



The Board of Pensions of the Presbyterian Church (U.S.A.)

Robert W. Maggs, Jr.
President and Chief Executive

2008 Report of Management

SUMMARY

From financial, operations and church relations points of view, 2008 has been another very good, if difficult, year for the Board of Pensions. Many complicated projects were begun and completed during 2008, in addition to our normal day to day work.

Given the severe downturn in financial markets during the second half of the year, there is no doubt that our investment expectations were dashed in late summer, but we continue to hold Plan assets more than sufficient to keep our benefits and assistance promises.

We believe our investment risk management initiatives most likely resulted in better performance and liquidity than would otherwise have been the case had we not undertaken them. Furthermore, our communications to stakeholders during volatile market periods eased fears and contributed to continued confidence in the Board of Pensions.

Board governance practices continue to improve as a result of the work of our Board Development and Governance Committee, with excellent assessments from our survey of recently retired Directors. We completed all planned governance initiatives, including adoption of a new Approval Authority Guide and increased our focus on education forums for our Directors.

Our management depth is stronger and Pat Haines, our new SVP of Benefits, brings increased energy, professional strength and a fresh set of eyes to our operations and planning. We hired a new and experienced Chief Development Officer, and recruited additional professionals to the IT, Human Resources, Benefits, Investment and Communications Teams. We have completed leadership competency assessments and established individual development plans for 68 mid-level and executive level staff. We have decreased both operating and financial risks.

We have formed two new national advisory committees: one for church relations and another for funds development. There are many new faces at the national agency staff level, and we sponsored a second offsite at the Presbyterian Foundation headquarters for many of these people to

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meet one another and to agree on specific opportunities for collaboration in communications, church relations and funds development.

We put a concentrated effort into helping churches comply with new federal regulations on retirement savings plans, hopefully providing a consistent approach to resolution of issues raised by the new regulations.

We also led the effort to draft a submission paper on behalf of the six national agencies to the All Agency Review Committee established by the 218th General Assembly (2008).

We continue to cooperate with our Middle Governing Body and National Agency colleagues to help build Church leadership for the future.

Our new Website is up and running, and a web services support team is in place. Audits of our third party providers confirmed that each of them is performing within the expectations of their contractual obligations. Our Regional Representatives have accepted funds development as a part of their responsibilities. *Presbyterian CREDO* continues to be praised by CREDO participant's as the "greatest gift to them from the Church". We have established a very compact offsite facility to serve as the primary site for our IT servers, while using the fully equipped and staffed 2000 Market St. location as "backup".

A great deal of credit is due to both the leadership of our Board of Directors and the dedication of our staff (at all levels) who worked diligently and in concert to accomplish the ambitious goals of the 2008 Business Plan.

It is significant to note that our work this year could not have been accomplished without considerable cross functional cooperation among our various teams. Through appropriate capital investments and the addition of competent professionals at several levels throughout the organization, the Board of Pensions is well positioned to address both current and future challenges and opportunities.

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Some Specifics

Educating Our Membership

This year we focused on educating our members about the comprehensive portfolio of benefits and assistance available from and through the Board to help them help themselves. We dubbed this initiative “Stewardship of Self” and it has become a substantive part of our public face. While member seminars have traditionally focused on financial and retirement planning, we have incorporated the broader implications of “total well being” and “Stewardship of Self” into our courses because we recognize that difficulties in one area may affect another area of one’s life.

The Board’s seminal work, the 2004 Task Force *Report on Clergy Recruitment and Retention*, identified stress and conflict management issues as two critical contributors to clergy burnout. Since 2004, the Board has offered ways to attend to clergy needs as an important part of our mission. In addition to the Presbyterian CREDO program, Clergy Colleague Groups and new Assistance Programs, we initiated E-learning courses that are both more flexible and cost effective than classroom sessions, and they allow us to reach a larger audience.

Our Benefits Team, with the support of legal counsel and the Communications Team, spent considerable time educating several hundred churches about new federal regulations governing retirement savings plans, providing documentation to assist in compliance with the new rules, and supporting churches which had to make changes in their current programs.

