STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

CHURCH PENSION FUND

AS OF

MARCH 31, 2002

DATE OF REPORT:	PHARES CATON
EXAMINER:	JANUARY 30, 2004

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

George E. Pataki
Governor

Gregory V. Serio
Superintendent

January 30, 2004

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22061, dated June 19, 2003 and annexed hereto, an examination has been made into the condition and affairs of Church Pension Fund, hereinafter referred to as "the Fund," at its home office located at 445 Fifth Avenue, New York, New York 10016.

Wherever "Department" appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The examiner's review of a sample of transactions did not reveal any differences which materially affected the Fund's financial condition as presented in its financial statements contained in the March 31, 2002 filed annual statement. (See item 5 of this report)

The examiner's review of the Fund's market conduct activities did not reveal significant instances which deviated from New York Insurance Law, Department regulations and circular letters and the operating rules of the Fund. (See item 6 of this report)

The examining actuary developed projections of the funded ratio for the next few years. Under various sets of reasonable assumptions, it seems likely that within ten years, the funded ratio would decrease to less than 100%. It is recommended that, when that occurs, a traditional actuarial cost method be used to calculate a contribution. In order to reduce volatility, it is further suggested that the contribution made each year be the greater of the amount based on the fixed-rate approach specified in the Fund's Official Rules, and the amount based on a traditional actuarial calculation. (See item 5 of the examining actuary's report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of March 31, 1997. This examination covers the period from April 1, 1997 through March 31, 2002. As necessary, the examiner reviewed transactions occurring subsequent to March 31, 2002 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of March 31, 2002 to determine whether the Fund's 2002 filed annual statement fairly presents its financial condition. The examiner reviewed the Fund's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

Fund history
Management and control
Corporate records
Fidelity bond and other insurance
Officers' and employees' welfare and pension plans
Territory and plan of operation
Market conduct activities
Growth of Fund
Accounts and records
Financial statements

The examiner reviewed the corrective actions taken by the Fund with respect to recommendations and the comment contained in the prior report on examination. The results of the examiner's review are contained in item 7 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. DESCRIPTION OF FUND

A. History

The Fund was chartered by an act of the New York State Legislature, which became law on April 3, 1914, and began its operations on March 1, 1917. The Fund administers the pension system of the Episcopal Church and provides pensions, life insurance, annuities, accident and health insurance and other programs for the clergy and their eligible dependents.

The Fund's charter states that it shall be subject to the requirements of examination by, and make annual reports to, the Superintendent of Insurance of New York, and for that purpose and to that extent only, shall be subject to the applicable provisions of Article 3 of the New York Insurance Law.

B. Subsidiaries

The Fund is the ultimate parent of the following wholly owned insurance companies: Church Life Insurance Corporation ("CLIC"); The Church Insurance Company ("CIC"); and The Church Insurance Company of Vermont ("Vermont"); and several other subsidiaries. CLIC writes life insurance on the lives of clergymen and their dependents and lay employees of the Episcopal Church. CIC insures churches and church property against fire and casualty losses. Vermont is a captive insurer that allows church institutions to benefit from the coverage flexibility and potential cost advantages of this risk financing approach. CLIC and CIC are domestic insurers. The other subsidiaries include: Church Finance Corporation, which provides risk management services to the institutions of the Episcopal Church in the United States; PFP Realty Holding Inc., ("PFP"), a partnership which has an investment in the retail space of the Fund's building; Church Publishing Incorporated ("CPI") which publishes the official worship materials of the Episcopal Church; Church Insurance Agency Corporation ("CIAC") which provides insurance products; Church Realty Holding, Inc., whose main purpose is to hold title to and manage the Fund's building; and CI Services Inc., which provides investment management and related services to institutions connected to the Episcopal Church. The total book value of the Fund's subsidiaries as of March 31, 2002 was $124,300,000.

The Fund had four service agreements in effect as of March 31, 2002.

1. A service and facilities agreement between the Fund and CLIC, effective January 1, 2002. Under this agreement the Fund provides CLIC with administrative assistance, financial and personnel administrative services and other support services.
2. A service and facilities agreement between the Fund and CIC effective January 1, 2002. Under this agreement the Fund provides CIC with administrative assistance, financial and personnel administrative services and other support services.
3. A service and facilities agreement between the Fund and CIAC effective January 1, 2002. Under this agreement the Fund provides CIAC with administrative assistance, financial and personnel administrative services and other support services.
4. A service and facilities agreement between the Fund and CPI effective January 1, 2002. Under this agreement the Fund provides CPI with administrative assistance, financial and personnel administrative services and other support services.

C. Management

The Fund's by-laws provide that the board of trustees shall be comprised of 25 trustees. The board of trustees shall consist of the Fund's president and 24 trustees elected by the general convention of the Protestant Episcopal Church of the United States. Trustees are divided into two classes, as nearly equal as may be, to be elected triennially for a term of six years. Trustees are elected at the triennial meeting of the general convention. As of March 31, 2002, the board of trustees consisted of 25 members. Meetings of the board are held three times a year.

The 25 board members and their principal business affiliation, as of March 31, 2002, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
The Very Reverend M. L. Agnew Jr.* Shreveport, LA	Dean St. Marks Cathedral	1997
James E. Bayne* Dallas, TX	Retired manager Exxon Mobil Corporation	2000

Name and Residence	Principal Business Affiliation	Year First Elected
Sheridan C. Biggs* Quaker Street, NY	Retired partner PriceWaterhouseCoopers, LLP	1997
The Reverend A. Thomas Blackmon* Dallas, TX	Curate for Mission and Christian Formation Church of the Incarnation	2000
Alan F. Blanchard New York, NY	President The Church Pension Fund	1991
David L. Brigham* Weston, VT	Retired President and Chief Executive Officer J.P. Morgan Investment Management, Inc.	1997
The Reverend Canon Randall Chase, Jr.* Providence, RI	Canon to the Ordinary Diocese of Rhode Island	2000
Barbara Creed, Esq.* San Francisco, CA	Attorney Shareholder Trucker Huss, APC	2002
Vincent C. Currie, Jr. Pensacola, FL	Vice Chairman The Church Pension Fund Administrator Diocese of the Central Gulf Coast	1991
Amy Domini* Boston, MA	Private Trustee Loring, Wolcott & Coolidge	1994
The Reverend Canon Carlson Gerdau* New York, NY	Canon to the Presiding Bishop Episcopal Church Center	1997
The Right Reverend Gayle E. Harris* Boston, MA	Rector Diocese of Massachusetts	1997
Deborah H. Hines, Ph.D.* Worcester, MA	Associate Vice Chancellor University of Massachusetts Medical School	2000

