important aspects of The Pension Boards–United Church of Christ's stewardship obligations.
For comparison purposes, data has been provided for the years ending December 31, 2012, 2011 and 2002.

Dollar amounts in thousands except for member counts and average compensation	2012	2011	2002	Percent Change 2012-2011	Percent Change 2012-2002
Total Assets	$ 3,064,654	$ 2,864,545	$ 2,763,435	7.0%	10.9%
Net Assets	$ 3,053,767	$ 2,854,803	$ 2,127,701	7.0%	43.5%
Retiree Data					
Net Assets of Annuitants	$ 1,586,113	$ 1,461,953	$ 1,011,506	8.5%	56.8%
Benefits Paid	$ 114,896	$ 112,295	$ 98,812	2.3%	16.3%
Number of Annuitants	10,139	9,872	8,029	2.7%	26.3%
Pre-Retiree Data					
Net Assets of Accumulation Members	$ 1,237,164	$ 1,183,990	$ 1,023,501	4.5%	20.9%
Number of Active Members	5,331	5,488	6,919	-2.9%	-23.0%
Number of Inactive Members	6,444	6,469	5,721	-0.4%	12.6%
Ministerial Assistance and Supplementation Data					
Emergency and Regular Grants	$ 839	$ 1,061	$ 670	-20.9%	25.2%
Christmas Gift Checks	$ 200	$ 182	$ 170	9.9%	17.6%
Supplementation of Small Annuity Grants	$ 1,345	$ 1,298	$ 1,437	3.6%	-6.4%
Health Supplementation Grants	$ 554	$ 631	$ 537	-12.2%	3.2%
Benefit Services Data					
Health Benefits:					
Health Benefits Paid to Non-Medicare Members	$ 26,048	$ 24,455	$ 24,476	6.5%	6.4%
Health Benefits Paid to Medicare Members	$ 4,141	$ 4,238	$ 2,584	-2.3%	60.3%
Pharmacy Benefits Paid	$ 12,040	$ 13,189	$ 9,239	-8.7%	30.3%
Number of Non-Medicare Members	2,823	2,955	3,666	-4.5%	-23.0%
Number of Medicare Members	2,511	2,515	2,530	-0.2%	-0.8%
Number of Claims	173,417	158,431	317,366	9.5%	N/A
Dental Benefits:					
Dental Benefits Paid	$ 2,719	$ 2,585	$ 2,448	5.2%	11.1%
Number of Dental Members	4,775	4,829	5,112	-1.1%	-6.6%
Number of Claims	19,975	18,561	*Note 1	7.6%	N/A
Life Insurance Plan:					
Total Insurance Coverage	$ 143,309	$ 148,960	$ 169,876	-3.8%	-15.6%
Life Insurance Benefits Paid	$ 1,428	$ 1,301	$ 293	9.8%	387.4%
Number of Plan Members	4,935	5,033	5,597	-1.9%	-11.8%
Long-Term Disability:					
Benefits Paid	$ 344	$ 299	$ 912	15.1%	-62.3%
Members Receiving Benefits	40	40	52	0.0%	-23.1%
Short-Term Disability:					
Benefits Paid	$ 192	$ 102	*Note 1	88.2%	N/A
Members Receiving Benefits	40	20	*Note 1	100.0%	N/A
Clergy Compensation					
Average Annual Compensation of Male Clergy	$ 58,341	$ 57,612	45,747	1.3%	N/A
Average Annual Compensation of Female Clergy	$ 50,484	$ 49,638	38,205	1.7%	N/A
Percentage of Male Clergy Receiving Dues at 14% of Salary Basis	84.9%	84.7%	92.2%	0.2%	N/A
Percentage of Female Clergy Receiving Dues at 14% of Salary Basis	86.4%	86.6%	91.7%	-0.2%	N/A

Note 1: Not Available

2012 Gifts and Legacies

$25,001 and Over

John A. Beard Trust
Ferneda Spencer Bequest

$15,001 - $25,000

In honor of Reverend Dr. M. Douglas Borko's ministry (98 donations)
Reverend Joseph E. Roy Memorial Fund
Edith H. Fobes Charitable Trust

$5,001 - $15,000

Elsie Jean Austin Gift Annuities

$1,001 - $5,000

Helen J. Busiel Trust
John & Lidia Morrow Memorial Fund
The Reverend Dr. George A. Ehrgood & Sue M. Griffith Ehrgood Charitable Trust
Reverend Roy W. Joellenbeck
Anonymous (2)
Rhode Island Conference of the United Church of Christ

Up to $1,000

The Pittsburgh Foundation Grant from C.H. Snyder Fund
Olgha Sandman in memory of Reverend Dr. J. Robert Sandman
Anonymous (3)
Reverend Dr. Peter W. Lovejoy & Reverend Joyce Lovejoy
Doris Ann Woolner Gift Annuity
Reverend Richard & Ruth Stuart
Gilman L. Parker Trust
First Congregational Church-United Church of Christ

The Pension Boards–United Church of Christ, Inc.

Financial Statements

The Pension Boards–United Church of Christ, Inc.

The Pension Boards
United Church of Christ, Inc.

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Report of Management

Responsibility for the integrity and objectivity of the financial information presented in this Annual Report resides with the management of The Pension Boards-United Church of Christ, Inc. (the "Pension Boards"). The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, applying certain estimates and judgments as required.

The 21-member Board of Trustees, all of whom are independent of the Pension Boards' internal management, oversees the financial statements through its Audit Committee. The Audit Committee is responsible for recommending to the Board of Trustees the appointment of independent public accountants and for approving their compensation.

The Pension Boards' financial statements have been audited by Ernst & Young LLP, independent auditors, whose report appears on Page 16. The independent auditors, engaged to express an opinion on the financial statements, meet periodically with, and have been given free access to the Audit Committee, without management present, to discuss internal controls, auditing and financial reporting matters.

