

How the Pension Boards Determines Lifetime Retirement Income Changes

Frequently Asked Questions



The Basic and Participating Annuity options are available to Pension Boards members at the time they elect to convert the monies they have accumulated over a career to a steady stream of lifetime retirement income payments to our members and the joint survivors they select. These payments can vary based on the different investment strategies of the two annuities.

- The **Basic Annuity** is the steadier annuity option where monthly lifetime retirement income is expected to remain relatively constant through retirement because its underlying investments, mostly fixed-income securities, allow for more stability and less volatility of your lifetime retirement income.
- The **Participating Annuity** is the more growth-oriented lifetime retirement income option where investment allocations consist of global stocks, bonds, and other private assets, creating more opportunity for growth of future lifetime retirement income, but it can vary.



Basic Annuity



- ✓ A steady, secure lifetime retirement income option.
- ✓ Fixed-income securities such as U.S. Treasury securities, government agency bonds, corporate and municipal bonds.

Participating Annuity



- ✓ A growth-oriented lifetime retirement income option.
- ✓ Global stocks; bonds; and real assets or other private assets.



The Pension Boards
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Frequently Asked Questions

Q: How does the Pension Boards Determine Lifetime Retirement Income Changes?

A: For those of you who have been receiving communications from the Pension Boards on previous lifetime retirement income changes, we are sure you have wondered how the Pension Boards arrives at this determination.

Every November, during the Pension Boards' Board of Trustees Meeting, our Benefits Committee and Investment team reviews the Basic and Participating Annuity lifetime retirement income based upon what we call the "**funded status**," as of September 30. We will get to funded status shortly.

The Pension Boards reviews the value, in current dollars, of all its projected future payment obligations to all participants in each Annuity Fund.

At that point, a decision is made to set the monthly lifetime retirement income effective January 1 for the upcoming year. The Pension Boards communicates to the member by letter informing them about the decision of future changes to the member's lifetime retirement income. Your Annuitant Visitor is also provided further information to support your understanding. Your lifetime retirement income may either increase, decrease, or not change at all. **That said, there have been no decreases in either the Basic or Participating Annuity, even during the financial crisis or the COVID pandemic.**

Q: Who makes the decision for the annual increases?

A: The Benefits Committee of the Board of Trustees, after conferring with staff, investment consultant, and analysis from manager partners Voya Investment Management and Prudential Global Investment Management.

Q. Has there ever been a decrease in payments from these annuities?

A. Both the Basic and Participating Annuity options are affected by market performance. While neither of these two annuities has ever seen a decrease since the Pension Boards offered these options in April 2006, the Participating Annuity assets will be more variable.

Q: What is the "funded status" from which these lifetime retirement income changes are based? What does "funded status" mean?

A: At the end of September, the Pension Boards examines the funded status of the Basic and Participating Annuity lifetime retirement income, separately. The "funded status" is the relationship or the ratio between the market value of those assets in each annuity fund, and the present value of all the Pension Boards future monthly lifetime retirement income to all of those who are with you in either the Basic Annuity or Participating Annuity. See chart below.

In November, we examine the funded status of each of the Basic and Participating Annuity investment pools as of September 30th.

Funded status is the ratio of:

The **market value** of assets in each fund - the Basic and Participating lifetime income Annuities

The **present value** of all Pension Boards' future payments to Annuitants (members who annuitize their account)

Let's look at this scenario: If the Pension Boards knows that it has to payout Rev. John and others \$50 million over the next 20 years, a healthy funded status simply means that each lifetime retirement income fund has the necessary assets available to make these future payments to Rev. John and others who are annuitants.

The funded status is expressed in a ratio of adequacy that determines whether the Pension Boards can offer a monthly lifetime retirement income increase, decrease, or leave the lifetime retirement income unchanged from the previous year. This is exactly what other retirement plans do.

Usually, when the funded status bands between 95%-110%, lifetime retirement income remain unchanged. When the funded status percentage falls below 95% or is over 110%, lifetime retirement income may change.

Funded Status (determines changes to lifetime retirement income)	
Fall below 95%	Lifetime retirement income may decrease
95% - 110%	Lifetime retirement income remain unchanged
Above 110%	Lifetime retirement income may increase

Be assured, the Pension Boards disciplined, and sophisticated management of the annuities by staff, and consultants has resulted in very healthy funded status, compared to most corporate and state pension plans.