Name and Residence	Principal Business Affiliation	Year First Elected
The Right Reverend Chilton Knudsen* Portland, ME	Bishop of Maine Diocese of Maine	1994
Arthur Kusumoto* Wailuku, HI	Retired Director Financial Estates Corporation	1994
The Right Reverend Peter J. Lee* Richmond, VA	Bishop of Virginia Diocese of Virginia	2000
Joon Matsumura* Yorba Linda, CA	Retired Comptroller Diocese of Los Angeles	1997
Virginia Norman* Santo Domingo, Dominican Republic	Treasurer Iglesia Episcopal Dominicana	1997
The Right Reverend Claude E. Payne* Houston, TX	Bishop of Texas Diocese of Texas	2000
David R. Pitts* Baton Rouge, LA	Chairman and Chief Executive Officer Pitts Management	1997
Quintin E.Primo* Chicago, IL	Co-Chairman Capri Capital	2000
Katherine Tyler Scott* Indianapolis, IN	Executive Director Trustee Leadership Development	2000
The Reverend Noreen P. Suriner Binghamton, NY	Vice-Chairman The Church Pension Fund Rector Trinity Episcopal Church	1991
The Right Reverend Herbert Thompson, Jr. Cincinnati, OH	Chairman The Church Pension Fund Bishop of Southern Ohio Diocese of Southern Ohio	1991
T. Cecil Wray, Esq.* New York, NY	Retired Partner Debevoise & Plimpton	2000

* Not affiliated with the Fund or any company in the holding company system

In July 2003, Vincent C. Currie, Jr., The Reverend Noreen P. Suriner, and The Right Reverend Herbert Thompson, Jr., resigned from the board and were replaced by The Right Reverend Robert H. Johnson, The Right Reverend V. Gene Robinson and The Right Reverend Wayne P. Wright.

The examiner's review of the minutes of the meetings of the board of trustees and its committees indicated that meetings were well attended and that each trustee attended a majority of meetings.

The following is a listing of the principal officers of the Fund as of March 31, 2002:

Name	Title
Alan F. Blanchard	President
Reverend Patricia M. Coller	Senior Vice President
Maria E. Curatolo	Senior Vice President
Jimmy W. Morrison	Senior Vice President
William L. Pye	Senior Vice President
Barton Jones	Senior Vice President
Linda W. Curtiss*	Executive Vice President

*Designated consumer services officer per Section 216.4(c) of Department Regulation No. 64

D. Territory and Plan of Operation

The Fund's active clergy and pensioners reside in all 50 states, the District of Columbia, Puerto Rico, United States territories, Canada, and several countries where the Episcopal Church of the United States has active or formerly active dioceses.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Fund during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Fund's financial growth during the period under review:

	March 31, 1997	March 31, 2002	Increase
Admitted assets	$3,215,727,777	$6,477,457,725	$3,261,729,948
Net reserves	$2,760,787,990	$4,662,246,789	$1,901,458,799
Other liabilities	454,939,787	1,815,210,936	1,360,271,149
Total reserves and liabilities	$3,215,727,777	$6,477,457,725	$3,261,729,948

The Fund's invested assets as of March 31, 2002 were mainly comprised of stocks (36.2%), bonds (31.6%), and other invested assets (20.9%). The Fund's entire bond portfolio, as of March 31, 2002, was comprised of investment grade obligations. The Fund's other invested assets consist of limited partnership investments.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, and reserves as of March 31, 2002, as contained in the Fund's 2002 filed annual statement, and the income and disbursements for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Fund's financial condition as presented in its financial statements contained in the March 31, 2002 filed annual statement.

A. ASSETS, RESERVES AND LIABILITIES AS OF MARCH 31, 2002

Ledger Assets

Bonds	$2,549,545,194
Common stocks	2,369,437,102
Mortgage loans other than first liens	107,009,123
Cash and short term investments	24,033,426
Members loans receivable	50,364,515
Notes receivable and other	47,694,118
Other invested assets	1,354,006,962
Total ledger assets	$6,502,090,440
Non-ledger assets	
Interest due and accrued on bonds	$ 26,466,626
Market value of stocks over book value	(30,382,810)
Assessments receivable	6,330,980
Receivables from subsidiaries and affiliates	23,642,027
Total non-ledger assets	$ 26,056,823
Gross assets	$6,528,147,263
Not-admitted assets	
Receivables from subsidiaries and other assets	$ 48,453,741
Prepaid assets	669,939
Assessment receivable	1,565,858
Total not-admitted assets	$ 50,689,538
Total admitted assets	$6,477,457,725

Reserves and Liabilities

Reserves	
Present value of benefits to pensioners and beneficiaries	$1,443,081,176
Present value of future benefits for active and inactive participants and their beneficiaries	1,326,287,802
Securities valuation reserve	1,000,000,000
Provision for possible annual benefit increases	250,000,000
Provision for additional reserves	642,877,811
Total reserves	$4,662,246,789
Other liabilities	
Supplemental pension fund	$1,461,126,432
Life insurance benefit fund	21,374,672
Major medical supplemental fund	332,709,832
Total liabilities	$1,815,210,936
Total reserves and liabilities	$6,477,457,725