Looking at the Medical Plan

In examining the membership, finances, funding and underlying principles of the Medical Plan, we have been intentional about laying the foundation for work that will continue into 2009 and beyond. It should be recognized, though, that a completely objective evaluation of change opportunities has been, and will continue to be, challenged by viewing the Plan in the context of its underlying principles: Call Neutrality, Community Nature, Universal (Uniform) Coverage, and (for our full Benefits Plan) Benefit Bundling (members must be enrolled in all three Plans components – Pension, Death & Disability, and Medical).

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In the context of our regularly scheduled and structured meetings with Executive Presbyters from around the country, we sought to secure views on the first of these principles, Call Neutrality. This group of Middle Governing Body leaders made it clear, that absent this standard, family status and coverage needs would indeed become central to the call process, suggesting that its viability – as the norm – needs to be assured as in the best interests of the denomination. A departure from this in any event would minimally require a substantial transition period and a different approach to risk management. It can be argued that each of the other principles is similarly sensitive to change.

For instance, the “Community Nature of the Plan” provides for the most basic form of cost subsidies -- though subsidies come from a variety of sources and in a variety of ways. Fundamentally, the Community Nature of the Plan allows small congregations to “afford” the cost of benefits for their lower paid pastors through the financial support of larger, more resource-rich congregations. On a very real and practical level, despite the impact of pro-rating salaries, part-time members are also often supported through dues assessed on the incomes of full time members. On a more theoretical level, the healthy are surely providing a level of subsidy to the sick. Consideration of any kind of premium-based approach to contributions that would produce Plan revenue equal to the current percentage-of-salary approach would likely prejudice these various subsidies.

A review of eligibility parameters and corresponding classifications reveals that a pattern of exceptions made by addressing anomalous fact situations with ad hoc and complex administrative rules has been established in response to member demand. Consequently our Plan has become more difficult to understand and administer than it should be.

Despite the challenge of viewing change within the context of the Plan’s foundational principles, we did inventory some rudimentary design and funding alternatives for the Medical Plan. Merging eligibility data with claims data stored in the Board’s current Claims Data Warehouse, the Benefits Team analyzed basic utilization and demographic trends and worked with Milliman, the Board’s medical actuaries, to produce pricing estimates for a range of incremental design changes. With a growing understanding of the importance of better analytics, we acquired MedInsight, a web-based Claims Data Warehouse and performance monitoring system. By enhancing our understanding of our members’ utilization patterns and corresponding cost drivers as well as our

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overall risk profile, we will be better positioned to make recommendations that are more targeted and defensible vis-à-vis the continued stewardship of the Plan.

In addition to our examination of design and funding issues, our work this year included looking at Plan Administration, with specific focus on the service integration and efficiency of our third party vendor partners. One of our most successful initiatives, held in July, was what will become for us an annual event – our first vendor summit. In bringing all our third-party vendors together, we identified several core objectives: Improving member experience and achieving optimal health outcomes. We sought to do this by identifying the roles each vendor plays within our health management strategy and by pinpointing opportunities for better integration of their member centric services. Our meeting concluded with an action plan for improved performance. This work will continue as well in 2009.

Emerging legislative developments in healthcare remain a real unknown at this time. There is no doubt that State and Federal legislators are experimenting with new forms of government support or incentives. There is also no doubt that change will come. But it will come neither quickly nor affordably, especially with the recent surge in government debt to support the weakened financial markets and economy. Any changes that do come will likely be directed at increased availability of coverage to the poor and uninsured. If our members were to fall into the “poor” category, or if other church workers were to fall into the “uninsured” category, we will be faced with some difficult decisions balancing our risk, our revenue and our underlying principles.

Managing Our Investments

We focused on eight areas of investment risk in 2008: Portfolio Liquidity, Portfolio Structure, Long-Term Portfolio Performance, New Investment Opportunities, Inflation, Performance Analytics, Alternative Investments and Staffing.

Given the expanded universe of complex fixed income securities, in early 2008 we updated our investment guidelines to maintain or enhance portfolio risk controls. We reviewed all portfolios for exposure to derivatives and other securities that may be inappropriate and discussed potentially problematic holdings with managers.

