REPORT ON EXAMINATION

OF THE

CHURCH PENSION FUND

AS OF MARCH 31, 2017

EXAMINER: **JOCELYNE TURENE**

DATE OF REPORT: **JUNE 13, 2019**

TABLE OF CONTENTS

October 18, 2023

Honorable Adrienne A. Harris
Superintendent of Financial Services
New York, New York 10004

Dear Adrienne A. Harris:

In accordance with instructions contained in Appointment No. 31777, dated May 31, 2018, and annexed hereto, an examination has been made into the condition and affairs of Church Pension Fund, hereinafter referred to as "CPF" or the "Fund," at its home office located at 19 East 34th Street, New York, NY 10016.

Wherever "Department" or "DFS" appears in this report, it refers to the New York State Department of Financial Services.

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

1. EXECUTIVE SUMMARY

During the examination of the Fund, the examiners identified several areas of concern regarding the Fund's administrative, operational, funding, and financial reporting practices. The material recommendations contained in this report are summarized below.

- The examiners recommend that the Fund continue its focus on expense management and look to reduce expenses where appropriate. (See item 3F of this report.)
- The examiners recommend that minutes of the meetings of the Fund's Board of Trustees, memorialize more completely its actions and rationale for its decisions on more significant matters, commensurate with the complexity of the matters considered and the length of discussion. (See item 4A of this report.)
- The examiners recommend that the Fund complete a thorough review of the benefit calculations for retirees or dependents/beneficiaries who currently are receiving or previously received benefits from the benefit plans administered by the Fund and establish formal correction procedures for each plan to address and remedy any errors in benefits paid or to be paid. (See items 7A through 7D of this report.)
- The examiners recommend that each pension plan's funded status be determined using only plan assets that have been segregated and restricted to be used for such plan to comply with GAAP under ASC 960. (See item 8H-1 of this report.)
- The examiners recommend eliminating the assessment deficiency adjustment on pension plan assets to comply with GAAP under ASC 960. (See item 8H-2 of this report.)
- The examiners recommend that the Fund include ASC 715 accounting in its financial statements to comply with GAAP under ASC 958. (See item 8H-3 of this report.)
- The examiners recommend that the Fund calculate the actuarially determined contribution for each pension plan using traditional actuarial cost methods each year. (See item 8I of this report.)
- The examiners recommend that the ALM liability be determined using a traditional and reasonable actuarial cost method, as it would conform more appropriately with pension plan actuarial standards of practice. (See item 8I of this report.)

- The examiners recommend that future actuarial reports disclose approximations used for any benefits not explicitly calculated and the Fund institute regular actuarial audits to monitor the quality of the actuarial services provided. (See item 8J of this report.)
- The examiners recommend that the Fund revise the Master Trust Funding Policy to immediately make contributions to fund benefits earned to date for all clergy pension plan members and contribute at least the actuarially determined contribution in future years. In addition, the examiners recommend the Fund formally allocate assets to each of the remaining benefit plans in segregated accounts or trusts. (See item 8K of this report.)

2. SCOPE OF EXAMINATION

This report outlines the Department's supervisory expectations or priorities and articulates general views regarding appropriate practices for a given subject area. Practices deemed appropriate are those consistent with statute or any practice or method of dealing that is so regularly observed among funds of comparable size and complexity that the Department may justifiably expect that it will be observed in the fund being examined.

The examination covers the period from April 1, 2012, through March 31, 2017. As necessary, the examiners reviewed transactions occurring subsequent to March 31, 2017, 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, 2017, to determine whether the Fund's 2017 filed annual statement fairly presents its financial condition.

The examiners reviewed the Fund's income and disbursements necessary to accomplish such verification and 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
Growth of Fund
Accounts and records
Financial statements
Participant benefits
Actuarial review

The examiners reviewed the corrective action taken by the Fund with respect to the recommendations contained in the prior report on examination. The results of the examiners' review are contained in item 9 of this report.

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

3. DESCRIPTION OF THE FUND AND REGULATION

A. History and Structure

The Fund, which was incorporated by an act of the New York State Legislature and became effective on April 3, 1914, commenced operations on March 1, 1917, to provide pensions or other forms of support for clergymen of the Protestant Episcopal Church and their dependents. The Fund is subject to the New York insurance law requirements pertaining to examination by the Department and is required to provide annual reports to the Superintendent of the Department.

The Fund also is subject to New York's Not-for-Profit Corporation Law. The trustees, directors, officers, and key persons of the Fund must discharge the duties of their respective positions in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.

Under Not-for-Profit Corporation Law § 112(a), the Attorney General has the power to "maintain an action or special proceeding" against any nonprofit that fails to comply with its responsibilities to their members and New York residents at large, or who has "acted beyond its capacity or power" or is found to be carrying on "unauthorized activities."

Members of the Fund include the Episcopalian clergy and lay employees in New York State whose employers (e.g., local parishes) are required to contribute to the Fund's pension and insurance plans in the form of an assessment as discussed below.

The Fund is the ultimate parent of several non-insurance subsidiaries and the following wholly-owned insurance companies:

- Church Life Insurance Corporation ("CLIC"),
- The Church Insurance Company ("CIC"),
- The Church Insurance Company of NY ("CICNY"), and
- The Church Insurance Company of Vermont ("CICVT").

CLIC provides life insurance to Episcopal clergy and their dependents and lay employees of the Episcopal Church; CIC provides property and casualty insurance to the Episcopal Church and church properties. CLIC and CIC are New York domestic insurers; whereas CICNY and CICVT are captive insurers that allow church institutions to benefit from the property and casualty coverages offered by the Fund.

The Fund's non-insurance subsidiaries include: The Church Publishing Incorporated ("CPI"), which publishes the official worship materials of the Episcopal Church; The Church Insurance Agency Corporation ("CIAC"), which provides life insurance licensing services and insurance products to Episcopal institutions; and The Church Pension Group Services Corporation ("CPGSC"), which provides personnel and facilities related services to the Fund and its affiliated companies on a cost reimbursement basis and also administers the Fund's benefit plans and funds.

The Fund sponsors and administers three qualified pension plans: a Clergy Pension Plan ("Clergy Plan"); a Church Lay Employees' Plan ("Lay Plan"); and a Staff Retirement Plan of the Church Pension Fund and Affiliates ("Staff Plan") (collectively, the "Plans"). The Clergy Plan is a defined benefit pension plan intended to provide retirement, death, and disability benefits to eligible clergy. The Lay Plan is a defined benefit pension plan providing retirement, death, and disability benefits to eligible employees of participating employers of the Episcopal Church. The Staff Plan is a defined benefit pension plan intended to provide retirement and death benefits to eligible employees of CPGSC and their dependents.

The Fund charges an assessment to each participating employer in order to fund promised benefits primarily for the defined benefit pension plans. The employer assessment, which is equal to a percentage of each member's applicable compensation each year, was, as of March 31, 2017, 18% for clergy, 9% for lay, and 15% for staff members. Employer assessments for lay and staff members are mostly credited to the Master Trust for each respective defined benefit pension plan (a portion of the staff assessment is retained by the Fund for a nonqualified supplemental executive retirement plan), whereas employer assessments for clergy members are paid directly to the Fund. The Fund is then responsible for funding the Clergy Plan as well as additional clergy benefits provided by the Fund.

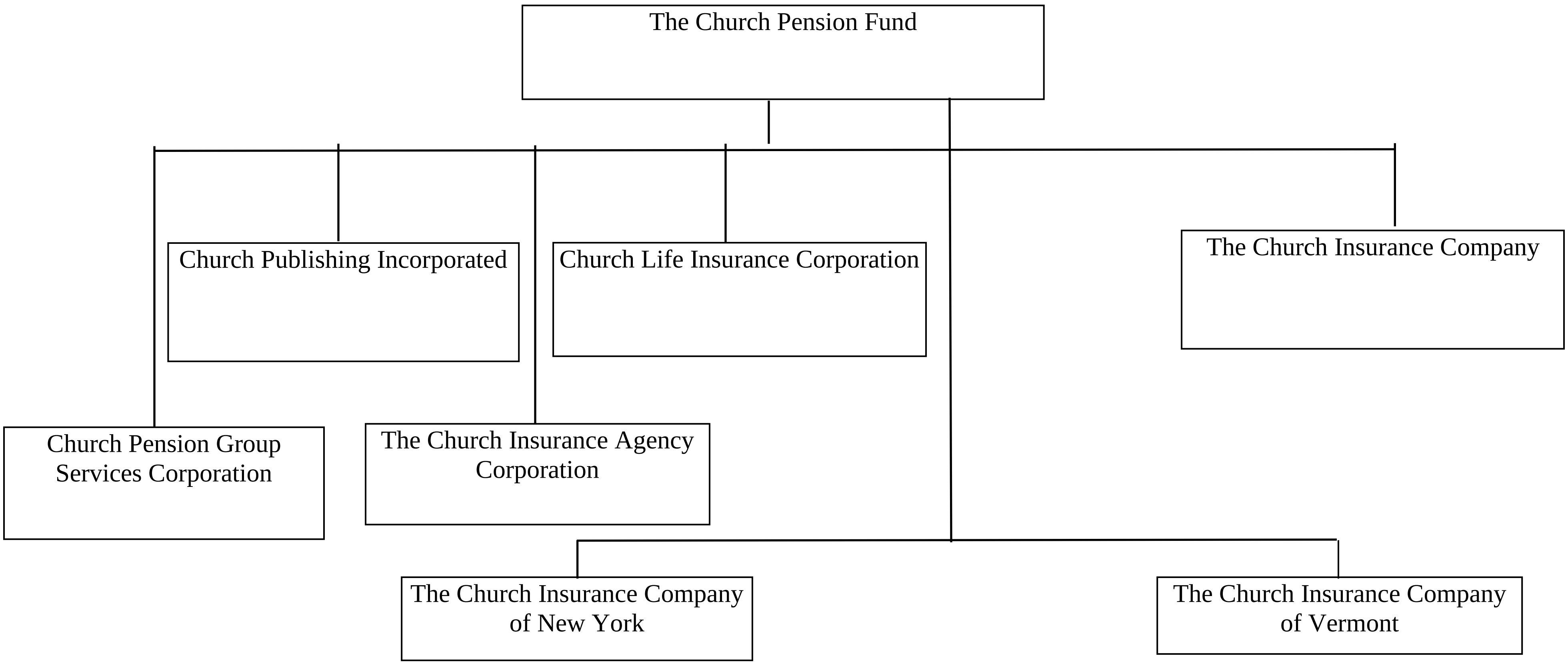
The Fund, as trustee, maintains the Master Trust ("Trust") for the assets of the Clergy Plan, the Lay Plan, and the Staff Plan. How each of the defined benefits pension plans are funded in the Trust varies:

- The Clergy Plan is funded, as necessary, to be at least equal to the plan's actuarial liability for retired participants and their beneficiaries on an annual basis. This means that the amount of assets in the Clergy Plan is expected to be sufficient to provide pension benefits for retired participants and beneficiaries only so the assets of the Clergy Plan alone, without future contributions from CPF, will not be sufficient to provide pension benefits for active and former clergy when they retire;

- The Lay Plan is funded by assessments paid by participating employers. However, the assessment is not actuarially determined each year. This means that the assessment charged could be higher or lower than what is needed to provide each participant's pension benefit using an actuarially determined contribution and traditional actuarial cost methods; and
- The Staff Plan is funded at the discretion of the Fund. This means the Fund may reduce or suspend contributions to the pension plan at any time and for any reason, potentially leading to underfunding of the Staff Plan in the future if assessments are not sufficient.