B. INCOME AND DISURSEMENTS

Fiscal Year Ending March 31,

	1998	1999	2000	2001	2002
Ledger assets at end of the previous year	$3,047,903,321	$3,681,630,931	$3,960,467,629	$6,262,237,014	$6,582,967,020
Income					
Assessments	$ 63,363,325	$ 65,385,055	$ 67,572,829	$ 69,552,816	$ 74,270,652
Change in Fund balance	0	5,142,176	0	0	0
Home occupancy charge	2,719,024	2,582,305	2,480,293	2,811,637	3,050,912
Change in accrued expenses	0	0	0	6,539,941	99,423
Change in intercompany receivable	0	3,422,346	0	0	29,601,173
Financial futures	5,777,415	50,375,604	0	0	14,216,259
Other invested assets	121,608,960	83,250,801	1,662,713,746	460,680,493	12,541,267
Gross interest on mortgage loans	0	8,225,669	9,935,945	8,780,904	9,583,326
Gross interest on bonds	78,831,112	74,694,636	80,900,095	130,570,897	103,684,362
Gross dividends on stocks	24,507,914	23,550,329	22,720,342	23,054,329	27,704,017
Gross interest on cash on deposit	922,827	732,751	479,723	1,572,131	0
Gross interest from other sources	690,162	1,320,732	503,758	361,317	22,137,640
Change in non-admitted assets	0	0	14,107,003	0	30,513,339
Change in due to broker	0	0	362,536,802	0	0
Donations and legacies	1,063,473	896,242	0	0	1,084,025
Miscellaneous income	11,593,689	14,743,851	16,858,628	4,166,708	2,454,969
I/CO admin fees	0	0	0	15,464,837	15,328,661
Gross profit on the sale or maturity of ledger assets:					
(a) Bonds	12,076,608	32,442,941	17,479,909	80,418,545	90,988,193
(b) Stocks	349,010,845	318,613,268	568,782,084	394,374,435	175,018,957
(c) Foreign currency	1,518,362	1,743,537	2,218,550	1,925,693	0

	1998	1999	2000	2001	2002
Gross increase, by adjustment on:					
book value of bonds	$ 1,504,903	$ 990,247	$ 4,423,993	$ 3,377,380	$ 4,289,805
book value of stocks	0	0	0	0	5,139,513
Discount on mortgages	0	587	0	0	0
Total Income	$ 675,188,619	$ 688,113,077	$2,833,713,700	$1,203,652,063	$ 621,706,492
Amounts carried forward	$3,723,091,941	$4,369,744,008	$6,794,181,329	$7,465,889,077	$7,204,673,512
Disbursements					
Payments on account of retirements:					
(a) Annual or periodic payments	$114,583,603	$122,600,331	130,565,007	$139,742,823	151,698,487
(b) Lump sum payments on account of death after retirement	55,000	70,000	117,500	90,000	85,000
(c) Resettlement	1,452,527	1,507,560	1,488,856	1,272,570	1,596,171
Other benefit payments	139,697	1,010,194	1,088,542	1,184,844	1,278,568
Change in intercompany receivable	0	0	23,127,386	16,830,835	0
Change in other assets	0	0	0	0	3,599,621
Other deductions	0	0	0	9,352,040	4,531,261
Administrative expenses, per Schedule H	39,679,097	44,533,023	45,403,833	43,493,667	54,111,216
Change in non-admitted assets	3,811,806	2,101,945	0	3,336,595	0
Change in investment in subsidiary	0	1,780,442	4,609,135	0	0
Financial futures	0	0	19,114,247	14,511,221	0
Change in accrued expenses	0	0	4,108,786	0	0
Change in other invested assets	0	0	0	0	150,804,865
Interest on borrowed money	0	0	0	0	119
Change in other liabilities	0	4,398,280	0	0	0

	1998	1999	2000	2001	2002
Change in due to broker	$ (263,456,108)	$ 44,949,401	$ 0	$ 231,760,975	$ 46,204,959
Gross loss on sale or maturity of ledger assets:					
(a) Bonds	6,726,753	13,336,181	75,651,296	376,295,282	42,249,174
(b) Stock	138,006,503	171,763,155	221,342,819	40,775,599	231,525,034
(c) Foreign currency	0	0	0	0	1,838,008
Gross decrease, by adjustment, in book value of ledger assets:					
(a) Bonds	462,019	1,225,867	952,826	4,275,606	13,060,589
(b) Stocks	0	0	4,193,103	0	0
Transfers	0	0	180,974	0	0
Total disbursements	$ 41,460,897	$ 409,276,379	$ 531,944,315	$ 882,922,057	$ 702,583,072
Ledger assets at end of the year	$3,681,630,931	$3,960,467,629	$6,262,237,014	$6,582,967,020	$6,502,090,440

6. TREATMENT OF PARTICIPANTS

The examiner reviewed a sample of various types of retirement benefits to participants and beneficiaries to determine whether the participants or beneficiaries were treated fairly and equitably. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

Based upon the sample reviewed, no significant findings were noted.

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the recommendations and the comment contained in the prior report on examination and the subsequent actions taken by the Fund in response to each citation:

Item	Description
A	The examiner recommended that the Fund take greater care in preparing its annual statement and maintain audit trails, supporting documents, and workpapers in a manner such as to support the figures reported in its annual statement(s). A review indicated that the Fund now uses the Oracle software package that directly inputs the daily transactions into the annual statement and creates a better audit trail that supports the figures reported in the filed annual statement.
B	The examiner recommended that the Fund respond in a prompt and timely manner to the examiner's memos and requests for information. During this examination, the Fund improved its response time from the previous examination.
C	The Fund failed to file abandoned property reports as required under Article 5 of the Abandoned Property Law of New York. A review indicated that the Fund is filing the abandoned property reports as required by the Abandoned Property Law.
D	The examiner recommended that the Fund file all required abandoned property reports on an annual basis. A review indicated that the Fund is filing the abandoned property reports as required by the Abandoned Property Law.
E	The examiner recommended that the Fund remit all overdue abandoned property payments to the New York State Comptroller. A review indicated that the Fund remitted all overdue abandoned property payments to the New York State Comptroller.

Item	Description
F	The examiner recommended that the Fund conduct a study to determine the level of contributions that would be required to provide for the promised benefits under a range of differing earned interest rates. In response to the previous examination, the Fund stated that they use a conservative valuation interest rate and have established a securities valuation reserve as a provision against the possibility of a significant loss of value.

8. SUMMARY AND CONCLUSIONS

ACTUARIAL RECOMMENDATION

Following is the recommendation contained in the examining actuary's report:

Item	Description
A	It is recommended that, when the funded ratio decreases to less than 100%, which seems likely to happen within 10 years, a traditional actuarial cost method be used to calculate a contribution. In order to reduce volatility, the contribution made each year should be the greater of the amount based on the fixed rate approach specified in the Official Rules and the amount based on a traditional actuarial calculation.