The Pension Boards' system of internal control plays an important role in meeting its responsibilities for reliable financial statements. It is designed to provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's authorization. The control environment is enhanced by the selection and training of competent personnel; the retention of an independent, internal auditor; maintaining and reinforcing the highest standards of conduct by employees in carrying out the Pension Boards' affairs (including providing employees with the ability to anonymously report concerns under a Whistleblower Policy); organizational arrangements that provide for segregation of duties and delegation of authority; and, the communication of accounting and operating policies and procedures to employees.

In the event of unforeseen irregularities or errors, management believes the Pension Boards' internal accounting control system provides reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected on a timely basis and corrected in the normal course of business.

Michael A. Downs
President/Chief Executive Officer

Maxine Seifert, CPA
Chief Financial Officer/Treasurer

March 28, 2013

Ernst & Young LLP
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Report of Independent Auditors

To the Board of Trustees of The Pension Boards-United Church of Christ, Inc.

We have audited the accompanying combined financial statements of The Pension Boards-United Church of Christ, Inc. (the "Pension Boards"), which comprise the combined statements of net assets as of December 31, 2012 and 2011, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined net assets of the Pension Boards as of December 31, 2012 and 2011, and the combined changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

March 28, 2013

THE PENSION BOARDS–UNITED CHURCH OF CHRIST, INC.
COMBINED STATEMENTS OF NET ASSETS

(Dollars in Thousands)

	December 31, 2012	December 31, 2011
ASSETS		
Cash	$ 3,133	$ 1,235
Investments	3,047,076	2,845,869
Accrued investment income receivable	11,453	11,120
Due from brokers for securities sales	867	3,313
Other assets	2,125	3,008
Total assets	3,064,654	2,864,545
LIABILITIES		
Cash overdraft	2	186
Due to brokers for securities purchases	646	1,054
Health benefits payable	2,924	2,843
Deferred income	3,689	3,360
Other liabilities	3,626	2,299
Total liabilities	10,887	9,742
NET ASSETS	$ 3,053,767	$ 2,854,803
NET ASSETS BY FUND		
UNRESTRICTED NET ASSETS		
Annuitant fund	$ 1,586,113	$ 1,461,953
Accumulation fund	1,237,164	1,183,990
Benefit services fund	117,804	104,185
Ministerial Assistance fund	55,955	50,872
Operating fund	5,905	5,943
Total unrestricted net assets	3,002,941	2,806,943
TEMPORARILY RESTRICTED NET ASSETS		
Ministerial Assistance fund	3,423	3,269
Operating fund	732	551
Total temporarily restricted net assets	4,155	3,820
PERMANENTLY RESTRICTED NET ASSETS		
Ministerial Assistance fund endowments	4,773	4,744
Operating fund endowments	41,898	39,296
Total permanently restricted net assets	46,671	44,040
TOTAL NET ASSETS	$ 3,053,767	$ 2,854,803

See notes to Combined Financial Statements.

THE PENSION BOARDS–UNITED CHURCH OF CHRIST, INC.
COMBINED STATEMENTS OF ACTIVITIES

(Dollars in Thousands)

	Year Ended December 31, 2012	Year Ended December 31, 2011
ADDITIONS		
Realized and unrealized gains (losses)	$ 224,627	$ (5,890)
Investment income	84,330	82,965
Health services premiums	55,244	55,105
Employer pension contributions	32,438	33,096
Member pension contributions	7,054	8,675
Christmas Fund appeal	1,465	1,536
Our Church's Wider Mission	435	448
Donations and legacies	164	354
Other	10	612
Total additions	405,767	176,901
DEDUCTIONS		
Pension payments to annuitants	114,896	112,295
Partial withdrawals and lump-sum payments	16,205	14,746
Health services claims	47,416	46,881
Health services costs	5,329	5,113
Retirement benefits administration and investment costs	18,443	16,955
Ministerial Assistance grants	2,938	3,172
Ministerial Assistance programs and administration costs	1,576	1,505
Total deductions	206,803	200,667
INCREASE (DECREASE) IN NET ASSETS	$ 198,964	$ (23,766)
COMPOSITION OF CHANGE IN NET ASSETS		
Increase (Decrease) in unrestricted net assets	195,998	(20,176)
Increase (Decrease) in temporarily restricted net assets	335	(288)
Increase (Decrease) in permanently restricted net assets	2,631	(3,302)
INCREASE (DECREASE) IN NET ASSETS	$ 198,964	$ (23,766)

See notes to Combined Financial Statements.

THE PENSION BOARDS–UNITED CHURCH OF CHRIST, INC.
COMBINED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011
(Dollars in Thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from members and employers for pension plan	$ 39,870	$ 41,634
Cash received from members and employers for health services premiums	56,082	54,963
Cash received from Our Church's Wider Mission	435	448
Cash received from Christmas Fund appeal	1,465	1,538
Cash received from contributors	164	354
Cash received from income on investments	71,125	71,856
Miscellaneous receipts	57	624
Payments made to annuitants, members and beneficiaries from the pension plan	(132,446)	(127,783)
Payments made to participants and providers from the health services claims and costs	(47,335)	(48,879)
Cash paid to employees, suppliers and providers of services	(21,746)	(22,061)
Grants disbursed	(1,593)	(2,579)
Net cash used in operating activities	(33,922)	(29,885)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	1,767,732	2,003,708
Purchase of investments	(1,731,627)	(1,973,221)
Purchase of equipment	(101)	(81)
Net cash provided by investing activities	36,004	30,406
NET INCREASE IN CASH	2,082	521
NET CASH, BEGINNING OF YEAR	1,049	528
NET CASH, END OF YEAR	$ 3,131	$ 1,049
COMPOSITION OF NET CASH, END OF YEAR:		
Cash	$ 3,133	$ 1,235
Cash overdraft	(2)	(186)
NET CASH, END OF YEAR	$ 3,131	$ 1,049

Continued

See notes to Combined Financial Statements.

