

Management Team

| | |
|------------------------|---------------------------|
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| Michael F. Fallon, Jr. | Rev. Dr. John G. McFayden |
| Judith D. Freyer | Kelly Riley Brown |
| Patricia M. Haines | Hy Rudin |
| Anna G. Hoover | Rev. Peter C.S. Sime |

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| Rev. John H. Hougen | Nancy M. Rhodes |
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| Jacqueline D. Jenkins | Paul B. Volker, M.D. |
| Peter E. Kalan | Lawrence A. Wright, M.D. |

| Consultant: | |
|----------------------|--|
| Donald R. Fleischer | |
| Dan M. McGill, Ph.D. | |



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| | Net Assets Available for Benefits | |
|--|-----------------------------------|------------------------|
| | 2010 | 2009 |
| Pension Plan | \$6,397,264,000 | \$5,872,119,000 |
| Death and Disability Plan | 578,217,000 | 521,947,000 |
| Supplemental Death Benefits Plan | 22,852,000 | 19,479,000 |
| Optional Retirement Savings Plan | 330,574,000 | 275,046,000 |
| Medical Plan | 103,909,000 | 111,186,000 |
| Medicare Supplement Plan | 7,913,000 | 9,254,000 |
| Dental Plan | 1,892,000 | 1,334,000 |
| Assistance and Retirement | | |
| Housing Programs | 73,415,000 | 68,315,000 |
| Endowment and Trust Funds | 16,977,000 | 15,712,000 |
| Net Assets Available for Benefits | \$7,533,013,000 | \$6,894,392,000 |

The Assistance Program

Through the Assistance Program, the Board of Pensions cares for the urgent uncovered financial needs of church workers and supports the special income and housing needs of retirees. In response to the special needs of church workers who serve the Presbyterian Church (U.S.A.), the Board of Pensions is committed to increasing the funds available to support the assistance programs.

The funds used to support the Assistance and Retirement Housing programs include half of the Christmas Joy Offering, legacies, gifts, and other income. Benefits Plan dues are not used. The Board distributed over \$5.9 million through the Assistance Program in 2010.

Income Supplement Grants help retirees whose income from all sources are below the target levels of \$26,160 (from January 1 through March 31, 2010) and \$26,760 (effective April 1, 2010) for a single person and \$31,380 (from January 1 through March 31, 2010) and \$32,100 (effective April 1, 2010) for a couple in 2010. In 2010, 305 retirees benefited from \$2,732,000 in Income Supplements. The Board approved a Christmas Gift of \$250 for each individual or \$500 to each married couple receiving an Income Supplement or a Housing Supplement as of November 1, 2010.

The Shared Grant Program assists governing bodies, congregations, and employing organizations in helping church workers with financial needs or an emergency. In 2010, Shared Grants were given to 145 individuals or families. The Assistance Program contributed \$371,000. A church worker need not be a member of the Benefits Plan to participate. The Assistance Program shares these grants, normally equally, with either the employing organization or the presbytery. The grants are initially at the local level.

Emergency Assistance Grants are provided to church workers, active or retired, for home care or skilled nursing care, and medical expenses, or other emergencies that may be beyond the scope of the Benefits Plan. In 2010, Emergency Assistance Grants totaling \$86,000 were given to 28 individuals and families.

Since 1883, the Board of Pensions has provided housing for eligible ministers, missionaries, and lay workers. The Board's Homes Program owns and maintains a few homes, apartments, and units designed to provide retirement housing for eligible retirees and their surviving spouses. Residents pay according to their financial ability, contributing a fair amount toward the cost of the residence. In addition, the Board has working relationships with homes related to various governing bodies of the church, known as the Presbyterian Association of Homes and Services for the Aging (PAHSA).

Housing Supplements are financial grants to eligible retirees who cannot, for financial or physical reasons, provide appropriate and adequate housing for themselves in retirement. Funds may help pay for entering a retirement home, maintaining a current home, and/or moving expenses. In 2010, the Board provided \$1,791,000 in total housing supplements for 231 individuals or couples.