Respectfully submitted,

_______/s/___________
Phares Caton
Associate Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

Phares Caton, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_______/s/_________________
Phares Caton

Subscribed and sworn to before me

this__________ day of ____________________

APPOINTMENT NO. 22061

STATE OF NEW YORK

INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

PHARES CATON

as a proper person to examine into the affairs of the

CHURCH PENSION FUND

and to make a report to me in writing of the condition of the said

PENSION FUND

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 19th day of June, 2003

GREGORY V. SERIO
Superintendent of Insurance

Superintendent

The Church Pension Fund

Report of the Examining Actuary

Michael J. Lambert

Examination as of March 31, 2002

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1. BACKGROUND

The Church Pension Fund (CPF) provides pensions and related benefits to Episcopal clergy and their beneficiaries. CPF was established by the Laws of 1914, Chapter 97. That act stated that CPF could do what was necessary to provide pension and other benefits to clergy of the Episcopal Church of the United States. The act also stated that CPF must submit annual reports to, and be subject to examination by, the New York State Insurance Department.

The church Canons provide that, among other things, funding for CPF will be provided by an assessment based on the salaries of the clergy, and that the mandatory retirement age is 72.

2. LIABILITIES AND ASSETS

Shown below are the plan liabilities and total assets as reported in the Annual Statements to the Department for the five years of the examination period. Amounts shown are in thousands of dollars.

Year Ending March 31	1998	1999	2000	2001	2002
Present Value of Benefits for pensioners and beneficiaries:			($000)		
Normal Retirement	439,556	465,261	465,947	514,932	545,036
Early Retirement	358,934	411,164	429,634	508,065	560,065
Disability Retirement	69,357	68,434	68,432	70,752	74,675
Spouses and Others	192,632	207,637	209,112	235,855	258,612
Children	3,669	3,446	4,767	4,282	3,326
Spouses with suspended pensions	2,205	2,148	2,211	1,973	1,367
Total PVB in pay status	1,066,353	1,158,090	1,180,103	1,335,859	1,443,081
Present Value of Benefits for active and inactive participants and beneficiaries:					
Normal and Early Ret.	1,318,089	1,332624	1,339,543	1,609,349	1,706,993
Disability Retirement	126,762	130,712	129,904	94,982	75,740
Spouses' Pensions	239,993	246,578	270,113	187,410	170,662
Children's Pensions	8,968	8,666	11,039	7,793	2,273
Lump Sum Death	1,613	1,630	1,589	998	1,037
Due to Inactive Part.	40,780	46,868	54,066	64,476	58,772
Total PVB in active status	1,736,205	1,767,078	1,806,254	1,965,008	2,015,477
Total PVB	2,802,558	2,925,168	2,986,357	3,300,867	3,458,558
Less PV of future assessments @15.55%	662,336	673,890	645,707	658,901	689,189
Net reserve for pension ben.	2,140,222	2,251,278	2,340,650	2,641,966	2,769,369
Securities Valuation Reserve	455,000	455,000	1,300,000	1,150,000	1,000,000
Provision for possible benefit increase	200,000	200,000	250,000	250,000	250,000
Provision for additional reserves	247,830	349,238	974,916	805,059	642,878
Funded portion of total reserve	3,043,052	3,255,516	4,865,566	4,847,025	4,662,247
Supplemental pension fund	5,558	6,941	7,908	11,516	9,853

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Year Ending March 31	1998	1999	2000	2001	2002
Life Insurance Benefit Fund			($000)		
PV of benefits	166,973	155,117	157,239	138,878	142,734
Less PV future assessments @ 1.30%	55,866	56,338	53,982	55,085	57,617
Net Reserve	111,107	98,779	103,257	83,793	85,117
Major Medical Supplemental Fund					
PV of benefits	464,694	529,991	635,375	757,751	1,003,075
Reserve for future improvements	0	0	300,000	300,000	250,000
Total	464,694	529,991	935,375	1,057,751	1,253,075
Assets available for benefits	3,624,411	3,891,227	5,912,106	6,000,085	6,010,292
Non-pension liabilities	295,835	266,983	625,411	400,190	354,085
Restricted Legacy and Gifts	12,662	13,226	14,125	13,293	13,740
Unrestricted Legacy and Gifts	13,795	13,716	14,231	13,726	14,363
Affiliated Company Investments	79,157	71,437	78,246	63,862	65,286
Home Office Building	23,900	21,569	20,936	20,644	19,692
Total Assets	4,049,760	4,278,158	6,665,055	6,511,800	6,477,458

The Total Assets ($6,477,458,000 for 2002) is the figure reported in the Annual Statement, page 4, Total Admitted Assets, and also on page 5, Liabilities, Net reserves and all other liabilities. The Assets available for benefits ($6,010,292,000 for 2002) is shown on the attachment to page 5 of the Annual Statement.

3. ACTUARIAL COST METHOD AND EMPLOYER CONTRIBUTIONS

The ultimate cost of a defined benefit pension plan is the benefits paid. That cost is paid for by employer contributions, any employee contributions, and investment earnings. There are no employee contributions in the Church Pension Fund; all contributions are made by the employers.

In a traditional defined benefit plan, the benefits are defined, usually by some kind of formula, and the contributions necessary to fund those benefits are calculated in an actuarial manner. That actuarial calculation, which is performed every year, takes into account the amount and timing of future expected benefit payments and current plan assets. The result of the calculation is the amount of contribution to be made by the employer for that year to ensure that there will be sufficient plan assets to pay promised benefits in the future.

However, the contribution amounts made to the Church Pension Fund have not been determined in a traditional manner. The Official Rules of the CPF specify the amount of contribution to be made. They do this by stating that "…the Trustees levy upon every parish … a pension assessment based on Compensation paid to (a) Participant….". The Rules go on to state that "the pension assessment levy on and after January 1, 1972 shall be equal to 18% of the Compensation of a Participant…."

The 18% contribution is split into three components: 15.55% for pension benefits, 1.30% for group life benefits, and 1.15% for administrative expenses. This allocation has been effective since well before the beginning of the examination period.