THE PENSION BOARDS–UNITED CHURCH OF CHRIST, INC.
COMBINED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011

(Dollars in Thousands) (Continued)	2012	2011
RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:		
Increase (Decrease) in net assets	$ 198,964	$ (23,766)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation and amortization	173	232
Realized and unrealized (gains) losses	(224,627)	5,890
Accretion of discount on investments	(10,687)	(11,445)
(Increase) Decrease in accrued investment income receivable	(333)	1,605
Decrease (Increase) in other assets	851	(255)
Increase (Decrease) in health benefits payable	81	(1,989)
Increase (Decrease) in deferred income	329	(112)
Increase (Decrease) in other liabilities	1,327	(45)
Net cash used in operating activities	$ (33,922)	$ (29,885)

See notes to Combined Financial Statements.

1. ORGANIZATION

The Pension Boards-United Church of Christ, Inc. (the "Pension Boards"), an Affiliated Ministry of the United Church of Christ ("UCC"), provides retirement, disability, life insurance, medical, dental and vision benefits for clergy and lay employees of the UCC, its predecessor religious denominations and UCC-related organizations, through the administration of retirement and other benefit plans. As an Affiliated Ministry of the UCC, the Pension Boards is able to serve all other ministries of the UCC. The Pension Boards also acts as the investment-holding corporation and manages investments in commingled pools of common investment types.

United Church Board for Ministerial Assistance, Inc. ("Ministerial Assistance") holds, manages and distributes funds for the assistance and relief of ministers of the UCC, Congregational Christian ministers who have not elected to become ministers of the UCC, and the families of any such ministers. Ministerial Assistance maintains The Christmas Fund for the Veterans of the Cross and the Emergency Fund to receive contributions from an annual church-wide appeal. These contributions help provide pension and health premium supplementation to lower-income retired church workers, emergency assistance to clergy families in need and Christmas checks to lower-income annuitants.

2. RETIREMENT PLAN

The Pension Boards is the plan sponsor of the Annuity Plan for the UCC, as amended, (the "Annuity Plan"), which is a defined contribution plan and is a tax-exempt retirement income account program described in section 403(b)(9) of the Internal Revenue Code of 1986, as amended (the "Code"). The Annuity Plan is a Church Plan within the meaning of Code section 414(e) and is not subject to the Employee Retirement Income Security Act of 1974 ("ERISA"). The Pension Boards is the Trustee of the Annuity Fund Trust (the "Trust"), which was established to hold in trust money and other property of the Annuity Plan on behalf of and for the benefit of members and beneficiaries of the Annuity Plan.

Accumulation Fund
The Pension Boards maintains a separate account or accounts for each member. Member and employer contributions are credited to members' accounts and are invested according to instructions received from members. Contributions may be allocated by members, in five percent increments, among any or all of the following investment funds: the Pension Boards Stable Value Fund, the Pension Boards Bond Fund, the Pension Boards Equity Fund, the Pension Boards Balanced Fund and four Pension Boards Target Annuitization Date Funds. Investment results are credited or charged to members' accounts in accordance with provisions of the Annuity Plan. With prior written notice, members may change their allocation of current account balances and future contributions effective the first day of the following month. The accounts of active and inactive members who are not yet retired are included in the Accumulation Fund.

Annuitant Fund
Reserves for Annuitants, which contain funds designated to provide for annuity payments to annuitant members, are included in the Annuitant Fund. Upon retirement, all or a portion of the value of a member's individual accumulation account in the Annuity Plan is transferred to Reserves for Annuitants and is used to fund actuarially determined monthly benefit payments of a variable amount. Members may choose among various annuity options, all of which provide a lifetime income for members and all but one of which make provision for beneficiaries named by the members. Monthly retirement income is determined based upon the age of the member (and that of a Joint Annuitant, if applicable), the amount of assets in a member's accumulation account and the form in which the benefit will be paid (for example, Single Life Annuity, or Joint and Survivor Annuity), using an assumed investment rate of return of 4% per year. Retirees may elect to receive either a Basic or Participating Annuity. The Basic Annuity has supporting investments in fixed-income securities. The Participating Annuity has supporting investments comprised of both fixed-income and equity securities with a target allocation of 60% to equities and 40% to fixed-income securities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting
The accounts of the Pension Boards are maintained in accordance with the principles of fund accounting. Under these principles, resources are classified into funds according to their nature and purpose. In addition to the Accumulation and Annuitant Funds described in Note 2, the financial statements include Benefit Services, Ministerial Assistance and Operating Funds. The Benefit Services Fund includes net assets and activities relating to medical, dental, vision, disability and life insurance plans. Self-insured short-term disability, medical, dental and vision plans are administered by third-party administrators. The Pension Boards also offers members a life insurance and long-term disability income benefit plan, which is underwritten by an independent commercial insurance carrier. The Operating Fund includes net assets and activities relating to the administrative functions of the Pension Boards.

Basis of Accounting
The accompanying combined, accrual basis, comparative financial statements include the assets, liabilities, activities and cash flows of the Pension Boards and Ministerial Assistance as if they were legally combined into one entity. All inter-corporate balances have been eliminated in the combination.

Reclassification
Certain information from the prior year financial statements has been reclassified to conform to the current year presentation format.

Management Estimates
The preparation of financial statements in conformity with generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The fair values of investments represent the most significant estimates and assumptions. Actual results could differ from those estimates and assumptions.

Investments
Investments under management are commingled and held by the Pension Boards’ custodial bank pursuant to a Master Custody Agreement. The Investment Committee of the Board of Trustees is responsible for supervising the Pension Boards’ investment program.