B. Organizational Chart

Set forth below is an organizational chart reflecting the relationship between the Fund and significant entities in its holding company system as of March 31, 2017.



C. Service Agreements

The Fund had 10 service agreements in effect during the examination period, nine of which were terminated prior to, and one agreement that remained in effect as of, March 31, 2017. Amounts for income and expense are shown for the period April 1 to March 31 except for the CPGSC agreement effective January 1, 2017, which is shown as if the agreement was in effect for the fiscal year ended March 31, 2017.

Type of Agreement	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Fiscal Year Ended
Services & Facilities Agreement	01/01/2003 Terminated 01/01/2017	The Fund	CIC	Office supplies, access to office equipment and office space, other support services.	2013 $ 868,007 2014 $ 632,851 2015 $ 551,501 2016 $ 317,852 2017 $ 188,197
Services & Facilities Agreement	01/01/2003 Terminated 01/01/2017	The Fund	CICVT	Office supplies, access to office equipment and office space, other support services.	2013 $1,379,054 2014 $1,437,457 2015 $1,714,039 2016 $1,968,909 2017 $1,569,104
Services & Facilities Agreement	01/01/2003 Terminated 01/01/2017	The Fund	CIAC	Office supplies, access to office equipment and office space, other support services.	2013 $2,145,240 2014 $2,380,157 2015 $2,164,838 2016 $2,376,046 2017 $2,106,831
Services & Facilities Agreement	01/01/2003 Terminated 01/01/2017	The Fund	The Episcopal Church Clergy and Employees' Benefit Trust (Medical Trust)	Office supplies, access to office equipment and office space, other support services.	2013 $5,671,854 2014 $7,701,327 2015 $8,776,372 2016 $8,835,182 2017 $6,987,184
Services & Facilities Agreement	01/01/2003 Terminated 01/01/2017	The Fund	CLIC	Office supplies, access to office equipment and office space, other support services.	2013 $3,467,791 2014 $3,856,448 2015 $3,933,565 2016 $5,046,756 2017 $4,701,621

Type of Agreement	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Fiscal Year Ended
Services & Facilities Agreement	01/01/2003 Terminated 01/01/2017	The Fund	CPI	Office supplies, access to office equipment and office space, other support services.	2013 $1,106,568 2014 $1,246,106 2015 $1,126,918 2016 $1,073,406 2017 $ 701,511
Services & Facilities Agreement	01/01/2008 Terminated 01/01/2017	The Fund	CICNY	Office supplies, access to office equipment and office space, other support services.	2013 $ 332,989 2014 $ 281,078 2015 $ 0 2016 $ 0
Services & Facilities Agreement	10/01/2012 Terminated 01/01/2017	The Fund	Church Insurance Services LLC	Office supplies, access to office equipment and office space. Other support services.	2013 $ 2,028 2014 $ 5,182 2015 $ 5,986 2016 $ 17,475 2017 $(2,141.85)
Services Agreement	01/01/2013 Terminated 01/01/2014	Medical Trust	The Fund	Consulting Services –Disability	2013 $ (159,189) 2014 $ (101,160)
Services and Facilities Agreement	01/01/2017	CPGSC	**	Personnel, administrative and related services and facilities	2017 $(16,755,441)

* Amount of Income or (Expense) Incurred by the Fund
** CPF, CIC, CICNY, CIAC, CIS, CLIC, CPI, The Episcopal Church Clergy and Employees' Benefit Trust, CPG 34th Street Realty LLC and CI Services, Church Insurance Services LLC

On January 1, 2017, the Fund entered into a service agreement with CPGSC. This agreement replaced all nine previously existing service agreements listed in the chart above. CPGSC provided services to the Fund and its insurance and non-insurance affiliates (each referred to as a "Company" in the service agreement quotes below). Services include personnel, administrative and related services, facilities, office supplies, access to office equipment and office space, and other support services.

The Fund did not comply with certain terms of its service agreement with CPGSC, including Section 2 (Billing and Payment) of the service agreement which states in part that: (a) "within thirty (30) business days following the end of each month, (i) CPGSC shall deliver to each Company an invoice setting forth the services rendered, and the facilities provided to such Company pursuant to Section 1 hereof during such month and the direct and indirect costs incurred by CPGSC in connection with the provision thereof" and (b) "each Company shall remit payment to CPGSC within thirty (30) days of receipt of an invoice from CPGSC. Notwithstanding the preceding sentence, CPGSC shall have the right to request that any Company accelerate the payment of or prepay any amounts owed by such Company to CPGSC hereunder, and such Company shall take such action if so requested."

The Fund failed to settle the intercompany balances it owed CPGSC within 30 days of receiving invoices.

The examiners recommend that the Fund adhere to the terms of its service agreement and remit payments billed within 30 days or amend the service agreement to reflect the actual method of funding to CPGSC. This is a repeat recommendation. After bringing this to the Fund's attention, the Fund agreed to adhere to the terms of the service agreement effective January 1, 2017, and settle the intercompany balances with CPGSC, beginning with the July 2018 billing.

D. Management

The Fund's by-laws provide that the board of trustees shall consist of 25 trustees, including 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 equal as possible, 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, 2017, the board of trustees consisted of 25 members. Meetings of the board are held four times a year.

The 25 board members and their principal business affiliation, as of March 31, 2017, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
The Honorable Martha B. Alexander† Charlotte, North Carolina	Chair – Compensation, Diversity and Workplace Values Committees Church Pension Fund Former Legislator (retired) Charlotte, North Carolina	2009
Rosalie Simmonds Ballentine, Esq. † St. Thomas, U.S. Virgin Islands	Attorney Law Office of Rosalie Simmonds Ballentine, P.C. Diocese of Virgin Islands	2012
The Rev. Thomas James Brown† Winchester, Massachusetts	Rector Church of the Epiphany	2009
The Rt. Rev. Dr. Diane M. Jardine Bruce† Los Angeles, Irvine, California	Bishop Suffragan Diocese of Los Angeles	2012
Barbara B. Creed, Esq. † Portola Valley, California	Chair, Board of Trustees Church Pension Fund Vice Chair (retired) Shareholder Trucker Huss, APC	2001
Vincent C. Currie, Jr.† Pensacola, Florida	Administrator (retired) Diocese of the Central Gulf Coast	1991
The Rt. Rev. Clifton Daniel III† New York, New York	Acting Dean The Cathedral of St. John the Divine	2015
Gordon B. Fowler, Jr. † Philadelphia, Pennsylvania	Chair, Investment Committee Church Pension Fund President, Chief Executive Officer and Chief Investment Officer Glenmede Trust Company Bryn Mawr, PA	2012
Delbert C. Glover, Ph.D. † Providence, Rhode Island	Chair, Audit Committee Church Pension Fund Vice President (retired) DuPont	2012
Ryan K. Kusumoto† Honolulu, Hawaii	President and Chief Executive Officer Parents and Children Together	2012
Kevin B. Lindahl, Esq. † Denver, Colorado	General Counsel Fire and Police Pension Association	2012

Name and Residence	Principal Business Affiliation	Year First Elected
The Very Reverend Tracey Lind† Cleveland, Ohio	Chair, Benefits Policy Committee Church Pension Fund Dean (retired) - Trinity Cathedral	2009
Kathryn Weathersby McCormick† Jackson, Mississippi	Diocese of Mississippi	2012
Sandra F. McPhee, Esq.† Wilmette, Illinois	Law Office of Sandra Ferguson McPhee Evanston, IL	2015
The Reverend Dr. Timothy J. Mitchell† Louisville, Kentucky	Vice Chair - Church Pension Fund Rector - Church of the Advent	2009
Margaret A. Niles† Lake Forest Park, Washington	Chair, Finance Committee Church Pension Fund Partner K&L Gates, LLP	2009
Solomon S. Owayda† Arlington, Massachusetts	Founding Partner Mozaic Capital Advisors	2012
Diane B. Pollard† New York, New York	Human Resources Consultant Independent Benefits	2006
The Rt. Rev. Brian N. Prior† Minneapolis, Minnesota	Bishop Episcopal Church in Minneapolis	2015
The Rt. Rev. Gregory H. Rickel† Seattle, Washington	Bishop Diocese of Olympia	2015
Sandra S. Swan, D.L.H† Chocowinity, North Carolina	Vice Chair - Church Pension Fund President Emerita Episcopal Relief and Development	2009
Anne M. Vickers, CFA† Parrish, Florida	Finance and Administration Episcopal Diocese of SW Florida	2015
The Rev. Dr. Sandye A. Wilson† South Orange, New Jersey	Rector The Episcopal Church of St. Andree and Holy Communion	2015
Mary Katherine Wold New York, New York	President and Chief Executive Officer The Church Pension Fund	2011
T. Cecil Wray, Esq.† New York, New York	Retired Partner Debevoise & Plimpton LLP	2000

† Not affiliated with the Fund or any other entity in its holding company system

The Fund's principal officers as of March 31, 2017 include:

Name	Title
Mary Katherine Wold	Chief Executive Officer and President
Frank Armstrong	Executive Vice President and Chief Operating Officer
Nancy L.Sanborn	Executive Vice President, Chief Legal Officer, and Secretary
Roger Sayler	Executive Vice President, ManagingDirector, and Chief Investment Officer
Ellen Taggart	Executive Vice President and Chief Financial Officer

E. Territory and Plan of Operations

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

F. Accounts and Records

The examiner reviewed the Fund's accounts and records regarding general and administrative expenses and investment management and custodial costs. The Fund's general and administrative ("G&A") expenses, which totaled $371,364,719.25 during the examination period, consist of the following expenses:

- Salaries and employee benefits, which represented approximately 75% of the G&A expenses, included:

Salaries	$ 185,329,691.29	49.91%
Employee Benefits	$ 75,930,168.88	20.45%
Post-retire Sup-Benefits	$ 15,767,769.67	4.25%

- Professional and investment management and custodial fees, which totaled $59,209,521.17 during the examination period and represented roughly 16% of the G&A expenses (investment management and custodial fees totaled $45,529,962 and represented approximately 12% of the 16%).
- Employee meals, transportation, and travel (excluding general telephone expenses) represented roughly 7% of the G&A expenses.

The chart below compares the Fund's expenses against clergy assessments during the examination period.