In the table shown in Section 2 of this report, the two items labeled "Less PV of future assessments @…" show the present value of the future assessments for pension benefits, at 15.55% of compensation, and the present value of the future assessments for group life insurance benefits, at 1.30% of compensation. Therefore the total liabilities shown in that table are net of future contributions.

The table below shows the annual compensation as reported in the Annual Statement, the total amount of Assessments shown on page 2 of the Annual Statement, and the resulting ratio of Assessments to compensation.

Year	Compensation	Assessments	Ratio
1998	374,313,355	63,363,325	16.9%
1999	383,408,485	65,385,055	17.1%
2000	379,901,898	67,572,829	17.8%
2001	407,371,929	69,552,816	17.1%
2002	428,253,720	74,270,652	17.3%

The compensation shown above is the annual rate of compensation as of March 31, the end of each fiscal year. The Assessments shown is the total amount of Assessments paid during the fiscal year ending on March 31. Therefore the ratio shown above would not be expected to be exactly 18%, and, in periods of increasing compensation, would generally be less than 18%.

4. ACTUARIAL ASSET VALUATION METHOD

The determination of the asset value is an important part of the actuarial valuation process. As mentioned earlier in this report, in a traditional defined benefit plan the calculation of the employer contribution involves the calculation of the excess (if any) of the present value of future benefits over plan assets. In this plan, because the amount of employer contribution is set at a fixed percentage of salary, the determination of the asset value is not needed for the calculation of employer contributions. However, it is still important to measure the funded status of the plan, to ensure that the fixed contribution rate is providing an adequate asset level. Most methods of determining the funded status of a defined benefit plan compare a plan asset value to some measure of plan liability.

For the purpose of determining the funded status, bonds and mortgages are valued at amortized value, and equities and short-term investments are valued at market.

The table below shows the reconciliation between the admitted assets in the statement and the actuarial value of assets as reported in the actuarial valuation report for each of the examination years ($000,000 omitted).

		1998	1999	2000	2001	2002
1	Admitted Assets	4,050	4,278	6,665	6,512	6,477
2	Non-pension liabilities	298	267	625	400	354
3	Restricted Legacy and Gift Fund	13	13	14	13	14
4	Unrestricted Legacy and Gift Fund	14	14	14	14	14
5	Affiliated Company Investments	79	71	78	64	65
6	Home Office Building	22	22	21	21	20
7	Assets for determination of funded status 1 − (2 + 3 + 4 + 5 + 6)	3,624	3,891	5,913	6,000	6,010

5. FUNDING RATIOS

Attachment B of the System's annual statements to the Insurance Department provides, as a measure of funding adequacy, the ratio of assets available for active members to the liability attributed to those members.

A common method of determining the liability attributable to active members would be to use the Pension Benefit Obligation (PBO). The PBO is the present value of pension benefits resulting from employee service up to the statement date, based on salaries projected to the date of retirement. (PBO thus is different from the annual statement's “Present Value of Benefits for Members now in Active Service,” which is based on members’ total anticipated service as of the date of retirement.) The PBO includes vested benefits for terminated members.

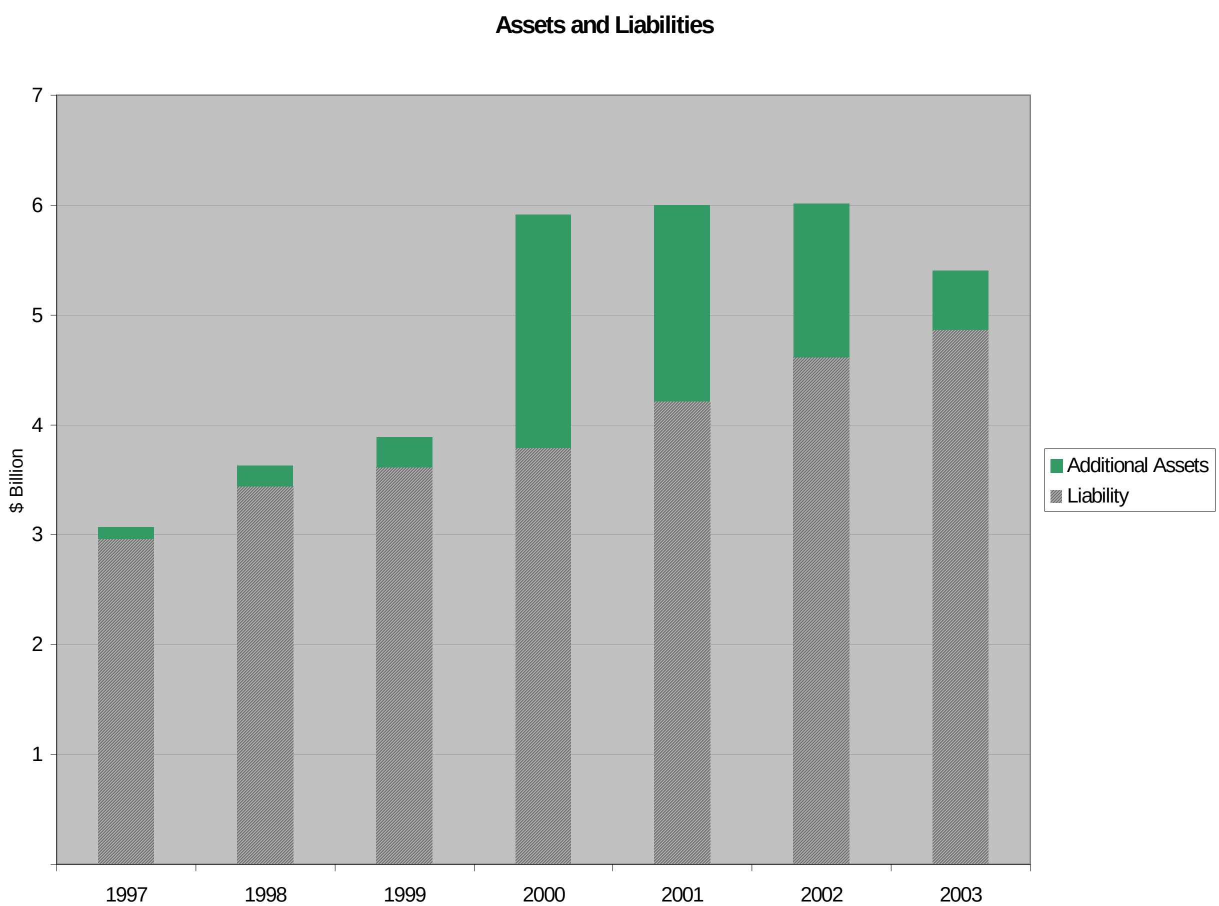
However, as mentioned in Section 2, the contributions to the fund are not determined using an actuarial cost method. As a consequence, a PBO is not calculated and the fund does not develop a measure of funded status using the PBO.