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We conducted Director Education Sessions on the impact of inflation on both the Pension Plan and the portfolio. We examined the advantages and disadvantages of so-called “real return” and other inflation protection strategies, as well as targeted investing in emerging markets, private equity and global energy and power.

In the first and second quarters of 2008, the Investment Team completed the reconfiguration of investment performance processes and reporting. Working with the Information Technology Team, they reviewed options for performance analytics, for monitoring and measuring performance of limited partnership investments and developed an extensive database management system. The new internal database will provide increased security and risk management of limited partnership data and eliminate fees paid to third parties who had provided this work in the past.

Financial Accounting Standard No. 157 was adopted by the Board of Pensions in 2008. It requires us to measure the fair value of our investments in a prescribed way and to make certain disclosures regarding how those investments are valued. In order to implement this standard, we worked closely with our investment managers and custodians to gather and independently evaluate pricing data for over 3,000 individual securities. In addition, the standard requires that each security be grouped into one of three “levels” based on the relative independence of the pricing source. Working with our custodian, the Board also independently verified that each security was appropriately grouped. We reviewed sample financial statement footnote disclosures with our independent auditors so that our own financial statements are appropriately accurate and informative.

We created a new position to focus on portfolio risk, compliance and portfolio analytics, with specific responsibility for on-going monitoring of limited partnerships.

The Investment Team conducted “Lunch and Learn” investment workshops in 2008 for Board of Pensions employees. In addition to standard educational sessions, the Team met twice with interested employees to discuss market conditions and investment options for investors in the Board’s Retirement Savings Plan.

Mary Elizabeth Pfeil and Don Walker led a workshop for the Board of Directors at its October 24, 2008 meeting on “Managing a Portfolio in Challenging Times.” They reviewed a timeline of global economic and financial events and the actions taken by the

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Investment Team as they managed the Balanced Investment Portfolio over the past eighteen months.

Providing Service to Our Members

We held seven CREDO conferences in 2008, with a longer term goal to have at least ten CREDO conferences per year. The seven Presbyterian CREDO conferences in 2008 consisted of three in the spring and four in the fall, one of which was for Presbytery Executives. Participants are effusive in their praise for this very special opportunity. Presbyterian CREDO emphasizes personal wellness, by focusing on the four areas of spiritual, vocational, health and financial well-being. It has enabled participants measurably to strengthen their lives and their ministries as they serve the Church. The program has become an important complement to our Stewardship of Self initiative.

In addition to Presbyterian CREDO, the Assistance Program has expanded a number of other programs we offer. In 2008, we provided over 1,300 grants to individuals amounting to more than 6 million dollars of assistance paid during the year.

Recognizing the increasing complexities of navigating the world of healthcare, we created a new position – Member Advocate – in our Member Services Department. The principal responsibility of the Member Advocate, a senior and seasoned service professional, is to help members work through procedural and substantive claim issues in a way that maximizes the value of the benefits to which they are entitled. With a customer-centric focus, solid knowledge of our Plan, strong relationships with our third party vendors, and excellent communication and problem solving skills, our Member Advocate helps members navigate available resources and resolve complex claim issues. The volume of calls suggests that this role has been well received by our members and that many higher level service needs are being addressed to achieve effective resolution of member concerns.

Developing Funds for Assistance

Our Assistance programs are not supported by dues. Furthermore, demand for assistance has not diminished. Consequently, we increased donor cultivation and solicitation efforts as we look to increasing our Assistance Funds. We have established a pattern of sending three mailings per year to

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strengthen our relationship with potential donors on our cultivation and solicitation list. In addition, in the spring of 2008 we sent a mailing to all retirees that included the publication, *Caring For Those Who Serve The Church*, to inform them of our programs. This mailing helped us to increase the number of individual donors to 296 as of October 2008 from 120 donors for the full year 2007. In the fall, we also sent the booklet, *Keeping our Promises*, to all congregations. Both of these large mailings have expanded our funds development relationships.