Fiscal Year Ended March 31	General & Administrative Expenses (G&A)	Investment Management & Custodial Expenses (M&C)	Total Expenses	Clergy Assessment	Expenses greater than assessments
2017	$79,536,523	$39,361,263	$118,897,786	$ 83,014,468	($ 35,883,318)
2016	80,567,089	41,154,285	$121,721,374	82,758,639	($ 38,962,735)
2015	72,737,673	41,468,006	$114,205,679	83,471,815	($ 30,733,864)
2014	75,228,375	38,097,938	$113,326,313	82,420,209	($ 30,906,104)
2013	63,570,373	30,966,178	$ 94,536,551	83,157,270	($ 11,379,281)
Total	$371,640,033	$191,047,670	$562,687,703	$414,822,401	($147,865,302)

As indicated in the chart above, based on the five years of G&A and M&C expenses compared to the clergy assessments received during the examination period, the G&A expenses and M&C fees incurred surpassed the clergy assessments for each year under review requiring the Fund to rely on investment returns to fund promised clergy benefits.

The examiners recommend that the Fund continue its focus on expense management and look to reduce expenses where appropriate.

4. MANAGEMENT AND CONTROL

A. Minutes and Board Actions

The examiners' 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. However, the examiners noted instances where the meeting minutes did not fully disclose its discussion and rationale for certain actions taken.

The examiners recommend that minutes of the meetings of the Fund's Board of Trustees, memorialize more completely its actions and rationale for its decisions on more significant matters, commensurate with the complexity of the matters considered and the length of discussion.

5. SIGNIFICANT OPERATING RESULTS

Set forth below is significant information regarding the operations of the Fund during the period under examination as extracted from the Fund's annual statements filed with the Department. 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, 2012	March 31, 2017	Increase (Decrease)
Admitted assets	$9,729,219,503	$12,338,667,085	$2,609,447,582
Net Reserves	$6,996,883,903	$ 9,707,964,217	$2,711,080,314
Other liabilities	2,732,335,600	2,630,712,868	(101,622,732)
Total reserves and liabilities	$9,729,219,503	$12,338,677,085	$2,609,447,582

The Fund's invested assets as of March 31, 2017, mainly consisted of limited partnerships (28%), fixed income securities (27%), alternative investments (24%), and equity securities other than affiliated companies (19%).

The following table indicates the Fund's membership during the examination period:

Fiscal Year Ended March 31,

	2013	2014	2015	2016	2017
Active members	6,824	6,659	6,564	6,478	6,330
Service pensioners	7,177	7,320	7,407	7,520	7,641
All other pensioners	2,911	2,926	2,978	3,030	3,055
Total	16,912	16,905	16,949	17,028	17,026

6. FINANCIAL STATEMENTS

The following financial statements show the assets, liabilities, and reserves of the Fund as of March 31, 2017, as contained in the Fund's 2017 filed annual statement, and the income and disbursements for each of the fiscal years under review.

A. STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS FISCAL YEAR ENDED MARCH 31, 2017

Assets	
Equity securities, other than affiliated companies	$ 2,322,028,777
Fixed Income Securities	3,287,204,641
Real estate and private equity	3,329,005,179
Alternative investments	2,873,986,894
Affiliated companies, equity interest	222,405,994
Short-term securities	23,288,511
Total Investments, at fair value	$12,057,919,995
Receivables from brokers	$ 15,500,406
Assessments receivable, less allowance for doubtful accounts	3,411,822
Accrued investment income and other assets	71,152,635
Home office building and improvements, less accumulated depreciation	27,488
Cash and Cash Equivalents	526,284,005
Total other assets	616,376,356
Total assets	$12,674,296,351
Liabilities	
International clergy pension plan	$ 154,279,502
Payable to brokers	58,312,229
Accrued expenses and other liabilities	123,027,535
Total Liabilities	$ 335,619,266
Total net assets	$12,338,677,085

Components of net assets	
Restricted net assets:	
Permanently restricted legacy and gift fund	$ 28,690,303
Temporarily restricted legacy and gift fund	20,107,907
Total restricted net assets	$ 48,798,210
Unrestricted net assets:	
Designated for Medicare Supplement Subsidy Fund	$ 1,038,451,483
Designated for Clergy Life Insurance Benefit Fund	242,752,816
Designated for Benefit Equalization Pension Fund	63,177,929
Designated for Investment in affiliated companies	123,678,790
Designated for assessment deficiency	1,113,853,641
Total unrestricted net assets	$ 2,581,914,658
Net assets available for benefits:	
The Clergy Pension Plan	$ 9,287,173,280
The Episcopal Church Lay Employees' Retirement Plan	190,189,291
Staff Retirement Plan of The Church Pension Fund and Affiliates	230,601,646
Total net assets available for benefits	$ 9,707,964,217
Total unrestricted net assets	$12,289,878,875
Total net assets	$12,338,677,085

B. STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FISCAL YEARS ENDED MARCH 31

	2013	2014	2015	2016	2017
Assessments	$ 83,157,270	$ 82,420,209	$ 83,471,815	$ 82,758,639	$ 83,014,468
Interest	102,082,244	103,132,328	98,685,507	117,416,360	102,247,618
Dividends and other income	12,172,719	4,022,546	12,567,640	34,816,749	(459,633)
Net (loss) gain on real estate and private equity investments	250,053,435	466,054,230	0	0	322,304,739
Net (loss) gain on alternative investments	194,972,203	276,429,596	180,189,953	(108,274,179)	336,659,865
Net realized and unrealized investment gains on equity and fixed income securities	325,800,916	326,530,669	221,464,607	(187,478,624)	395,433,746
Net gain/(loss) on limited partnerships	0	0	420,447,427	278,652,774	0
Total additions to net assets	$968,238,787	$1,258,589,578	$1,016,826,949	$217,891,719	$1,239,200,803
Pensions and other benefits	$285,847,278	$ 295,179,902	$ 302,448,035	$309,077,874	$ 313,687,575
Medical supplement	28,288,106	29,498,713	31,304,951	32,750,191	34,808,949
Life insurance	14,250,441	14,547,779	14,913,397	15,342,673	15,699,239
Total benefits	$328,385,825	$ 339,226,394	$ 348,666,383	$357,170,738	$ 364,195,763
Investment management and custodial fees	$ 30,444,780	$ 37,618,436	$ 40,975,087	$ 40,743,690	$ 38,919,116
General and administrative	63,213,353	71,464,089	70,853,467	80,047,338	79,531,549
Enterprise-wide projects	2,163,720	3,748,285	1,703,360	209,892	0
General convention resolution projects	356,480	16,003	53,791	309,858	4,978
Total expenses	$ 96,178,333	$ 112,846,813	$ 113,585,705	$121,310,778	$ 118,455,642
Total benefits and expenses	$424,564,158	$ 452,073,207	$ 462,252,088	$478,481,516	$ 482,651,406

International Clergy Pension Plan	$ (1,818,978)	$ (10,447,151)	$ 17,714,028	$ (4,448,211)	$ (766,514)
Other deductions (additions)	11,867,457	(27,858,157)	77,766,343	3,131,656	(108,314,128)
Increase (decrease) in total net assets	$ 533,626,150	$ 844,821,679	$ 459,094,490	$(259,273,242)	$ 865,630,040
(Increase) Decrease in Restricted Net Assets	$ (2,341,513)	$ (4,417,438)	$ (3,440,257)	$ (639,072)	$ (4,528,366)
(Increase) Decrease in Medicare Supplement Subsidy Fund	214,438,751	31,088,750	(215,322,779)	95,279,098	25,542,497
(Increase) Decrease in Clergy Life Insurance Benefit Fund	(3,031,662)	8,702,526	(15,917,976)	8,492,209	(19,797,160)
(Increase) Decrease in Benefit Equalization Plan Fund	0	0	0	0	(13,653,674)
(Increase) Decrease in investment in affiliated companies	5,860,964	4,795,220	2,402,024	(5,106,030)	(9,190,115)
(Increase) Decrease in assessment deficiency	78,106,230	161,618,810	0-	0-	142,308,792
Decrease (increase) in assessment deferred and other deductions	0	0	(499,493,170)	119,312,892	0
Decrease (Increase) in Supplemental Pension Fund	26,387,226	1,619,616	(11,680,215)	(16,005,699)	0
(Decrease) increase in net assets available for benefits	$ 853,046,146	$1,048,229,163	$(284,357,883)	$ (57,939,844)	$ 986,312,015
Net assets available for benefits at beginning of year	$6,741,883,683	$7,594,929,829	$8,643,158,993	$8,358,801,109	$8,300,861,265
Net assets available for benefits at end of year[i]	$7,594,929,829	$8,643,158,993	$8,358,801,109	$8,300,861,265	$9,287,173,280

7. TREATMENT OF PLAN PARTICIPANTS

The examiners reviewed a sample of various types of retirement benefits provided to plan participants and beneficiaries, including the various controls involved, the accuracy of the calculations and the accounting data incorporated into the books of account. Based on the review, the below errors were noted and the following recommendation made.

The examiners recommend that the Fund complete a thorough review of the benefit calculations for retirees or dependents/beneficiaries who currently are receiving or previously received benefits from the benefit plans administered by the Fund and establish formal correction procedures for each plan to address and remedy any errors in benefits paid or to be paid. The Fund has indicated that corrective actions have been taken regarding this recommendation.

A. Failure to Pay Benefit Payments Timely

The Fund failed to timely commence the payment of pension benefits for a significant portion of former employees without any retroactive payments, resulting in lost benefits for such members and savings to the Fund. The examiners' review of member data as of December 31, 2016, listed the following:

	Clergy Plan	Lay Plan	Staff Plan
Former Employees eligible for a pension benefit	876	1,029	111
Number past required start date *	90	47	1
Number past normal retirement date	188	241	2

* April 1st following calendar year in which member turns 70½ if the member is no longer working

Delaying payment of pension benefits to former employees past the normal retirement date does not advantage these individuals, but such practices do serve the Fund's financial interests since no pension benefits are paid during this period. Further, these former employees do not receive increased benefits by deferring payment past their normal retirement date nor do they receive payments retroactive to their normal retirement date. In actuality, missed payments are effectively forfeited by former employees and are retained by the Fund, representing a savings to the Fund.

In addition, the Fund's payment schedule violates Internal Revenue Code ("IRC") limits on how long former employees may defer payment. IRC §401(a)(9) requires former employees to take at least a required minimum distribution ("RMD") from their retirement plan by their required start date. Failure to commence pension benefits for former employees by this date—which affected approximately 10% of former clergy according to the data above—constitutes a plain violation of IRC §401(a)(9). Consequently, if the amount distributed to these former employees during a given tax year is less than their RMD for that tax year, then these individuals must pay an excise tax equal to 50% of the amount by which the RMD exceeds the actual amount distributed during the calendar year. For a former employee who has taken $0 from their retirement in a year during which they should have taken at least an RMD, this can amount to a steep tax bill. In addition, the data above indicates that benefit payments did not commence by the normal retirement date for more than 20% of former clergy and lay employees as of December 31, 2016. This high percentage indicates that former employees may not be aware of pension benefits payable to them and calls into question the thoroughness of the Fund's processes to ensure that former employees are notified of their pension benefits payment dates and to ensure that such benefits are paid timely.

The examiners recommend that the Fund review such processes and take corrective action to rectify these issues. The Fund should implement a new outreach program to ensure compliance with required distributions under IRC §401(a)(9) and reduce the forfeiture of member pensions by deferral of payment after normal retirement age. The new program should inform the participant of their benefit eligibility and the financial impact of deferring payment. The Fund has indicated that corrective actions have been taken regarding this recommendation.