Q: Please Explain the 4% Annual Return Built into the Lifetime Retirement Income?

A: Both the Basic and Participating Annuity already incorporate a 4% annual return in your initial, and ongoing, monthly lifetime retirement income benefit.

Let's look at this scenario: Rev. Susan is retiring. She decides to annuitize her account which holds \$100,000. Based on her benefit selection, the Pension Boards calculates her monthly retirement income and informs Rev. Susan how much her monthly lifetime retirement income will be over the next 20 years, or her life expectancy. We'll use 20 years of lifetime retirement income for this illustration below.

BEFORE

AFTER

Rev. Susan's Monthly Lifetime Retirement Income Before the 4% Annual Return

$\$100,000$ divided by 240 months (20 years)
= \$416.66 a month

These calculations are strictly hypothetical and for illustrative purposes only.

Rev. Susan's Monthly Lifetime Retirement Income After the 4% Annual Return

$\$100,000 + 4\%$ annual return per year =
\$145,000
 $\$145,000$ divided by 240 months (20 years)
= \$608 a month

In this example, Rev. Susan is receiving
\$191.34 more a month!

2022 Annuity Payment Facts

1. Asset values in the Participating Annuity were especially positive. This advance and the low interest rate environment was considered by the Benefits Committee in their decision to increase monthly lifetime retirement income by 2% in the Participating Annuity.
2. When interest rates are substantially lower, it impacts our future obligations and commitment to you, our members, to provide lifetime retirement income.
3. Both the Basic and Participating Annuity monthly lifetime retirement income already incorporate a 4% annual return that continues to be built into the calculation of your lifetime retirement income. Other payments for life, like social security, do not do this.
4. Our increasingly sophisticated oversight on your behalf is first-rate, with staff and Board expertise aided by investment consultant and managers: Goldman Sachs Asset Management, Voya Investment Management, and Prudential Global Investment Management.
5. Our entire organization is here for you, at the intersection of Faith and Finance.

Questions Regarding Lifetime Retirement Income Changes Effective January 2022

Q: Why was there only a 2% increase for the Participating Annuity when the market is doing so well, and the cost of living increased to 5.9%?

A: An increase of 2% to monthly lifetime retirement income was declared for 2022, as the funded status increased to 113.7% on September 30, 2021, from 96.2% a year earlier. Fund returns have been strong, aided by global equities, but funded status was held back by continued low interest rates, which increase the net present value of the funds' commitment to you and others for your lifetimes. All lifetime pensions, including state and company defined contribution plans, are affected by these low interest rates.

Social security declared a 5.9% increase, that's true. But remember that Social Security is projected to run out of funds in 11 years, which will not be the case with Pension Boards. Also, Social Security does not incorporate a 4% return into the calculation of initial and ongoing lifetime retirement income.

Q: Why is there no increase for the Basic Annuity?

A: There was no change to the Basic Annuity lifetime retirement income, as the funded status remains very healthy, but the Fund's underlying fixed-income portfolio was stable and has an expected future return below 4%. Increases are not likely for the Basic Annuity going forward, after the one-time increase in 2019.

Q: There had not been an increase for the last two years, will this trend continue? What is the event that will result in increases in these annuities?

A: Prior to 2021, the last increase to the Participating Annuity lifetime retirement income was in 2019. This fund is designed to produce increases when the funded status rises above 110%, and benefits when global equities do well. If global equities continue to do well and interest rates stabilize or rise, increases become even more likely.

Q. Can a Pension Boards member change their election after selecting one of these annuities at retirement?

A: No. These are irrevocable elections that cannot be changed. This is another reason why discussing your financial goals with a planner is important.

Q: Are there resources to provide more detail around this decision?

Yes. To learn how annuity adjustments are made year-to-year, please view our **Fireside Side Chat** video here: https://bit.ly/PB_ANNUIITY.

We hope that you now understand how lifetime retirement income changes are determined by the Pension Boards. Be assured, the Pension Boards' Basic and Participating Annuities are favorably positioned to continue robust payments to you, our members. For any questions or concerns, our dedicated pension counselors are ready to assist you.