The Statement of Investment Policy of the Pension Boards establishes guidelines relating to permissible investments and to diversification, liquidity, duration, concentration and quality of investments. The policy permits the purchase and sale of S&P 500 Index futures contracts by an external investment manager to equitize cash in the management of the S&P 500 Index strategy. Pension Boards staff continues to monitor adherence to the policy and guidelines by investment managers.

Investments are reported at fair value in accordance with Financial Accounting Standards Board (“FASB”), Accounting Standards Codification (“ASC”) Topic No. 820, *Fair Value Measurement*. Securities traded in active markets on national and international securities exchanges are valued at closing prices on the last business day of each year presented. Securities traded in markets that are not considered active are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. Footnote 6 provides additional information concerning fair value measurement including valuations of non-marketable securities.

Investment transactions are accounted for on the date the securities are purchased or sold, which is the trade date. A corresponding payable to or receivable from the transaction counterparty is recorded until cash and securities are exchanged on the settlement date. Dividend income is recorded on the ex-dividend date. Interest income is accrued as earned. Realized gain or loss represents the difference between the proceeds received on a sale of a security and its historical cost. Unrealized appreciation or depreciation is the difference between the fair value of a security and its historical cost.

Investments denominated in non-U.S. dollar currencies are translated at the exchange rates in effect at each financial statement date. Gains and losses from the sale of such investments are translated at the exchange rates in effect at the transaction date.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, liquidity and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the Combined Statements of Net Assets.

Cash Overdraft
The Pension Boards maintains a zero balance checking account. As checks are written, they are recorded as disbursements in the financial statements. Checks are funded as presented to the bank for payment.

Revenue Recognition
Employer and member retirement contributions and benefit services premiums are recorded when received. Benefit Services premiums that are received prior to the insured period are shown as deferred income on the accompanying Combined Statements of Net Assets.

Donations are recognized as revenue in the year in which the unconditional promise to give is received.

Income Taxes
The Pension Boards, a New Jersey nonprofit corporation, and Ministerial Assistance, a Connecticut nonstock (nonprofit) corporation, are private organizations exempt from federal income tax under Section 501(c)(3) of the Code. ASC Topic No. 740, *Income Taxes*, requires management to evaluate tax positions taken by the Pension Boards and to recognize a tax liability (or asset) if the Pension Boards has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. The definition of "tax position" includes an entity's status as a tax-exempt nonprofit entity. While exempt from federal income tax under Section 501(c)(3) of the Code, the Pension Boards is subject to tax on income unrelated to its exempt purposes, unless that income is otherwise excluded by the Code. Management believes there are no material uncertain positions that require recognition in the accompanying financial statements. The Pension Boards filed Internal Revenue Service Form 990-T tax returns. For the year ended December 31, 2012, there were no interest or penalties recorded or included in the financial statements. As of December 31, 2012, the years still subject to federal income tax examination are 2009 through 2011.

Subsequent Events
The Pension Boards has evaluated events and transactions occurring between January 1, 2013 and March 28, 2013, which is the date the financial statements were available to be issued, for disclosure and recognition in the financial statements.

4. NET ASSETS

Net Assets are classified as unrestricted, temporarily restricted and permanently restricted. Accordingly, net assets and changes herein are classified and reported as follows:

Unrestricted Net Assets
Net assets that are not subject to donor-imposed stipulations or the donor-imposed restrictions have expired. Unrestricted net assets of the Annuitant Fund and the Accumulation Fund are funds associated with providing retirement benefits for present annuitants and active and inactive members who are not retired, respectively. Unrestricted net assets of Ministerial Assistance are Board-designated funds functioning as endowments of $41.8 million, Board-designated funds for the Target 2030 Program of $7.0 million and the Fund for supplementing small annuities of $7.2 million. Unrestricted net assets of the Operating Fund as of December 31, 2012 include the following: Board-designated funds functioning as endowments of $3.9 million and Funds designated for long-term capital expenditures of $2.0 million.

Temporarily Restricted Net Assets
Net assets that are subject to donor-imposed restrictions either for use during a specified time period or for a particular purpose. When a donor-imposed restriction is fulfilled or when a time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets.

Permanently Restricted Net Assets
Net assets that are subject to permanent, donor-imposed restrictions.

5. INVESTMENTS

At December 31, 2012 and 2011, investments were as follows:
(Dollars in Thousands)

	2012	2011
STABLE VALUE FUND INVESTMENTS		
Institutional Money Market Fund shares	$ 40,048	$ 89,724
Fixed maturity synthetic guaranteed investment contracts:		
Mortgage-backed and asset-backed securities	23,262	3,692
U.S. Government Notes & Bonds	3,893	-
Constant duration synthetic guaranteed investment contracts:		
Corporate Bonds	66,992	67,177
U.S. Government Notes & Bonds	67,487	49,307
Commercial Mortgage-backed securities	4,014	4,448
TOTAL STABLE FUND VALUE INVESTMENTS	205,696	214,348
SHORT-TERM INVESTMENTS		
Institutional Money Market Fund shares	120,479	199,238
TOTAL SHORT-TERM INVESTMENTS	120,479	199,238
FIXED-INCOME INVESTMENTS		
Corporate Bonds	620,124	595,468
U.S. Government Notes & Bonds	483,063	403,332
U.S. Government Agency and Non-Agency Mortgage-backed securities	23,281	22,514
Emerging Markets Local Currency Debt Fund	67,381	29,737
Floating Rate High-Income Fund	50,126	-
High-Income Bond Fund	27,383	-
TOTAL FIXED-INCOME INVESTMENTS	1,271,358	1,051,051
EQUITY INVESTMENTS		
Common Stock:		
U.S. Large-Cap Equity	630,144	654,227
U.S. Mid-Cap Equity	119,571	134,542
Non-U.S. Developed Markets	173,618	123,681
U.S. Small-Cap Equity	109,568	114,271
Equity funds:		
Emerging Markets	160,706	102,547
Non-U.S. Developed Markets	93,830	84,660
U.S. Small-Cap Equity	53,216	95,948
TOTAL EQUITY INVESTMENTS	1,340,653	1,309,876
OTHER INVESTMENTS		
Participation in United Church Funds, Inc.	41,013	38,409
Hedge Funds	58,640	27,465
Private Equity	9,237	5,482
TOTAL OTHER INVESTMENTS	108,890	71,356
TOTAL INVESTMENTS	$ 3,047,076	$ 2,845,869