Assistance Program Summary

| | |
|-----------------------------------|---------------------|
| Net Assets Beginning of Year | \$84,027,000 |
| Sources of Funds: | |
| Investment Return | \$10,006,000 |
| Christmas Offering | 1,924,000 |
| Gifts, Legacies and Other Income | 1,706,000 |
| Subtotal | 13,636,000 |
| Total | \$97,663,000 |
| Uses of Funds: | |
| Assistance and Retirement | |
| Housing Benefits | \$5,921,000 |
| Retirement Housing Operations | 275,000 |
| Administrative and Other Expenses | 1,075,000 |
| Subtotal | 7,271,000 |
| Net Assets End of Year | \$90,392,000 |

The Medical Plan

Healthcare reform legislation, known as the Patient Protection and Affordable Care Act of 2010 (PPACA), passed Congress in March of 2010. Regulations were published nearly on a monthly basis which required us to make plan amendments. These changes required a considerable communications effort that was unplanned at

the beginning of the year. We have initiated work with our actuaries to explore future potential strategies to address the challenges.

Our new partner, ActiveHealth Management, assumed a central role in integrating clinical healthcare data with clinical and service support for active Medical Plan members. On a daily basis, the proprietary CareEngine technology used by ActiveHealth® receives, integrates, and analyzes individual members' medical claims data from all our health vendor partners.

Financial Results for the Medical Fund, Active and Continuation Members

| | Unfavorable Claims Estimate (Amounts in \$1,000s) | | | | | |
|--|---|---------------------|-------------------|-------------------|------------------------|-------------------------|
| | 2006 ¹ | 2007 ^{1,3} | 2008 ¹ | 2009 ¹ | Est. 2010 ¹ | Proj. 2011 ¹ |
| Dues Percentage | 19.0% | 19.5% | 19.5% | 19.5% | 19.5% | 19.5% |
| Net Revenue | \$158,959 | \$167,009 | \$165,910 | \$165,210 | \$164,903 | \$165,324 |
| Total Claims and Expenses | 144,330 | 153,351 | 157,163 | 162,260 | 173,907 | 187,429 |
| Net Income and Fund Balances: | | | | | | |
| Net Income/(Loss) | 14,629 | 13,658 | 8,747 | 2,950 | (9,004) | (22,105) |
| Previous Fund Balance | 50,498 | 66,376 | 76,395 | 85,397 | 88,604 | 79,989 |
| Other Income/(Loss) | 191 | 207 | 255 | 257 | 289 | 303 |
| Change in Post-Retirement and Post-Employment Liabilities ² | (1,058) | (9,168) | N/A | N/A | N/A | N/A |
| Post-Employment and Retiree Medical Liability Reserve ⁴ | 0 | 13,015 | 0 | 0 | 0 | 0 |
| New Fund Balance | \$66,376 | \$76,395 | \$85,397 | \$88,604 | \$79,889 | \$58,088 |
| Ratio of Claims and Expenses to Total Revenue | 90.8% | 91.8% | 94.7% | 98.2% | 105.5% | 113.4% |
| Average Enrollment | 18,112 | 17,619 | 17,389 | 17,120 | 16,808 | 16,579 |

Based on reports supplied by Milliman, Inc.

¹ Members have up to twelve calendar months after the date on which the service occurred to submit a medical claim. Incurred claims costs are revised each year as additional claims are submitted. Therefore, the claims costs reported above are different from those reported in the financial statements prepared on a Generally Accepted Accounting Principles (GAAP) basis.

² Changes in accounting standards require the Board to recognize the financial liabilities created by the Benefits Plan's post-retirement and post-employment provisions. For post-retirement benefits, these liabilities represent the present value of the active plan subsidy provided to those retired members, their spouses, and surviving spouses participating in the Medical Continuation coverage as well as an accrual for active members who will become eligible for the subsidy if they retire before Medicare eligibility. The free coverage period now associated with retirement generates an additional liability. For post-employment benefits, these liabilities represent the present value of the plan's commitment to maintain medical coverage for disabled members and their families. The liabilities are created to the extent that the income received from the Death and

ActiveHealth Management also assumed complete responsibility for all utilization management services including, but not limited to, pre-certification and concurrent review as well as all case management services.

Launching a Habilitative Services program for children with certain developmental disabilities was also an important part of ActiveHealth's first-year clinical service commitment. Specially trained nurses serve as advocates, both guiding the families of these special needs children through the maze of community-based resources and securing appropriate medical support.

Disability Plan for these members fails to fully cover the claims and administrative costs being incurred by them and their families. Additional liability is created for terminated plan participants continuing in the Medical Continuation coverage (divorced spouses, ex-dependent children, and members terminating for reasons other than retirement) to the extent of the active dues subsidy and for members who enjoy the protection of the free coverage period.