Another measure of funded status, one that is available regardless of cost method, is a comparison between plan assets and total plan liability, or present value of future benefits. This present value of future benefits is based on projected service and salary to retirement. This type of measure may be considered more conservative than the method using PBO because the liability value used in this measure is greater than the liability used in the PBO method.

The table below shows the funded status based on the value of assets shown in the actuarial valuation report and the total plan liability, as described above.

		($000,000)				
		1998	1999	2000	2001	2002
1	Total Plan Liabilities	3,440	3,617	3,787	4,209	4,614
2	Value of Assets	3,624	3,891	5,912	6,000	6,010
3	Funded Ratio 2 ÷ 1	105%	108%	156%	143%	130%

The values from this table are represented in the chart below.



The chart shows the assets and liabilities for one year prior to and one year after the examination period to provide a clearer view of trends. It can be seen that the plan liabilities (the lower part of the bars, with diagonal strips) have been increasing in a rather steady fashion, increasing most years by between 5% and 10%.

The level of assets is represented by the total height of the bars; the upper, solid green part of the bars represents the amount by which assets exceed liabilities.

As the funded ratios indicate, the funded status of the plan has exceeded 100% for the entire examination period. In fact, the funded status has exceeded 100% for many years prior to the examination period. Investment performance certainly has been a factor in that result; the large increase in assets in the fiscal year ending March 31, 2000 was largely due to investment results arising from the stock market boom of the late 1990's.

However, another very significant factor has been the fact that the contributions to the fund have been 18% of salary for over thirty years. This contribution rate is substantially higher than the rate that would have been calculated by the more traditional actuarial method, as described in Section 2. Under a traditional method, the contribution rate would have based on a comparison between plan assets and plan liabilities, and the resulting contribution would have been such that the assets would have tended to be less than the liabilities.

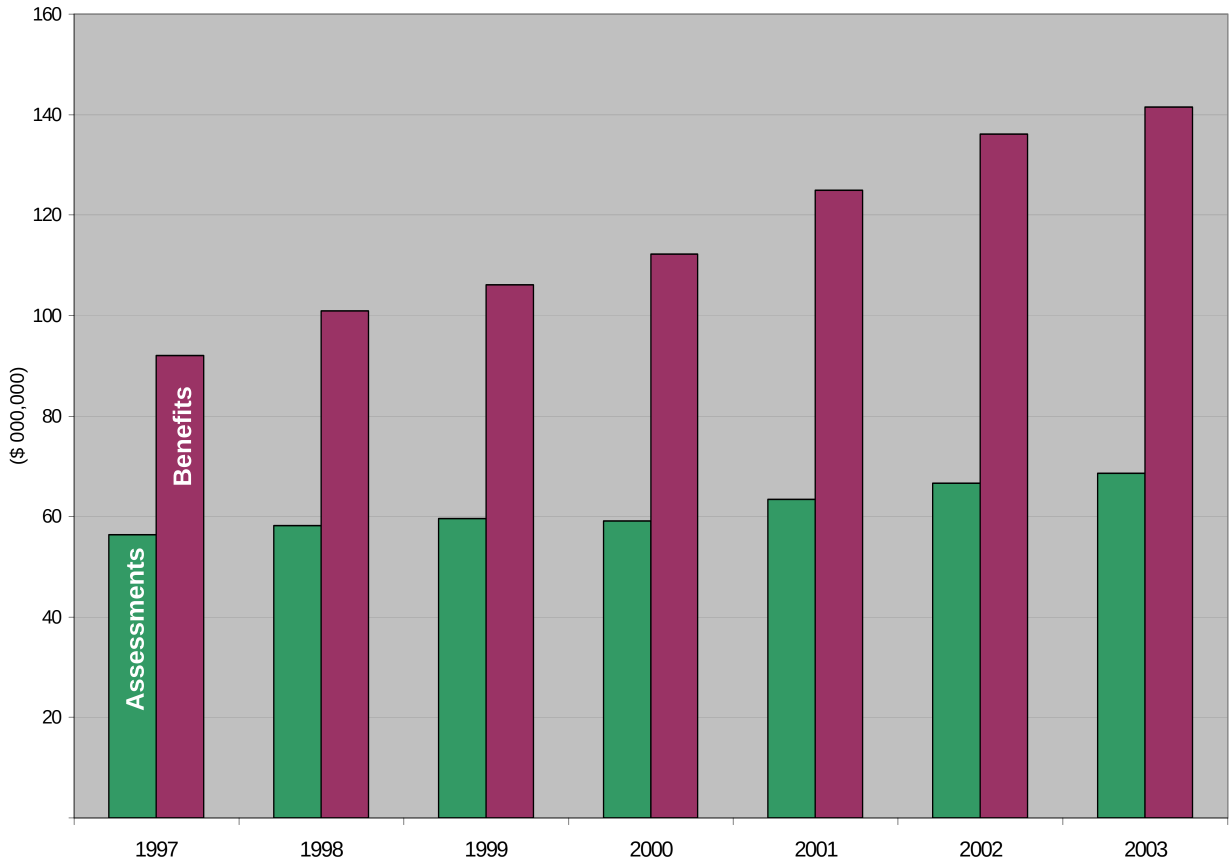
Over the long term, the funded ratio of this plan will tend to decrease due largely to the increasing number of retirees compared to the number of active employees, and the consequential increasing amount of benefits paid compared to the amount of assessments collected. The table below shows the number of active members and the number of retirees (and other beneficiaries) over the last few years.