Stable Value
At December 31, 2012 and 2011, the portfolio included institutional money market fund shares accounted for at fair value. The Pension Boards has contracted for fully-benefit-responsive wrap agreements that permit members to make routine withdrawals and transfers as permitted by the Annuity Plan, at a stable unit value of $1.00. *Fixed maturity synthetic guaranteed investment contracts ("GICs")* include an underlying fixed-income security portfolio of mortgage-backed and asset-backed securities and book value, fully-benefit-responsive wraps and in 2012, U.S. government notes and bonds. They were issued by two major money center banks, each rated "AAA" by S&P, and one insurance company, rated "AA+" by S&P. *Constant duration synthetic GICs* are investments which include an underlying fixed-income security portfolio of corporate bonds, U.S. government notes, U.S. government agency bonds, commercial mortgage-backed securities and book value, fully-benefit-responsive wraps. They were issued by two major money center banks, one non-U.S. investment bank and one non-U.S. life insurance and annuity company, each rated "AA-" by S&P. For 2012 and 2011, the average yield of the portfolio was 2.64% and 2.66%, respectively, while the annualized crediting interest rates at December 31, 2012 and 2011 were 2.76% and 2.60%, respectively. Crediting rates are set monthly and are not less than zero.

Short-Term Investments
Short-Term Investments consist of institutional money market fund shares.

Fixed-Income Investments
Fixed-Income Investments include corporate bonds, U.S. government notes and bonds, U.S. government agency bonds, U.S. government agency mortgage-backed securities, non-agency mortgage-backed securities, an emerging market local currency debt fund, a U.S. dollar-denominated bank loans fund, and a high income bond fund.

The emerging market local currency debt fund invests primarily in emerging market fixed-income securities and derivative instruments that economically are tied to an emerging market country, which are denominated in the predominant currency of the local market of an emerging market country or whose performance is linked to those countries' currencies, markets, economies or ability to repay loans. Investing in emerging markets has special risks such as currency and market volatility and political and social instability.

The high-income bond fund invests in a diversified portfolio of U.S. dollar-denominated high-yield bonds with an emphasis on debt securities below investment grade. High-yield bonds are debt securities that are rated in the lowest investment grade category (BBB by S&P) or lower. Investing in high-income bond funds is subject to credit risk, market volatility, interest rate risk and prepayment risk.

The U.S. dollar-denominated bank loans fund invests primarily in adjustable rate bank loans and high-yield corporate debt securities. Investing in floating rate high-income funds has special risks such as credit risk, prepayment risk and extension risk.

Equity Investments
Common Stock includes domestic and international issues diversified among 8 investment managers at December 31, 2012 who emphasize various investment styles. At December 31, 2012 and 2011, common stock included approximately 16.8% and 12.0%, respectively, in non-U.S. securities. Investments in non-U.S. securities add certain risks related to the currency of the foreign markets in which the securities are issued. Those investments with currency risk are spread over 21 different foreign countries at December 31, 2012 and 2011, with 13 different currency denominations at December 31, 2012 and 2011. At December 31, 2012 and 2011, non-U.S. investments include securities purchased in the currencies of non-U.S. developed nations (97.6% and 96.5%, respectively) and in U.S. dollars (2.4% and 3.5%, respectively). The contractual amount of the open S&P 500 Index futures contracts transacted by an external investment manager aggregated approximately $26.8 million long at December 31, 2012. The contract amounts of these investments are indications of the open transactions and do not represent a level of market or credit risk to the portfolio. The fair value of the futures contracts at December 31, 2012 was not material.

Equity funds include emerging markets, non-U.S. developed markets and U.S. Small-Cap equity funds. Equity funds are recorded at the reported net asset value on the day of valuation.

Emerging markets funds purchase a broad and diverse group of securities associated with emerging markets, including frontier markets (emerging market countries in an earlier stage of development). Investments in emerging markets may be more likely to experience political turmoil or rapid changes in market or economic conditions than more developed countries. Additional restrictions may be imposed under other conditions. Frontier market countries generally have smaller economies or less developed capital markets and, as a result, the risks of investing in emerging market countries are magnified in frontier market countries.

The non-U.S. developed market fund invests primarily in a diversified portfolio of non-U.S. equity securities. At December 31, 2012, this portfolio included 90 stocks representing 24 countries. Equities in non-U.S. developed markets accounted for 83.0% of the portfolio, with emerging markets accounting for 17.0%.

The U.S. Small-Cap equity fund invests in a broad and diverse group of readily marketable common stocks of U.S. small-cap companies. Securities of small companies are often less liquid than those of large companies and this could make it difficult to sell a small company security at a desired time or price. As a result, small company stocks may fluctuate relatively more in price. In general, smaller-capitalization companies are also more vulnerable than larger companies to adverse business or economic developments and they may have more limited resources.

Other Investments

Other Investments include participation in the UCF Alternatives Balanced Fund of United Church Funds, Inc. ("UCF"), an Associated Ministry of the UCC, and investments in hedge funds and private equity. Footnote 6 provides additional disclosure and information about hedge funds and private equity.