³ In 2007, the percentage of disabled members eligible for Medicare, as well as the methodology for applying the expected annual costs for disabled members, was refined to reflect the time elapsed since the members' disability. Adoption of this duration-based approach decreased the plan liability by approximately \$19.5 million at December 31, 2007. The plan liability increased approximately \$8.6 million related to an increase in the population of disabled members at December 31, 2007.

⁴ Used to establish a contingency reserve to self-fund future growth in FASB liabilities and to insulate the Medical Plan from annual fluctuations in these liabilities.



Highlights 2010

Board of Pensions Highlights

The ministry of The Board of Pensions of the Presbyterian Church (U.S.A.) reflects the concern of the church community to try to uphold each individual in the vocation of the church during retirement and in those crisis moments when sickness, disability, or death alters life's patterns. The Board of Pensions designs and administers the benefits and assistance programs for Presbyterian Church workers and their families. The Benefits Plan is designed to care for and protect the community of its members from financial risks related to illness and old age.

The General Assembly has assigned the Board the responsibilities to

- design and administer a comprehensive program of retirement, death, disability, medical, and optional benefits for ministers, missionaries, and other church workers
- design and administer a program of financial assistance to help meet needs that are beyond the scope of the Pension Plan and other benefits programs
- establish and operate a retirement housing program for eligible retirees and their spouses, and
- receive, invest, and disburse the funds required to support these plans and programs for the sole and exclusive benefit of members and beneficiaries of the Benefits Plan of the Presbyterian Church (U.S.A.) and other beneficiaries of the Assistance Program of the Board of Pensions.

The Benefits Plan of the Presbyterian Church (U.S.A.) administered by the Board of Pensions provides pension, death and disability benefits, medical benefits, and optional benefits. Only the Board of Pensions has the authority to amend the Benefits Plan, but all amendments must be reported to the members and General Assembly. No amendment to the Pension Plan that constitutes a reduction in benefits or a dues increase may be effective without approval by the General Assembly.

The Board of Pensions also offers workshops and seminars including retirement and financial planning as well as health education programs.

The dues contributed by the local church or an employing organization are based on a percentage of its employees' effective salaries and represent that employing organization's share of the cost of protecting the entire community. The cost to the local church or employing organization to provide benefits to its employees is not based on the marital status, gender, family size, or age of its individual employees.

In 2010, employing organizations contributed dues totaling 31.5% of the member's effective salary to the Benefits Plan: 11% for pension benefits, 1% for death and disability benefits, and 19.5% for medical benefits. Supplemental death benefits, supplemental disability benefits, dental care, long-term care insurance, and the Retirement Savings Plan—a 403(b)(9) plan—are funded independently through voluntary employer and/or participant contributions.

In keeping with the community nature of the plan, pension credits for lower-paid members accrue on the churchwide median salary. The members' medical deductibles and copayment maximums are based on effective salary, and thus on ability to pay, but higher-paid plan members benefit from caps on deductibles and copayment maximums.

| Plan Members and Beneficiaries (December 31, 2009 and 2010) | | |
|--|--------|--------|
| | 2010 | 2009 |
| New Members Enrolled | | |
| Initial Plan Entry* | 643 | 641 |
| Plan Re-entry | 288 | 303 |
| Total | 931 | 944 |
| Pensions Initiated | | |
| Retirement | 750 | 636 |
| Survivor | 251 | 265 |
| Death and Disability Benefits Initiated | | |
| Disability | 55 | 58 |
| Education Benefits | 18 | 14 |
| Death Benefits to Dependents | 587 | 554 |
| Disabled Members | 333 | 347 |
| Total Enrollment Pensioners | | |
| Retired | 14,217 | 13,987 |
| Survivors | 4,329 | 4,275 |
| Total | 18,546 | 18,262 |
| Members (Excluding Pensioners) | | |
| Active Members | 13,305 | 13,695 |
| Disabled Members Accruing Pension Credits | 304 | 316 |
| Inactive Members | 8,329 | 8,261 |
| Total Traditional Members | 21,938 | 22,272 |
| Total Traditional Members and Pensioners | 40,484 | 40,534 |
| ABP Members | 2,356 | 2,132 |
| Members and Dependents with Medical Coverage | 50,289 | 50,454 |

*For 2009, this total includes 135 clergy and 506 lay members; for 2010, this total includes 138 clergy and 505 lay members.

Pension, Death and Disability Benefits

In 2010, members received \$322 million in pension, and death and disability benefits. Both plans provide for granting

increases, as shown in the Experience Apportionments and Disability Benefit Increases table. Experience apportionments increase pensions and pension credits and may be granted if the plan has favorable investment and actuarial experience and adequate contingency reserves.