In August 2008 we hired Kevin Garvey as our new Chief Development Officer. He is currently developing a strategic funds development plan for the next three years, and working on new development ideas with both the Presbyterian Foundation and the Texas Presbyterian Foundation.

We held our first Funds Development Advisory Committee meeting in October to help increase the list of potential donors and to define and identify two or three target programs conducive to successful funds development. At this meeting the group heard an overview of the purpose of our funds development program, a history of our past and current assistance programs, and engaged in a discussion of our present and future funds development efforts. Paramount to our effort is to develop additional long-term funding for *Presbyterian CREDO*.

We increased our communications in support of the Christmas Joy Offering in collaboration with the General Assembly Council (which administers the offering on behalf of the denomination.)

The Regional Representatives have continued to visit large congregations to thank them for their support for the Christmas Joy Offering and to build relationships with these congregations for the future. They were very well received. One pastor noted that “this is the first time anyone in the Church has said ‘thank-you’ to us for our Joy Offering gift.”

Attending to Church and Member Relations

Our Information Technology Team met with senior management at the Presbyterian Historical Society (“PHS”) to discuss opportunities for PHS to use the Board’s new technology infrastructure capabilities for data, system, and web services back-up and disaster recovery.

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On April 3, 2008, the Board launched its newly redesigned Web site, www.pensions.org. The new site offers increased functionality including seven calculators, expanded Benefits Plan and Assistance Program information, a warm and inviting interface with an intuitive navigation system, creating a greatly improved online experience. The new calculators assist in calculating dues and total effective salary as well as checking rates for optional benefits.

One of many new highlights of the site is Benefits Connect, an online self-service Web site that provides active members, who are currently enrolled in a benefit, secure access to their personal and Plan benefits information. Not only can members review their personal and benefit information, but they can also submit changes to their contact and dependent information. Benefits Connect also features online calculators that members can utilize to estimate their pension and total death benefits.

Benefits Connect is now available to all payees – retirees, survivors and members on disability. In addition to the information that active members have access to, members receiving benefits will also have access to new pages on Federal Tax Withholding, Payment Options, and Payment History. They will also have the ability to change their direct deposit information online.

In addition, the following website enhancements were completed in 2008:

- ⇒ The Taxation of Death Benefits Dues Calculator was introduced in late October. It will help Treasurers and Administrators calculate the imputed income if any that needs to be reported on an employee's W-2.
- ⇒ Online support for the Supplemental Death and Disability programs was provided.
- ⇒ We added a new section to www.pensions.org on Frequently Asked Questions.

The Pastor Advisory Council met twice in 2008 (May and October). The focus of these meetings was to explore ways in which pastoral leadership might be better supported within the PCUSA and how to enhance the quality of future clergy leadership for the denomination. Linda Valentine, Executive Director of the General Assembly Council, attended the second meeting and has made a

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commitment to attend future meetings of the council. Our newly elected Stated Clerk, Gradye Parsons, has made a commitment to attend future meetings. Having the top leadership of three General Assembly entities participate in these council meetings underscores the importance of the advice of this group of pastors from our largest congregations.

Our series of Church Leadership Forums continued at the Regional Benefits Consultations in April and May. The topic addressed was “Growing Congregations.” It was a collaborative effort between our staff and staff from the General Assembly Council to lead a discussion with Middle Governing Body representatives on issues arising from the increased number of small churches in the denomination. Ideas emanating from that seminar, coupled with the results of a year-long series of interviews of pastors who have grown congregations (conducted by Rev. Sandy McLachlan) will be the basis of a fifth booklet in our series about Building Church Leadership for the Future.

Managing Succession and Leadership Development

Developing our talented workforce is an area of primary focus. Prior to 2008, we developed core leadership competencies for senior leadership and role-specific competencies for each of our teams, supported by a dictionary identifying specific behavioral levels of achievement for each competency. Twenty five management personnel participated in a leadership assessment process to determine strengths and opportunities for improvement of specific competencies and adherence to a core set of 33 leadership behaviors. These results provided the basis for individual development plans and targeted leadership training sessions.