B. Failure to Timely Verify Death Records and Keep Accurate Records

The examiners reviewed the records of 30 clergy members aged 90 or older who had not started receiving their pension benefits. Five of the 30 clergy members (or 16.6%) were identified as deceased by the Fund. However, the Fund failed to provide evidence to confirm the death of these clergy members. The examination revealed that the Fund did not have an adequate procedure in place to properly confirm and document the clergy member's death upon notification by either next of kin, Pension Benefit Information ("PBI"), Common Reference Database ("CRDB"), or international dioceses.

The examiners recommend that the Fund should develop and implement new procedures, or modify its existing procedures, to more accurately reflect the proper verification of a clergy member's death following notification from next of kin, PBI, CRDB, or domestic/international dioceses. These procedures should mandate and detail the processes regarding outreach to international dioceses to locate missing participants, and death verification should be performed annually to ensure clergy member's information is updated continuously and timely in the Fund's administrative system. The Fund has indicated that corrective actions have been taken regarding this recommendation.

The Fund maintains a record of clergy members who were eligible for deferred pension benefits. A sample of this record revealed that ten of the 30 clergy members (or 33.3%) were identified as deposed prior to 1968, and earned less than 10 years of credited services and therefore not eligible for vested pension benefits. Nonetheless, they were included in the record of clergy members who were eligible for deferred pension benefits. The examiners requested the Fund to provide an updated listing of clergy eligible for a deferred pension benefit. The Fund was unable to provide this information due to its failure to track ineligible clergy differently than the clergy population vested to receive a pension.

The examiners recommend that the Fund revise the pension benefit deferred listing to remove any deposed or terminated clergy members who are not eligible for vested pension benefits. The Fund has indicated that corrective actions have been taken regarding this recommendation.

Additionally, two of the 30 clergy members (or 6.6%) were identified as deposed international clergy members and were eligible for vested pension benefits. The Fund could not locate one clergy member and ceased to perform any additional outreach regarding the clergy member's location since the clergy member reached the age of 110 years. For the other clergy member, who is 90 years old, the Fund could not confirm the death of that clergy member.

The examiners recommend that the Fund remove unlocated clergy members from the pension benefit deferred listing and treat all benefits as unclaimed. The Fund has indicated that corrective actions have been taken regarding this recommendation.

The examiners recommend that the Fund revise and implement a new outreach program. The new program should inform the participant of their eligibility for a benefit and the financial impact of deferring payment. Also, the new program should mandate that outreach to international dioceses for locating missing participant and death verification be performed annually to ensure current and accurate clergy's information are continuously being updated in the Fund's administrative system. The Fund has indicated that corrective actions have been taken regarding this recommendation.

C. Occurrence of Errors

The examiners' review of a sampling of benefit calculations and election forms prepared by the Fund revealed a significant number of errors in the amount or form of payment offered to members. The chart below summarizes the number of calculations reviewed, the number of calculations which the examiners deemed[1] to have at least one mistake, and the resulting error rate by benefit plan.

Plan	No. Calculations Sampled	No. Calculations with at least one error	Error Rate
Clergy	36	10	27.78%
Lay	25	13	52.00%
Staff	28	18	64.29%
Total	89	41	46.07%

Sample errors detected during the examination include:

i) one clergy and two staff plan retirees received pension payments from the respective qualified pension plans exceeding the maximum amount allowed under IRC § 415;

ii) two clergy, two lay and one staff plan member did not start receiving pension payments retroactive to the minimum required distribution date in accordance with plan provisions and IRC §401(a)(9);

iii) four staff plan members were offered and, in some cases paid, joint and survivor pension benefits for members with non-spouse beneficiaries in excess of the maximum percentage

[1] The Fund disagrees with the examiners on the number of errors for the Staff Plan and has stated that 7 errors instead of 18 errors should be listed. The Fund views the Staff Plan error rate as 25% with a total of 30 errors and a total error rate of 33.71%. The disagreement is due to the actuarial equivalence factors used joint and survivor benefit calculations which is discussed further in v).

permitted under the plan and allowed under the minimum distribution incidental benefit requirements of IRC §401(a)(9);

iv) the lump sum amounts for one lay and two staff plan members were not determined in accordance with plan provisions. A review of 100 lump sum calculations for the Lay Plan during the examination revealed similar errors. In response, management of the Fund has stated that lump sums paid for Lay members between 2005 and 2017 need to be recalculated; and

v) the examiners calculated different amounts for the joint and survivor forms of payment for 15 staff plan members. Plan provisions require the joint and survivor forms of payment to have an "equivalent actuarial value" to the single life benefit. An actuarially equivalent benefit is a benefit that has the same present value as the single life benefit at retirement. Plan provisions or administrative practices may define the age at retirement when determining actuarial equivalence factors for any particular form of payment (for example, nearest ages for determining 50% joint and survivor actuarial equivalence factors, but exact ages for determining 75% joint and survivor actuarial equivalence factors). However, the present values should be determined at the same age for the particular form of payment (for example, when determining actuarial equivalence for the 50% joint and survivor option, the present value of the single life benefit at nearest age and the present value of the 50% joint and survivor benefit at nearest ages are used, but the present value of the single life benefit at exact age and the present value of the 75% joint and survivor benefit at exact ages are used for the 75% joint and survivor option). A review of the actuarial program for calculating conversion factors from a single life to a joint and survivor form of payment revealed that the program uses present values at different ages. When calculating joint and surviving option factors, the program compares the present value of the joint and survivor benefit at the exact age (years and months) of the member and beneficiary against the present value of the single life benefit at the member's nearest age (years only). This results in joint and survivor benefits not having an actuarially equivalent value to the single life benefit in many instances. This is illustrated in the chart below which compares the Fund's factors against actuarially equivalent factors at different member ages.

Conversion Factor from Single Life to 50% Joint and Survivor				
Member Age (Years, Months)	Beneficiary Age (Years, Months)	Fund Factor	Actuarially Equivalent Factor	Difference
63, 0	67, 5	0.9276	0.9276	0.0000

63, 1	67, 5	0.9289	0.9271	0.0018
63, 2	67, 5	0.9302	0.9266	0.0036
63, 3	67, 5	0.9314	0.926	0.0054
63, 4	67, 5	0.9327	0.9255	0.0072
63, 5	67, 5	0.9339	0.9250	0.0089
63, 6	67, 5	0.9137	0.9244	(0.0107)
63, 7	67, 5	0.9149	0.9239	(0.0090)
63, 8	67, 5	0.9161	0.9233	(0.0072)
63, 9	67, 5	0.9174	0.9228	(0.0054)
63, 10	67, 5	0.9186	0.9222	(0.0036)
63, 11	67, 5	0.9199	0.9217	(0.0018)

Consequently, the examiners deem the monthly payments are overstated for members retiring within six months following their last birthday and for members retiring within six months of their next birthday, the monthly payments are understated. However, the Fund has indicated its discretionary authority under Section 5.01 of the Staff plan document that the Fund's factors are actuarially equivalent.

The examiners recommend that the Fund revise its optional form of payment factors to be actuarially equivalent in practice. The Fund has indicated that it has revised the methodology used for the Staff Plan to use whole years and months when determining both single life and joint and survivor annuity factors.

D. <u>Clergy Retirement Subsidy Results in Preferential Treatment on Average to Males</u>

The Clergy Plan provides a retirement subsidy to offset the cost of the 50% joint and survivor option for married clergy. For example, suppose a retiring clergy had an accrued benefit of $1,000 per month as a single life annuity and the same $1,000 accrued benefit would provide $900 per month as a 50% joint and survivor annuity based on the ages of the clergy and spouse. The Clergy Plan would increase the accrued benefit (i.e., retirement subsidy) by roughly 11.11% to offset the cost of the 50% joint and survivor option. The resulting monthly benefit would be $1,111.11 as a single life annuity and $1,000 as a 50% joint and survivor annuity. The retiring clergy could then elect a monthly single life annuity of $1,111.11 or a 50% joint and survivor annuity of $1,000. As the cost of the 50% joint and survivor annuity varies based on the age at retirement of the member and spouse, this means that the clergy retirement subsidy also varies.

The cost of a 50% joint and survivor option generally increases each year that a clergy member is older (since such member is more likely to die sooner and the plan will have to provide a benefit to the spouse) and further increases each year that the spouse is younger than the clergy member (since the plan is more likely to make benefit payments for a longer period to the spouse). While men and women would receive the same retirement subsidy if retiring at the same clergy and spouse ages, in practice, female and male clergy generally do not have same age spouses. Female clergy tend to have an older spouse while male clergy tend to have a younger spouse. As a result, male clergy generally receive a larger retirement subsidy than female clergy in practice since the cost of the 50% joint and survivor is greater due to having a younger spouse.

The following example illustrates how preferential treatment results. Assume two clergy members, one male and the other female, both aged 65 and both have earned the same accrued benefit of $1,000 per month under the plan. The only difference between the two is gender. Using the assumed age differential for male and female clergy as defined in the 2017 actuarial valuation report (male clergy generally are three years older than their spouses and female clergy are two years younger than their spouses), the following benefit amounts would be provided as a life annuity:

Form of Payment	Amount Payable (Male Age 65, Spouse Age 62)	Amount Payable (Female, Age 65, Spouse Age 67)	Difference (%)
Life Annuity	$ 1,089.20	$ 1,064.70	2.3%
50% Joint and Survivor	$ 1,000.00	$ 1,000.00	0.0%

A male clergy member receives a subsidy that is 2.3% higher than a same aged female clergy member. In this example, the married female clergy member effectively receives a smaller subsidy for having an older spouse. If, however, the female clergy member was not married, the Clergy Plan would still provide a subsidy increase. The increase for an unmarried clergy member is determined as if the clergy was married with a spouse three years younger. In the example above, if the female clergy member was not married, she would receive $1,089.20, as a life annuity, which is a higher amount that what she would have received if she was married.

A comparison, based on valuation data as of December 31, 2016, of the average estimated subsidy provided to currently retired married males, married females, and non-married clergy is provided in the chart below. The marital status of each retiree was not provided in the valuation data. For purposes of this comparison, the examiners assumed that retirees with a joint and survivor benefit and a beneficiary within 30 years of the retiree's age are married. All other retirees were assumed to be single.

Retirement Age	Average Subsidy for Married Males	Average Subsidy for Married Females	Average Subsidy for Single Members
55	4.88%	4.11%	5.45%
56	5.54	3.96	5.73
57	5.57	3.65	6.02
58	5.75	2.63	6.32
59	6.42	5.24	6.64
60	6.74	5.37	6.98
61	7.27	5.10	7.34
62	7.66	6.15	7.71
63	8.28	7.01	8.10
64	8.56	7.47	8.50
65	9.18	6.55	8.92
66	9.71	7.20	9.35
67	10.56	8.31	9.79
68	11.27	7.38	10.25
69	11.70	9.56	10.71
70	13.11	10.64	11.17
71	13.56	10.67	11.64
72	14.88	9.72	12.12

As illustrated in the chart above, at all retirement ages listed, the average subsidy for married males exceeded the average subsidy for married females. Furthermore, the average subsidy for married females was less than the average subsidy for single members at each retirement age.