	1997	1998	1999	2000	2001	2002	2003
Actives	8,170	8,118	8,041	7,761	7,686	7,796	7,867
Retirees	7,476	7,658	7,839	7,947	8,151	8,286	8,362
Ratio (R/A)	92%	94%	97%	102%	106%	106%	106%

Due in large part to benefit increases, the ratio of the amount of benefits paid to the amount of assessments collected shows an even more significant increasing trend, as shown in the table and chart below. Amounts in the table are in millions of dollars.

	1997	1998	1999	2000	2001	2002	2003
Assessments	56	58	60	59	63	67	68
Benefits	92	101	106	112	125	136	141
Ratio (B/A)	164%	174%	177%	190%	198%	203%	207%

Pension Assessments and Benefits



It is expected that, for the next few years, the amount of investment income, based on the actuarially assumed investment return of 5.25%, would be greater than the excess of benefit payments over assessments. However, due to the emerging demographics of the group and the possibility of future investment shortfalls, there is a possibility that the funded ratio would decrease to less than 100%. If and when that happens, or perhaps sooner, it would be advisable to use traditional actuarial methods, as described in Section 2, to determine the required contribution to the fund.

The examining actuary has developed projections of the funded ratio for the next few years. Under various sets of reasonable assumptions, it seems likely that within ten years, the funded ratio, as defined above, would decrease to less than 100%. It is recommended that, when that occurs, a traditional actuarial cost method be used to calculate a contribution. In order to reduce volatility, it is further suggested that the contribution made each year be the greater of the amount based on the fixed-rate approach specified in the Official Rules and the amount based on a traditional actuarial calculation.

Respectfully submitted,

/s/

Michael J. Lambert
Principal Actuary

State of New York } *SS*
County of New York

MICHAEL J. LAMBERT, being duly sworn, deposes and says that the foregoing actuarial report, subscribed by him, is true to the best of his knowledge and belief.

/s/

Michael J. Lambert

Subscribed and sworn to before me
this _________ day of _____________ 2004.

Appendix A

Laws of New York, 1914

Chapter 97

as amended by
Chapter 140 of the Laws of 1940

Section 1. William Lawrence, David H. Greer, Robert A. Gibson, Theodore N. Morrison, Rogers Israel, James McIlvaine, Reese F. Alsop, Gardiner L. Tucker, William T. Manning, H. D. W. English, George Gordon King, Samuel Mather, David B. Lyman, W. Fellowes Morgan, and Monell Sayre, and their successors, are hereby created a body corporate by the name "The Church Pension Fund," for the following purposes, viz.:

(a) To provide pensions or other forms of support for clergymen of the Protestant Episcopal church in the United States of America and churches in communion with said church, who, by reason of long and meritorious service, or by age, disability, or other reason, shall be deemed entitled to the assistance and aid of this corporation, on such terms and conditions, however, as such corporation may from time to time approve and adopt.

(b) To provide pensions or other forms of support for persons who at the time of such pension are, or have been, dependent upon such clergymen, and shall be deemed entitled to the assistance and aid of this corporation, on such terms and conditions, however, as such corporation may from time to time approve and adopt.

(c) In general, to do and perform all things necessary and appropriate to a corporation created for the purpose of providing pensions or other forms of support for the clergy of a church and those who are or have been dependent upon them.

(d) Also, to acquire, own and hold, with power to vote, all of or a controlling interest in the capital stock of any corporation, domestic or foreign, organized for any purpose which shall be authorized or approved (before or after the acquisition thereof) as useful or beneficial to the Protestant Episcopal church in the United States of America by the governing authority of such church now known as the general convention of the Protestant Episcopal church in the United States of America; with power to sell or otherwise dispose of any such stock or to consent to any reorganization or adjustment with respect thereto, when deemed advisable by the trustees of the church pension fund, and generally to exercise all the rights, powers and privileges of individual owners or holders of any such stock.

§ 2. The corporation hereby formed shall have power to take and hold, by bequest, devise, gift, purchase or lease, either absolutely or in trust for any of its purposes, any property, real or personal, with limitation as to amount or value, except such limitation, if any, as the legislature shall hereafter impose; to convey such property, and to invest and reinvest any principal and deal with and expend the principal and the income of the corporation in such manner as in the judgement of its trustees will best promote its objects. The persons named in the first section of this act, or a majority of them, shall hold a meeting and organize the corporation and adopt a constitution not inconsistent with the constitution and laws of this state, which constitution from time to time shall be subject to amendments. The constitution shall prescribe the qualifications of members, who may or may not be restricted to the same persons who are the trustees of the corporation, the number of members who shall constitute a quorum for the transaction of business at meetings of the corporation, the number of trustees by whom the business and affairs of the corporation shall be managed, the qualifications, powers and manner of selection of the trustees and officers of the corporation, which selection of trustees or officers, or both, may or may not be by the governing authority of the Protestant Episcopal church in the United States of America, now known as the general convention of the Protestant Episcopal church in the United States of America, or by appointment with reference to their holding official positions in the said church or in the said general convention, or in accordance with canons or regulations adopted or prescribed by the said general convention, and may contain any other provisions for the management and disposition of the property and regulation of the affairs of the corporation which may be deemed expedient.

§ 3. The said corporation shall be a charitable corporation and shall possess and be entitled to such powers and benefits as now are or hereafter shall be conferred by the general corporation laws of New York upon such corporations, so far as the same shall be consistent with this act. It shall be subject to the requirements of examination by, and making annual reports to, the superintendent of insurance of New York, and for that purpose and to that extent only shall be subject to the applicable provisions of article three of the New York insurance law enacted as chapter eight hundred eighty-two of the laws of nineteen hundred thirty-nine; but as contemplated by paragraph five of section forty-four thereof, the said corporation shall be exempt from all other provisions and requirements of said insurance law from the effective date thereof.

§ 4. This act shall take effect immediately.

Appendix B

Sections of the church Canons related to The Church Pension Fund.

TITLE I: ORGANIZATION AND ADMINISTRATION

CANON 8: Of The Church Pension Fund

Sec. 1. The Church Pension Fund, a corporation created by Chapter 97 of the Laws of 1914 of the State of New York as subsequently amended, is hereby authorized to establish and administer the clergy pension system, including life, accident and health benefits, of this Church, substantially in accordance with the principles adopted by the General Convention of 1913 and approved thereafter by the several Dioceses, with the view to providing pensions and related benefits for the Clergy who reach normal age of retirement, for the Clergy disabled by age or infirmity, and for the surviving spouses and minor children of deceased Clergy.