At the suggestion of the Executive Committee, we expanded the existing program and added a third major component, Relationship Skills. This included new competencies for “Approachability” and “Composure” in addition to existing competencies for “Interpersonal Savvy” and “Building Effective Teams”. We revised our competency dictionary to reflect these additions.

We also modified our set of core senior leadership competencies. We created a new core set of eight competencies for our third level of management. It is on these competencies that our managers will be assessed to determine their readiness to assume higher level responsibilities.

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We contracted with the Devine Group to conduct online leadership assessments for all 68 members of our leadership development group during the spring of 2008. Each assessment was personalized to rate the appropriate core and role-specific competencies for an individual. Upon receipt of a lengthy report, each participant had the opportunity to review their results in a one-on-one discussion with a counselor from the Devine Group.

The Executive Committee received several summary reports profiling our overall leadership scores as well as scores by various levels of management from Dr. David Devine. He discussed both aggregate and individual results in detail with the Committee. His development recommendations have been incorporated into the Board's 2009 Business Plan.

In addition to the Devine leadership assessment, participants completed an on-line 360° assessment conducted by the Devine Group in May and June of 2008. 360° participants included the specific leader, their supervisor, direct reports and peers (in certain instances). Over 230 sets of data were directed to Devine. Each participant received a comprehensive report, opportunity for a one-on-one counseling session and participated in a meeting with their immediate supervisor to discuss the results. This information, along with the results of the assessment and discussions with Devine counselors, became the basis for a 2009 "Individual Development Plan" for each participant.

Managing Risks

Working with Dr. Dan McGill, Senior Management developed the proposed *Guidelines For Allocation of Dues or Assets among the Components of the Benefits Plan*, which was presented to the Directors for review at their March meeting. The purpose of this important work was to educate Directors about necessary and appropriate discussions for the contingency that any one Plan component would have extraordinary levels of reserves while yet another Plan component might be substantially under-reserved. Such considerations are important in order to meet an objective of dues stability over the long term. The Directors adopted the guidelines in July and concurrently approved a Benefits Plan amendment allowing certain reallocations.

As part of our Business Continuity planning, we updated our "Business Impact Analysis" which analyzes the relative priority of

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systems and processes minimumly required in the event of a business interruption. The study showed that due to the increased automation of our business processes, it would be prudent to recover specific business processes and services in a timely manner. The study also highlighted the importance of expanding the capability of staff to work remotely in the event of a business interruption. These recommendations were incorporated into the 2009 Business Plan.

We successfully completed testing and implementation of an external data center in Valley Forge, Pennsylvania for Web site hosting and electronic data replication.

We updated the Business Impact Analysis, Crisis Communication Plan, Disaster Recovery Plan, and Business Continuity Plan. As a result of this work, our Imaging and Workflow systems and all employee email inboxes were added to our critical systems list.

Managing Operational Effectiveness

Development of our new Web site presented an opportunity to review and eliminate redundant or out-of-date publications and pages buried within the site. Over 1,100 were removed and more than 1,400 new web pages were written, hundreds of images and almost 500 publications were added to www.pensions.org and more than 300 new pages were written and added to Board Connect, our internal intranet site.

Over the last decade, the cost of printing and mailing has continued to rise, but the need to communicate remains constant. For the past several years we have gradually moved to a “print-on-demand” protocol for some of our publications, and increased our electronic communications using such techniques as email blasts and teleconferencing. Today, the savings in postage and printing costs (as compared to 1999) totals more than \$1,000,000 per year.

In cooperation with legal counsel, we successfully completed a review project of our electronic information and records. The project included research and documentation of best practices and the completion of a Board-wide assessment and report on the state of electronic information and records management at the Board.

We established an internal Business Intelligence (BI) capability and developed prototype dashboards for management reporting using Business Objects software tools. We also initiated an analysis of

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strategic and operational metrics for potential use in dashboards to track organizational performance.

We implemented a new version of security for our Lawson financial system that provides an easier and more efficient role-based security model. We implemented a major upgrade to the Oracle/PeopleSoft tools system that supports the MemberNet benefits administration system. This upgrade facilitates faster and easier future software upgrade and patch processes and enhances the Board's ability to integrate the MemberNet system with www.pensions.org.