The Pension Boards is the income beneficiary of the Pilgrim Memorial Fund ("PMF"), an endowment fund held in perpetual trust by UCF. Under the terms of the endowment, income calculated at five percent (5%) of the five-year moving average of PMF as of the previous September 30 is distributed quarterly by UCF to the Pension Boards. In accordance with GAAP, the interest in the PMF endowment fund is included in Investments in the Combined Statements of Net Assets and is valued based on the fair market value of the investments held in the UCF Alternatives Balanced Fund at December 31, 2012 and 2011, respectively. The Combined Statements of Activities includes income transferred from PMF of $2.1 million in 2012 and 2011, respectively, classified as Investment Income and the change in the Pension Boards' interest in the PMF endowment fund of $2.6 million in 2012 and ($3.3) million in 2011, respectively, classified as realized and unrealized investment gains (losses).

Net investment gains include realized gains (losses) on investment sales and the change in unrealized appreciation on investments held at year-end. The net amounts are comprised of the following:

(Dollars in Thousands)	2012	2011
Realized gains on investment sales	$ 86,567	$ 93,981
Unrealized appreciation (depreciation) on investments	138,060	(99,871)
Net Investment Gains (Losses)	$ 224,627	$ (5,890)

6. FAIR VALUE MEASUREMENT

Fair Value Hierarchy

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). All financial instruments that are measured and reported on a fair value basis are classified according to a fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. The three levels of fair value hierarchy are:

- **Level 1:** Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.
- **Level 2:** Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
- **Level 3:** Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A review of fair value hierarchy classifications is conducted annually. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications of the fair value hierarchy are reported as transfers in/out of the category as of the beginning of the period in which the reclassifications occur.

Hedge Funds

Hedge funds are interests in limited partnerships and investment companies which use a variety of investment strategies and whose portfolios may comprise U.S. and non-U.S., publicly and non-publicly traded equity and debt securities, options, derivatives (futures) and commodities. The Pension Boards' hedge fund investments utilize event-driven, tactical trading and equity hedge strategies. Event-driven strategies seek to make profitable investments by investing in a timely manner in securities that are presently affected by particular events. Such events include distressed debt investing, merger arbitrage and corporate restructuring. Tactical trading strategies refer to strategies that seek to forecast the direction of market prices of currencies, commodities, equities and bonds. Equity-hedge strategies consist of a core holding of long equities hedged at times with short sales of stocks and/or stock index options. In accordance with ASC Topic No. 820, *Fair Value Measurement*, the Pension Boards uses the net asset value reported by each fund as a practical expedient to estimate the fair value of the Pension Boards' interest therein. Hedge funds classified as Level 2 investments are redeemable within 90 days of the balance sheet; Level 3 investments are redeemable within longer time frames. Approximately 83% of hedge funds by value have initial "lock-up" provisions of 1 year or less and 17% have "lock-up" provisions of 2 to 3 years. Two managers have redemption gates of 10% to 20% of net assets. Fees for early redemption may be up to 5% of the redeemed amount.

Private Equity

Private equity investments are illiquid investments with multi-year investment horizons. The Pension Boards' private equity investments include limited partnerships and limited liability companies with underlying investments in commercial real estate, collateralized loans to venture capital-backed companies, distressed real estate debt and debtor-in-possession financial arrangements. At December 31, 2012, the Pension Boards had four private equity investments with a fair value of $9.2 million. These investments are subject to "lock-up" provisions, generally ranging from 8-10 years at inception, during which time the investment cannot be liquidated. The Pension Boards is not permitted to redeem these investments until the termination of the investment period. The fair value of these investments is based upon the Pension Boards' share of the fair value of the partnership while giving consideration, from a market participant's perspective, to the features unique to the partnership agreements. Because of the inherent uncertainty of the valuations of these investments, the estimated fair values may differ, perhaps materially, from the values that would have been used had a ready market for the investments existed. These assets are classified as Level 3 because the Pension Boards does not have readily observable market comparable prices as of the valuation date.

The following table summarizes the valuation of the Private Equity and Hedge Fund investments based on the fair value hierarchy levels as of December 31, 2012.

Private Equity and Hedge Fund Investments as of December 31, 2012

(Dollars in Thousands)	Fair Value	Level 1	Level 2	Level 3	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private Equity	$ 9,237	$ -	$ -	$ 9,237	$ 10,377	N/A	N/A
Hedge Funds							
Event-Driven	$ 23,500	$ -	$ 9,037	$14,463	$ -	Quarterly	60-90 days
Tactical Trading	10,654	-	6,282	4,372	-	Monthly	1-90 days
Equity Hedge	24,486	-	20,253	4,233	-	Quarterly	45-65 days
Total Hedge Funds	$ 58,640	$ -	$35,572	$23,068	$ -		
Total	$ 67,877	$ -	$35,572	$32,305	$ 10,377		

The following table sets forth by level within the fair value hierarchy investment assets and liabilities as of December 31, 2012.