The Fund has employed a benefit calculation methodology that results in a higher subsidy, on average, to male clergy versus female clergy due to differences in marital status and spouse ages. In response, the Fund stated its outside benefits counsel supports the Fund's view that the retirement subsidy is permissible. In addition, the Fund indicated that its consulting actuary views the methodology used to calculate the retirement subsidy is actuarially equivalent and equitable.

The examiners recommend that the Fund consider using a more optimal methodology to ensure equitable treatment and benefits for plan participants.

8. ACTUARIAL REVIEW

A. Liabilities and Assets

The following tables show the Fund's liabilities and assets as reported in the annual statements filed with the Department for the five years included in the scope of the examination period.

(Amounts are shown in thousands)

Year ended March 31,	2013	2014	2015	2016	2017
Present value of benefits (PVB) for active participants:					
Service retirement	3,093,614	2,844,838	3,611,789	3,425,025	3,272,602
Disability retirement	139,505	129,638	147,474	141,797	158,977
Pre-retirement death	419,545	369,091	487,408	445,888	441,897
Termination	139,960	124,502	168,671	158,745	91,461
Medical benefits	450,750	418,986	531,458	522,019	515,693
Life insurance benefits	105,652	95,504	104,313	96,532	105,941
LESS: present value of future assessments	(779,385)	(753,518)	(805,867)	(795,284)	(758,976)
Net PVB for active participants	3,569,641	3,229,041	4,245,244	3,994,722	3,827,594
Vested participants:					
Service retirement	164,500	160,203	183,859	166,555	164,293
Medical benefits	23,245	19,351	16,792	14,950	10,863
Life insurance benefits	1,141	1,106	1,283	1,285	1,130
Retired participants:					
Service retirement	3,133,176	3,090,042	3,702,521	3,637,520	3,508,432
Disability retirement	215,507	207,475	230,752	220,025	211,918
Beneficiaries in receipt	609,521	594,861	690,747	688,270	656,994
Medical benefits	524,084	526,479	626,143	541,760	526,238
Life insurance benefits	183,594	182,401	194,324	192,675	201,546
Net PVB for non-active participants	4,854,767	4,781,918	5,646,422	5,463,041	5,281,414
Total net present value of Benefits	8,424,409	8,010,959	9,891,666	9,457,763	9,109,009
Actuarial Value of Assets	10,001,089	10,838,807	11,316,138	11,046,494	11,899,689

The annual statements provided to the Department during the examination period contained only information for the Clergy Plan.

The examiners recommend that future annual statement filings contain information for all defined benefit pension plans sponsored by the Fund, including the Lay Plan and the Staff Plan. The Fund has indicated that corrective actions have been taken regarding this recommendation.

B. Benefits

The summary below describes the pension plan benefits valued in the actuarial liabilities as of March 31, 2017. Principal benefits for domestic clergy, lay, and staff members include:

Clergy (Domestic)

Normal Retirement:

- Eligibility: Age 65 and 5 years of credited service.
- Benefit: 1.60% of Highest Average Compensation ("HAC")[2], plus an additional 1.15% of HAC not in excess of $10,000, multiplied by credited service.

Full Early Retirement:

- Eligibility: Age 55 and 30 years of credited service.
- Benefit: Normal retirement formula benefit, plus a "bridge benefit" of $17.50 per month times years of credited service is payable until age 65.

Reduced Early Retirement:

- Eligibility: Age 55 and 5 years of credited service.
- Benefit: Normal retirement formula benefit reduced 0.4167% for each month (5% annually) the commencement date precedes age 65. If age 55 or older on January 1, 2018, the normal retirement benefit is reduced by 0.20% for each month the commencement date precedes age 65 if the participant's commencement date is on or after age 60. If the participant's commencement date is before age 60, then a reduction of 0.4167% applies for each month the commencement date precedes age 65.

Disability Retirement:

- Eligibility: Total and continuing disability certified by the Fund's Medical Board.

[2] Highest Average Compensation or "HAC" is generally the average compensation for the highest seven out of eight consecutive 12 month periods for which the member earned credited service under the plan.

- Benefit: For active participants, a monthly pension benefit payable at age 65 based on the normal retirement benefit formula using the HAC as of the participant's disability and credited service projected to age 65. Prior to age 65, active participants becoming disabled may receive benefits through CPF's short-term and long-term disability benefit programs as well as subsidized medical coverage.

Survivor Benefit (for surviving spouse or surviving designated beneficiary):

- Eligibility: Participant who dies before retirement or while on disability retirement.
- Benefit: For active participants, generally one-half the normal retirement formula benefit, but based on credited service projected to age 65. Further, if the participant died while eligible for normal or early retirement, the benefit is not less than what would have been payable if the participant had retired and elected the 100% joint-and-survivor option. For inactive participants, a reduced benefit equals to 50% of the participant's accrued benefit is payable. Benefits are payable to eligible beneficiaries and generally commence the first of the month following the participant's death.

Benefit for Surviving Children:

- Eligibility: All eligible dependent children of a deceased participant.
- Benefit: Amount as specified in the Clergy Child Benefit Plan at time of death. During the period under examination, the amount ranged from approximately $6,700 to $7,000 per year. The amount is payable until the child marries, becomes independent or attains age 25, whichever occurs first, and is reduced if the participant had less than 15 years' credited service. Various other reductions or limits may apply.

Christmas Benefit:

- Eligibility: All retirees and eligible beneficiaries.
- Benefit: An annual payment is made each December equal to 25 times the participant's credited service (or projected credited service for disability retirements and pre-retirement death benefits). If a survivor benefit is shared between more than one beneficiary, each beneficiary will receive an equal portion of the Christmas benefit.

Resettlement Benefit:

- Eligibility: In general, 18 months of credited service during the 24 months immediately prior to retirement.

- Benefit: Lump sum equal to 12 times the monthly retirement benefit subject to a minimum of $2,000 and a maximum of $20,000.

Life Insurance Benefit:

- Eligibility: Active participant who dies before retirement. Retiree that was an active participant at retirement.
- Benefit: Lump sum equal to 6 times the participant's total assessable compensation, up to $150,000 for active participant death benefits. Generally, the retiree death benefit is a lump sum equal to 6 times the participant's HAC, up to $50,000.

Post-Retirement Health Benefits:

- Eligibility: Active employee and a participant in the active medical plan at retirement.
- Benefit: Prior to Medicare eligibility, a retiree may continue to receive health insurance offered through their former employer by the retiree paying the full health insurance premium. Once eligible for Medicare, eligible retirees receive financial assistance towards the health insurance premium. Eligible retirees must elect health plans offered through The Episcopal Church Medical Trust to receive financial assistance.

Cost-of-Living Increases (COLA):

- Eligibility: Retirees and beneficiaries receiving a monthly pension or child benefit.
- Benefit: Generally, benefits are increased annually in accordance with the Social Security COLA adjustment. The COLA increase is discretionary and subject to approval by the Fund's Board of Trustees annually.

Lay

Normal Retirement:

- Eligibility: Age 65.
- Benefit: 1.50% of HAC multiplied by credited service.

Reduced Early Retirement:

- Eligibility: Age 55.
- Benefit: Normal retirement formula benefit reduced 0.4167% for each month (5% annually) the commencement date precedes age 65. If age 50 or older as of December 31, 2017, the normal retirement benefit is reduced by 0.20% for

each of the first 60 months the commencement date precedes age 65, plus an actuarial reduction for each additional month thereafter.

Disability Retirement:

- Eligibility: Total and continuing disability certified by the Fund's Medical Board.
- Benefit: Monthly benefit equal to the participant's accrued benefit as of the disability date based on a minimum of 10 years of credited service. Disability benefit is payable until the earlier of the participant's death, retirement, or normal retirement date.

Survivor Benefit (for surviving spouse):

- Eligibility: Active participant eligible for early retirement and married for at least one year at date of death.
- Benefit: Monthly benefit to the surviving spouse is 50% of the same monthly benefit payable to the participant as if the participant had retired with a minimum of 10 years of credited service as of the date of death and elected a 50% joint and survivor option.

Life Insurance Benefit:

- Eligibility: Active participant who dies before age 72.
- Benefit: Lump sum equal to 2 times the participant's eligible compensation, up to $50,000.

Cost-of-Living Increases (COLA):

- Eligibility: Retirees and beneficiaries receive a monthly pension.
- Benefit: The COLA increase is discretionary and subject to approval by the Fund's Board of Trustees annually.

Staff

Normal Retirement:

- Eligibility: Age 65.

- Benefit: 1.50% of Average Final Compensation ("AFC")[3] multiplied by credited service up to 40 years. If hired before September 1, 2010, the benefit is 2.0% of AFC multiplied by credited service up to 40 years.

Full Early Retirement:

- Eligibility: Age 55 with age and credited service totaling at least 85.
- Benefit: Normal retirement formula benefit.

Reduced Early Retirement:

- Eligibility: Age 55 and 5 years of credited service.
- Benefit: Normal retirement formula benefit reduced 0.30% for each month (3.6% annually) if the commencement date precedes age 65.

Disability Retirement:

- Eligibility: Receipt of disability benefits under the Employer's Long-Term Disability Plan and 5 years of vesting service.
- Benefit: Monthly benefit equal to the participant's accrued benefit as of the disability date payable at the participant's normal retirement date.

Survivor Benefit (for surviving spouse):

- Eligibility: Generally, 5 years of vesting service or age 65.
- Benefit: For active participants hired before January 1, 2012, one-half the normal retirement formula benefit, but based on credited service projected to age 65. For active participants hired on or after January 1, 2012, a reduced benefit equals to 50% of the participant's accrued benefit is payable. For all active participants, if the participant died while eligible for normal or early retirement, benefit is not less than what would have been payable if the participant had retired and elected the 100% joint-and-survivor option. Benefits are payable immediately following the active participant's death with the exception of participants hired on or after January 1, 2012, who die prior to early retirement age. Payment generally is deferred to the deceased participant's normal retirement date. Other death benefits are available in the case of inactive participant deaths and survivor benefits payable to eligible non-spouse beneficiaries.

Cost-of-Living Increases (COLA):

- Eligibility: Retirees and beneficiaries receiving a monthly pension.

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[3] Average Final Compensation or "AFC" is generally the greater of (A) the average compensation for five consecutive calendar years which credited service was earned and provided the highest average and (B) average compensation for last 60 months of credited service.

- Benefit: The COLA increase is discretionary and subject to board of trustees approval each year.