We conducted a cross-functional review of how we manage our third-party vendors to improve both member service and vendor oversight. This will optimally set the stage for competitive bids, ongoing vendor management, data delivery, quality control, invoicing, and member communication. To this end, the Benefits Team partnered with Internal Audit to document the current practices and procedures used to monitor and manage third party vendors. Current procurement policies were reviewed and other denominations active in the Church Benefits Association were contacted in order that we might review and evaluate their procurement procedures. Interviews were conducted with representatives from IT, Member Services and Finance & Accounting to review their roles in monitoring vendor performance.

While it is clear that there are routine Third Party Procurement and Oversight Policies and Procedures to which there is consistent and broad adherence across all functional areas, the review team recommended that protocols be formally documented and reviewed by the Board's legal counsel.

The Executive Committee approved a new *Approval Authority Guide* that specifies levels of authority required to enter into contracts or other commitments on behalf of the Board. Additionally the review team recommended that the current policies and procedures be modified to incorporate participation of both the Finance and Accounting and the Information Technology teams in the initial phase of the procurement process. This should help to reduce or eliminate post-selection implementation and administrative issues which have, on occasion, arisen in the past.

Disability case management services were successfully transitioned from Aetna to Liberty Mutual on April 1, 2008. The transition went extremely well with no disruption in services, either to Board Staff or to our members receiving disability benefits. All disabled

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members were individually contacted in advance through personal telephone calls and written communications from both the Board and from Liberty Mutual. Member acceptance of the change was very high. In addition, a Presbyterian Church (U.S.A.) cultural overview and training session was held for all Liberty Mutual staff supporting the Board's account. All electronically imaged documents from Aetna were successfully recovered, transmitted to Liberty Mutual and uploaded into the new vendor's systems.

In collaboration with our Audit Team and their co-sourced vendors, we began collecting metrics to evaluate the effectiveness of preventive health initiatives. Some rudimentary baseline measures were established by looking at the 3-year compliance trends for preventive care exams on a gender specific basis. The rate of compliance with preventive care exams has increased year over year during this period (2005 – 2007). The Benefits Team has begun to measure the impact of compliance by comparing the claim expenses of compliant participants with those of non-compliant participants. It is anticipated that our new MedInsight analytical tool will provide meaningful data on both compliance rates and effectiveness of prevention programs vis-à-vis emerging expense.

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Looking Forward

Like nearly every organization, we will be pulling in our belts in 2009. Nevertheless we have identified certain areas that are critical to our mission both now and going forward if we are to be good colleagues within the denomination, good stewards of the Board of Pensions and able to keep our promises to our members.

Some key areas of concentration include church relations, integration of our third party provider services, funds development, technological capability, risk management, compliance with increased federal regulation, pending developments in federal law, the design fundamentals, financing and administration of our Medical Plan and, finally, leadership and organizational development.

We must identify some top notch people who are willing to serve as Directors of the Board of Pensions and who qualify to be presented to the General Assembly Nominating Committee in early 2010. There are many capable Presbyterians across the country who can add real value to us, and we need to know who they are. We need senior corporate executives (such as CEO's, CFO's or General Counsels) as well as clergy, and actuaries or other insurance or investment professionals. Please support this effort by submitting suggestions to me or to Bill Forbes, our Vice President and Corporate Secretary.

We need to prepare diligently for our expected presentations to the All Agency Review Committee which is beginning its work this year in earnest. We can do no less than take a seat at the table and be thoughtful advocates for collaborating with other National Agencies to improve the strength of our denomination, its mission and its dedicated workers who guide each of us in faith.

Finally, we will have a continued focus on our investments. We seem to have survived the investment terrors of 2008. More on that subject when the final results are in, but it is sufficient to say at this point that our benefits promises are safe and can and will be kept. In the mean time, we must attend ever closely to the complexities of our portfolio and the vagaries and volatility of the financial markets. We have successfully avoided making "big bets" and investing with scoundrels or unconscionable risk-takers. We will continue to do so.

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