In granting a disability benefit increase, the Board of Directors considers the adequacy of the reserve as well as the expected increase in cost of living and the incomes of active church workers.

| Total Pension, Death and Disability Benefits Paid | | |
|--|---------------|---------------|
| Pension Plan | 2010 | 2009 |
| Retirement | \$248,769,000 | \$248,618,000 |
| Survivor | 54,583,000 | 53,308,000 |
| Pension Dues Paid for Disabled Members | 1,252,000 | 1,268,000 |
| Member Education | 325,000 | 307,000 |
| Total Pension Benefits Payments | \$304,929,000 | \$303,501,000 |
| Death & Disability Plan | | |
| Disability | \$5,840,000 | \$5,900,000 |
| Healthcare and Death & Disability Dues Paid for Disabled Members | 3,182,000 | 3,227,000 |
| Educational | 393,000 | 391,000 |
| Other Death Benefits | 7,884,000 | 8,171,000 |
| Total Death & Disability Benefits | \$17,299,000 | \$17,689,000 |

| Experience Apportionments and Disability Benefit Increases, 2005-2010 (%) | | | | | | |
|---|------|------|------|------|------|------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Pension* | 3.6 | 3.7 | 3.8 | 0.0 | 0.0 | 0.0 |
| Disability* | 4.0 | 4.0 | 4.0 | 0.0 | 3.0 | 1.5 |
| Consumer Price Index | 3.4 | 2.5 | 4.1 | 0.1 | 2.7 | 1.5 |

*Experience apportionments and disability benefit increases become effective the year following the year shown.

The Pension Plan is designed to complement Social Security benefits. The percentage of final salary replaced by the combination of the plan's retirement benefit and Social Security, as shown in the Average Pensions of Minister Retirees table, is higher for lower salary levels because the Social Security benefit formula is weighted heavily in favor of lower wage levels. The Pension Plan also benefits those with lower salaries because the pension credits are based on the median salary.

| Average Annual Pensions (2001-2010) | | | | |
|-------------------------------------|-----------------------|---|-----------------------------------|--------------------------------------|
| Year of Retirement | Number of Retirements | Value of Average Pension in 2010 | | |
| | | Average Annual Plan Pension at Retirement | Reflecting Inflationary Increases | Reflecting Experience Apportionments |
| 2001 | 173 | \$31,661 | \$39,288 | \$37,093 |
| 2002 | 151 | 30,039 | 36,402 | 35,193 |
| 2003 | 172 | 32,015 | 38,073 | 37,508 |
| 2004 | 129 | 31,822 | 36,635 | 35,661 |
| 2005 | 133 | 32,186 | 35,835 | 33,893 |
| 2006 | 123 | 35,158 | 38,190 | 37,844 |
| 2007 | 141 | 32,763 | 34,186 | 34,008 |
| 2008 | 156 | 35,054 | 36,540 | 35,054 |
| 2009 | 136 | 37,256 | 37,815 | 37,256 |
| 2010 | 138 | 34,954 | | |

Because Pension Plan design features include a minimum benefit based on the median salary and experience apportionments, the Pension Plan has significantly increased pension benefits during the last ten years, as shown in the table of Average Annual Pensions. This table and the Average Pensions of Minister Retirees table show information for ordained minister plan members retiring at or after age 65 with 15 years or more of service.

| Average Pensions of Minister Retirees at or after Age 65 with at Least 15 Years of Service 2010 | | | | | |
|---|-----------------------------|----------------------|----------------------------|-------------------|-------------------|
| Salary at Retirement | Number of 2010 Retirements* | Average Plan Pension | Social Security Benefits** | Retirement Income | |
| | | | | Total | % of Final Salary |
| Less than \$30,000 | 8 | \$25,609 | \$9,942 | \$35,551 | 190% |
| 30,000 - 34,999 | 7 | 21,327 | 14,887 | 36,213 | 110% |
| 35,000 - 39,999 | 10 | 20,784 | 15,413 | 36,197 | 95% |
| 40,000 - 44,999 | 9 | 28,522 | 18,064 | 46,586 | 108% |
| 45,000 - 49,999 | 13 | 29,912 | 18,034 | 47,945 | 100% |
| 50,000 - 54,999 | 13 | 31,763 | 18,944 | 50,707 | 98% |
| 55,000 - 59,999 | 20 | 33,107 | 20,203 | 53,310 | 92% |
| 60,000 - 64,999 | 13 | 38,297 | 21,860 | 60,157 | 96% |
| 65,000 - 69,999 | 5 | 48,716 | 22,975 | 71,692 | 105% |
| 70,000 - 74,999 | 10 | 30,139 | 22,866 | 53,005 | 73% |
| 75,000 and more | 30 | 49,940 | 24,195 | 74,135 | 74% |
| Entire Group | 138 | 34,954 | 19,846 | 54,800 | 97% |

*Includes members retired from full-time active service.