	Investments as of December 31, 2012		
(Dollars in Thousands)	Level 1	Level 2	Level 3
STABLE VALUE INVESTMENTS			
Institutional Money Market Fund shares	$ 40,048	$ -	$ -
Fixed maturity synthetic guaranteed investment contracts:			
Mortgage-backed and asset-backed securities	-	23,262	-
U.S. Government Notes & Bonds	3,893	-	-
Constant duration synthetic guaranteed investment contracts:			
Corporate Bonds	-	66,992	-
U.S. Government Notes & Bonds	67,487	-	-
U.S. Government Agency and Commercial Mortgage-backed securities	-	4,014	-
TOTAL STABLE VALUE INVESTMENTS	111,428	94,268	-
SHORT-TERM INVESTMENTS			
Institutional Money Market Fund shares	120,479	-	-
TOTAL SHORT-TERM INVESTMENTS	120,479	-	-
FIXED-INCOME INVESTMENTS			
Corporate Bonds	-	620,124	-
U.S. Government Notes & Bonds	483,063	-	-
U.S. Government Agency and Non-Agency Mortgage-backed securities	-	23,281	-
Emerging Markets Local Currency Debt Fund	67,381	-	-
Floating Rate High-Income Fund	-	50,126	-
High-Income Bond Fund	27,383	-	-
TOTAL FIXED-INCOME INVESTMENTS	577,827	693,531	-
EQUITY INVESTMENTS			
Common Stock:			
U.S. Large-Cap Equity	630,144	-	-
U.S. Mid-Cap Equity	119,571	-	-
Non-U.S. Developed Markets	173,618	-	-
U.S. Small-Cap Equity	109,568	-	-
Equity funds:			
Emerging Markets	126,943	33,763	-
Non-U.S. Developed Markets	93,830	-	-
U.S. Small-Cap Equity	53,216	-	-
TOTAL EQUITY INVESTMENTS	1,306,890	33,763	-
OTHER INVESTMENTS			
Participation in United Church Funds, Inc.	-	-	41,013
Hedge Funds	-	35,572	23,068
Private Equity	-	-	9,237
TOTAL OTHER INVESTMENTS	-	35,572	73,318
TOTAL INVESTMENTS	$ 2,116,624	$ 857,134	$ 73,318

In accordance with ASC Topic No. 820, *Fair Value Measurement*, a roll-forward of activities including transfers into Level 3, transfers out of Level 3, realized and unrealized gains and losses, purchases, sales and settlements is provided below for the year ended December 31, 2012.

	CHANGES IN LEVEL 3 INVESTMENTS FOR THE YEAR ENDED DECEMBER 31, 2012			
(Dollars in Thousands)	Participation in United Church Funds, Inc.	Hedge Funds	Private Equity	Total
OTHER INVESTMENTS				
Balance as of December 31, 2011	$ 38,409	$ 23,468	$ 5,482	$ 67,359
Transfers into Level 3	-	-	-	-
Transfers out of Level 3	-	(7,530)	-	(7,530)
Realized gains/(losses) - net	205	-	-	205
Unrealized gains/(losses) - net	3,889	1,530	117	5,536
Purchases	604	5,600	4,827	11,031
Sales	(2,094)	-	(1,189)	(3,283)
Settlements	-	-	-	-
TOTAL OTHER INVESTMENTS	$ 41,013	$ 23,068	$ 9,237	$ 73,318

Hedge fund investments were transferred from Level 3 to Level 2 because of expiration of "lock-up" provisions.

The following table sets forth by level within the fair value hierarchy investment assets and liabilities as of December 31, 2011.

	Investments as of December 31, 2011		
(Dollars in Thousands)	Level 1	Level 2	Level 3
STABLE VALUE INVESTMENTS			
Institutional Money Market Fund shares	$ 89,724	$ -	$ -
Fixed maturity synthetic guaranteed investment contracts:			
Mortgage-backed and asset-backed securities	-	3,692	-
Constant duration synthetic guaranteed investment contracts:			
Corporate Bonds	-	67,177	-
U.S. Government Notes & Bonds	49,307	-	-
U.S. Government Agency and			
Commercial Mortgage-backed securities	-	4,448	-
TOTAL STABLE VALUE INVESTMENTS	139,031	75,317	-
SHORT-TERM INVESTMENTS			
Institutional Money Market Fund shares	199,238	-	-
TOTAL SHORT-TERM INVESTMENTS	199,238	-	-
FIXED-INCOME INVESTMENTS			
Corporate Bonds	-	595,468	-
U.S. Government Notes & Bonds	403,332	-	-
U.S. Government Agency and			
Non-Agency Mortgage-backed securities	-	22,514	-
Emerging Markets Local Currency Debt Fund	29,737	-	-
TOTAL FIXED-INCOME INVESTMENTS	433,069	617,982	-
EQUITY INVESTMENTS			
Common Stock:			
U.S. Large-Cap Equity	654,227	-	-
U.S. Mid-Cap Equity	134,542	-	-
Non-U.S. Developed Markets	123,681	-	-
U.S. Small-Cap Equity	114,271	-	-
Equity funds:			
Emerging Markets	102,547	-	-
U.S. Small-Cap Equity	95,948	-	-
Non-U.S. Developed Markets	84,660	-	-
TOTAL EQUITY INVESTMENTS	1,309,876	-	-
OTHER INVESTMENTS			
Participation in United Church Funds, Inc.	-	-	38,409
Hedge Funds	-	3,997	23,468
Private Equity	-	-	5,482
TOTAL OTHER INVESTMENTS	-	3,997	67,359
TOTAL INVESTMENTS	$ 2,081,214	$ 697,296	$ 67,359

In accordance with ASC Topic No. 820, *Fair Value Measurement*, a roll-forward of activities including transfers into Level 3, transfers out of Level 3, realized and unrealized gains and losses, purchases, sales and settlements is provided below for the year ended December 31, 2011.

CHANGES IN LEVEL 3 INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

(Dollars in Thousands)	Participation in United Church Funds, Inc.	Hedge Funds	Private Equity	Total
OTHER INVESTMENTS				
Balance as of December 31, 2010	$ 42,403	$ 16,214	$ 1,434	$ 60,051
Transfers into Level 3	-	-	-	-
Transfers out of Level 3	-	-	-	-
Realized gains/(losses) - net	533	19	213	765
Unrealized gains/(losses) - net	(2,414)	(102)	(132)	(2,648)
Purchases	605	7,500	4,180	12,285
Sales	(2,718)	(163)	-	(2,881)
Settlements	-	-	(213)	(213)
TOTAL OTHER INVESTMENTS	$ 38,409	$ 23,468	$ 5,482	$ 67,359

7. ENDOWMENTS

Endowments include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Endowment funds are administered in accordance with the laws of the state in which the corporations are incorporated and are accounted for in accordance with applicable generally accepted accounting principles.