Additional benefits are provided to clergy, lay, and staff members, which are not summarized in this report. The Fund also administers the International Clergy Pension Plan for current diocese and certain former diocese of the Episcopal Church located outside the United States and provides administrative and investment services to three Episcopal or Anglican dioceses pension plans located outside the United States. A listing of the current benefit plans as reported by the Fund is provided below:

The Church Pension Fund Clergy Pension Plan

The Episcopal Church Lay Employees' Retirement Plan

Benefit Equalization Plan of The Church Pension Fund

The Church Pension Fund Clergy Post-Retirement Medical Assistance Plan

The Church Pension Fund Clergy Life Insurance Benefit

The Episcopal Church Lay Employees' Death Benefit Plan

The Church Pension Fund Clergy Child Benefit Plan

The Church Pension Fund Clergy Long-Term Disability Plan

The International Clergy Pension Plan

The Church Pension Fund Clergy Short-Term Disability Plan

Staff Retirement Plan of the Church Pension Fund and Affiliates

The Church Pension Fund Supplementary Pension Plan

Staff Post-Retirement Medical Assistance Plan

Retirement Income Account Plan for Senior Management of The Church Pension Fund and Affiliates Deferred Compensation Plan

The Church Pension Fund Supplemental Retirement Plans for Individual Executives

Church Pension Group Long-Term Incentive Plan for Investment Professionals

Church Pension Group Annual Incentive Compensation for Investment Professionals

C. <u>Employer Assessments</u>

Clergy, lay, and staff benefits are funded through assessments paid by their employers as a percentage of their overall compensation. The assessment rates as of March 31, 2017, were 18% for clergy, 15% for staff members, and 9% for lay employees. Employer assessments for clergy members are paid to the Fund, which is then responsible for funding clergy benefits, including The Church Pension Fund Clergy Pension Plan (Clergy Plan). Lay and staff pension contributions are paid by parishes and CPF, respectively, and are deposited in the Master Trust in accounts segregated for each pension plan, as described in more detail in the section below.

D. Master Trust and Master Trust Funding Policy

The Fund maintains a Master Trust, which holds the assets for the three qualified pension plans (Clergy Plan, Lay Plan, and Staff Plan) it sponsors and administers. The purpose of the Master Trust is to ensure that the assets held are used for the exclusive benefit of the respective pension plan participants as required under IRC §401(a)(2). These requirements include: (i) the trust assets attributable to each of the three plans must be separately maintained and accounted for within the Master Trust; (ii) trust assets and the investment income from such assets may only be used for the payment of benefits provided under the plan and reasonable expenses incurred to provide plan benefits; and (iii) the assets cannot be used for any other purpose. As such, the Fund is prohibited from using assets held in trust for one of the qualified pension plans (e.g., Clergy Plan) for the benefit of another plan (e.g., Staff Plan). By comparison, the Fund, which is not a trust, is subject to fewer restrictions regarding the use of assets it holds outside of the Master Trust. Therefore, benefits not provided for under the pension plan, such as life insurance, Medicare supplements, and other expenses, are paid by Fund assets, not assets held in the Master Trust.

The following assets were held in the Master Trust as of March 31, 2017, based on the Master Trust's financial statements provided to the Department by the Fund:

Plan	Master Trust Assets as of March 31, 2017 (amounts are shown in thousands*)
Clergy Plan	$ 3,458,373
Lay Plan	187,445
Staff Plan	230,652
Total	$ 3,876,469

* Totals may not add up due to rounding

Since the IRC and the respective plan documents require all qualified pension plan assets to be held in a trust, the amounts listed above represent all the assets for each pension plan as of March 31, 2017.

Contributions to the Lay Plan and Staff Plan are made by participating employers directly to the respective plan in the Master Trust; contributions to the Clergy Plan are made by employers to the Fund, and then the Fund contributes to the Clergy Plan in accordance with the Church Pension Fund Master Trust Funding Policy. This policy requires the Clergy Plan to have plan assets at least equal to the actuarial liability for retirees and their dependents. Liabilities are determined annually by the Fund's actuarial consultant and have resulted in the following contributions by the Fund to the Clergy Plan during the examination period:

Year Ended March 31	Contributions to The Clergy Plan (amounts are shown in thousands*)
2017	$ 394,606
2016	281,916
2015	107,836
2014	0
2013	364,367
Total	$ 1,148,725

* Totals may not add up due to rounding

If plan assets equal or exceed the actuarial liability for retirees in any given year, as was the case in 2014, then the Fund will not have to contribute to the Clergy Plan. Assessments not contributed to the Clergy Plan are not secured to provide pension benefits and may be used at the discretion of the Fund for other purposes.

E. Pension Plan Funded Status

One measurement often used for evaluating the financial status of a pension plan is a comparison of the plan's assets to its liabilities. This comparison, which depicts the funded status of a plan, can be calculated as a ratio (i.e., assets divided by liabilities) or as a net surplus or deficit (i.e., assets minus liabilities). The Fund's 2017 annual report disclosed the funded status as of March 31, 2017, for the Clergy Plan, Lay Plan, and Staff Plan to be as follows:

March 31, 2017 (in thousands)	Clergy Plan	Lay Plan	Staff Plan
Net assets available for pension benefits after amount designated for assessment deficiency	$ 9,287,173	$ 164,626	$ 205,754

Actuarial present value of accumulated plan benefit obligations	$ 6,502,134	$ 200,054	$ 173,634
Surplus (Deficit)	$ 2,785,039	$ (35,428)	$ 32,120

The Fund's determination of each pension plan's funded status did not use plan assets (i.e., assets held in the Master Trust). Instead, the Fund reported higher assets for the Clergy Plan and lower assets for the Lay Plan and Staff Plan. The Fund indicated the financial statements and funded status were prepared in accordance with generally accepted accounting principles ("GAAP") under Accounting Standards Codification 960 ("ASC 960"). However, the examiners determined the calculation of each pension plan's funded status was not in compliance with GAAP.

The primary objective of ASC 960 is to help assess a defined-benefit pension plan's present and future ability to pay benefits when due and to determine the extent to which the payment of benefits is dependent on the financial ability of the Fund to make future contributions. Consequently, under ASC 960, plan liabilities are equal to the present value of accumulated plan benefits (i.e., benefits earned to date) and plan assets are equal to the trust assets at that time. Under ASC 960, no consideration is given to future benefit accruals or expected contributions to the plan in future years. Under the Fund's measure, the Clergy Plan has a surplus (i.e., plan assets exceeding liabilities) of over $2.7 billion. This implies that the Clergy Plan is very likely to provide all promised benefit payments earned to date without additional contributions from the Fund. However, this does not accurately portray the Clergy Plan's funded status since it has only roughly $3.5 billion secured in the trust to provide pension benefits. Based on plan assets as defined under ASC 960, the Clergy Plan has a deficit of approximately $3.0 billion. In contrast to the Fund's measure, the funded status of the Clergy Plan in accordance with ASC 960 indicates significant contributions from the Fund will likely be needed provide pension benefits earned to date. This deficit appropriately reflects the Fund's own funding policy for the Clergy Plan to only have pension plan assets at least equal to retiree liabilities (i.e., the Clergy Plan under the Fund's policy is intended to be underfunded until all clergy are retired). The Fund's inclusion of non-pension plan assets does not comply with GAAP under ASC 960 and greatly distorts the financial condition of the Clergy Plan.

The Fund's measure for the Lay Plan and Staff Plan also did not reflect pension plan assets as defined under ASC 960. Pension plan assets held in the Master Trust (and therefore determined in accordance with ASC 960) for the Lay Plan and Staff Plan were approximately $187 million and $231 million, respectively, as of March 31, 2017. These amounts are significantly higher than what the Fund disclosed and would have resulted in a deficit of less than $13 million for the Lay Plan and a surplus of roughly $57 million for the Staff Plan. The lower funded status determined by the Fund was due to the Fund's application of an assessment deficiency adjustment to reduce pension plan assets. As pension plan assets are required to be used exclusively for providing plan benefits and paying reasonable expenses, other adjustments to pension plan assets are generally inconsistent with ASC 960. The Fund's reduction of plan assets for an assessment deficiency does not comply with GAAP under ASC 960 and significantly understates the financial condition of the Lay Plan and Staff Plan. For more details, please see item 8F below.

F. Assessment Deficiency

As the primary purpose of ASC 960 is to provide information regarding the plan's ability to pay benefits when due, funded status is not a determination of the Fund's annual cost of providing pension benefits or future contributions needed to fund promised benefits. However, the Fund has applied an assessment deficiency calculation to reflect expected shortfalls between future benefit accruals and future assessments to each pension plan.

Different asset values are listed in items 8D and 8E above for the Clergy Plan, Lay Plan, and Staff Plan. As noted in Section 8E, plan assets for each of the pension plans were reduced for an assessment deficiency. During the examination the Fund stated the rationale for reducing or adjusting plan assets was due to the fact that projected assessments would not be sufficient to cover the cost of projected benefits accruals. Accordingly, the Fund indicated projected shortfalls in assessments is a loss under Accounting Standards Codification 450 ("ASC 450"). Plan assets in the Fund's annual report were therefore reduced by the projected loss as an assessment deficiency adjustment. Subsequent to the examination and in response to examiners' recommendations noted in item 8H, the Fund stated it does not apply guidance under ASC 450, but uses "self-imposed limits" under Accounting Standards Codification 958 ("ASC 958") for not-for-profit entities as the rationale for reflecting an assessment deficiency. This is discussed further in item 8H.

The projected assessment deficiency for each of the Clergy Plan and Lay Plan is equal to the present value of future benefit accruals minus the present value of future pension assessments. The pension assessment level is equal to 15.55% of member compensation for the Clergy Plan (an additional 1.30% is assessed for life insurance and 1.15% for plan expenses, which accounts for the total assessment of 18.00%) and 9.00% of member compensation for the Lay Plan.

The assessment deficiency for the Staff Plan is not based on the projected shortfall in assessments and is instead equal to the liability determined under the plan's traditional actuarial cost method minus the present value of accumulated benefits. Essentially, the Staff Plan assessment deficiency is equal to the present value of accumulated benefits with future salary increases minus the present value of accumulated benefits without future salary increases. The current pension assessment level for the Staff Plan is 15% of member compensation.

The examiners view the application of an assessment deficiency for determining pension plan funded status under ASC 960 as misleading and does not comply with GAAP under ASC 960 for multiple reasons, including the following:

1) Reflecting future benefit costs and future contributions applicable to periods after the measurement date are outside the scope of ASC 960. This includes "self-imposed limits" under ASC 958 on current Fund assets (not plan assets) for future expenditures (i.e., future contributions to the plan) which the Fund may or may not make. ASC 960 limits benefit obligations to those earned to date and plan assets without projected future contributions.
2) Projected future assessments are not the same as projected contributions to the pension plan in all cases. For example, the Clergy Plan assessment deficiency is based on 15.55% of member compensation as future pension plan contributions. However, actual contributions to the Clergy Pension Plan are based on the Master Trust Funding Policy and have ranged from zero to over $394 million annually during the examination period.
3) In general, projected contributions are determined at the discretion of the Board based on the experience of the plan each year. This means contributions could increase or decrease from year to year based on plan experience and investment performance. As the Fund has an obligation to its members to ultimately fund each pension plan, the expectation is the Fund will make contributions to each pension plan to fund all promised benefits (i.e., no projected shortfall).
4) Accounting for pension and other employment-related costs are specifically excluded from ASC 450, as defined under ASC 450-20-15-2. Pension and other

post-employment benefit costs are subject to employer accounting requirements under Accounting Standards Codification 715 ("ASC 715"). This standard allocates benefit costs to periods after the measurement date and determines the annual cost for accounting purposes of sponsoring a pension plan.