Sec. 2. The General Convention at each regular meeting shall elect, on the nomination of a Joint Committee thereof, twelve persons to serve as Trustees of The Church Pension Fund for a term of six years and until their successors shall have been elected and have qualified, and shall also fill such vacancies as may exist on the Board of Trustees. Effective January 1, 1989, any person who has been elected as a Trustee by General Convention for twelve or more consecutive years shall not be eligible for reelection until the next regular General Convention following the one in which that person was not eligible for reelection to the Board of Trustees. Any vacancy which occurs at a time when the General Convention is not in session may be filled by the Board of Trustees by appointment, *ad interim*, of a Trustee who shall serve until the next session of the General Convention thereafter shall have elected a Trustee to serve for the remainder of the unexpired term pertaining to such vacancy.

Sec. 3. For the purpose of administering the pension system, The Church Pension Fund shall be entitled to receive and to use all net royalties from publications authorized by the General Convention, and to levy upon and to collect from all Parishes, Missions, and other ecclesiastical organizations or bodies subject to the authority of this Church, and any other societies, organizations, or bodies in the Church which under the regulations of The Church Pension Fund shall elect to come into the pension system, assessments based upon the salaries and other compensation paid to Clergy by such Parishes, Missions, and other ecclesiastical organizations or bodies for services rendered currently or in the past, prior to their becoming beneficiaries of the Fund.

Sec. 4. The pension system shall be so administered that no pension shall be allotted before there shall be in the hands of The Church Pension Fund sufficient funds to meet such pension, except as directed by the General Convention in 1967.

Sec. 5. To every Member of the Clergy who shall have been ordained in this Church or received into this Church from another Church, and who shall have remained in service in the office and work of the Ministry in this Church for a period of at least twenty-five years, and in respect of whom the conditions of this Canon shall have been fulfilled in the payment of assessments on such reasonable basis as The Church Pension Fund may establish under its Rules of Administration, The Church Pension Fund shall provide a minimum retiring allowance the amount of which shall be determined by the Trustees of the Fund, and shall also provide surviving spouses' and minor children's allowances related thereto. In the case of a Member of the Clergy in whose behalf assessments shall not have been fully paid for a period of at least twenty-five years, The Church Pension Fund shall be empowered to recompute the aforesaid minimum retiring allowance and the other allowances related thereto at a rate or rates consistent with the proper actuarial practice. The Trustees of The Church Pension Fund are hereby empowered to establish such Rules and Regulations as will fulfill the intention of this Canon and are consistent with sound actuarial practice. Subject to the provisions of this Canon, the general principle shall be observed that there shall be an actuarial relation between the several benefits; *Provided, however,* that the Board of Trustees shall have power to establish such maximum of annuities greater than two thousand dollars as shall be in the best interest of the Church, within the limits of sound actuarial practice.

Sec. 6. An Initial Reserve Fund, derived from voluntary gifts, shall be administered by The Church Pension Fund so as to assure to clergy ordained prior to March 1, 1917, and their families, such addition to the support to which they may become entitled on the basis of assessments authorized by this Canon as may bring their several allowances up to the scale herein established.

Sec. 7. The action of the Trustees of the General Clergy Relief Fund, in accepting the provisions of Chapter 239 of the Laws of 1915 of the State of New York authorizing a merger with The Church Pension Fund, upon terms agreed upon between said two Funds, is hereby approved. Any corporation, society, or other organization, which hitherto has administered clergy relief funds, may to such extent as may be compatible with its corporate powers and its existing obligations, and in so far as may be sanctioned in the case of diocesan societies by the respective Dioceses, merge with The Church Pension Fund, or if merger be impracticable, may establish by agreement with The Church Pension Fund the closest practicable system of co-operation with that fund. Nothing herein contained shall be construed to the prejudice of existing corporations or societies whose funds are derived from payments made by members thereof.

Sec. 8. Women ordained to the Diaconate prior to January 1, 1971, who are not employed in active service on January 1, 1977, shall continue to have the benefit of their present provisions for pension protection at the expense of their employers, through the Pension Plan for Deaconesses provided by the Church Life Insurance Corporation, or through some other pension plan providing equivalent or better guarantees of a dependable retirement income, approved by proper authority. Women ordained to the Diaconate prior to January 1, 1971, and who are employed in active service on or after January 1, 1977, shall be entitled to the same provisions for pension protection as other Deacons based on prospective service on or after January 1, 1977. Women ordained to the Diaconate on or after January 1, 1971, shall be entitled to the same pension protection as other Deacons.

Sec. 9. The General Convention reserves the power to alter or amend this Canon, but no such alteration or amendment shall be made until after the same shall have been communicated to the Trustees of The Church Pension Fund and such Trustees shall have had ample opportunity to be heard with respect thereto.

TITLE III: MINISTRY

CANON 16: Of Letters Dimissory, Licenses, and Retirement

Sec. 1 (a) A Member of the Clergy desiring to become canonically resident within a Diocese shall present to the Ecclesiastical Authority a testimonial from the Ecclesiastical Authority of the Diocese of current canonical residence ….

(b) Such testimonial shall be called Letters Dimissory. ….

(h) A statement of the record of payments to The Church Pension Fund by or on behalf of the Member of the Clergy concerned shall accompany Letters Dimissory.

Sec. 5. Upon attaining the age of seventy-two years, each Member of the Clergy occupying any position in this Church shall resign that position and retire from active service, and the resignation shall be accepted. Thereafter, the Member of the Clergy may accept any position in this Church, except the position or positions from which resignation pursuant to this Section has occurred; *Provided*, that (a) the tenure in the position shall be for a period of not more than one year, which period may be renewed from time to time, and (b) service in the position shall have the express approval of the Bishop and Standing Committee of the Diocese in which the service is to be performed, acting in consultation with the Ecclesiastical Authority of the Diocese in which the Member of the Clergy is canonically resident; and *Provided*, that (c) a Member of the Clergy who has served in a nonstipendiary capacity in a position before retirement may, at the Bishop's request, serve in the same position for six month s thereafter, and this period may be renewed from time to time.