Board-designated funds functioning as endowments include the original principal amounts of gifts and legacies received which have no donor-imposed restrictions on their use and related accumulated gains and losses and income. These funds, which can be used for the general purpose of the corporation to which they were donated, are classified as unrestricted net assets.

Donor-restricted endowment funds are classified as restricted net assets. Permanently restricted endowment funds include the Pension Boards' interest in the PMF endowment fund as described in Note 5 and receipts of gifts and legacies where the principal balance must be maintained in perpetuity. The original principal of permanently restricted gifts and legacies which has donor-imposed restrictions on income was $2,421,415 at December 31, 2012 and $2,397,694 at December 31, 2011. The original principal amount of permanently restricted gifts and legacies which has no donor-imposed restrictions on the use of income was $3,252,314 at December 31, 2012 and $3,247,004 at December 31, 2011. Accumulated gains and losses and interest income on permanently restricted gifts and legacies, in addition to temporarily restricted donations, are classified as temporarily restricted net assets until appropriated for expenditure. Expenditures of $480,173 in 2012 and $469,952 in 2011 were transferred to unrestricted net assets.

During 2012 and 2011, permanently restricted endowments were invested in the Equity, Bond and Balanced Funds of the Pension Boards and the Alternatives Balanced and Moderate Balanced Funds of United Church Funds.

In making a determination to appropriate or accumulate donor-restricted endowment funds, the following factors are taken into consideration: the duration and preservation of the fund, the purposes of the organization and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investment, other resources and investment policies.

8. OTHER ASSETS AND OTHER LIABILITIES

	(Dollars in Thousands)	
	December 31, 2012	December 31, 2011
OTHER ASSETS		
Accounts Receivable	$ 227	$ 736
Receivable from affiliated entities and deposits	1,345	1,550
Prepaid expenses	254	391
Miscellaneous assets	299	331
TOTAL OTHER ASSETS	$ 2,125	$ 3,008

Other liabilities include accounts payable of $3.1 million and $2.1 million at December 31, 2012 and 2011, respectively, and miscellaneous liabilities of $.5 million and $.2 million at December 31, 2012 and 2011.

9. LEASE COMMITMENTS

The Pension Boards has entered into several non-cancelable operating leases for office space and equipment. At December 31, 2012, the aggregate future minimum payments for these commitments were as follows:

Year Ending	Amount (000's)
2013	$ 778
2014	476
	$ 1,254

The annual lease amount for rent is subject to modification based upon actual operating costs of the building. The Pension Boards' rental expense for the years ended December 31, 2012 and 2011 was $576,520 and $581,120, respectively.

10. COMBINED ACTIVITIES BY FUND

The combined activities by fund for the year ended December 31, 2012 are as follows:

(Dollars in Thousands)	ANNUITANT FUND	ACCUMULATION FUND	BENEFIT SERVICES FUND	MINISTERIAL ASSISTANCE FUND	OPERATING FUND	TOTAL
ADDITIONS:						
Realized and unrealized investment gains	$ 104,847	$ 102,135	$ 8,762	$ 5,819	$ 3,064	$ 224,627
Investment income	46,484	30,699	3,326	1,624	2,197	84,330
Health Services premiums			55,244			55,244
Employer pension contributions		32,438				32,438
Member pension contributions		7,054				7,054
Christmas Fund appeal				1,465		1,465
Our Church's Wider Mission				435		435
Donations and Legacies				142	22	164
Interfund transfers	92,507	(98,184)			5,677	-
Other					10	10
TOTAL ADDITIONS	243,838	74,142	67,332	9,485	10,970	405,767
DEDUCTIONS:						
Pension payments to annuitants	114,896					114,896
Partial withdrawals and lump-sum payments		16,205				16,205
Health Services claims			47,416			47,416
Health Services costs			5,329			5,329
Retirement benefits administration and investment costs	4,782	4,763	414	259	8,225	18,443
Ministerial Assistance grants			554	2,384		2,938
Ministerial Assistance programs and administration costs				1,576		1,576
TOTAL DEDUCTIONS	119,678	20,968	53,713	4,219	8,225	206,803
INCREASE IN NET ASSETS	$ 124,160	$ 53,174	$ 13,619	$ 5,266	$ 2,745	$ 198,964
DECEMBER 31, 2011 NET ASSETS	1,461,953	1,183,990	104,185	58,885	45,790	2,854,803
INCREASE IN NET ASSETS	124,160	53,174	13,619	5,266	2,745	198,964
DECEMBER 31, 2012 NET ASSETS	$ 1,586,113	$ 1,237,164	$ 117,804	$ 64,151	$ 48,535	$ 3,053,767

Trustees and Directors

Executive Staff

Michael A. Downs
President and Chief Executive Officer

Rev. Krista L. Betz
Director, Ministerial Assistance

Rev. Martha M. Cruz
Director, Public Relations/Communications

James T. Herod, J.D., LL.M. (Tax), CEBS
General Counsel/Corporate Secretary

David A. Klassen, CFA
Chief Investment Officer

Bridget Langevine
Director, Human Resources/Administration

Wynonia Y. Leak
Director, Member Services/Member Education

Frank Loiacono, FACHE
Director, Health Plan Operations

Todd A. Muchnicki, EA, FCA, MAAA
Chief Operating Officer

Maxine Seifert, CPA
Chief Financial Officer/Treasurer

Rev. Keith A. Tussing
Major Gifts/Planned Giving Officer

MISSION STATEMENT

The Pension Boards administers comprehensive
employee benefits programs for the
United Church of Christ, providing the highest
standards of service, access and options to active
and retired UCC clergy and lay employees.

VALUES STATEMENT

In all that we do, the core values of
The Pension Boards
United Church of Christ, Inc.
are to
Act Ethically
Build Trust
Communicate Transparently
Demonstrate Excellence

The Pension Boards
United Church of Christ, Inc.

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