How the Fund monitors its long-term financial stability to make future contributions and provide promised benefits is discussed in detail in the next item.

G. Management Strategy

The Fund's approach to evaluating its long-term financial stability also raised concerns with DFS. Fund management primarily relies on asset-liability modeling ("ALM") to monitor and assess the long-term financial health of the Fund annually. ALM is a stochastic model, which projects assets and liabilities over the next 30 years using 10,000 different economic scenarios. The results of each scenario are then used to determine the likelihood (or confidence level) that the Fund will remain at least 90% funded each year and the likelihood that the Fund will be fully funded by the end of a 10- or 30-year period.

ALM was divided into two separate models. One model projected the liability of all promised clergy benefits (pension, life insurance, post-retirement medical, etc.) against future clergy assessments and total assets allocated for clergy benefits (including pension plan assets and allocated Fund assets). The second model projected similar liabilities, assets, and future assessments for lay members. ALM was not used to monitor the long-term financial health for Staff benefit plans. Instead, pension liabilities for staff employees were calculated using a traditional actuarial cost method.

Actuarial cost methods are defined in the context of defined benefit plans where it is a procedure for allocating the actuarial present value of projected benefits (and expenses, if applicable) to time periods, usually in the form of a normal cost and an actuarial accrued liability. ALM as utilized by the Fund did not determine a reasonable normal cost or reasonable actuarial liability. While the Fund stated in its 2017 Report to the House of Deputies Committee on the State of the Church report that traditional actuarial cost methods are used, and later statements by the Fund and exhibits provided by the Fund's actuary which the Fund has indicated as using traditional actuarial models including the calculation of normal cost and an actuarially determined contribution, it is the examiners' determination that ALM, as utilized for Clergy and Lay benefits, did not use traditional actuarial cost methods. Further details regarding actuarial cost methods and the examiners' determination are provided under item 8I ALM and Other Actuarial Methods.

The examiners recommend the Fund management follow its intended practice of employing traditional actuarial cost methods which would then provide the Fund a reasonable allocation of costs for projecting the Fund's financial status in each future year.

H. Pension Plan Financial Reporting

The examiners noted several areas of concern pertaining to the Fund's financial reporting as follows:

1) The Fund included assets not held in the Master Trust in its description of pension plan assets for ASC 960 reporting. However, the Fund has stated that only assets held in the Master Trust are segregated and restricted for each pension plan and any assets not held in the Master Trust may be used for other purposes at the Fund's discretion. Additionally, although the Fund has disclosed sizable assets in its financial reports to DFS, which *should* be contributed to the Master Trust, the Fund has not actually made those contributions.

   This practice does not comply with ASC 960, which defines pension plan assets as assets segregated in a trust or otherwise effectively restricted for benefit of the pension plan solely. By including assets held outside of the Master Trust as part of the assets of the Clergy Plan, and therefore, available to fund benefits, the Fund has overreported the assets in the Clergy Plan. This practice misstates the amount of pension plan assets actually segregated and restricted specifically to provide pension plan benefits. Funded status for each pension plan should reflect only assets "that have been segregated and restricted"[4] to be used for such benefit plan as required under ASC 960.

   The examiners recommend that each pension plan's funded status be determined using only plan assets that have been segregated and restricted to be used for such plan to comply with GAAP under ASC 960. The Fund indicated that it would consider enhancing its financial statement disclosures regarding the funded status of each of the pension plans based on the funds maintained in the Master Trust.

[4] From Definition of Plan Assets for pension plan reporting under ASC 960 and employer reporting of pension and postretirement benefit plans under ASC 715.

2) As noted above in item 8F, Assessment Deficiency, the Fund reduced pension plan assets for pension plan disclosures under ASC 960. The reduction, referred to as an assessment deficiency, was to reflect a projected shortfall in future contributions to fund future benefit accruals under the plan. The Fund initially cited ASC 450 and later "self-imposed limits" under ASC 958 as justification for using an assessment deficiency reduction. However, ASC 450 does not apply to pension plan disclosures. Pension and other employment-related costs are specifically excluded from ASC 450 per ASC 450-20-15-2 and, as such ASC 450 does not apply to the Fund's pension plan disclosures under ASC 960.[5] The primary reason for this is the purpose of pension plan disclosures under ASC 960 is to assess the *plan's* ability to pay benefits earned to date, not the *Fund's* ability to make future contributions. "Self-imposed limits" under ASC 958 apply towards future expenditures (i.e., future contributions to the pension plan) which the Fund may or may not make (as previously noted in item 8H, any assets not held in the Master Trust may be used for other purposes at the Fund's discretion). Consequently, Fund assets under "self-imposed limits" are not considered plan assets since they are not segregated and restricted solely for the pension plan. Further, assets held in the Master Trust (i.e., Lay Plan and Staff Plan) are already segregated and restricted and therefore not subject to a "self-imposed limit". Consequently, applying a "self-imposed limit" is not applicable when determining plan assets under ASC 960.

   Reducing plan assets for an assessment deficiency understates the pension plan assets available for benefits in the Master Trust. By reducing assets currently held in the Master Trust, the plan's ability to pay benefits in the future is negatively distorted making it more difficult to ascertain if the plan has assets to provide benefits earned to date.

   The examiners recommend eliminating the assessment deficiency adjustment on pension plan assets to comply with GAAP under ASC 960. The Fund indicated that the assessment deficiency was removed for the Lay Plan and Staff Plan effective March 31, 2023.

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[5] Excludes "employment-related costs, including deferred compensation contracts." ASC 450 was previously codified as FAS 5. Paragraph 7 of FAS 5 (dated March 1975) specifically excludes pension costs and other employment-related costs from the scope of FAS 5.

Based on the review, the funded status as noted in item 8E is estimated to be as follows:

March 31, 2017 (in thousands)	Clergy Plan	Lay Plan	Staff Plan
Net assets available for benefits	$ 3,458,373	$ 187,445	$ 230,652
Actuarial present value of accumulated plan benefit obligations	6,502,134	200,054	173,634
Surplus (Deficit)	$ (3,043,761)	$ (12,609)	$ 57,018

The deficit of over $3 billion for the Clergy Plan reflects the Fund's funding policy of requiring plan assets to only cover retiree liabilities. No assets have been segregated in a trust to secure promised pension benefits for active and inactive clergy members. Also, the Lay Plan would have a lower deficit than previously disclosed to DFS, and the Staff Plan would have a larger surplus as of March 31, 2017.

3) Pension and other post-employment benefit costs are subject to employer accounting requirements under ASC 715. The Fund has indicated that it is issuing financial statements as a not-for-profit corporation under ASC 958. ASC 958 includes employer reporting of retirement benefits under ASC 715. The Fund asserted that it was not subject to employer reporting under ASC 715 since members in the pension and postretirement benefit plans sponsored by the Fund are not employees of the Fund (including employees of the Church Pension Group Services Corporation, a wholly-owned subsidiary of The Church Pension Fund). However, the examiners view ASC 715-20-50-5 as showing pension and postretirement benefit plans are accounted for in the plan sponsor's financial statements as illustrated under ASC 958-715-55-2 and ASC 715-30-55-63[6]..

The examiners recommend that the Fund include ASC 715 accounting in its financial statements to comply with GAAP under ASC 958.

In response to examiner recommendations regarding the Fund's financial reporting, the Fund provided a 2008 memorandum to support its position. The memo summarized the Fund's

[6] Assume a not-for-profit entity ("NFP") has a defined benefit pension plan that covers employees at the national and all local chapters and each chapter is required to contribute to the pension plan based on a predetermined formula (for example, on a percentage-of-salary basis), plan assets are not segregated or restricted on a chapter-by-chapter basis, and if a chapter withdraws from the pension plan, the pension obligations for its employees are retained by the pension plan as opposed to being allocated to the withdrawing chapter. *This arrangement should be accounted for as a single-employer pension plan in the NFP's financial statements.*

considerations and conclusion on the appropriate accounting basis for the Fund under U.S. GAAP. The Fund's rationale included the following:

1) Legally, the Fund and the Clergy Plan are one single entity, therefore the Fund is a defined benefit pension plan which should adopt FAS 35 (now recodified as ASC 960) as the primary basis for the presentation of the financial statements.
2) The Fund is neither the employer nor the sponsor of the Clergy Plan and therefore FAS 87 (now recodified under ASC 715) was not adopted
3) FAS 106 (now recodified under ASC 715) for postretirement benefits other than pensions does not apply to the Fund because the employer of the clergy is the Episcopal churches and not the Fund. In addition, the Fund is not legally obligated to provide this benefit, as the benefits are discretionary.
4) Accounting standards relating to consolidated financial statements and endowment of not-for-profit organizations (FAS 117-1) did not apply since the Fund is a defined benefit pension plan.

The examiners view the rationale provided by the Fund as questionable and in some cases in apparent conflict with previous Fund statements. First, the examiners do not view the Fund and Clergy Plan as one single entity. Clergy Plan assets are held in trust. However, not all Fund assets are held in the trust for the Clergy Plan. The American Institute of Certified Public Accountants February 2017 Primer Series for Master Trusts in Employee Benefit Plans notes a trust is a separate legal entity as the trust assets are protected from the plan sponsor's creditors. In addition, financial statements state the Fund "is a not-for-profit corporation" and that the Clergy Plan "is sponsored and administered by" the Fund further indicating that the Fund and Clergy Plan are separate entities. Second, financial statements state the Fund is in fact the sponsor of the Clergy Plan as well as the Lay Plan and Staff Plan. This appears to conflict with the Fund's rationale that it is not the sponsor of the Clergy Plan. Consequently, the examiners view FAS 715 as applying to the Fund's financial reporting as the sponsor of the defined benefit and postretirement benefit plans. Legal obligation is not a consideration for determining whether or not to apply ASC 715 (see ASC 715-10-15-7). Finally, as the Fund is not a defined benefit plan the examiners question the rationale of using defined benefit pension plan accounting and reporting (ASC 960) as an appropriate primary basis for financial reporting instead of consolidated financial statement reporting for the Fund which is a not-for-profit corporation with affiliated companies.

I. Use of ALM and Other Actuarial Methods

In addition to the ALM (as described in item 8G), an Actuarially Determined Contribution ("ADC") using traditional actuarial cost methods should be regularly determined for each pension plan. An ADC is a measure of the annual contribution needed to ensure that pension plan assets will be enough to pay promised benefits for current members and employees if all actuarial assumptions are exactly met. Generally, ADCs are intended to fund promised pension benefits over the working lifetime of a pension plan's members. ADC provides valuable insight as to the Fund's reliance on future assessments and the assessment rate needed to fund promised benefits from current members. As ALM uses an "all-in" liability reflecting all clergy or lay benefit plans for current and projected future employees, there is not a normal cost or ADC determined only for each pension plan. In addition, liability, normal cost, and ADC would need to be determined using traditional actuarial cost methods based on members and employees as of each measurement date which is not done under ALM as discussed further below.

The examiners recommend that the Fund calculate the actuarially determined contribution for each pension plan using traditional actuarial cost methods each year.