**Does not include spousal benefit.

| Pension Plan Funds Summary | |
|-----------------------------------|-----------------|
| Net Assets Beginning of Year | \$5,869,468,000 |
| Sources of Funds: | |
| Investment Return | \$771,614,000 |
| Dues | 75,007,000 |
| Subtotal | 846,621,000 |
| Total | \$6,716,089,000 |
| Uses of Funds: | |
| Pension Plan Benefits | \$304,929,000 |
| Administrative and Other Expenses | 16,855,000 |
| Subtotal | 321,784,000 |
| Net Assets End of Year | \$6,394,305,000 |

| Death and Disability Plan Funds Summary | |
|---|---------------|
| Net Assets Beginning of Year | \$521,947,000 |
| Sources of Funds: | |
| Investment Return | \$69,811,000 |
| Dues | 7,419,000 |
| Subtotal | 77,230,000 |
| Total | \$599,177,000 |
| Uses of Funds: | |
| Death and Disability Plan Benefits | \$17,253,000 |
| Administrative and Other Expenses | 3,707,000 |
| Subtotal | 20,960,000 |
| Net Assets End of Year | \$578,217,000 |

Investments

The Board continues to work for the long-term financial security of both its current and future members by using a broadly diversified portfolio including U.S. equities, international equities, and fixed income. The Board consistently adheres to a well-diversified strategic asset allocation so the portfolio can withstand short-term market volatility and provide stable long-term results. The Board of Pensions Balanced Investment Portfolio had a reported 13.6% return for the one year ended December 31, 2010, and a 5.3% annualized return for the ten years ended December 31, 2010.

The Board has achieved these results while investing in a socially responsible manner. Through our partnership with the Presbyterian Church (U.S.A.) Committee for Mission Responsibility Through Investment (MRTI), the Board strives to adhere to the extent legally possible as a prudent fiduciary of pension plan assets to General Assembly

guidelines restricting investments in companies involved in military-related activities, handguns, landmines, gaming, alcohol, and tobacco.

The Investment Committee of the Board of Directors reviews and approves the portfolio asset allocation at each meeting. The long-term strategic allocation is based on projected liabilities including current and future benefit payments to plan participants, as calculated by Towers Watson, the Board's pension actuary.

| Balanced Investment Portfolio Asset Allocation | | | | |
|---|-------------------------------|-------------------|-----------------------------------|----------|
| December 31, 2010 | | | | |
| Asset Class | Market Value (\$ in Millions) | Actual Percentage | Strategic Asset Allocation Ranges | |
| U.S. Equity | \$2,733 | 38.7% | 30-50% | |
| International Equity | 1,297 | 18.3% | 10-25% | |
| Fixed Income | 2,174 | 30.7% | 25-45% | |
| Alternative Investments | 866 | 12.3% | 1-15% | |
| Total | \$7,070 | 100.0% | | |
| Annualized Portfolio Returns, Balanced Investment Portfolio | | | | |
| Percentages for Periods Ended December 31, 2010 | | | | |
| | 1 Year | 3 Years | 5 Years | 10 Years |
| Board of Pensions Balanced Portfolio Return | 13.6% | 0.8% | 4.8% | 5.3% |
| Consumer Price Index (Measure of Inflation) | 1.5 | 1.4 | 2.2 | 2.3 |
| Consumer Price Index Plus 5% Annually | 6.5 | 6.4 | 7.2 | 7.3 |

| Assets and Liabilities | | |
|--|-----------------|-----------------|
| | 2010 | 2009 |
| Investments: | | |
| Balanced Portfolio | \$7,084,520,000 | \$6,499,446,000 |
| Fixed Income Portfolio | 46,922,000 | 42,104,000 |
| Other Investments | 471,361,000 | 418,340,000 |
| Other Assets | 14,044,000 | 14,556,000 |
| Total Assets | 7,616,847,000 | 6,974,446,000 |
| Less: Liabilities | 83,834,000 | 80,054,000 |
| Net Assets Available for Benefits | \$7,533,013,000 | \$6,894,392,000 |