In addition, the examiners noted that the liabilities defined by the Fund in its ALM analysis do not follow the actuarial principles for a traditional and reasonable actuarial cost method[7] applicable to pension plans. The actuarial liability under a traditional and reasonable actuarial cost method represents the actuarial present value of benefits not covered by future normal costs for current members. The normal cost represents the portion of the present value of benefits allocated to a year and under a reasonable actuarial cost method must be developed to initially fund the promised benefits (i.e., present value of future normal costs equals the actuarial present value of benefits for a member first entering the plan). However, ALM as defined by the Fund determines the liability as the present value of projected benefits minus the present value of future assessments for all current and future members. Future assessments are not the same as future normal costs. The assessment rate is set by the Fund and is not determined to actuarially fund each member's benefit (present value of future assessments do not equal present value of benefits for a member first entering the plan). This is made clear by statements in the 2017 State of the Church

[7] As defined under IRC Reg. §1.412(c)(3)-1 (https://www.law.cornell.edu/cfr/text/26/1.412(c)(3)-1).

subcommittee report that the current assessment rate of 18% for clergy is not adequate to support the benefits provided. Consequently, the liability used in the ALM analysis is overstated when compared to the actuarial liability under a traditional and reasonable actuarial cost method (projected assessments are lower than actuarially determined normal costs each year).

The ALM liability is further overstated by including the liability for future members before they are expected to earn benefits or are even hired. For example, the ALM liability as of 2017 included liability attributed for new members entering in 2027. Under a reasonable actuarial cost method, the liability for such new members would not be reflected until 2027 when they first enter. Including a liability for all future members before they are members or even employees overstates the liability each year when compared to a reasonable actuarial cost method and creates intergenerational equity concerns regarding each participating employer's responsibility of funding promised benefits for current or future members.

While the Fund is not required to use a reasonable actuarial cost method as defined in the IRC, the examiners recommend that the ALM liability be determined using a traditional and reasonable actuarial cost method, as it would conform more appropriately with pension plan actuarial standards of practice. Further, using a traditional and reasonable actuarial cost method would more accurately reflect the Fund's projected funded status each year and provide greater transparency of costs attributed to future benefit accruals and future members.

J. Actuarial Services

The examiners identified that liabilities did not always follow plan provisions and actuarial methods as described in the actuarial valuation reports. A review of the January 1, 2017, liability calculations for sample members was conducted to ascertain the accuracy of the actuarial computations. Unexplained inconsistencies, approximations, and errors in the individual liability calculations were discovered.

The examiners recommend that future actuarial reports disclose approximations used for any benefits not explicitly calculated and the Fund institute regular actuarial audits to monitor the quality of the actuarial services provided.

K. Funding Clergy Benefit Plans

To ensure clergy assessments are secured for funding promised clergy pension benefits of non-retired members, the examiners recommend that the Fund revise the Master Trust Funding Policy to immediately make contributions to fund benefits earned to date for all clergy pension plan members and contribute at least the actuarially determined contribution in future years. In addition, the examiners recommend the Fund formally allocate assets to each of the remaining benefit plans in segregated accounts or trusts. This follows common practice for benefit plan sponsors and recommended practices by the Government Finance Officers Association ("GFOA") for governmental plans as it will reduce the potential for misuse of assets and secure assets for providing promised benefits from each benefit plan.

The Fund has indicated that the Master Trust Funding Policy was changed for clergy so that the Master Trust is now funded to ensure that by June 30th of each year, the Clergy Plan assets are equal to at least the actuarial present value of pension benefits that will be payable to vested active and terminated clergy, retirees, and their beneficiaries under the Clergy Plan as of March 31st of that year. The Fund has indicated that it does not plan to implement the rest of this recommendation as there is no requirement that the Fund maintain assets outside the Master Trust in segregated accounts or trusts as supported by the Fund's outside benefits counsel.

9. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the recommendations contained in the prior report on examination and the subsequent actions taken by the Fund:

Item	Description
A	The examiners recommend that the Fund adhere to the terms of its service agreements and collect payments billed within 30 days or amend the service agreement to reflect the actual method of funding to CPGSC. The Fund did not adhere to the terms of its service agreements nor has it amended the service agreement to reflect the actual method of funding to CPGSC. (See item 3C of this report.)
B	The examiners recommend that the Fund refine and broaden its strategies for assuring funding adequacy. Such refinements might include: (i) defining circumstances where other discretionary benefits would need to be curtailed; (ii) defining circumstances where the employer contribution rate would need to be raised; and (iii) deciding when and how to communicate about such strategies with the participating employers. The review revealed that the Fund did not adopt any of the proposed recommendations. (See item 8 of this report.)

10. SUMMARY AND CONCLUSIONS

Following are the recommendations contained in this report:

Item	Description	Page No(s).
A	The examiners recommend that the Fund adhere to the terms of its service agreement and remit payments billed within 30 days or amend the service agreement to reflect the actual method of funding to CPGSC. This is a repeat recommendation.	11
B	The examiners recommend that the Fund continue its focus on expense management and look to reduce expenses where appropriate.	15
C	The examiners recommend that minutes of the meetings of the Fund's Board of Trustees, memorialize more completely its actions and rationale for its decisions on more significant matters, commensurate with the complexity of the matters considered and the length of discussion.	16
D	The examiners recommend that the Fund complete a thorough review of the benefit calculations for retirees or dependents/beneficiaries who currently are receiving or previously received benefits from the benefit plans administered by the Fund and establish formal correction procedures for each plan to address and remedy any errors in benefits paid or to be paid.	22
E	The examiners recommend that the Fund review such processes and take corrective action to rectify these issues. The Fund should implement a new outreach program to ensure compliance with required distributions under IRC §401(a)(9) and reduce the forfeiture of member pensions by deferral of payment after normal retirement age. The new program should inform the participant of their benefit eligibility and the financial impact of deferring payment.	23
F	The examiners recommend that the Fund should develop and implement new procedures, or modify its existing procedures, to more accurately reflect the proper verification of a clergy member's death following notification from next of kin, PBI, CRDB, or domestic/international dioceses. These procedures should mandate and detail the processes regarding outreach to international dioceses to locate missing participants, and death verification should be performed annually to ensure clergy member's information is updated continuously and timely in the Fund's administrative system.	24

Item	Description	Page No(s).
G	The examiners recommend that the Fund revise the pension benefit deferred listing to remove any deposed or terminated clergy members who are not eligible for vested pension benefits.	24
H	The examiners recommend that the Fund remove unlocated clergy members from the pension benefit deferred listing and treat all benefits as unclaimed.	24
I	The examiners recommend that the Fund revise and implement a new outreach program. The new program should inform the participant of their eligibility for a benefit and the financial impact of deferring payment. Also, the new program should mandate that outreach to international dioceses for locating missing participant and death verification be performed annually to ensure current and accurate clergy's information are continuously being updated in the Fund's administrative system.	24
J	The examiners recommend that the Fund revise its optional form of payment factors to be actuarially equivalent in practice.	27
K	The examiners recommend that the Fund consider using a more optimal methodology to ensure equitable treatment and benefits for plan participants.	30
L	The examiners recommend that future annual statement filings contain information for all defined benefit pension plans sponsored by the Fund, including the Lay Plan and the Staff Plan.	32
M	The examiners recommend the Fund management follow its intended practice of employing traditional actuarial cost methods which would then provide the Fund a reasonable allocation of costs for projecting the Fund's financial status in each future year.	44
N	The examiners recommend that each pension plan's funded status be determined using only plan assets that have been segregated and restricted to be used for such plan to comply with GAAP under ASC 960.	44
O	The examiners recommend eliminating the assessment deficiency adjustment on pension plan assets to comply with GAAP under ASC 960.	45
P	The examiners recommend that the Fund include ASC 715 accounting in its financial statements to comply with GAAP under ASC 958.	46

Item	Description	Page No(s).
Q	The examiners recommend that the Fund calculate the actuarially determined contribution for each pension plan using traditional actuarial cost methods each year.	48
R	The examiners recommend that the ALM liability be determined using a traditional and reasonable actuarial cost method, as it would conform more appropriately with pension plan actuarial standards of practice. Further, using a traditional and reasonable actuarial cost method would more accurately reflect the Fund's projected funded status each year and provide greater transparency of costs attributed to future benefit accruals and future members.	49
S	The examiners recommend that future actuarial reports disclose approximations used for any benefits not explicitly calculated and the Fund institute regular actuarial audits to monitor the quality of the actuarial services provided.	49
T	To ensure clergy assessments are secured for funding promised clergy pension benefits of non-retired members, the examiners recommend that the Fund revise the Master Trust Funding Policy to immediately make contributions to fund benefits earned to date for all clergy pension plan members and contribute at least the actuarially determined contribution in future years. In addition, the examiners recommend the Fund formally allocate assets to each of the remaining benefit plans in segregated accounts or trusts.	50

Respectfully submitted,

Jocelyne Turene
Senior Insurance Examiner

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

Jocelyne Turene, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

Jocelyne Turene

Subscribed and sworn to before me

this 18th day of October, 2023

Audrey Hall

AUDREY HALL
Notary Public, State of New York
No. 01HA6274900
Qualified in Kings County
Commission Expires January 28, 2025

Respectfully submitted,

/s/
Anthony Mauro
Principal Insurance Examiner

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

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

/s/
Anthony Mauro

Subscribed and sworn to before me

this__________ day of ___________________

The examiner below performed an actuarial review of the March 31, 2017, actuarial valuation reports of The Church Pension Fund, The Episcopal Church Lay Employees' Retirement Plan, and Staff Retirement Plan of the Church Pension Fund and Affiliates. The examiner also performed an actuarial review of The Church Pension Fund 2017 Asset Liability Modeling report. This report contains the results of the examiner's review

The purpose of the actuarial review is to determine whether the plans are being funded on an adequate basis using actuarial methods and assumptions that are reasonable, consistent, follow generally recognized and accepted actuarial principles and practices which are consistent with Actuarial Standards of Practice, and regarding actuarial matters whether the plans are in compliance with applicable law, plan provisions, and policies.

In preparing this report, the examiner relied on, without audit, information provided by The Church Pension Fund. This information included member data, financial information, plan provisions, policies, and actuarial and annual reports.

The examiner below is a member of the American Academy of Actuaries, an Enrolled Actuary under ERISA, and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. This review was conducted in accordance with the applicable standards of practice prescribed by the Actuarial Standards Board.

Respectfully submitted,

Jason Fesmire

Jason Fesmire, EA, MAAA
Retirement Systems Actuary

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

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

Jason Fesmire

Jason Fesmire

Subscribed and sworn to before me
this 18 4th day of October, 2023

Audrey Hall

AUDREY HALL
Notary Public, State of New York
No. 01HA6274900
Qualified in Kings County
Commission Expires January 28, 2025

APPOINTMENT NO. 31777

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, MARIA T. VULLO, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

JOCELYNE TURENE

as a proper person to examine the affairs of the

CHURCH PENSION FUND

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

PENSION FUND

with such other information as she shall deem requisite.

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

this 31st day of May, 2018

MARIA T. VULLO
Superintendent of Financial Services

By: Mark McLeod

MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU