

14 ASSEMBLY COMMITTEE ON PENSIONS, FOUNDATION, AND PILP

CONTENTS

I. FOR PLENARY ACTION

Board of Pensions

BOP's Recommendations	14-01
ACC Request. Regarding G-14.0506b(2), Mandatory Participation in the PC(USA) Benefits Plan—From Minister, Presbytery of Pittsburgh.....	14-14

Foundation

Foundation's Mission and Ministry	14-02
Foundation, Amended and Restated Articles of Incorporation and Bylaws	14-03
Foundation, Confirmation of Robert Leech	14-04
Foundation, Transfer of Constituent Corporations.....	14-05

PILP

GAC, PILP Board	14-06
GAC, Confirmation of Jay Hudson.....	14-07

Overtures

<i>On Appointing a Task Force to Review the Medical Plan of the Board of Pensions—From the Presbytery of Abingdon</i>	14-08
<i>On Directing the Board of Pensions to Revise Their Rules for the Calculation of Salary for Churches with a Clergy Couple Installed to One Position—From the Presbytery of Southeastern Illinois</i>	14-09
<i>On Creating a Fund to Provide Shared Equity Loans for Pastors Serving Churches Where the Average Cost of a Home Is Twice the U.S. Average—From the Presbytery of San Francisco</i>	14-10
<i>On Appointing a Task Force to Review the Pension and Medical Plans of the PC(USA)—From the Presbytery of Providence</i>	14-11
<i>On Urging the Board of Pensions to Correct an Inequity For Churches Calling a Married Couple as Co-Pastors Sharing Less than Two Full-Time Calls—From the Presbytery of Northern New England.....</i>	14-12
<i>On Reinstating Board of Pension Medical Coverage for Persons on Active Duty—From the Presbytery of Eastminster.....</i>	14-13

II. COMMITTEE FINAL ACTION AND REPORT TO PLENARY

Committee on Review (of PILP).....	14-A
------------------------------------	------

Receive Reports Regarding Amendments to the Benefits Plan and Articles of Incorporation, and By-laws.....	14-B
Minutes, Board of Pensions	14-C
Minutes, Foundation	14-D
Minutes, Presbyterian Investment & Loan Program, Inc.	14-E

III. INFORMATION—ITEM 14-INFO

Board of Pensions Agency Summary.....	Annual Report
Foundation Agency Summary.....	Annual Report
Presbyterian Investment and Loan Program, Inc. Agency Summary	Annual Report
New Covenant Trust Company, N.A. Report	Page 1
Board of Pensions Report Concerning Benefits Plan of the Presbyterian Church (U.S.A.) and 2003 Report	Page 2

Item 14-01

Recommendation Concerning the Benefits Plan of the Presbyterian Church (U.S.A.)

The Board of Pensions recommends that the 216th General Assembly (2004) approve the amendment of Section 8.10 of the Benefits Plan of the Presbyterian Church (U.S.A.), as follows, effective July 1, 2005: [Text to be deleted is shown with a strike-through; text to be added or inserted is shown with as italic.]

“Sec. 8.10 Payment of Benefits. All ~~pension~~ benefits payable under the Pension Plan shall be paid monthly at the beginning of each month. *Payment of Pension Plan benefits shall commence as of the first day of the month consecutive with or next following the satisfaction of the applicable requirements of Sec. 8.1(b) and (c) by a Member, an eligible survivor as defined in Sec. 9.2 or an Alternate Payee.*”

Rationale

The process for amending the Benefits Plan of the Presbyterian Church (U.S.A.) (“Plan”) is established in the Plan document. The specific provisions of the Plan that relate to amendment are:

Sec. 19.1 **Right to Alter or Amend Plan.** The right to alter or amend the Benefits Plan is reserved solely to the Board except that any alteration or amendment to a provision of Articles VI, VII, VIII and IX (relating to the Pension Plan) that is in the nature of a benefit reduction to the members or a dues increase shall be effective only with the approval of the General Assembly. Notice of any such proposed alteration or amendment to the Pension Plan requiring the approval of General Assembly shall be given by the Board to members, local churches and presbyteries at least sixty (60) days prior to the date of the meeting of the General Assembly at which such alteration or amendment will be considered. Notice of any other amendment to the Benefits Plan shall be provided by the Board to the General Assembly, Members, local churches and Presbyteries in such manner as the Board deems reasonable and appropriate based on the nature of the amendment.

Sec. 19.2 **Amendment of Medical Provisions.** The Board, in its sole discretion, taking into consideration claims experience, administrative expenses, changes in the health care industry, and other relevant factors, shall have the right, from time to time, to amend the Medical Plan and report any such amendment to the next succeeding General Assembly of the Church.

Sec. 19.3 **Amendment of Optional Benefit Provisions.** The Board, in its sole discretion, shall have the right from time to time to amend the Optional Benefit Plans or adopt such other additional optional benefits as it deems in the best interest of the Members of the Benefits Plan. Any such amendment or additional optional benefit provision shall be reported to the next succeeding General Assembly of the Church.

Since the 215th General Assembly (2003), the Board of Pensions adopted amendments to the Plan that require the approval of the General Assembly prior to becoming effective or are to be reported as required by the Plan provisions quoted above. Notice of the amendments being presented to the 216th General Assembly (2004) was given by letter dated March 16, 2004, from Earle Robbins, Esquire, chair of the Board of Pensions, to all Benefits Plan members, local churches, presbyteries, and synods.

The Board of Pensions adopted the amendment to Section 8.10 of the Pension Plan, to be effective as of July 1, 2005, subject to the approval of the 216th General Assembly (2004). This amendment conforms the Plan to an industry standard thereby facilitating an improvement in the Board of Pensions’ benefit administrative processes and avoiding a software program customization in the Board of Pensions’ new benefit administration software.

Item 14-02

The Presbyterian Church (U.S.A.) Foundation recommends that the 216th General Assembly (2004) direct the Presbyterian Church (U.S.A.) Foundation to

- 1. continue its churchwide gifts program, as well as utilize the Foundation's subsidiary, New Covenant Trust Company, N.A., for the benefit of churches, church organizations, and individuals who wish to use the foregoing to make gifts as an expression of Christian faith and stewardship;**
- 2. continue promoting appropriate investment in New Covenant Funds, a family of mutual funds organized with participation by the Presbyterian Church (U.S.A.) Foundation in July 1999, which are managed in a way that is consistent with the social witness principles of the Presbyterian Church (U.S.A.); and**
- 3. explore and initiate ways to enhance its expertise and capacity in support of wills emphasis, planned gifts, and to explore the services of New Covenant Trust Company, N.A., and New Covenant Funds, that will allow these programs and entities to be ever more effective contributors toward the fulfillment of the Great Commission for the Glory of God.**

Rationale

Each year, the Presbyterian Church (U.S.A.) Foundation trustees ask the General Assembly to endorse the Foundation's work in support of mission and ministry throughout the church. This unbroken series of affirmations allows the Foundation to confidently pursue its ministry among congregations, presbyteries, synods, related organizations, and individual Presbyterians. General Assembly validation of our vital work on behalf of mission and ministry is essential to our effectiveness throughout the church.

Item 14-03

The Presbyterian Church (U.S.A.) Foundation recommends that the 216th General Assembly (2004) accept the Foundation's amended Articles of Incorporation and Bylaws as shown below. [Text to be deleted is shown with a strike-through; text to be added or inserted is shown as boldface, italic.]

AMENDED AND RESTATED ARTICLES OF INCORPORATION PRESBYTERIAN CHURCH (U.S.A.) FOUNDATION

WHEREAS, the General Assembly of the Commonwealth of Pennsylvania by act approved March 28, 1799 (P.L. 379) incorporated the "Trustees of the General Assembly of the Presbyterian Church in the United States of America" (the "Corporation") as the corporate agency of the Ministers and Elders constituting the General Assembly of the Presbyterian Church in the United States of America; and

WHEREAS, said act of incorporation was supplemented by the act of March 23, 1865 (P.L. 648); and

WHEREAS, the charter of the Corporation was amended pursuant to the Corporation Act of 1874, act of April 29, 1874 (P.L. 73), by decree of Court of Common Pleas No. 4 of Philadelphia County (the "Court") entered October 17, 1885, at September Term, 1885, No. 422, which decree was duly recorded on October 27, 1885 in the Office for the Recording of Deeds in and for Philadelphia County (the "Office for the Recording of Deeds") in Charter Book No. 10, page 512; and

WHEREAS, the Trustees of the Presbyterian House, a Pennsylvania corporation created by the act of April 21, 1855 (P.L. 575), was merged with and into the Corporation by decree of the Court entered October 17, 1885, at September Term, 1885, No. 423, which decree was duly recorded on October 27, 1885 in the Office for the Recording of Deeds in Charter Book No. 10, page 514; and

WHEREAS, the amount of property which the Corporation is authorized to hold was increased pursuant to the Act of June 6, 1893 (P.L. 324) by decree of the Court entered June 20, 1910, at September Term, 1885, No. 422; and

WHEREAS, the articles of incorporation of the Corporation were further amended and restated in full pursuant to the Nonprofit Corporation Law of 1933, act of May 5, 1933 (P.L. 289), by decree of the Court entered November 9, 1953, at September Term, 1885, No. 422, which decree was duly recorded on November 9, 1953 in the Department of Records of the City of Philadelphia (the "Department of Records") in Charter Book No. 158, page 304, whereby, inter alia, the name, style and title of the Corporation was changed to "The Foundation of the Presbyterian Church in the United States of America"; and

WHEREAS, the Presbyterian Church in the United States of America and the United Presbyterian Church of North America did on May 28, 1958, unite to form The United Presbyterian Church in the United States of America and in pursuance thereof the Trustees of the General Assembly of the United Presbyterian Church of North America, a Pennsylvania corporation created by the act of March 22, 1860 (P.L. 743), was merged with and into the Corporation pursuant to the Nonprofit Corporation Law of 1933 by decree of the Court entered September 22, 1958, at September Term, 1885, No. 422, which decree was duly recorded on September 23, 1958 in the Department of Records in Miscellaneous Book No. 219, page 545, and whereby the name, style and title of the Corporation was changed to "United Presbyterian Foundation"; and

WHEREAS, the articles of incorporation of the Corporation were further amended pursuant to the Nonprofit Corporation Law of 1933 by the filing of Articles of Amendment in the Department of State on October 5, 1970 (Roll 3-1-71-05, Film 548); and

WHEREAS, in and by Section 1(c) of the enactment of May 23, 1972 of the 184th General Assembly (1972) of The United Presbyterian Church in the United States of America the General Assembly expressly designated

and declared this Corporation to be the corporation which the General Assembly has caused to be formed pursuant to Section 1 of Chapter XXXII of the Form of Government of the said Church; and

WHEREAS, the said enactment of May 23, 1972 directed the Board of Trustees of the Corporation to amend the articles of incorporation of the Corporation in certain respects; and

WHEREAS, the articles of incorporation of the Corporation were so amended and restated pursuant to the Nonprofit Corporation Law of 1933 by the filing of Articles of Amendment in the Department of State on October 25, 1972 (Roll 3- 1-72.47, Film 324); and

WHEREAS, the articles of incorporation of the Corporation were amended to change the organization of the corporation to a non-member basis, to make certain other changes in the text of the articles and to restate the articles as so amended pursuant to the Nonprofit Corporation Law of 1972 by the filing of Articles of Amendment in the Department of State on February 16, 1973 (Roll 3-1-73.08, Film 829); and

WHEREAS, the 185th General Assembly (1973) of The United Presbyterian Church in the United States of America directed that the name, style and title of the Corporation be changed to “The United Presbyterian Church in the United States of America, A Corporation”; and

WHEREAS, the articles of incorporation of the Corporation were so amended pursuant to the Nonprofit Corporation Law of 1972 by the filing of Articles of Amendment in the Department of State on May 31, 1973 (Roll 3-1-73.24, Film 1106); and

WHEREAS, a Statement of Change of Registered Office was filed in the Department of State on November 26, 1973 (Roll 3-1- 73.52, Film 852); and

WHEREAS, the articles of incorporation of the Corporation were amended and restated to eliminate a reference to a constituent corporation pursuant to the Nonprofit Corporation Law of 1972 by the filing of Articles of Amendment in the Department of State on November 3, 1982 (Roll 62-82, Film 1461); and

WHEREAS, The Presbyterian Church in the United States and The United Presbyterian Church in the United States of America did on June 10, 1983 reunite to form the Presbyterian Church (U.S.A.) (the “Church”) pursuant to Articles of Agreement of the Plan for Reunion between The Presbyterian Church in the United States and The United Presbyterian Church in the United States of America (the “Articles of Agreement.”); and

WHEREAS, the General Assembly of the State of North Carolina by act ratified February 19, 1866 (Ch. 31) incorporated “The Trustees of the General Assembly of the Presbyterian Church in the United States” as the corporate agency of the General Assembly of the Presbyterian Church in the United States (“The Presbyterian Foundation (U.S.)”); and

WHEREAS, Article 5.4 of the Articles of Agreement directed the General Assembly Council of the reunited Church to develop and present to the General Assembly of the Church a design for the work of, inter alia, the corporate agencies (except the pension corporations) of the General Assemblies of the reuniting Churches; and

WHEREAS, on June 17, 1986 the 198th General Assembly (1986) of the Presbyterian Church (U.S.A.), on the recommendation of the General Assembly Council, enacted a deliverance implementing a design for the corporate structure of certain agencies of the General Assembly; and

WHEREAS, in and by Section 1 of the enactment of June 17, 1986 the Corporation is directed to divide, effective at the close of business on December 31, 1986, into two corporations, one of which shall be a central treasury corporation and the other of which shall be a fiduciary corporation, and it is declared to be the intent and understanding of the General Assembly that both corporations resulting from the corporate division shall continue as surviving corporations of the original corporation from which the division and separation occurs; that the history and origin of each is to be from the origin of the dividing corporation, namely, March 28, 1799; that the titles and interests in property allocated to each at the time of the division and separation shall be deemed to be con-

tinuations of the same from the time originally acquired; that the trusteeships and other fiduciary relationships, licenses, rulings, and privileges of and issued to the dividing corporation shall be deemed to continue in this Corporation, and, to the extent relevant to its purposes and activities as contemplated by said enactment, in the central treasury corporation; and

WHEREAS, Sections 1(c) and 3 of the said enactment of June 17, 1986 directed the Board of Trustees of the Corporation to take such corporate action as might be requisite to change the name, style and title of this Corporation and to effect certain other changes in the articles of incorporation of the Corporation and to constitute The Presbyterian Foundation, Inc. (U.S.) a constituent corporation of the Corporation; and

WHEREAS, all acts and things necessary on the part of the Corporation to effect an amendment and restatement of the Articles of Incorporation of the Corporation have been done and performed;

NOW, THEREFORE, the Corporation aforesaid does under the provisions of the Nonprofit Corporation Law of 1972 hereby adopt this instrument as the Amended and Restated Articles of Incorporation thereof and does accept the same in lieu of the Articles of Incorporation heretofore in force.

ARTICLE I
Name

The name of the Corporation is PRESBYTERIAN CHURCH (U.S.A.) FOUNDATION.

ARTICLE II
Duration

The period of duration of this corporation shall be perpetual.

ARTICLE III
Registered Office

The address of the registered office of the Corporation is:

~~425 Lombard Street~~
~~Philadelphia, Pennsylvania 19147~~
2704 Commerce Drive
Harrisburg, Pennsylvania 17110.

ARTICLE IV
Non-Profit

The Corporation does not contemplate pecuniary gain or profit, incidental or otherwise.

ARTICLE V
Organization

The Corporation is organized on a nonstock basis.

ARTICLE VI
Purposes

The purpose or purposes for which the Corporation is incorporated are:

- (a) To be an integrated auxiliary and a part of and to act as a fiduciary corporation for the Presbyterian Church (U.S.A.) as affirmed and declared by the 198th General Assembly (1986) of the Church.

- (b) To take, receive, hold and administer and dispose of all and all manner of lands, tenements, rents, annuities, franchises, hereditaments, moneys, securities, income and property, real and personal, of any kind in any state, territory or country, which at any time or times heretofore have been or which at any time and from time to time shall hereafter be given, granted, bargained, sold, enfeoffed, released, devised, bequeathed, conveyed, transferred, assigned, set over or delivered by any person or persons, corporations, associations, trusts, foundations or other forms of organization, to the General Assembly of the Presbyterian Church (U.S.A.), to the Presbyterian Church (U.S.A.), to the predecessors of either, or to this corporation or its predecessors, to their use or to the use of any of them, or in trust for them, or any of them, or to them or any of them for the support of any work, activity, purpose, project or interest of the Presbyterian Church (U.S.A.) or of the General Assembly of the Presbyterian Church (U.S.A.), or the predecessors of either, in which property of any kind the General Assembly of the Presbyterian Church (U.S.A.), the Presbyterian Church (U.S.A.), or this corporation, or the predecessors of any of them, have or are intended to have any legal or equitable interest, present or future, vested or contingent.
- (c) To acquire and receive moneys, funds, income, securities, and property, real and personal, of any kind or nature whatsoever, in any state, territory or country, from particular churches, presbyteries, synods, institutions, colleges, or other agencies or institutions of or related to the Presbyterian Church (U.S.A.), to be held, administered and invested, reinvested, and kept invested, for them or any of them.
- (d) Except for the pension corporation established to administer the pension and benefit plans and programs of the Church and the property and assets held by or hereafter given to such pension corporation, to take over, receive, hold, administer subject to the terms, conditions, and restrictions thereof, dispose of and perform the work, programs, property, assets, trusts, contracts, rights and duties, and any gift, devise, legacy, or trust heretofore or hereafter made to or for the benefit of such of the corporate agencies of the Presbyterian Church (U.S.A.) as may be directed from time to time by the General Assembly of the Presbyterian Church (U.S.A.), including the work and programs of The Presbyterian Foundation, Inc. (U.S.) and in connection therewith to enter into annuity agreements, life income contracts and other deferred giving agreements and trusts.
- (e) To serve as an agency of the Presbyterian Church (U.S.A.) in the presentation of the needs of said Church and its work.

ARTICLE VII Members

~~The central treasury corporation of the Presbyterian Church (U.S.A.) resulting from the division effective December 31, 1986 of "The United Presbyterian Church in the United States of America, A Corporation" into this Corporation and a central treasury corporation known as Presbyterian Church (U.S.A.), A Corporation" shall be a member of this Corporation without vote. The Corporation shall have no other members. A central treasury corporation of the Presbyterian Church (U.S.A.) known as "Presbyterian Church (U.S.A.), A Corporation" resulting from the December 31, 1986 division shall be the only member of this Corporation and shall be without vote.~~

ARTICLE VIII Board of Trustees

The management and disposition of the affairs and property of the Corporation shall be vested in trustees, who shall be selected from time to time by the General Assembly of the Presbyterian Church (U.S.A.) (the "General Assembly"), in such number, and for such terms, and who may include such a number of ex officio trustees, who shall be selected in such a manner, as the General Assembly may determine. The number of such trustees may be increased or decreased at any time by the General Assembly, and in case of an increase, the additional trustees shall be selected by or in the manner determined by the General Assembly. All the business and affairs of the Corporation shall be conducted by the trustees under and subject to the direction of the General Assembly or of any officer or agency thereof thereunto duly authorized, so far as such direction shall be lawful and in accordance

with the Constitution of the Presbyterian Church (U.S.A.) and the laws of the Commonwealth of Pennsylvania and of the United States of America.

ARTICLE IX
Distributions upon Dissolution

All the properties, moneys, and assets of the Corporation are irrevocably dedicated to charitable and religious purposes and shall not inure to the benefit of any private individual. In the event that the Corporation shall be dissolved or wound up at any time, then all the properties, moneys, and assets of the Corporation shall be transferred exclusively to and become the property of such nonprofit funds, foundations or corporations, all the assets of which are irrevocably dedicated to religious and charitable purposes, as are selected and designated by the General Assembly of the Presbyterian Church (U.S.A.).

ARTICLE X
Amendments

These articles of incorporation may be amended in the manner now or hereafter provided by statute, but no material change shall be made in these articles of incorporation without the prior approval of the General Assembly of the Presbyterian Church (U.S.A.).

ARTICLE XI
Subsidiary Corporations

The Corporation has created two subsidiary corporations, New Covenant Trust Company, N.A. (“Trust Company”), a national banking association, and New Covenant Annuity Insurance Company (“Insurance Company”), a Pennsylvania corporation (hereinafter the Trust Company and the Insurance Company are sometimes referred to individually as “Subsidiary”).

Except to the extent otherwise required by applicable state or federal law or any state or federal regulatory body directive:

- (i) the Corporation, as shareholder, shall not initiate or permit:
 - (a) any Subsidiary to engage in any fundamental transactions, including merger, division, consolidation, transfer or sale of all or substantially all of the assets of a Subsidiary or dissolution of a Subsidiary unless the same has received the prior approval of the General Assembly;
 - (b) any transfer of any Subsidiary shares of stock, or any interest therein, to any party other than the Corporation (and in the case of the Trust Company, to directors of the Trust Company to the extent required by law), unless such transfer has received the prior approval of the General Assembly;
 - (c) any Subsidiary to issue stock or any options or warrants to any party other than the Corporation unless such issuance has received the prior approval of the General Assembly;
 - (d) any material change in the Trust Company’s Articles of Association or the Insurance Company’s Articles of Incorporation, respectively, without the prior approval of the General Assembly.
- (ii) The Corporation, as shareholder, shall elect directors of each Subsidiary board. The Corporation shall ensure that the majority of each Subsidiary board is composed of individuals who, at the time of their election, are active trustees of the Corporation board. Certain officers of each Subsidiary shall be elected directors to the respective boards of each Subsidiary to satisfy regulatory requirements and directives. The Stated Clerk of the General Assembly (or designee) and the General Assembly Council Executive Director (or designee) shall be elected by the Corporation as directors of the board of the Trust Company. Past

trustees of the Corporation board may be elected directors of the Insurance Company to satisfy Pennsylvania regulatory requirements and directives related to director residence. The board composition of each Subsidiary shall reflect full participation consistent with Section G-4.0403 of the Form of Government of the Presbyterian Church (U.S.A.). Such election shall be reported to the General Assembly through the Corporation, and the elected directors shall be subject to General Assembly confirmation. If a director is not confirmed by the General Assembly, such director shall continue to serve until such time as the Corporation, as shareholder, is able to act in response to the stated concerns of the General Assembly, consistent with applicable law.

**BYLAWS
OF
THE PRESBYTERIAN CHURCH (U.S.A.) FOUNDATION
(AND FOUNDATION CONSTITUENT CORPORATIONS
LISTED IN ANNEX A HERETO)**

~~As Amended April 2002~~
As Amended Fall 2003

**ARTICLE I
Offices and Fiscal Year**

Section 1.01. Offices. The Fiduciary Corporation may have offices at such places within or without the United States of America as the Board of Trustees may from time to time appoint or the business of the Fiduciary Corporation requires.

Section 1.02. Fiscal Year. The fiscal year of the Fiduciary Corporation shall begin on the first day of January in each year.

**ARTICLE II
Trustees and Members**

Section 2.01. Selection of Trustees; Members. The persons who shall be selected from time to time by the General Assembly of the Presbyterian Church (U.S.A.) (“General Assembly”) to be the Board of Trustees of the Presbyterian Church (U.S.A.) Foundation, (“Fiduciary Corporation”) shall by virtue of their offices, constitute the Board of Trustees of each Corporation listed in Annex A hereto (which Corporations so listed are referred to collectively in these bylaws as “Foundation Constituent Corporations”) and, to the extent that these bylaws are applicable to Foundation Constituent Corporations incorporated under the laws of Illinois, shall also be the members of such Corporations; otherwise the Foundation Constituent Corporations shall have no members as such. The Fiduciary Corporation shall have no members, as such, except the Presbyterian Church (U.S.A.), A Corporation, hereinafter sometimes referred to as the “Central Treasury Corporation”, which shall be a member of the Fiduciary Corporation without vote.

Section 2.02. Number and Tenure of Trustees. The Trustees of the Fiduciary Corporation shall be in such number, and for such terms, and may include such a number of ex officio trustees with voice and vote, who shall be elected in such a manner, as the General Assembly may determine. The permanent complement of the Board of Trustees shall consist of nineteen (19) members elected by the General Assembly for ~~staggered three-year terms,~~ **four-year terms** plus the Stated Clerk of the General Assembly and the Executive Director of the General Assembly Council ex officio. An elected Trustee shall be eligible to serve two ~~additional~~ terms, for a total of ~~nine~~ **eight (9) (8)** years. ~~A person elected to an unexpired term shall be eligible to serve two additional three-year terms.~~ **Beginning in 2006, no person may serve more than two terms, full or partial.** The number of Trustees may be increased or decreased at any time, as determined by the General Assembly. Persons elected to the Board of Trustees shall begin their term of service immediately upon the adjournment of the General Assembly by which they are elected, and continue **for one meeting following the election of their** ~~until their successors are duly elected.~~

Section 2.03. Emeritus Trustees. Any individual elected as Emeritus Trustee prior to the date of this amendment shall continue to serve in such position with voice but not vote until the conclusion of that term, and will not be included in the total number of Trustees as set forth in Section 2.02 above. After the date of this amendment, no Emeritus Trustees shall be elected.

ARTICLE III Board of Trustees

Section 3.01. Meetings of Trustees. Every meeting of the Board of Trustees of the Fiduciary Corporation shall be, without further notice or action, a meeting of the Board of Trustees of each of the Foundation Constituent Corporations.

Section 3.02. Powers; Liability.

(a) The Board of Trustees shall have full power to conduct, manage, and direct the business and affairs of the Fiduciary Corporation; and all powers of the Fiduciary Corporation are hereby granted to and vested in the Board of Trustees.

(b) A Trustee of the Fiduciary Corporation shall not be personally liable for monetary damages as such for any action taken, or any failure to take any action, unless the Trustee has breached or failed to perform the duties of his or her office under 42 Pa.C.S. Section 8363 and the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness. The provisions of this subsection shall not apply to the responsibility or liability of a Trustee pursuant to any criminal statute or the liability of a Trustee for the payment of taxes pursuant to local, state or Federal law.

Section 3.03. Organization. At every meeting of the Board of Trustees, the chair or, in the absence of the chair, the vice chair, or a chair chosen by a majority of the Trustees present, shall preside, and the secretary, or, in the absence of the secretary, an assistant secretary, or, in the absence of the secretary and the assistant secretaries, any person appointed by the chair of the meeting shall act as secretary.

Section 3.04. Place of Meeting. Meetings of the Board of Trustees may be held at such place within or without the United States of America as the Board of Trustees may from time to time appoint, or as may be designated in the notice of the meeting.

Section 3.05. Regular Meetings. Regular meetings of the Board of Trustees shall be held at such time and in such place as shall be designated from time to time by resolution of the Board of Trustees; and prior to the meeting designated as the annual meeting for organization, the chair and vice-chair shall make recommendations for the appointment of members to committees and election of officers to be voted upon by the board at the organizational meeting. Members of the ~~Executive Committee~~ **Advisory Leadership Team** and officers may also be elected at any other meeting of the Trustees. At every regular meeting, the Trustees shall transact such business as may properly be brought before the meeting. Notice of regular meetings need not be given unless otherwise required by law or these bylaws.

Section 3.06. Special Meetings. Special meetings of the Board of Trustees shall be held whenever called by the chair of the Board of Trustees or by one-tenth or more of the Trustees by telephone or in writing at least 48 hours (in the case of notice by mail) before the time at which the meeting is to be held. Every such notice shall state the time and place of the meeting.

Section 3.07. Quorum, Manner of Acting and Adjournment. Twelve (12) Trustees shall be present at each meeting in order to constitute a quorum for the transaction of business. Every Trustee, whether elected by the General Assembly or ex-officio, shall be entitled to one vote. Except as otherwise specified in the Articles of Incorporation or these bylaws or provided by statute, the acts of a majority of the Trustees present at a meeting at which a quorum is present shall be the acts of the Board of Trustees. In the absence of a quorum, a majority of the Trustees present and voting may adjourn the meeting from time to time until a quorum is present. The Trustees

shall act only as a Board of Trustees and individual Trustees shall have no power as such, except that any action which may be taken at a meeting of the Trustees may be taken without a meeting if a consent or consents in writing setting forth the action so taken shall be signed by all of the Trustees in office and shall be filed with the secretary of the Fiduciary Corporation.

Section 3.08. ~~Executive Committee~~ Executive Advisory Leadership Team and Other Committees. The Board of Trustees shall, by resolution adopted by a majority of the Trustees in office, establish an ~~Executive Committee~~ **Advisory Leadership Team** of not less than five members, one of whom shall be the chair of the Board of Trustees, and may by like action establish one or more other committees, each such other committee to consist of two or more Trustees of the Fiduciary Corporation. The Board may designate one or more Trustees as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member, and the alternate or alternates, if any, designated for such member, of any committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not the member or members constitute a quorum, may unanimously appoint another Trustee to act at the meeting in the place of any such absent or disqualified member. Each committee of the Board shall serve at the pleasure of the Board.

The ~~Executive Committee~~ **Advisory Leadership Team** shall have and exercise all of the powers and authority of the Board of Trustees in the management of the business and affairs of the Fiduciary Corporation, except that the ~~Executive Committee~~ **Advisory Leadership Team** shall not have any power or authority as to the following:

- (1) The adoption, amendment or repeal of the bylaws, or the adoption of any amendment of articles or plan or merger, division or consolidation or the approving of the sale, lease or exchange of all or substantially all of the assets of the Fiduciary Corporation or of the dissolution of the Fiduciary Corporation.
- (2) The amendment or repeal of any resolutions of the Board.
- (3) Action on matters committed to a committee having responsibility for supervising or effecting securities transactions.

No committee of the Board of Trustees, other than the ~~Executive Committee~~ **Advisory Leadership Team** or a committee having responsibility for supervising or effecting securities transactions, shall, pursuant to resolution of the Board of Trustees or otherwise, exercise any of the powers or authority vested by these bylaws, the Nonprofit Corporation Law of 1988 or other applicable law in the Board of Trustees as such, but any other committee of the Board of Trustees may make recommendations to the Board of Trustees or ~~Executive Committee~~ **Advisory Leadership Team** or a committee having responsibility for supervising or effecting securities transactions concerning the exercise of such powers and authority.

A majority of the Trustees in office designated to a committee, or Trustees designated to replace them as provided in this section, shall be present at each meeting to constitute a quorum for the transaction of business and the acts of a majority of the Trustees in office designated to a committee or their replacements shall be the acts of the committee.

Each committee shall keep regular minutes of its proceedings in a book or books to be kept for that purpose and shall report such proceedings periodically to the Board of Trustees.

Sections 3.05, 3.06 and 3.07 shall be applicable to committees of the Board of Trustees.

Section 3.09. Compensation and Expenses. Except as permitted by the last sentence of Section 5.14 of these bylaws, no compensation of any kind shall be paid directly or indirectly by the Fiduciary Corporation to, and no loan or other extension of credit shall be made for the benefit of, any Trustee, as such, or as an officer or employee of the Fiduciary Corporation. Trustees may be reimbursed for expenses in a manner consistent with any applicable policies adopted by the General Assembly Council of the Presbyterian Church (U.S.A.) (“General Assembly Council”) or the General Assembly.

Section 3.10. Personal Liability of Trustees. A Trustee of the Fiduciary Corporation shall not be personally liable, as such, for monetary damages for any action taken, or any failure to take any action, unless:

- (1) The Trustee has breached or failed to perform the duties of his or her office under 42 Pa.C.S. Section 8363; and
- (2) The breach or failure to perform constitutes self-dealing, willful misconduct or recklessness.

The provisions of this Section shall not apply to:

- (1) The responsibility or liability of a Trustee pursuant to any criminal statute;
- or
- (2) The liability of a Trustee for the payment of taxes pursuant to local, State or Federal law.

The provisions of this Section are cumulative of and shall be in addition to and independent of any and all:

- (1) Other limitations on the liabilities of Trustees of this Fiduciary Corporation, as such, whether such limitations arise under or are created by any statute, rule of law, provision of the articles of incorporation, agreement, vote of the General Assembly, disinterested Trustees or otherwise; and
- (2) Rights of indemnification existing under these bylaws or otherwise.

In any action, suit or proceeding involving the application of the provisions of this Section, the party or parties challenging the right of a Trustee to the benefits of this Section shall have the burden of proof.

Article IV **Notice - Waivers - Meetings**

Section 4.01. Notice, What Constitutes. Whenever written notice is required to be given to any person under the provisions of the articles, these bylaws, the Nonprofit Corporation Law of 1988 or other applicable law, it may be given to such person, either personally or by sending a copy thereof by first class mail, postage prepaid, by telegram, charges prepaid, by overnight delivery, charges prepaid, by facsimile, with confirmation of delivery, or by electronic mail, to his or her address, fax number, or electronic mail address appearing on the books of the Fiduciary Corporation, or in the case of Trustees, supplied by the Trustee to the Fiduciary Corporation for the purpose of notice. If the notice is sent by mail, or by telegraph, or overnight delivery, it shall be deemed to have been given to the person entitled thereto when deposited in the United States mail or with a telegraph office or overnight delivery service for transmission to such person. If the notice is sent by facsimile, it shall be deemed to have been given when a written report of successful transmission has been received. If the notice is sent by electronic mail, it shall be deemed to have been given upon completion of transmission. A notice of meeting shall specify the place, day and hour of the meeting and any other information required by law or these bylaws.

When a meeting is adjourned, it shall not be necessary to give any notice of the adjourned meeting or of the business to be transacted at an adjourned meeting, other than by announcement at the meeting at which such adjournment is taken.

Section 4.02. Waiver of Notice. Whenever any written notice is required to be given under the provisions of the articles, these bylaws, the Nonprofit Corporation Law of 1972 or other applicable law, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Except as otherwise required by this section and by Section 8.06 of these bylaws, neither the business to be transacted nor the purpose of a meeting need be specified in the waiver of notice of such meeting.

Attendance of a person at any meeting shall constitute a waiver of notice of such meeting, except where a person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting was not lawfully called or convened.

Section 4.03. Modification of Proposal Contained in Notice. Whenever the language of a proposed resolution is included in a written notice of a meeting, the meeting considering the resolution may without further notice adopt it with such clarifying or other amendments as do not enlarge its original purpose.

Section 4.04. Conference Telephone Meetings. One or more persons may participate in a meeting of the Board or of a committee of the Board by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in a meeting pursuant to this section shall constitute presence in person at such meeting.

ARTICLE V Officers

Section 5.01. Number, Qualifications and Designation. The officers of the Fiduciary Corporation shall be a president, one or more vice presidents, a secretary, a treasurer, and such other officers as may be elected in accordance with the provisions of Section 5.03 of this Article. Any number of offices may be held by the same person. Officers may but need not be Trustees or members of the Fiduciary Corporation, and shall be natural persons of full age except that the treasurer or assistant treasurer may be a corporation. The Board of Trustees may elect from among the members of the board a chair of the Board and a vice chair of the Board who shall be officers of the Fiduciary Corporation. The chair of the Board shall be selected from among the members of the ~~Executive Committee~~ *Advisory Leadership Team* .

Section 5.02. Selection and Term of Office. The officers of the Fiduciary Corporation shall be selected and their terms of office shall be determined as follows:

- (1) The president, any vice presidents, the treasurer and other executive officers of the Fiduciary Corporation, except those elected by delegated authority pursuant to Section 5.03, shall be elected by the Board of Trustees with the concurrence of the General Assembly Council. The president shall be elected for a term of four years, subject to confirmation by the General Assembly, and shall be eligible for reelection. Any vice presidents, the treasurer and other executive officers of the Fiduciary Corporation shall be elected for the term of their employment with the Fiduciary Corporation.
- (2) The office of secretary shall be comprised of a recording secretary and a corporate secretary. The recording secretary shall be the person for the time being in office as the Stated Clerk of the General Assembly of the Presbyterian Church (U.S.A.) with one or more associates in that office to serve as assistant recording secretary. The corporate secretary shall be the person for the time being in office as the General Counsel of the Fiduciary Corporation, with one or more associates in that office to serve as assistant corporate secretary.
- (3) Subordinate officers elected by delegated authority pursuant to Section 5.03 shall be governed as to their duties and term of service by the terms and conditions of their election.

Section 5.03. Officers, Committees and Agents. The Board of Trustees may from time to time elect such officers and appoint such committees, employees or other agents as the business of the Fiduciary Corporation may require, including one or more assistant secretaries, and one or more assistant treasurers, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws, or as the Board of Trustees may from time to time determine. The Board of Trustees may delegate to any officer or committee of the Fiduciary Corporation the power to elect subordinate or other officers and to retain or appoint employees or other agents, or committees thereof, and to prescribe the authority and duties of such subordinate or other officers, committees, employees or other agents. Administrative staff positions, including all officers specified in Section 5.02, may be authorized by the Fiduciary Corporation only with the concurrence of the General Assembly Council.

Section 5.04. Resignations. Any officer or agent may resign at any time by giving written notice to the Board of Trustees, or to the president or the secretary of the Fiduciary Corporation. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 5.05. Removal. Any elected or appointed officer, committee member, employee or other agent of the Fiduciary Corporation may be removed, either for or without cause, by the Board of Trustees or other authority which elected or appointed such officer, committee, employee or other agent whenever in the judgment of such authority the best interests of the Fiduciary Corporation will be served thereby, but such removal shall be without prejudice to the contract rights of any person so removed.

Section 5.06. Vacancies. A vacancy in any elective or appointive office because of death, resignation, removal, disqualification, or any other cause, shall be filled by the Board of Trustees (with, where appropriate, the concurrence of the General Assembly Council and, in the case of the president, subject to confirmation by the General Assembly) or by the authority to which the power to fill such office has been delegated pursuant to Section 5.03 of this Article, as the case may be, and if the office is one for which a term is prescribed by or pursuant to these bylaws, shall be filled for the unexpired portion of the term. The refusal of the General Assembly to confirm the election of a president shall result in the creation of a vacancy in that office.

Section 5.07. General Powers. All officers of the Fiduciary Corporation, as between themselves and the Fiduciary Corporation, shall respectively have such authority and perform such duties in the management of the property and affairs of the Fiduciary Corporation as may be determined by resolutions or orders of the Board of Trustees, or, in the absence of controlling provisions in resolutions or orders of the Board of Trustees, as may be provided in these bylaws.

Section 5.08. The Chair and Vice Chair of the Board. The chair of the Board, or in his or her absence, the vice chair of the Board, shall preside at all meetings of the members of the Board of Trustees, and shall perform such other duties as may from time to time be requested of such officers by the Board of Trustees or the ~~Executive Committee~~ *Advisory Leadership Team*.

Section 5.09. The President. The president shall be the chief executive officer of the Fiduciary Corporation and shall have general supervision over the activities and operations of the Fiduciary Corporation, subject, however, to the control of the Board of Trustees. The president shall sign, execute and acknowledge, in the name of the Fiduciary Corporation, deeds, mortgages, bonds, contracts or other instruments, authorized by the Board of Trustees, except expressly delegated by the Board of Trustees, or by these bylaws, to some other officer or agent of the Fiduciary Corporation; and, in general, shall perform all duties incident to the office of president, and such other duties as from time to time may be assigned to the president by the Board of Trustees or the ~~Executive Committee~~ *Advisory Leadership Team*.

Section 5.10. The Vice Presidents. The vice presidents shall perform the duties of the president in the absence of the president and such other duties as may from time to time be assigned to them by the Board of Trustees, the ~~Executive Committee~~ *Advisory Leadership Team* or the president.

Section 5.11. The Secretary. The recording secretary, or assistant recording secretary, shall attend all meetings of the Board of Trustees and shall record all the votes of the Trustees and the minutes of the meetings of the Board of Trustees in a book or books to be kept for that purpose. The corporate secretary, or an assistant corporate secretary, shall see that notices are given and records and reports are filed and shall be the custodian of the seal of the Fiduciary Corporation and see that it is affixed to all documents to be executed on behalf of the Fiduciary Corporation under its seal; and, in general, shall perform all duties incident to the office of corporate secretary, and such other duties relating thereto as may from time to time be assigned to the corporate secretary by the Board of Trustees, the ~~Executive Committee~~ *Advisory Leadership Team*, or the president.

Section 5.12. The Treasurer. The treasurer or an assistant treasurer shall have or provide for the custody of the funds or other property of the Fiduciary Corporation and shall keep a separate book of account of the same to his or her credit as treasurer; shall collect and receive or provide for the collection and receipt of moneys earned by or in any

manner due to or received by the Fiduciary Corporation; shall deposit all funds in his or her custody as treasurer in such banks or other places of deposit (including the Central Treasury Corporation) as the Board of Trustees may from time to time designate; shall, whenever so required by the Board of Trustees, render an account showing his or her transactions as treasurer, and the financial condition of the Fiduciary Corporation; and, in general, shall discharge such other duties as may from time to time be assigned to the treasurer by the Board of Trustees, the ~~Executive Committee~~ *Advisory Leadership Team*, or the president.

Section 5.13. Officers' Bonds. Any officer shall give a bond for the faithful discharge of the duties of the office held by such officer in such sum, if any, and with such surety or sureties as the Board of Trustees shall require.

Section 5.14. Salaries. The salaries of the officers elected by the Board of Trustees shall be fixed from time to time or as may be designated by resolution of the Board. The salaries or other compensation of any other officers, employees and other agents shall be fixed from time to time by the authority to which the power to elect such officers or to retain or appoint such employees or other agents has been delegated pursuant to Section 5.03 of this Article. All salaries shall be consistent with any general salary structure established by the General Assembly Council. No full-time officer shall be prevented from receiving such salary or other compensation by reason of the fact that he or she is also a Trustee of the Fiduciary Corporation. See also Section 3.09 of these bylaws.

ARTICLE VI

Indemnification of Trustees, Officers, Etc.

Section 6.01. Scope of Indemnification.

(a) The Fiduciary Corporation shall indemnify an indemnified representative against any liability incurred in connection with any proceeding in which the indemnified representative may be involved as a party or otherwise, by reason of the fact that such person is or was serving in an indemnified capacity, including without limitation any liability resulting from any actual or alleged breach or neglect of duty, error, misstatement or misleading statement, negligence, gross negligence or act giving rise to strict or products liability, except:

- (1) where such indemnification is expressly prohibited by applicable law;
- (2) where the conduct of the indemnified representative has been finally determined pursuant to Section 6.06(d) or otherwise to constitute willful misconduct or recklessness within the meaning of 42 Pa.CS Section 8365(b) or any superseding provision of law sufficient in the circumstances to bar indemnification against liabilities arising from the conduct;
- (3) to the extent the liability is finally determined pursuant to Section 6.06(d) or otherwise to be based upon or attributable to the indemnified representative gaining any personal pecuniary profit to which such indemnified representative was not legally entitled; or
- (4) to the extent such indemnification has been finally determined in a final adjudication pursuant to Section 6.06(d) to be otherwise unlawful.

(b) If an indemnified representative is entitled to indemnification in respect of a portion, but not all, of any liabilities to which such person may be subject, the Fiduciary Corporation shall indemnify such indemnified representative to the maximum extent for such portion of the liabilities.

(c) The termination of a proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the indemnified representative is not entitled to indemnification.

(d) For purposes of this Article:

- (1) "indemnified capacity" means any and all past, present and future service by an indemnified representative in one or more capacities as a Trustee, officer, employee or agent of the Fiduciary

Corporation or a Foundation Constituent Corporation, or, at the request of the Fiduciary Corporation, as a director, officer, employee, agent, fiduciary or trustee of another Fiduciary Corporation, partnership, joint venture, trust, employee benefit plan or other entity or enterprise;

- (2) “indemnified representative” means any and all Trustees, officers and employees of the Fiduciary Corporation, and any other person designated as an indemnified representative by the Board of Trustees of the Fiduciary Corporation (which may, but need not, include any person serving, at the request of the Fiduciary Corporation, as a director, officer, employee, agent, fiduciary or trustee of another Corporation, partnership, joint venture, trust, employee benefit plan or other entity or enterprise);
- (3) “liability” means any damage, judgment, amount paid in settlement, fine, penalty, punitive damages, excise tax assessed with respect to an employee benefit plan, or cost or expense of any nature (including, without limitation, attorneys’ fees and disbursements); and
- (4) “proceeding” means any threatened, pending or completed action, suit, appeal or other proceeding of any nature, whether civil, criminal, administrative or investigative, whether formal or informal, and whether brought by or in the right of the Fiduciary Corporation, a class of its security holders, if any, or otherwise.

Section 6.02. Proceedings Initiated by Indemnified Representative. Notwithstanding any other provision of this Article, the Fiduciary Corporation shall not indemnify under this Article an indemnified representative for any liability incurred in a proceeding initiated (which shall not be deemed to include counter-claims or affirmative defenses) or participated in as an intervenor or amicus curiae by the person seeking indemnification unless such initiation of or participation in the proceeding is authorized, either before or after its commencement, by the affirmative vote of a majority of a quorum of the Trustees of the Fiduciary Corporation. This section does not apply to reimbursement of expenses incurred in successfully prosecuting or defending an arbitration under Section 6.06(d) or otherwise successfully prosecuting or defending the rights of an indemnified representative granted by or pursuant to this Article.

Section 6.03. Advancing Expenses. The Fiduciary Corporation shall pay the expenses (including attorneys’ fees and disbursements) incurred in good faith by a Trustee or officer and may, by act of the Board of Trustees (including the votes or consents of interested Trustees), pay the expenses (including attorneys’ fees and disbursements) incurred in good faith by any other indemnified representative in advance of the final disposition of a proceeding described in Section 6.01 upon receipt of an undertaking by or on behalf of the indemnified representative to repay such amount if it shall ultimately be determined pursuant to Section 6.06(d) or otherwise that such person is not entitled to be indemnified by the Fiduciary Corporation pursuant to this Article. The financial ability of an indemnified representative to repay an advance shall not be a prerequisite to the making of such advance.

Section 6.04. Securing of Indemnification Obligations. To further effect, satisfy or secure the indemnification obligations provided herein or otherwise, the Fiduciary Corporation may maintain insurance, obtain a letter of credit, act as self-insurer, create a reserve, trust, escrow, cash collateral or other fund or account, enter into indemnification agreements, pledge or grant a security interest in any assets or properties of the Fiduciary Corporation, or use any other mechanism or arrangement whatsoever in such amounts, at such costs, and upon such other terms and conditions as the Board of Trustees shall deem appropriate. Absent fraud, the determination of the Board of Trustees with respect to such amounts, costs, terms and conditions shall be conclusive against all security holders, if any, officers and Trustees and shall not be subject to voidability.

Section 6.05. Payment of Indemnification. An indemnified representative who is entitled to indemnification shall be entitled thereto within 30 days after a written request for such indemnification has been delivered to the secretary of the Fiduciary Corporation.

Section 6.06. Indemnification Procedure.

(a) An indemnified representative shall use such indemnified representative’s best efforts to notify promptly the secretary of the Fiduciary Corporation of the commencement of any proceeding or the occurrence of any event which might give rise to a liability under this Article, but the failure so to notify the Fiduciary Corporation shall not relieve

the Fiduciary Corporation for any liability which it may have to the indemnified representative under this Article or otherwise.

(b) The Fiduciary Corporation shall be entitled, upon notice to any such indemnified representative, to assume the defense of any proceeding with counsel reasonably satisfactory to the indemnified representative, or a majority of the indemnified representatives involved in such proceeding if there be more than one. If the Fiduciary Corporation notifies the indemnified representative of its election to defend the proceeding, the Fiduciary Corporation shall have no liability for the expenses (including attorneys' fees and disbursements) of the indemnified representative incurred in connection with the defense of such proceeding subsequent to such notice, unless (i) such expenses (including attorneys' fees and disbursements) have been authorized by the Fiduciary Corporation, (ii) the Fiduciary Corporation shall not in fact have employed counsel reasonably satisfactory to such indemnified representative or indemnified representatives to assume the defense of such proceeding, or (iii) it shall have been determined pursuant to Section 6.06(d) that the indemnified representative was entitled to indemnification to the benefits of this Article shall have the burden of proof. The Fiduciary Corporation shall reimburse an indemnified representative for such expenses under this Article or otherwise. Notwithstanding the foregoing, the indemnified representative may elect to retain counsel at the indemnified representative's own cost and expense to participate in the defense of such proceeding.

(c) The Fiduciary Corporation shall not be required to obtain the consent of the indemnified representative to the settlement of any proceeding which the Fiduciary Corporation has undertaken to defend if the Fiduciary Corporation assumes full and sole responsibility for such settlement and the settlement grants the indemnified representative an unqualified release in respect of all liabilities at issue in the proceeding. Whether or not the Fiduciary Corporation has elected to assume the defense of any proceeding, no indemnified representative shall have any right to enter into any full or partial settlement of the proceeding without the prior written consent of the Fiduciary Corporation (which consent shall not be unreasonably withheld), nor shall the Fiduciary Corporation be liable for any amount paid by an indemnified representative pursuant to any settlement to which the Fiduciary Corporation has not so consented.

(d) Any dispute related to the right to indemnification as provided under this Article shall be decided only by arbitration in the metropolitan area in which the principal executive offices of the Fiduciary Corporation are located at the time, in accordance with the commercial arbitration rules then in effect of the American Arbitration Association, before a panel of three arbitrators, one of whom shall be selected by the Fiduciary Corporation, the second of whom shall be selected by the indemnified representative and the third of whom shall be selected by the other two arbitrators. In the absence of the American Arbitration Association, or if for any reason arbitration under the arbitration rules of the American Arbitration Association cannot be initiated, and if one of the parties fails or refuses to select an arbitrator, or the arbitrators selected by the Fiduciary Corporation and the indemnified representative cannot agree on the selection of the third arbitrator within 30 days after such time as the Fiduciary Corporation and the indemnified representative have each been notified of the selection of the other's arbitrator, the necessary arbitrator or arbitrators shall be selected by the presiding judge of the court of general jurisdiction in such metropolitan area. Each arbitrator selected as provided in this subsection is required to be or have been a director or executive officer of a corporation whose shares of common stock were listed during at least one year of such service on the New York Stock Exchange or the American Stock Exchange or quoted on the National Association of Securities Dealers Automated Quotations System. The party or parties challenging the right of an indemnified representative to the benefits of this Article shall have the burden of proof. The Fiduciary Corporation shall reimburse an indemnified representative for the expenses (including attorneys' fees and disbursements) incurred in successfully prosecuting or defending such arbitration. Any award entered by the arbitrators shall be final, binding and nonappealable and judgment may be entered thereon by any party in accordance with applicable law in any court of competent jurisdiction, except that the Fiduciary Corporation shall be entitled to interpose as a defense in any such judicial enforcement proceeding any prior final judicial determination adverse to the indemnified representative under Section 6.01(a)(2) or (3) in a proceeding not directly involving indemnification under this Article. This arbitration provision shall be specifically enforceable.

(e) Upon a payment to any indemnified representative under this Article, the Fiduciary Corporation shall be subrogated to the extent of such payment to all of the rights of the indemnified representative to recover against any person for such liability, and the indemnified representative shall execute all documents and instruments required and shall take such other action as may be necessary to secure such rights, including the execution of such documents as may be necessary for the Fiduciary Corporation to bring suit to enforce such rights.

Section 6.07. Discharge of Duty. An indemnified representative shall be deemed to have discharged such person's duty to the Fiduciary Corporation if he or she has relied in good faith on information, advice or an opinion, report or statement prepared by:

- (1) one or more officers or employees of the Fiduciary Corporation whom such indemnified representative reasonably believes to be reliable and competent with respect to the matter presented;
- (2) legal counsel, public accountants or other persons as to matters that the indemnified representative reasonably believes are within the persons' professional or expert competence; or
- (3) a committee of the Board of Trustees on which he or she does not serve as to matters within its area of designated authority, which committee he or she reasonably believes to merit confidence.

Section 6.08. Contract Rights; Amendment or Repeal. All rights to indemnification under this Article shall be deemed a contract between the Fiduciary Corporation and the indemnified representatives pursuant to which the Fiduciary Corporation and each indemnified representative intend to be legally bound. Any repeal, amendment or modification hereof shall be prospective only and shall not affect any rights or obligations then existing.

Section 6.09. Scope of Article. The indemnification of indemnified representatives, as authorized by this Article, shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any statute, agreement, vote of the General Assembly or disinterested Trustees or otherwise, both as to action in an official capacity and as to action in any other capacity. The indemnification provided by or granted pursuant to this Article shall continue as to a person who has ceased to be an indemnified representative in respect of matters arising prior to such time, and shall inure to the benefit of the heirs, executors, administrators and personal representatives of such a person.

Section 6.10. Reliance on Provisions. Each person who shall act as an indemnified representative of the Fiduciary Corporation shall be deemed to be doing so in reliance upon the rights of indemnification provided by this Article.

Section 6.11 Interpretation. The provisions of this Article have been approved and ratified by the General Assembly Council and are intended to constitute Bylaws authorized by Section 5746 of the Pennsylvania Nonprofit Corporation Law of 1988 and 42 Pa.C.S. Section 8365.

ARTICLE VII

Investments

Section 7.01. Administration. Unless otherwise specifically directed in the instrument by which any property, real or personal, is given, granted, conveyed, transferred, bequeathed, devised, assigned to or otherwise vested in the Fiduciary Corporation, including but not limited to its capacity as fiduciary or otherwise, and subject to the general investment policies, adopted from time to time by the General Assembly so far as consistent with the fiduciary responsibilities of the Board of Trustees, the appropriate committee of the Board of Trustees is authorized to invest and reinvest the property thus received or the proceeds of any property thus received and to retain property thus received and investments heretofore or hereafter made if done in the exercise of that degree of judgment and care, under the circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income to be derived therefrom as well as the probable safety of their capital. The appropriate committee of the Board of Trustees may employ such investment advisors and consultants as it desires to assist it in making investments, reinvestments and retention of investments.

Section 7.02. Certain Unrestricted Funds. With respect to investment of property and funds free of any standard of investment or over which the General Assembly has power of appropriation, the appropriate committee of the Board of Trustees may invest and reinvest such property and funds in such manner as the General Assembly or any body formed by the General Assembly thereto authorized may suggest or require, without reference to the standard provided by Section 7.01 of this Article.

Section 7.03. Restricted Funds. Where the terms of the gift or the instrument by which property or funds are received by the Fiduciary Corporation specify or limit the type of investments to be made with such property or funds, the investment or reinvestment of such property or funds shall be made in the discretion of the appropriate committee of the Board of Trustees in accordance with the terms provided or limited in the instrument by which such property or funds are received. In every case where a donor has specified that the principal of the gift be invested and that only the income be expended, the Fiduciary Corporation shall refrain from making any expenditure of principal, and in every case where a donor has specified the purposes for which principal or income may be expended, the Fiduciary Corporation shall refrain from making any expenditure inconsistent with the terms of the gift.

Section 7.04. Custodians and Nominee Registration. All investments and securities owned by the Fiduciary Corporation shall be held in the custody of a bank, or a trust company or other depositories as the Board of Trustees, the Advisory Leadership Team or another appropriate committee of the Board of Trustees may approve or designate. Investments and securities owned by the Fiduciary Corporation may be held in the name of a nominee which may be the nominee of a bank, or a trust company or other depository, provided the bank or trust company or other depository in the name of whose nominee investments and securities of the Fiduciary Corporation are held first gives a bond or letter to the Fiduciary Corporation where by it assumes full responsibility for the safe custody of the investments and securities and agrees to indemnify the Fiduciary Corporation and its Trustees and officers and employees against any loss or claims by reason of such nominee registration or default or infidelity of such nominee, and that all such investments and securities shall be so designated upon the records of the bank, or trust company or other custodian so that the ownership of the same in the Fiduciary Corporation shall clearly appear at all times.

ARTICLE VIII

Miscellaneous

Section 8.01. Corporate Seal. The Fiduciary Corporation shall have a corporate seal in the form of a design adopted by the 197th General Assembly (1985) of the Presbyterian Church (U.S.A.), together with the words: "PRESBYTERIAN CHURCH (U.S.A.) FOUNDATION -- INCORPORATED 1799 PENNSYLVANIA". The Foundation Constituent Corporations shall each have a corporate seal in the form of a circle containing the words "CORPORATE SEAL".

Section 8.02. Checks. All checks, notes, bills of exchange or other orders in writing shall be signed by such person or persons as the Board of Trustees may from time to time designate.

Section 8.03. Contracts. Except as otherwise provided in these bylaws, the Board of Trustees may authorize any officer or officers, agent or agents, to enter into any contract or to execute or deliver any instrument on behalf of the Fiduciary Corporation, and such authority may be general or confined to specific instances.

Section 8.04. Deposits and Disbursements. All funds of the Fiduciary Corporation shall be deposited from time to time to the credit of the Fiduciary Corporation in such banks, trust companies, or other depositories as the Board of Trustees may approve or designate, and all such funds shall be withdrawn only upon checks signed by, or bearing the authorized facsimile signature of such one or more officers, employees or agents as the Board of Trustees shall from time to time determine. The name or accounts to which such deposits are made, and the name of the Fiduciary Corporation on checks drawn against such accounts may be "Presbyterian Church (U.S.A.)", and may include such other words including the name of the Fiduciary Corporation and an appropriate designation to identify by purpose or otherwise. The Fiduciary Corporation shall designate the Central Treasury Corporation as attorney-in-fact of the Fiduciary Corporation and of each of the Foundation Constituent Corporations for the purpose of disbursing unrestricted income or unrestricted principal of invested funds (and restricted income or restricted principal to the extent specifically authorized by the Board of Trustees) pursuant to appropriations made by the General Assembly or any officer or agency thereof thereunto duly authorized. In the case of disbursements of unrestricted income or unrestricted principal, the personnel of the Central Treasury Corporation, and not the Board of Trustees of the Fiduciary Corporation and the Foundation Constituent Corporations, shall be accountable and responsible for such disbursements.

Section 8.05. Annual Report of Trustees; Accounting System. The Board of Trustees shall direct the president and treasurer to present at a regular meeting of the board in every year a report, verified by such officers, showing in appropriate detail the following:

(1) The assets, liabilities and fund balances, including the trust funds, of the Fiduciary Corporation as of the end of the fiscal year immediately preceding the date of the report.

(2) The principal changes in assets, liabilities and fund balances, including trust funds, during the year immediately preceding the date of the report.

(3) The revenue or receipts of the Fiduciary Corporation, both unrestricted and restricted to particular purposes, for the year immediately preceding the date of the report, including separate date with respect to each trust fund held by or for the Fiduciary Corporation.

(4) The expenses or disbursements of the Fiduciary Corporation, for both general and restricted purposes, during the year immediately preceding the date of the report, including separate date with respect to each trust fund held by or for the Fiduciary Corporation.

(5) The number of members of the Fiduciary Corporation as of the date of the report and a statement of the place where the name and address of the current member of the Fiduciary Corporation may be found.

The Central Treasury Corporation and the Fiduciary Corporation shall be subject to a single coordinated accounting system, the elements of which shall be compatible. Financial statements reported on by independent certified public accountants may be statements which have been combined with those of the Central Treasury Corporation.

The annual report shall be filed with the minutes of the meeting of the Board and copies shall be transmitted to the Central Treasury Corporation, the General Assembly Council and the General Assembly.

Section 8.06. Amendment of Bylaws. These bylaws may be amended or repealed, or new bylaws may be adopted either: (1) by the action of a majority of Trustees present and voting at any regular or special meeting of the Board of Trustees at which a quorum is present, if ten days' written notice of such proposed amendment, repeal or new bylaws is given to each Trustee, or (2) by the action at any regular meeting of the Board of Trustees of a majority of all of the Trustees in office, where no notice of such proposed amendment, repeal or new bylaws has been given.

Any such amendment, repeal or new bylaws shall be consistent with the Form of Government of the Presbyterian Church (U.S.A.) and with the directions from time to time of the General Assembly. The substance of any proposed amendment, repeal or new bylaws shall first be approved by the General Assembly Council.

ANNEX A

**Foundation Constituent Corporations
of the
Presbyterian Church (U.S.A.) Foundation**

<u>Name</u>	<u>State of Incorporation</u>
The Presbyterian Foundation, Inc. (U.S.)	North Carolina
Board of Christian Education of the Presbyterian Church (U.S.A.)	Pennsylvania
The Board of Christian Education of the Presbyterian Church (U.S.A.)	New York
Board of Foreign Missions of the Presbyterian Church (U.S.A.)	Pennsylvania
Board of Home Missions of the Presbyterian Church (U.S.A.)	New York
Board of National Missions of the Presbyterian Church (U.S.A.)	New York
Commission on Ecumenical Mission and Relations of the Presbyterian Church (U.S.A.)	New York
The Presbyterian Board of Home Mission	New York
The Woman's Board of Foreign Missions of the Presbyterian Church (U.S.A.)	New York
Woman's Board of Home Missions of the Presbyterian Church (U.S.A.)	New York

Rationale

The amendments made to the Articles of Incorporation and the Bylaws have been made in response to the following referral: *2003 Referral: Item 02-03. C. Recommendation That Corporations Amend, as Necessary, Their Articles of Incorporation, Bylaws, and Other Pertinent Documents and Report to the 216th General Assembly (2004) (Minutes, 2003, Part I, pp. 34, 125).*

Item 14-04

The Presbyterian Church (U.S.A.) Foundation recommends that the 216th General Assembly (2004) confirm the reelection of Robert E. Leech by the Board of Trustees of the Presbyterian Church (U.S.A.) Foundation, and the concurrence of the General Assembly Council, for an additional four-year term as Foundation president and chief executive officer.

Rationale

At its regular spring meeting, the trustees of the Presbyterian Church (U.S.A.) Foundation unanimously, and with gratitude to God, called and elected Robert E. Leech to a second, four-year term as president of the Foundation subject to the concurrence of the General Assembly Council and confirmation of the General Assembly.

Robert Leech is a resident of Louisville and a member of Second Presbyterian Church. A lifelong Presbyterian, he has served as an elder and deacon at five churches across the country.

Leech earned a Bachelor of Arts degree from Ursinus College in Pennsylvania, and a Masters of Business Administration degree from the College of William and Mary. He is also a graduate of the National Trust School and Trust Management School at Northwestern University. Prior to joining the Foundation, Leech spent thirty years in the banking industry.

During his first term, Leech worked with the Foundation Board to implement a plan to increase overall planned giving to local churches, institutions, and the national church. He has worked with the General Assembly Council to better respond to the stewardship and funds development needs of the church.

Additionally, Leech has improved the financial position of the Foundation by managing expenses and increasing reserves despite a difficult economy. He has coordinated the inclusion of the Foundation's new subsidiary, New Covenant Trust Company, for which he also serves as chief executive officer, with the overall operation of the Foundation.

Finally, Leech worked with the board to create a strategic plan for the Foundation to ensure the organization serves the whole church by nurturing the stewardship of accumulated resources to fund the mission of the church.

GAC COMMENT ON ITEM 14-04

Comment on Item 14-04—From the General Assembly Council.

The General Assembly Council Executive Committee, on behalf of the General Assembly Council, voted to concur with the election of Robert E. Leech to an additional four-year term as the president and chief executive officer of the Presbyterian Church (U.S.A.) Foundation on Friday, May 7, 2004.

Item 14-05

The Presbyterian Church (U.S.A.) Foundation and the General Assembly Council, on behalf of the Presbyterian Church (U.S.A.), A Corporation, request the 216th General Assembly (2004) approve the transfer of jurisdiction, control, and responsibility for the three Foundation Constituent Corporations listed below from the Foundation to become Constituent Corporations of the Church Corporation:

- 1. Commission on Ecumenical Mission and Relations of the Presbyterian Church (U.S.A.), a New York corporation,**
- 2. Board of Foreign Missions of the Presbyterian Church (U.S.A.), a Pennsylvania corporation, and**
- 3. The Woman's Board of Foreign Missions of the Presbyterian Church (U.S.A.), a New York corporation.**

Rationale

The deliverance adopted by the 198th General Assembly (1986) of the Presbyterian Church (U.S.A.) and modified by the 199th General Assembly (1987) and by the 214th General Assembly (2002) (the deliverance) established the Presbyterian Church (U.S.A.), A Corporation, also known as the Central Treasury Corporation (the Church Corporation), and Presbyterian Church (U.S.A.) Foundation, also known as the Fiduciary Corporation (the Foundation), allocated ten Constituent Corporations to the Foundation, set out in Annex A of the Foundation's bylaws, and seven Constituent Corporations to the Church Corporation, set out in Annex A of the Church Corporation's bylaws. Section 1(e) of the deliverance directed the Foundation to review the need to continue the separate corporate existence of its Constituent Corporations and to merge them with and into the Foundation at as early a date as is deemed feasible and appropriate.

The Foundation officers have notified officers of the Church Corporation of the Foundation's intent to merge many of its Constituent Corporations into the Foundation as contemplated by Section 1(e) of the deliverance. However, three of the Constituent Corporations hold property in foreign countries: The Commission on Ecumenical Mission and Relations of the Presbyterian Church (USA), a New York Corporation; the Board of Foreign Missions of the Presbyterian Church (U.S.A.), a Pennsylvania corporation; and the Woman's Board of Foreign Missions of the Presbyterian Church (U.S.A.), a New York corporation (Three Constituent Corporations). Since the property and finance laws of many foreign countries are challenging and merging these properties into the Foundation could cloud title in foreign countries, these Three Constituent Corporations are not among those to be merged into the Foundation.

The Church Corporation is responsible for overseas property, finance, and legal matters on behalf of the General Assembly, the General Assembly Council (GAC) of the Presbyterian Church (U.S.A.), and the GAC's Worldwide Ministries Division (WMD) and has been managing the property of the Three Constituent Corporations pursuant to a limited power of attorney with the Foundation since the deliverance. The deliverance gave the Church Corporation the right (which it has exercised) to request that all properties of the Constituent Corporation be transferred from the Foundation Constituent Corporations to the Church Corporation. However, because it is vital for the mission of the General Assembly, GAC, and WMD that the continuing corporate authority and existence of the Three Constituent Corporations remain clear, the Foundation requests authorization to transfer the Three Constituent Corporations rather than the individual properties as previously authorized.

Item 14-06

The General Assembly Council recommends that the 216th General Assembly (2004) do the following:

1. Confirm the election of the following individuals as members of the Board of Directors of the Presbyterian Church (U.S.A.) Investment & Loan Program, Inc:

Nominated by the General Assembly Nominating Committee: Alvin Puryear, Class of 2006 (at-large); Martha Guy, Class of 2006 (presbytery representative); Alvin D. Smith, Class of 2006 (at-large); Mary C. Baskin, Class of 2008 (at-large); Connia H. Watson, Class of 2008 (at-large); Nancy Muth, Class of 2008 (at-large); Kim I. Dunbar, Class of 2008 (synod representative).

Nominated by the Presbyterian Church (U.S.A.) Foundation: B. Cary Tolley III, Class of 2006; Marcy M. Moody, Class of 2008.

Rationale

The 1995 deliverance of the Presbyterian Church (U.S.A.) Investment & Loan Program, Inc., assigns General Assembly Council the responsibility for election of directors to the program's board. Directors are nominated by various agencies, e.g., General Assembly Nominating Committee, General Assembly Council Nominating Committee, National Ministries Division, and the Presbyterian Church (U.S.A.) Foundation.

The General Assembly Council Executive Committee, acting on behalf of the General Assembly Council, elected the above-named individuals to the Board of Directors of the Presbyterian Church (U.S.A.) Investment & Loan Program, Inc., during their conference call meeting of March 12, 2004.

2. Confirm the election of the following persons to the Presbyterian Church (U.S.A.) Investment and Loan Program, Inc. Board of Directors: Joe Rigsby, Class of 2006; Isaac St. Clair Freeman, Class of 2006.

Rationale

The 1995 Deliverance of the Presbyterian Church (U.S.A.) Investment & Loan Program, Inc. (PILP), assigns to the GAC responsibility for election of directors to the board of PILP, subject to confirmation by the General Assembly. Directors are nominated by various agencies, i.e., the General Assembly Council Nominating Committee, the National Ministries Division, the General Assembly Nominating Committee, and the Presbyterian Church (U.S.A.) Foundation. The above-named persons were nominated by the General Assembly Council Nominating Committee and elected by the General Assembly Council during its meeting of February 10–14, 2004.

[Note: Text is an addendum. Please add to Item 14-06 as page 2.]

3. The General Assembly Council recommends that the 216th General Assembly (2004) confirm extending the term of Ben F. McAnally, for the Class of 2006 to the Board of Directors of the Presbyterian Church (U.S.A.) Investment and Loan Program, Inc.

Rationale

Extending McAnally's term for the Class of 2006 is consistent with the newly adopted bylaws coordinating board terms with biennial General Assemblies.

Item 14-07

The General Assembly Council, on behalf of the Presbyterian Investment & Loan Program, Inc. (PILP), recommends that the 216th General Assembly (2004) confirm the election of the Reverend James L. Hudson as president of the Presbyterian Investment and Loan Program, Inc.

Rationale

Hudson has a Master of Business Administration in marketing from Indiana University, and a Master of Divinity from Princeton Theological Seminary. During his twenty-plus years with the Synod of Lincoln Trails, Hudson managed the synod's investment portfolio, which contributed about \$200,000 a year to the synod's mission budget, trained 200 "mission advocates" in the synod's seven presbyteries, while he organized a series of mission-funding consultations. In addition, he helped establish sixteen new churches, and had a hand in twenty congregational redevelopment projects.

Hudson was unanimously elected by PILP's board of directors on July 31, 2003. The General Assembly Council Executive Committee, acting on behalf of the General Assembly Council, concurred with his election during their conference call meeting of August 29, 2003. Hudson began his service with PILP on September 2, 2003.

Item 14-08

On Appointing a Task Force to Review the Medical Plan of the Board of Pensions—From the Presbytery of Abingdon.

The Presbytery of Abington overtures the 216th General Assembly (2004) to appoint a task force to review the medical plan of the Board of Pensions of the Presbyterian Church (U.S.A.). This task force is to be composed of nine persons appointed by the Moderator of the General Assembly. Those appointed shall have knowledge of health insurance but not be affiliated in any way with the Board of Pensions or have any conflict of interest that could perceptively influence their objectivity. This task force will report to the 217th General Assembly (2006).

Rationale

Many ministers and lay members of the Presbyterian Church (U.S.A.) have questions concerning costs and coverage offered by the Plan. It is time for the Board of Pensions to have an administrative review. The medical plan review could be added without additional cost.

There are increasing numbers of ministers and lay members of the Plan who are expressing discontent with the escalating costs and co-pays with decreasing levels of benefits.

The increase in medical cost by the Board of Pensions appears to be greater than the cost of health care in general.

The medical cost part of the Board of Pensions' program continues to increase.

The Presbyterian Church (U.S.A.) Plan members have been told in past years that we have one of the best medical plans offered.

This review will permit the task force to compare the Board of Pensions Plan with other denominational medical programs.

Concurrences to Item 14-08 from the Presbyteries of Baltimore, Eastern Virginia, Kiskiminetas, Peaks, and South Louisiana.

Concurrence to Item 14-08 from the Presbytery of Palisades (with Additional Rationale).

Rationale

1. The Board of Pensions Plan of the Presbyterian Church (U.S.A.) currently prohibits the enrollment of clergy in temporary relationships employed less than twenty hours per week, thereby denying presbyteries from utilizing temporary, part-time positions to fulfill the mission of specific churches, as well as denying presbyteries their responsibility "... for the mission and government of the church throughout its geographical district (G-11.0103)."

2. The policy of the Board of Pensions billing churches for part-time positions to pay medical dues at a full-time rate places an undue burden on small congregations and part-time ministers, and also encroaches on presbytery ability to discharge its authority to direct its mission.

ACREC ADVICE AND COUNSEL ON ITEM 14-08

Advice and Counsel on Item 14-08—From the Advocacy Committee for Racial Ethnic Concerns (ACREC).

Item 14-08 requests the 216th General Assembly (2004) to appoint a nine-member task force to review the medical plan of the Board of Pensions and report to the 217th General Assembly (2006), from the Presbytery of Abingdon, with concurrences from the Presbyteries of Baltimore and Kiskiminetas and from the Presbytery of Palisades (with additional rationale).

The Advocacy Committee for Racial Ethnic Concerns advises that Item 14-08 be approved.

Rationale

The Advocacy Committee for Racial Ethnic Concerns especially agrees with specific issues cited in the statement of rationale from the concurring Presbytery of Palisades, namely, the prohibitions, limits, and undue burdens that current policy and practice of the Board of Pensions place on smaller membership churches, part-time ministers, and presbyteries in fulfillment of their call and mission.

The Advocacy Committee for Racial Ethnic Concerns highlights these additional factors as rationale for approval of Item 14-08:

Factor One: The PC(USA) has a deeply rooted and long-standing commitment to diversity and inclusiveness in the whole church. Biblically, theologically, and constitutionally, those commitments call for full access and participation for the whole life and leadership of the church.

Factor Two: The 210th General Assembly (1998) approved a churchwide commitment to goals and strategies for significantly increasing the growth of racial ethnic/immigrant churches and congregational membership.

Factor Three: There are timely renewed calls [e.g. the report to this 216th General Assembly (2004) of the ACREC Task Force to Examine General Assembly Entities: Creating a Climate for Change; the feature article in the March 2004 issue of *Presbyterians Today* on “Guess Who’s Coming to Church: Newcomers from Places Like Brazil and Sudan Are Changing the Face of the PC(USA)”]; and the feature article/editorial/research data in the December 2003 issue of *Presbyterians Today* on “Finding God in Small Places”] to continue and expand church-wide commitments to diversity and inclusiveness, with a special emphasis on making substantive organizational and functional changes that move beyond mere principle and polity to public practice and experience.

Factor Four: Racial ethnic/immigrant churches, leaders, and ministries carry a disproportionate part of the burden placed upon presbyteries, smaller churches, and part-time pastors/leaders who are adversely affected by current financial inequities of a medical plan that requires full-time rates for part-time ministries.

ACWC ADVICE AND COUNSEL ON ITEM 14-08

Advice and Counsel on Item 14-08—From the Advocacy Committee for Women’s Concerns.

Item 14-08 asks the Moderator of the 216th General Assembly (2004) to appoint a nine-person task force to review the medical plan of the Board of Pensions.

The Advocacy Committee for Women’s Concerns (ACWC) recommends that Item 14-08 be answered by the action taken on Item 14-11.

Rationale

Item 14-11 asks for a review of the relationship between the pension and the medical plans to consider a recommendation, among others, that the two be separated thus providing for careful study of several options rather

than only reviewing the medical plan. The rising costs of medical care and coverage affect single parent clergy-women severely. They serve disproportionately as pastors of smaller congregations. A 12 percent increase in the medical dues went into effect January 2004. This increased cost makes it more difficult for smaller congregations to retain ordained pastors.

While the Board of Pensions has struggled to maintain the community nature of its plans, a thorough review is important to explore ways of decreasing the economic burden on single clergy parents.

[Note: Text is an addendum. Please add to Item 14-08 as page 4.]

Comment on Item 14-08—From the Board of Pensions.

The Presbytery of Palisades offered additional rationale for the appointment of the task force. The two points raised relate to a presbytery's ability to direct its mission based on the policies of the Board of Pensions as they relate to temporary and part-time employment relationships.

The requirement of the Benefits Plan that there be an appropriate employment relationship in order for an individual to be enrolled for coverage is separate and apart from the decision of a presbytery/church to rely on temporary part-time assistance to meet the pastoral leadership needs of a particular congregation. The Benefits Plan is governed by federal laws as an employee benefits plan. Some reasonable level of hours worked and compensation received is required to establish such a bona fide employer/employee relationship; the standard that the Board of Pensions has adopted is twenty hours per week and compensation consistent with the minimum Pension Plan participation requirement.

Despite the fact that there are great cost pressures on the funding of the Benefits Plan, particularly with respect to the Medical Plan, family coverage continues to be provided for those with lower salaries at a cost below true value. In this environment, the directors of the Board of Pensions have determined that an expectation that an individual serving a church for a few hours per week should be so subsidized is beyond the ability of the Board of Pensions to meet. Presumably, the individual who is serving only a few hours per week does not rely on compensation from church employment for his/her sole or even primary support; similarly, there should not be an expectation that the church employer will provide full healthcare and other benefits for the individual and his/her family.

The second point in the rationale for the concurrence is that the policy of billing churches for medical dues on a part-time participating position at an equivalent full-time rate adopted by the Board of Pensions beginning in 2004, places an undue burden on small congregations and part-time ministers. It also encroaches on presbytery ability to discharge its authority to direct its mission.

This concern is essentially answered by the response to the first point, with the exception that, if the position is installed, participation is mandated and the minister of the Word and Sacrament must be enrolled in the Benefits Plan. If the congregation is unable to meet the expense of calling a full-time pastor, its pastoral leadership needs may be met in a variety of ways, many of which do not include mandated participation in the Benefits Plan. The decision about how those needs would be met is the responsibility of the church in consultation with presbytery; the Board of Pensions is not involved. While the Board of Pensions continues to provide access to full-time healthcare benefits for those employed in part-time church service, our directors have determined that it is no longer affordable for the community to do so on the basis of dues paid on part-time salaries.

The Board of Pensions advises that the Item 14-08, including all concurrences and comments, be referred to the agency review committee that will review the work of the Board of Pensions.

Item 14-09

On Directing the Board of Pensions to Revise Their Rules for the Calculation of Salary for Churches with a Clergy Couple Installed to One Position—From the Presbytery of Southeastern Illinois.

The Presbytery of Southeastern Illinois respectfully overtures the 216th General Assembly (2004) to direct the Board of Pensions to revise their rules concerning the calculation of the “full-time equivalent annual salary,” for churches with a clergy couple, married to each other, installed to one position, to use the combined “total” effective annual salary for the one position, at any given church, where the “total” includes the sum of the clergy couple’s effective annual salaries for the couple installed to one position; permitting one of the pastors to receive medical coverage as dependent/family member of the other spouse. This revision includes the following limitations and clarification:

- 1. Limit this exclusion/exception to clergy couples installed to one position as verified by the church and the presbytery, married to each other, jointly serving the equivalent of one, full-time position.**
- 2. Permit one member of the clergy couple to receive medical/healthcare coverage as the spouse dependent/family member of the other, with the total cost of the medical dues not to exceed those calculated by the total effective annual salary of the combination of the two pastors (as if it was one pastor installed to the same one position); in accordance with the current Board of Pension guidelines for medical dues calculations (including the greater of the combined effective annual salary for one position or the minimum salary participation basis for one position).**
- 3. This change would only apply to the medical dues and would not affect the current method of calculating the pension or the death and disability coverage or the dues thereof.**

Rationale

Due to an apparent unanticipated impact from the substantial changes in the Board of Pension (BOP) Medical Dues calculation, the amount a church will pay for a clergy couple, married to each other, installed to one position will have the following effect; assuming a combined full-time equivalent annual salary equal to the churchwide median of \$44,200: In January 2003, the total this church paid for the medical dues was \$3,920 for each of the pastors, totaling \$7,840 (2 x \$22,100 x 16.5%). In January 2004, this church will pay \$7,155 for each of the pastors, totaling \$14,310 (2 x \$22,100 x 18.5% x 35/20). A couple with one spouse serving full-time as a pastor installed to this same one position would have the same healthcare coverage, with the other spouse as a dependent—this church will pay medical dues of only \$8,177 (\$44,200 x 18.5%). Obviously, the impact of \$6,133 (\$14,310–\$8,177) is a gross inequity for a clergy couple installed to one position, and the church that they serve—usually a small church. [Note: It is stipulated that the use of the words “clergy couple” in this document only applies to a “clergy couple married to each other.”]

Clergy couples installed to one position have answered God’s call, as they have discerned it, to serve Christ together by filling one installed position in the church because, as a couple, they feel the call to share in a common ministry as they grow together in marriage and career, usually including family responsibilities to children at the same time, as well. Generally these are couples with young families and are serving in small churches, each of which has limited financial resources; therefore, the church they serve should not be penalized by treating them as part-time pastors.

The Board of Pensions has adopted a 12 percent increase in the medical dues for all plan members by increasing the rate from 16.5 percent in January 2003 to 18.5 percent in January 2004. However, the medical dues will increase from 18.5 percent to more than 32 percent for a church with a clergy couple installed to one position.

The situation for a church with a clergy couple installed to one position is exacerbated in 2004 by

1. the 21 percent (\$23,600 to \$28,730) increase in the minimum salary participation basis,
2. the new calculation of the “full-time equivalent annual salary” prorated for the part-time salary based on the number of hours worked compared to 35 hours, and
3. then using the greater of the “full-time equivalent annual salary” and “minimum salary participation basis” as the “effective annual salary for medical dues calculation.

For a clergy couple installed to one position making a combined total equal to the churchwide full-time median salary of \$44,200, the total increase in medical dues from January 2003 of \$3,920 for each to January 2004 of \$7,155 for each is a \$3,235 increase for each of the pastors totaling a \$6,470 increase for the church. This is an 82.5 percent increase in a period of twelve months with the church paying on a full-time equivalent annual salary of \$77,350 ($\$44,200 \times 35/20$).

If one member of a clergy couple served the same church full-time in the same one position, the spouse would be covered under the medical portion of the plan as a dependent; but if this couple is called for both of them to fill the same single position, they and the church are penalized by an amount of \$6,133.

If the actual effective salary for each member of the clergy couple installed to one position is \$25,257 or greater, the church will pay on a full-time equivalent annual salary of \$88,400 ($2 \times \$25,257 \times 35/20 \times 18.5\%$)—this is the maximum any church will pay for one full-time position even if the pastor made \$200,000 or more, while this clergy couple is only making a total of \$50,514 combined. In both cases, the church will be paying \$16,354 just for medical dues.

It is understandable why the Board of Pensions added the “full-time equivalent annual salary” calculation for most part-time members since part-time members are receiving full medical coverage and benefits under the medical portion of the plan, thus making it reasonable that most of those members should be paying a prorated amount based on their part-time salary. But it is not understandable why the Board of Pensions calculates salaries for a clergy couple installed to one, full-time position as two, full-time equivalent annual salaries.

For a clergy couple installed to one position, the “full-time equivalent salary” should be the sum of the two effective annual salaries and each part-time salary, individually, should not be subject to the “minimum salary participation basis.” The maximum this church should pay for medical dues should be based on the greater of the combined effective annual salary for one position or the minimum salary participation basis for one position; not two positions.

Due to the community nature of the Board of Pensions plan, we are not requesting a change for clergy couples who serve different churches or separate entities even though they also feel the pinch of each spouse having to pay full medical dues. The difference being that each entity does need to fulfill the obligation to the total community by paying a share of the cost of the benefits received; and recognizing that part-time members receive full benefits under the pension and death and disability part of the plan, no change in this portion of the benefits plan is requested.

Due to the unique aspects involved for a clergy couple installed to one position, we submit this overture petitioning the Board of Pensions to exempt this one classification of members from the calculation based on the part-time effective annual salary of each member individually with the minimum salary participation basis and the full-time equivalent annual salary. Instead, it is more reasonable to use the current Board of Pensions medical dues calculations for the combined total effective annual salary of both members of the clergy couple. The Board of Pensions has informed us there are not many clergy couples installed to one position. Therefore, this will have a minimal effect on the total income to the Board of Pensions; but it is a gross inequity for the clergy couple installed to one position, and for the church that they serve—generally a small church with limited resources.

Concurrences to Item 14-09 from the Presbyteries of Palisades and Western Kentucky.

ACSWP, ACWC ADVICE AND COUNSEL ON ITEM 14-09

Advice and Counsel on Item 14-09—From the Advisory Committee on Social Witness Policy (ACSWP) and the Advocacy Committee for Women’s Concerns (ACWC).

Item 14-09 asks the 216th General Assembly (2004) to revise their rules for the calculation of salary for a clergy couple installed to one position.

The Advisory Committee on Social Witness Policy (ACSWP) and the Advocacy Committee for Women’s Concerns (ACWC) advise approval of Item 14-09 with the suggestion it be combined with elements in Item 14-12 with guidance from the Churchwide Personnel Services.

Rationale

Both overtures (Items 14-09 and 14-12) deal with calculating salary for clergy couples sharing one pastoral call. The overture will help congregations of moderate and smaller size.

New guidelines that are more generous and fair will help strengthen the ministry of clergy couples who share one pastoral call. New guidelines will help encourage presbyteries to assist congregations seeking to call clergy couples.

[Note: Text is an addendum. Please add to Item 14-09 as pages 4–5.]

BOP COMMENT ON ITEM 14-09

Comment on Item 14-09—From the Board of Pensions.

Item 14-09 addresses concerns of ministers of the Word and Sacrament who are married, serving together in the same congregation, and both installed to calls with scheduled hours less than full-time, full-time being defined as thirty-five hours per week. The wording of Item 14-09 describes these arrangements as “a clergy couple, married to each other, installed to one position” and asks that dues for the Medical Plan be based on the sum of the two, part-time salaries, presumably subject to the minimum participation basis, with one of the couple receiving medical coverage as the spouse of the other. There would be no change in how dues and benefits are determined under the Pension Plan and the Death and Disability Plan.

A similar overture (*Overture 94-27*) was presented to the 206th General Assembly (1994) and answered by the Board of Pensions by a response to the 207th General Assembly (1995), with a recommendation for no action, that was affirmed. In its response, the Board of Pensions made the following comments, which are relevant to this overture:

The Form of Government of the Presbyterian Church (U.S.A.) recognizes that persons are called to church offices as individuals (see Chapter VI. of the *Book of Order*, G-6.0000–.0503).

The provisions for ministers of the Word and Sacrament include the permanent pastoral position of co-pastor, which needs the permission of presbytery (*Book of Order*, G-6.0201b). The *Book of Order* defines co-pastors in the following terms:

Co-pastors are ministers who are called and installed with equal responsibility for pastoral ministry. Each shall be considered a pastor and they may share duties within the congregation as agreed upon by the session and approved by the presbytery. When a particular church has two pastors serving as co-pastors and the relationship of one of them is dissolved, the other remains as pastor of the church. (G-14.0501c)

The Form of Government of the *Book of Order* expressly provides for individuals being called to pastoral positions. There is no constitutional provision identifying one call for two people. If, in fact, there is some provision for each person assuming parts of a position by job description, the presbytery must approve that arrangement for each person. The call is still separate and individual.

When the General Assembly first adopted the Benefits Plan of the Presbyterian Church (U.S.A.) in 1986, the Plan was mandated for all pastors installed in and serving churches (*Minutes*, 1986, Part I, p. 700). Further, the terms of call require that all calls include provisions for participation in the Benefits Plan of the Presbyterian Church (U.S.A.) (*Book of Order*, G-14.0506b). ...

The Benefits Plan is designed to follow the polity of the church insofar as possible. Therefore, the Benefits Plan is designed for individual plan participation with each person receiving identical benefits. The Plan also provides for call-neutral benefits—in other words, age, gender, family composition, and health status are not considered in the dues.

The Plan is also an employer plan. Dues are assessed on the position, not the person, which further protects the call-neutral status of the benefits. The dues represent the employing organizations’ share in the collective plan experience. (*Minutes*, 1995, Part I, pp. 637–38)

The Board of Pensions recognizes the burden that the change in the dues calculation for those in part-time employment has placed on a church calling a part-time clergy couple to fill what was once a single position. However, it also is concerned about favoring one class of part-time members over another, and one class of clergy couple over another.

There are approximately 2,000 members enrolled in the Medical Plan who are scheduled to work less than full-time schedules, serving in a variety of positions. The cost of providing medical coverage for them and their families far exceeded the dues paid on behalf of their positions; the change to base dues on full-time equivalent salaries will bridge some but by no means all of the gap. Unlike Pension, Death, and Disability benefits, it is not

practical to prorate medical benefits for part-time employment. In making this difficult decision, the board of directors recognized the demands the previous arrangement placed on other Plan participants and that a growing reliance on part-time staffing would exacerbate the problem. Unhappiness with the change is not confined to clergy couples; the Board of Pensions has heard from small churches and individual ministers of the Word and Sacrament, concerned about church budgets, and from part-time lay workers, afraid that their coverage will be discontinued by their employing organizations because of cost.

Similarly, there are approximately 500 clergy couples enrolled in the Medical Plan, of which slightly fewer than fifty couples serve in part-time calls at the same church. Over the years, clergy couples serving in a variety of ways, both full-time and part-time, questioned the need for dues to be paid on two positions. In its responses, the Board of Pensions has continued to point to the *Book of Order* mandate for all installed positions, regardless of any incumbent's marital status. There is no link between eligibility for, and receipt of, benefits and the payment of dues. Rather, dues are paid on each position to generate an adequate fund from which the needs of all may be met.

The loss of income if the methodology recommended by Item 14-09 is implemented is not substantial and would be partially offset by the corresponding elimination of the enhanced benefit now provided to these clergy couples. More important will be the acceptance by the employers of other clergy/church worker couples and other part-time employees of a special arrangement for this particular class of member. A subsequent request to amend the dues determination for all positions held by member couples would have dues implications for all employing organizations, even if the enhanced benefits are discontinued. Any reversal of the dues determination process for part-time employees is likely to result in broader demand for change.

The Board of Pensions referred three questions that relate to this issue to the Advisory Committee on the Constitution. The questions are:

1. Can more than one minister of the Word and Sacrament be installed to one position?
2. If the answer to Question #1 is yes, is it a single call or multiple calls, each subject to Section G-14.0506b?
3. If the answers to questions one and two are negative, is there authority for an exception to be granted for married clergy couples only?

The Board of Pensions advises that Item 14-09 be referred to the Advisory Committee on the Constitution.

Item 14-10

On Creating a Fund to Provide Shared Equity Loans for Pastors Serving Churches Where the Average Cost of a Home Is Twice the U.S. Average—From the Presbytery of San Francisco.

The Presbytery of San Francisco overtures the 216th General Assembly (2004) to do the following:

- 1. Create a fund that would provide shared equity loans for the purchase of homes by pastors who are serving churches located in areas where the average cost of home ownership is at least twice the average of home ownership in the United States.**
- 2. Encourage the Board of Pensions and the Presbyterian Foundation to commit 1 percent of their funds to this fund, as a real estate investment.**
- 3. Create a mechanism that would evaluate the program after five years.**
- 4. Create a General Assembly task force to develop recommendations that implement the above, consisting of representatives appointed by the Board of Pensions, the Foundation, the Presbyterian Church (U.S.A.) Investment & Loan Program, and the presbyteries wherein the average cost of home ownership is two times the national average.**
- 5. Direct that each entity underwrite the expenses of their task force members.**
- 6. Direct the task force to report to the General Assembly Council within one year with recommendations that would implement the plan.**

Rationale

In presbyteries such as the Presbytery of San Francisco, medium and small churches often have pastoral searches that last longer than two years because of the inability to attract pastors to move to the area due to the high cost of home ownership. In October 2003, the median price home in the San Francisco seven county area (four of which comprise the Presbytery of San Francisco) was \$466,000. The median price home in the United States at that time was \$172,000 (November 23, 2003, *San Francisco Chronicle*). Additionally, pastors who rent homes and then decide to purchase homes often are required to purchase homes that have 1½ to 2 hours commute time to their churches. Both of these situations negatively affect the quality of pastoral leadership in medium and small churches. Creating a shared equity loan program would eliminate these problems.

The return on these investments would accrue to the Board of Pensions and the Foundation, thereby enhancing their return on real estate investments.

ACREC ADVICE AND COUNSEL ON ITEM 14-10

Advice and Counsel on Item 14-10—From the Advocacy Committee for Racial Ethnic Concern (ACREC).

Item 14-10 calls for creation of a fund to provide shared equity loans for pastors serving churches where the average cost of a home is twice the U.S. average, from the Presbytery of San Francisco.

The Advocacy Committee for Racial Ethnic Concerns advises that Item 14-10 be approved.

Rationale

The ACREC supports Item 14-10 because it aids in enabling all to serve in the ministry of the PC(USA), especially where the cost of housing prohibits many from receiving calls, affecting racial ethnic ministers and the

poor. The rationale provided by the Presbytery of San Francisco makes the argument very well. The ACREC expands its argument supporting Item 14-10 by indicating it will address the committee's concern for the inclusion of all people in the work of the ministry.

The Advocacy Committee for Racial Ethnic Concerns calls attention to G- 9.0104 of the *Book of Order* that states an intention of the PC(USA) to be an inclusive church at all level of its ministry. Item 14-10, if approved, will remove one more barrier to service in the ministry of the PC(USA).

[Note: Text is an addendum. Please add to Item 14-10 as page 3.]

BOP COMMENT ON ITEM 14-10

Comment on Item 14-10—From the Board of Pensions.

Item 14-10 encourages the Board of Pensions to commit 1 percent of “its funds” to this fund, as a real estate investment.

The Board of Pensions holds most of its funds in its capacity as trustee for the pension, medical, disability, and related benefits plans of the Presbyterian Church (U.S.A.). The Benefits Plan funds must be invested for the sole and exclusive benefit of the Benefits Plan members and cannot be made available, as a matter of law, for this program.

The remaining funds held for investment by the Board of Pensions, the assistance program funds, are raised through the Christmas Joy Offering, gifts, and bequests to the Board of Pensions. Approximately 50 percent of those gifts are restricted by the donors for specific purposes. The remaining funds have been designated by the Board of Directors of the Board of Pensions for specific assistance programs. In investing these funds, the Board of Pensions is subject to a fiduciary duty to invest to provide sufficient funds for financial assistance programs for the retired and active members of the Benefits Plan. While some use of the unrestricted funds may be permitted legally for the purpose stated in Item 14-10, most of the currently available assistance program funds are committed to existing programs. The unspoken for assistance funds are insufficient to fund the proposed program. As a result, if Item 14-10 were approved, an existing assistance program would need to be terminated or reduced in scope, or new funds would need to be raised. Since the proposed program is essentially recommended to meet a local need, it would be best addressed to be designed and funded through a local or regional initiative.

The Board of Pensions advises that the 216th General Assembly (2004) not approve Item 14-10.

Item 14-11

On Appointing a Task Force to Review the Pension and Medical Plans of the PC(USA)—From the Presbytery of Providence.

The Presbytery of Providence overtures the 216th General Assembly (2004) of the Presbyterian Church (U.S.A.) to appoint a task force, which will report to the 217th General Assembly (2006), to

- 1. review the relationship between the pension and the medical plans to consider a recommendation that the two be separated;**
- 2. review the feasibility of partnering for medical coverage with denominations with whom we are in correspondence and, if feasible, to recommend a plan;**
- 3. review the feasibility of adopting a “cafeteria plan” of medical benefits and, if feasible, to recommend a process for this;**
- 4. review the mandatory requirement that all ministers of Word and Sacraments and all lay employees of a certain classification be enrolled in the medical plan and to recommend exceptions for certain personnel who are adequately covered by other means;**
- 5. review the vacancy dues policy and to recommend exceptions or exclusions from this policy for small churches and any churches in difficult situations as endorsed by the presbytery;**
- 6. review the equalization of pay for determining dues for part-time staff with the end of recommending a more adequate policy.**

Rationale

Almost 73 percent of the congregations in the Presbyterian Church (U.S.A.) have an average worship attendance of 100 or fewer people.

Many of these congregations are finding it difficult to afford an installed, ordained minister because of the rising cost of medical dues.

The long-term economic implications of the pension plan often discourage ministers of the Word and Sacrament from pursuing ministry in these congregations.

ACWC ADVICE AND COUNSEL ON ITEM 14-11

Advice and Counsel on Item 14-11—From the Advocacy Committee for Women’s Concerns.

Item 14-11 asks for the appointment of a task force with six specific review directives.

The Advocacy Committee for Women’s Concerns recommends that Item 14-11 be approved.

Rationale

Rising medical costs severely affect single parent clergywomen who serve disproportionately as pastors of smaller churches. Small churches have the greatest struggle with affording installed, ordained pastors due to increased costs of the Board of Pensions medical and pension plans. Item 14-11 proposes review of six alternatives for potentially addressing the current dilemmas.

[Note: Text is an addendum. Please add to Item 14-11 as pages 3–4.]

BOP COMMENT ON ITEM 14-11

Comment on Item 14-11—From the Board of Pensions.

The significant increase in medical costs in recent years has put considerable pressure on all employers who sponsor medical benefit plans for their employees, and the Presbyterian Church (U.S.A.) is similarly impacted. The effect on small churches is especially troublesome. After a number of favorable years in the mid to late 1990s, when the Board of Pensions was able to grant dues and benefit *credits* to participating employing organizations and Plan members, those cost pressures have forced dues increases and benefit reductions. Employing organizations and Plan members and their families, with all other American businesses, and their employees fortunate enough to be protected against catastrophic medical expenses, have experienced similar realities—the ever-increasing cost to the sponsor and the need for greater cost-sharing by the member/patient. This is particularly problematic when dues must be met from the collection plate in a time of economic downturn and the patient’s share of cost is increasing at rates that outpace salary change.

The net result is an understandable level of frustration all around, because, unfortunately, there seem to be few prospects for immediate improvement and no good answers in sight.

This year and next, the directors of the Board of Pensions, who are elected by the General Assembly, already have planned to devote considerable time to the Medical Plan and its future structure. In their most recent discussions, the results of which were shared with the full board of directors at its March 2004 meeting, the directors on the Healthcare Committee identified several features of the Medical Plan for study, overlapping the overture list in a number of places. Issues of mandated participation, dual income families with access to more than one source of medical coverage, the advantages and disadvantages of introducing choice into the program, the possible role of participant contributions, these and other design ideas are being debated on an ongoing basis as the directors respond to the annual challenge of ever-increasing levels of Medical Plan expense.

Given that just 30 percent of participants (16,000 people) use some 97 percent of the total claim dollars (projected to be \$130 to \$140 million in 2004), any change that results in dues savings for one church will almost certainly mean a dues increase for another, or will require that a greater share of the cost be shouldered by the patient, who perhaps can least afford it, if the healthcare needs of the whole community of participants are to be met. The basic principle of insurance is that dues (premiums) must be paid for many positions with healthy incumbents, if there are to be sufficient funds to meet the expenses of those needing care.

The Current Model. The Presbyterian Church (U.S.A.) stated its policy on medical coverage through *Resolution on Christian Responsibility and a National Medical Plan*, a report approved by the 203rd General Assembly (1991). In that report, the church essentially calls for universal coverage financed through a progressive public taxation system. Although as a nation we have not adopted this policy, the Medical Plan for the Presbyterian Church (U.S.A.) follows the proposed universal approach since all installed pastors are mandated to participate (which provides call neutrality and a stable risk pool). Furthermore, the funding of the Plan is provided by a progressive linkage of dues to salaries paid by employing organizations. The net result is a portable benefit, providing career-long family coverage, through a financially viable program.

The Pension Plan and the Medical Plan are funded through two separate trusts, and the segregated funds legally may not be commingled. As a pay-as-you-go program, the Medical Plan relies on the dues income each year for payment of claims as they are presented.

Crafting Models for the Future. While the current design of the Medical Plan may be viewed as both complex and somewhat paternal, it does, however, respond to the peculiar needs of its particular participant group, a community of members and employing organizations with sometimes widely varying resources. The Plan was designed to meet the objectives expressed by previous General Assemblies: to ensure that neither a Plan member nor his or her family would face poverty as a result of medical expenses and to provide that every call would be “neutral” in terms of the dues to be paid for a participating position.

Current trends in healthcare plan design are to shift significant portions of the cost of the benefit from the employing organization to the plan member, either through employee contributions, high deductibles, or high co-pay requirements. Nominally, this cost shifting is rationalized as providing more “choice” to the participant. Cafeteria plans offer a classic illustration of this approach.

As we study new models, we must ask the question whether our membership is in a position to assume any more personal financial risk.

Current Cost Saving Initiatives. The Board of Pensions already is in ongoing dialogue with our sister denominations through the Church Benefits Association, and is part of a joint purchasing group for the services of Highmark and Express Scripts, resulting in current annual savings of more than \$2 million in administrative expenses alone. The Board of Pensions will continue to partner with others in pursuit of opportunities for similar cost-effective purchasing.

Vacancy Dues. Vacancy dues do not accrue to the benefit of the Medical Plan, but to the Medicare Supplement program that benefits retired servants of the church. Today, those dues (about \$3.7 million in 2004) cover only some 13 percent of the cost of this program, so that the participants must pay the difference from their pension checks. As vacancy dues decrease, the cost of the program to these retired servants will grow larger. Each participating retiree already pays \$190 per month, with another \$190 to cover a spouse, and still has deductible and other cost-share requirements to meet. Vacancy dues are required for no longer than twelve months and the Board of Pensions does grant relief in difficult situations where vacancy dues create an undue burden for the payer.

Conclusion. In the absence of any major change in the financial circumstances of the Medical Plan, further focused study is already planned for 2005 with any significant structural change being reported to the 217th General Assembly (2006) before taking effect January 1, 2007. A second study on the same considerations seems duplicative, with unnecessary cost to the church.

The Board of Pensions advises that the 216th General Assembly (2004) not approve Item 14-11.

Item 14-12

On Urging the Board of Pensions to Correct an Inequity for Churches Calling a Married Couple as Co-Pastors Sharing Less than Two Full-Time Calls—From the Presbytery of Northern New England.

The Presbytery of Northern New England overtures the 216th General Assembly (2004) to urge the Board of Pensions to remove an unfair burden upon primarily small congregations, by eliminating the medical dues penalty when a congregation calls a married couple as co-pastors to share less than the equivalent of two, full-time calls.

Rationale

When a congregation calls a pastor and pays the medical benefits dues to the Board of Pensions, the benefits program covers the pastor's entire family. Whether the pastor is single or married with several children, the dues paid by the congregation is the same. Whether the spouse is unemployed, or employed by a business, the dues paid by the congregation is the same. However, when the congregation calls the spouse as a partner in their ministry, the congregation's dues are doubled, even though the benefits to the co-pastors remains unchanged.

In the Presbyterian Church (U.S.A.), there are approximately 8,706 clergy serving as pastors, co-pastors, and associate pastors. Of those, only some 96 clergy couples are serving as co-pastors. That means, for all of the medical benefits system, the Board of Pensions would need to waive dues for a maximum of 48 congregations. Almost all of these are some of our smallest congregations, paying some of the lowest salaries, so the reduction of real income to the Board of Pensions would be too small to be statistically significant.

This is an opportunity for the Presbyterian Church (U.S.A.) to make a significant difference in both moral and financial support to congregations in need, while costing very little for the denomination or its Board of Pensions.

Concurrence to Item 14-12 from the Presbytery of Northern Plains.

ACSWP, ACWC ADVICE AND COUNSEL ON ITEM 14-12

Advice and Counsel on Item 14-12—From the Advisory Committee on Social Witness Policy (ACSWP) and the Advocacy Committee for Women's Concerns (ACWC).

Item 14-12 asks the 216th General Assembly (2004) to revise their rules for the calculation of salary for a clergy couple installed to one position.

The Advisory Committee on Social Witness Policy (ACSWP) and the Advocacy Committee for Women's Concerns (ACWC) advise approval of Item 14-12 with the suggestion that it be combined with elements in Item 14-09 with guidance from the Churchwide Personnel Services.

Rationale

Both overtures (Items 14-12 and 14-09) deal with calculating salary for clergy couples sharing one pastoral call. The overture will help congregations of moderate and smaller size.

New guidelines that are more generous and fair will help strengthen the ministry of clergy couples who share one pastoral call. New guidelines will help encourage presbyteries to assist congregations seeking to call clergy couples.

[Note: Text is an addendum. Please add to Item 14-12, as page 3.]

BOP COMMENT ON ITEM 14-12

Comment on Item 14-12—From the Board of Pensions.

The Board of Pensions advises that Item 14-12 be answered by the response of the Board of Pensions to Item 14-09, which is to refer to the Advisory Committee on the Constitution.

Item 14-13

On Reinstating Board of Pension Medical Coverage for Persons on Active Duty—From the Presbytery of Eastminster.

The Presbytery of Eastminster overtures the 216th General Assembly (2004) to approve that any person whose medical coverage through the Presbyterian Board of Pensions (BOP) was discontinued while on active duty with a Reserve or National Guard unit will have his/her medical coverage reinstated upon assuming civilian status. Said coverage will be in force for six months (185 days) or until employment or school-related issues can be resolved and current eligibility guidelines met. Premiums that have been paid out-of-pocket for BOP medical coverage under these circumstances since 1/1/03 will be returned to the payee.

Rationale

Some of our ordained clergy, nonordained staff, and dependents had medical coverage through the Presbyterian Board of Pensions (BOP) until such time as they were called into active military duty by the Reserves or National Guard.

The BOP has determined that they would not be covered when they are released from active duty until their job or educational status is resolved and fits within current eligibility guidelines.

The BOP will already provide medical coverage upon the voluntary payment of additional premiums upon their return—until their job or educational status is resolved and fits within current eligibility guidelines.

It could take one to six months for a person whose civilian life was interrupted to re-enter the workforce or a qualifying educational institution.

These persons need medical coverage immediately upon assuming civilian status, and such coverage would be secondary for any medical conditions that arose as a result of military service, for which the U.S. government bears a continuing responsibility until those conditions are resolved.

[Note: Item is an addendum. Please add to Item 14-13 as page 2.]

BOP COMMENT ON ITEM 14-13

Comment on Item 14-13—From the Board of Pensions.

The overture addresses the availability of medical coverage for returning military personnel for the period of time between release from active duty and resumption of their civilian lives. The overture proposes that the Benefits Plan provide free medical coverage for up to 185 days to former Plan members and dependents upon their return from service. However, this coverage is already provided by the military benefit program and by the requirement that the former civilian employer immediately rehire the returning employee with full reinstatement of benefits.

TRICARE, the program that provides healthcare benefits to members of the uniformed services and their eligible dependents, continues coverage when members of the Reserve or National Guard return to civilian status. Effective November 6, 2003, the Transitional Assistance Management Program provides 180 days of coverage for members of the reserves who were deployed more than thirty days and who separate from active duty status before December 31, 2004. Members who are deployed for thirty days or less retain coverage under the Benefits Plan for their entire period of military service. Several bills presently before Congress would extend the December 31, 2004 date. If the temporary program is not extended, service members with five or more years will be entitled to 120 days of free coverage and those with less than five years will be entitled to sixty days.

In addition, any Plan member who is mobilized for military service is covered by Federal law, the Uniform Services Employment and Reemployment Rights Act of 1994 (USERRA). The USERRA requires that the military members' civilian employers immediately restore the jobs and any medical coverage to which they were entitled prior to their military service. As a result of this reemployment requirement, all Plan members who serve in the uniformed services will be able to return to civilian employment and resume their prior medical coverage immediately.

Plan members' spouses and dependent children under age twenty-one who are mobilized retain their coverage under the Benefits Plan during their period of military service and coverage continues with no interruption upon their return. Dependent children age twenty-one or over who were previously enrolled as full-time college students experience a disruption of their coverage under the Benefits Plan if they are mobilized. These individuals are entitled to free coverage under TRICARE for 180 days after their return. If the TRICARE benefit expires before the next school term begins (fall or spring semester), the Board of Pensions will provide medical coverage for an affected dependent child between the end of the TRICARE benefit period and the first available date that the child may re-enroll as a fulltime student. Coverage is provided on the same terms as for any other dependent. Under the traditional Benefits Plan, no member contribution is required. For participation under the Affiliated Benefits Program, the contribution requirement, if any, will be that established by the employing organization for coverage of dependent children.

Because these existing programs fully meet the needs of returning service members, no additional benefits are required of the Board of Pensions of the Presbyterian Church (U.S.A.).

The Board of Pensions advises that the 216th General Assembly (2004) not approve Item 14-13.

Item 14-14

ACC Request Regarding G-14.0506b(2), Mandatory Participation in the PC(USA) Benefits Plan—From Minister, Presbytery of Pittsburgh.

The Advisory Committee on the Constitution recommends that the 216th General Assembly (2004) answer Item 14-14 (*ACC Request 04-3*) with the following response:

Item 14-14 requests interpretation of the provision in G-14.0506b(2) for participation of pastors serving with a call in the benefits plan of the denomination.

The language of G-14.0506b(2) includes the mandatory “shall” not the permissive “may.” However, that which is mandatory applies to the employing body, not to the plan member. The language does not permit the employing body to omit the payment based on a sum equal to the requisite percent of the minister’s compensation. It would appear that the language would permit the minister to decline to be enrolled. This might occur if the enrollment interferes with other benefits. It would not relieve the church of the payment. That would require amendment of the *Book of Order*.

Should the General Assembly wish to make the payment optional, the word “shall” would need to be changed to “may.”

Letter of Request Received by the Advisory Committee on the Constitution

I would appreciate an interpretation of G-14.0506b(2), specifically of the following question:

Can a pastor, who has other medical insurance and does not need the BOP plan, opt out of the medical portion and thus relieve the church of having to pay the dues. Or does the requirement in the *Book of Order* that churches must offer the coverage mean that there can be no choice?

Thank you very much for your consideration of this matter.

Peace,

Don Dilley

Item 14-A

General Assembly Committee on Review—The Presbyterian Church (U.S.A.) Investment and Loan Program, Inc.

I. Introduction

The General Assembly Committee on Review is pleased to present to the 216th General Assembly (2004) a written review of the Presbyterian Church (U.S.A.) Investment and Loan Program, Inc. Hereafter the report will use the initials “PILP” to refer to the Presbyterian Church (U.S.A.) Investment and Loan Program, Inc. This review is the result of the decision of the 213th General Assembly (2001) of the Presbyterian Church (U.S.A.) that established a new evaluation process of the General Assembly agencies. [Agencies related to the General Assembly of the Presbyterian Church (U.S.A.) are Presbyterian Church (U.S.A.), A Corp, Board of Pensions, Presbyterian Church (U.S.A.) Foundation, Presbyterian Publishing Corporation, Presbyterian Church (U.S.A.) Investment and Loan Program, Inc., General Assembly Council, and Office of the General Assembly.] The purpose of the review process is “to evaluate the relationship of their individual [agency] ministry with the mission of the whole Presbyterian Church (U.S.A.)” (*Minutes*, 2001, Part I, p. 67, addition of Standing Rule E.10. Agency Review). The instructions to the General Assembly Committee on Review were that the committee must conduct the process according to predetermined standards and present a written report to the next General Assembly (*Manual of the General Assembly*, pp. 71–72).

The review process is founded on the principle that an agency of the General Assembly shall participate in a self-study review process with a General Assembly Committee on Review elected by the General Assembly. The General Assembly Committee on Review, likewise, shall participate with the agency in a study process whose scope is limited to helping the assembly and its agency see that the mission of the church is being fulfilled according to certain standards. (See *Manual of the General Assembly*, pp. 71–72.) It is not the intent of the review process to find fault but rather to evaluate and offer suggestions for improvement.

Thus it is important to note that the scope of the review is also limited by the amount of time and resources allocated for the review process. Initially, the General Assembly Committee on Review spent three days together to be trained for the task, had some initial interviews with the agency leadership, and prepared for the on-site visit. Subsequently, the committee came back together for four days to conduct staff and board interviews. Finally, the committee returned for two more days to finalize the report, present the report to the agency, and make editorial revisions. The committee then submitted the report to the Office of the General Assembly for presentation at the next General Assembly.

The following report is the result of the work of the Office of the General Assembly in developing an “Agency Review Manual,” the published Agency Review Self-Study of PILP, and the work of the elected General Assembly Committee on Review for PILP. The elected committee brought skills from all facets of church and society. They were versed in matters related to the Presbyterian Church (U.S.A.) theology, polity, and ethos, as well as investment and church loan industries and business community. The committee approached its task with the aid of the insights of the review committee that first used the process last year. This review committee, too, relied on the common bond of the mission of the church and strengthened by the common desire to be faithful to Jesus Christ, the General Assembly Committee on Review was able to complete its task.

The committee based the report on the self-study published by PILP; interviews with Chairman of the Board Molly Baskin, Acting President and CEO Jay Wilkinson, and newly elected President and CEO Jay Hudson, PILP staff, General Assembly Council Executive Director John Detterick, others identified by the committee; and the results from a survey conducted by Research Services Office. The General Assembly Committee on Review organized itself around three focus groups: Church Relatedness, Policies and Practice, and Program Effectiveness. The committee also structured the report around these three areas.

The General Assembly Committee on Review expresses appreciation to Chairman Molly Baskin and President and CEO Jay Hudson, PILP's board of directors, the staff of PILP, and the Office of the General Assembly and the General Assembly Council for their helpfulness and willing cooperation in completing this review.

In accordance to Standing Rule E.10., the following persons were elected by commissioners of the 215th General Assembly (2003) to serve as the General Assembly Committee on Review: The Reverend Bryant George, moderator (Presbytery of National Capital); the Reverend Stephen A. Bacon, (Presbytery of Greater Atlanta); Linda Bailey (Presbytery of Grand Canyon); the Reverend John Niles Bartholomew (Presbytery of St. Augustine); the Reverend David Bower (Presbytery of West Virginia); William Dillon (Presbytery of Chicago); Richard Dzina (Presbytery of Grace); Dorothy Farris (Presbytery of Los Ranchos); Richard Hong (Presbytery of Palisades); Lidia Serrata (Presbytery of Mission); the Reverend Linda Shatzer (Presbytery of East Iowa); and Catesby Woodford (Presbytery of Transylvania).

II. Church Relatedness

The first criterion for assessment was to review church relatedness. This is significant at several levels. In the simplest sense, when the General Assembly creates an agency of the church, it is because the church has need of skills and resources that the agency is expected to provide. Thus, simple responsiveness to the originating mandate remains a major criterion for measuring the effectiveness of the agency, on behalf of the church. At a more subtle level, any complex business organization takes on a life of its own: an internal culture, response to the external business environment, and particularly, response to government regulators to whom the agency must be accountable, but whose criteria of accountability are quite different from the church's concerns. Some of these factors produce inescapable tension with the agency's defined mission on behalf of the church. The church must accept the reality of these external influences on the agency, but the church must continue to assess these costs, and determine whether it is truly in the church's mission to live with these tensions. Even more elusive, perhaps, but still worth considering, is the extent to which a specific-purpose agency (in PILP's case: to raise and loan funds for capital costs of church property) can contribute strategically to the church's mission in ways that may reach beyond the nominal (financial) task.

Perhaps the most important finding of your review committee regarding church relatedness is the fact that PILP does achieve something more than just balancing investments and loans, its direct fiscal task. We found that staff and board members alike not only exhibited a clear sense that PILP is, at its best, far more an arm of mission than simply a savings and loan program; they showed strong commitment to the use of the PILP loan application process as a vehicle for helping churches clarify their mission goals, their realistic capacity, and for finding the appropriate level of capital investment to give them a reasonable expectation of success in their mission. Our interviewees were proud of the counseling that goes into that process, so that churches will scale their building aspirations to what is financially feasible, and will result in a congregation doing mission, not simply paying off building debt. Both staff and board also pointed out that they believed they were helping build the church, even when a congregation obtained its loan from some commercial source. The PILP is able to help such a congregation to define its needs, and PILP provides a realistic rate for the loan, which in some markets encourages a commercial lender to offer an even better rate, which serves that church well, and enables PILP to lend its money to churches that cannot find better rates from local lenders.

Staff and board were consistently articulate about their sense that PILP is a mission agency. On the loan side, clarity and right-sizing the project, and blending loans and grants to get the job done, was a clear commitment. On the investment side, these leaders were very direct in saying that while PILP offers a reasonable return, there are certainly higher returns available, and that the PILP appeal to investors must be in terms of the mission resources that are generated for both new church development and church redevelopment work.

We explored with PILP the question of whether their loans reflect the commitment of the General Assembly to increase our effort to develop racial ethnic diversity. They acknowledged that, in getting PILP up and functioning, they were not proactive in reaching the underserved segments of our church community. They accepted the fact that they need to learn more specifically both the needs (in terms of types of loans and investment products) and the culturally shaped giving patterns of our racial ethnic and immigrant congregations. They did point to some specific lessons they have gained in these areas. They also declared that they believed that, while they must,

by security regulations, maintain positive net income and capitalization to protect their investors, they are committed to a strategy of investing more of available funds in churches where the risks may be more difficult to ascertain, rather than offering lower interest rates by only funding the very lowest risk loans. Your review committee is in agreement with the need to stretch in the direction of greater access to these funds, particularly for redevelopment congregations (church transformation) and in racial ethnic and immigrant communities. For many of these congregations, space needs will be to provide daycare, after school tutoring, and the like, as much or more than worship space. For some inner-city church buildings, converting them to serve a new constituency means downsizing some parts of the facility, while modernizing and improving energy efficiency while meeting modern building codes. The PILP may need to shorten the time that loans are committed but not taken up, by helping presbytery committees to work more effectively on all the aspects of inspections and permitting earlier in the loan application process. Also, in order to reach out to these churches and help them to grow, there is a need for PILP to offer training support for staff at the presbytery level so that presbytery staff can assist these churches to prepare their applications and do the due diligence that is needed before being ready to submit an application.

Your review committee believes that PILP is at a significant point in its history, having met the regulatory requirement of three years of positive net income and having made the transition to a new CEO. The PILP is now positioned to begin moving to the next stage of development, which should include addressing more directly the mission concerns that are priorities of the church.

A significant dimension of church relatedness is cooperation, both with other General Assembly agencies and with middle governing bodies and their agencies. This is particularly true in the case of the four synods that have their own loan programs. We had initial questions about these areas, because it was plausible that PILP could be seen as a competitive system. The responses we received suggest that PILP is now perceived as a partner. Where there is opportunity for joint financing, it happens. Referrals appear to be exchanged, not as an obligation, but with a clear sense of cooperation in shared ministry. The fact that PILP's new CEO was formerly the head of one of the synod programs seems to have brought a valuable sense of perspective and the opportunity for personal trust among the leaders of these programs.

At the level of constitution and governance, both the officers and staff of PILP seem clear about our polity, and show both full respect for it and a good appreciation of how to work within it.

Overall, we believe the leadership of PILP deserves high marks for its commitment to the General Assembly's intent that agencies serve the church's mission. As PILP grows and matures, it should formalize and strengthen its strategic business planning process. That plan should be responsive to the mission priority of the church for significant growth in racial ethnic congregations.

III. Policies and Practices

The second criterion for assessment was to review how PILP is managing its assets for the good of the whole PC(USA) as reflected in its policies and practice. The General Assembly Committee on Review reviewed the current policies and practice of PILP and the documents guiding the work of the agency.

The PILP was properly constituted when it was formed effective July 31, 1995, as a nonprofit, membership corporation. The Presbyterian Church (U.S.A.), A Corporation ["PC(USA)"] is the program's sole member. The PILP's functions, as listed in its deliverance, are to:

- (1) Sell and issue certificates, notes, or any other financial instruments approved by its board of directors in order to raise capital for the mission of the Presbyterian Church (U.S.A.).

- (2) As to the investment funds received by [PILP], set the underwriting standards and loan criteria for loans to Presbyterian Church (U.S.A.) congregations, governing bodies, theological institutions, and educational institutions related to the Presbyterian Church (U.S.A.) to enable them to acquire or improve real property. All such loans shall be processed and administered by the National Ministries Division, pursuant to such underwriting standards and loan criteria as may be established . . . by the board of directors of [PILP]. [The processing and administration of loans was consolidated later within PILP as discussed under B. *Two Church Loan Programs.*]

(3) Contract with existing Presbyterian Church (U.S.A.) entities, or outside parties, for various services. These include, but are not limited to, marketing of investments, management of assets, record keeping, and processing and servicing of loans. In so doing, a collaborative relationship shall be maintained with the Mission Support Services, the National Ministries Division, and its associate director for Evangelism and Church Development to avoid the duplication of services already performed by Presbyterian Church (U.S.A.) entities.

(4) Train and orient volunteers, committees, employees, and others within synods and presbyteries who have responsibilities related to the work of [PILP].

(5) Provide accounting and reporting with respect to all the foregoing.

(6) Provide such other mission, finance, and related services as the General Assembly or the General Assembly Council may direct or approve. (*Manual of the General Assembly*, p. 46)

A. *Raising Capital*

1. *North American Securities Administrators Association Requirements*

The PILP was formed to raise capital to support the mission of church growth. It was known that to raise capital through the sale of certificates and notes, there would be the need to comply with the North American Securities Administrators Association (“NASAA”) Guidelines and state securities laws.

The NASAA provides financial standards guidelines for an organization that offers a church specific investment products that could both generate working capital for use in the denomination’s mission and provide a bona fide stewardship program for a portion of the investors’ assets.

The NASAA Guidelines (NASAA Reports, Section 1954, pp 1145–1147, Financial Standards) include the following threshold criteria for those entering into this market:

- Capital Adequacy: The entity offering the investment product must be capitalized sufficiently to meet or exceed a capital ratio at the end of any given fiscal year of at least 3%, where the numerator shall be defined as net worth (or, as in PILP’s case, Unrestricted Net Assets) and the denominator shall be total assets.
- Liquidity Status: This entity must continuously maintain a liquidity ratio at the end of any fiscal year of at least 5%, where the numerator shall be defined as cash, cash equivalents and readily marketable assets and the denominator is the total outstanding liabilities.
- Positive Net Income: This entity must have positive net income for three of its last five fiscal years.
- Other guidelines speak to cash flow performance and loan quality.
- There is also a guideline that the entity must describe the investment in an Offering Circular. This disclosure insures “that investors receive adequate information to make informed investment decisions.”

2. *Managing Risk*

The best mission-driven decisions for the church can create credit risk. Without a thorough understanding of the connectional nature of the Presbyterian church, lenders may not wish to lend to our best church growth opportunities, including new church developments.

Quantitative analysis for credit risk is a precursor to the management of interest rate and loan portfolio risk, and as such is a component in the establishment of process that results in access to investor dollars and the capital markets.

3. *Initial Capital Funds*

The PC(USA) provided an initial capital contribution of \$4 million to PILP in January 1996. In February 1999, the PC(USA) provided an additional \$1 million to sustain growth and meet the capital and liquidity ratios.

4. *Individual and Corporate Investors*

Term Notes are being offered of six to sixty months in duration. Either a fixed or adjustable rate of return is available. A Term Note is an unsecured obligation of PILP and is not guaranteed or insured by the FDIC or any other governmental or corporate entity. The minimum required investment is \$500. (This information does not constitute an offer, sale, or request to purchase an investment. Such an offer is made solely through the Offering Circular that is available from the Presbyterian Church (U.S.A.) Investment and Loan Program, Inc.)

The surveys conducted for the review committee indicated very high (89 percent) level of satisfaction that the mission of the church was being accomplished through their investment. Nearly all (96 percent) of the same respondents believe the work of PILP is important to the overall PC(USA) and nearly all (89 percent) would recommend investments in PILP to others.

Investors receive both an interest return, which is taxable, as well as achieve an intangible reward in rebates to their church. The PILP provides a rebate to the borrowers, known as *Get the Point* rebate program, based on the amount of money invested in support of the church's (or presbytery's) mortgage. It does not change the investors' risk or return. The borrower can gain a rebate of up to 1 percent of the loan balance annually. Thus the investor both supports the mission of church growth and development but can also help reduce the church's cost of borrowing and return more funds for local mission.

5. *Partner Investors*

Several of PILP's larger investors are middle governing bodies and agencies of the General Assembly. They invest through Depository Accounts, which have the same characteristics, benefits, and risks of a Term Note.

Both the General Assembly Council (GAC) and the Foundation have commitments to invest in amounts of \$5 million and \$10 million, respectively. Portions of these commitments expire on May 1, 2004, and the balance on February 1, 2005. The GAC has confirmed an extension of their commitment through May 2009. The Foundation is expected to complete, by April 2004, the process of providing a similar extension. It is an objective of PILP to reduce the dependency on these investments with Term Notes from individual Presbyterians and Depository Receipt Accounts from middle governing bodies during the next five years.

The Presbyterian Publishing Corporation and The Office of the General Assembly are also investors in PILP. There are also a number of synods and presbyteries that are investors.

The review committee strongly encourages the Board of Pensions to consider ways it might help fund the needs of this worthwhile mission of the church. No agency is too large to participate.

Partner investments are currently a material portion of PILP's working capital. However, this portion, as a percentage of the total portfolio, is shrinking. As PILP grows, individual investment in Term Notes will become the core source of funds.

6. *Syndications*

Sale of Term Notes is not expected to provide sufficient working capital to meet loan demand during the first decades of PILP. Therefore, first lien participations are sold to financial partners, including synod partners, presbyteries, and some commercial banking partners. This has been done without diminishing the standards. It has generated capital that has allowed serving larger borrowers and has added additional net revenue for PILP.

7. *Securitizations*

The 213th General Assembly (2001) approved the establishment of a separate corporation, The Presbyterian Church (U.S.A.) Mortgage Corporation, to generate additional working capital through securitization of revenue

generated by the sale of portfolios of loans. The PILP would be able to sell loans to the Mortgage Corporation, thereby raising additional funds for lending. Due to changing market conditions, PILP is not using the Mortgage Corporation at this time.

B. *Two Church Loan Programs*

Implied in the General Assembly action in establishing PILP was the retention by the General Assembly of two church loan programs. The Church Loan Program, lodged in the National Ministries Division, would continue to lend *endowment funds* to churches throughout the denomination. The Investment and Loan Program, a new and separate corporation, would lend *investor funds* to churches in twelve of the sixteen synods, and to borrowers in the four synods with existing investment/loan programs upon invitation. It was potentially confusing and cumbersome to borrowers and to their governing body guarantors.

The GAC contracted with PILP to underwrite, service, and administer the Church Loan Program's portfolio of loans. Thus any potential borrower could come to one place to inquire about loans. Different terms are available for the two programs. The Church Loan Program loans are generally limited to \$350,000 maximum (\$400,000 for new church developments); can go up to 75 percent of a project's cost, and give a five-year commitment on rates. The Investment Loan Program gives twelve to twenty-four month commitments on rates and makes loans from \$50,000 to more than \$5 million.

From surveys of loan recipients conducted for the review committee, we learned that a large portion is satisfied with the responsiveness (89 percent) and helpfulness (79 percent). Many of these recipients, too, believe the work of PILP is important to the church (90 percent) and would recommend PILP to others (90 percent).

The review committee commends PILP for directing applications to the most economical program for each situation.

The review committee further commends PILP for merging the administration of Church Loan Program and Investor Loan Program. Might this be a pattern for developing a process to coordinate various programs of church grants?

Shortly after it commenced operation, PILP bought a book of existing church loans from the PC(USA), in order to establish a loan portfolio within the operating system that had been created. This allowed for review and continued development of the operations as well as a beginning source of revenue. It allowed PILP to be a fully functional business within the industry. This was of great importance to the state security administrators that would evaluate PILP as a part of the registration, qualification, or exemption of the investment offering in the fifty-two jurisdictions. This loan portfolio was sold back to PC(USA) in 1998.

Observation: Since its founding, PILP has been focused on having positive net income in three of first five years to qualify for remaining in business. The PILP appears to be meeting this goal as we prepare this report in late 2003. Meeting that goal will now allow it more flexibility in operating decisions.

To that end, the review committee encourages PILP to broaden its marketing efforts to specifically help the denomination reach its stated goals in broadening the diversity and reaching increased proportions of racial ethnic membership in coming years. Many of the areas of the country where there are increasing numbers of racial ethnic residents have congregations that will require creative efforts to provide financing for development and redevelopment. As PILP continues to support the mission of PC(USA) conscious efforts to effectively reach these opportunities must be made. The review committee is pleased that the new president and CEO has expressed his concurrence that this must be a priority.

Strategic planning to this point has had, of necessity, a short-term focus. The review committee recommends that both the PILP management and the board of directors look with a longer time horizon as the strategic plans for both marketing loans and generating investment capital are developed.

C. *Support Organization*

The PILP focuses on the sale of securities, limitation of credit risk, and the management of a portfolio of mortgages. For the operational services such as legal, accounting, human resources, office information management, payroll and purchasing services, it has contracted with the GAC and Mission Support Services. The services are provided under a negotiated contract for a monthly fee. This is one demonstration of the collaborative nature of the relationship between PILP and the church.

D. *Employee Training*

The PILP's employees are well trained for the functions they perform, whether it be marketing, administration, or operations. Many are well versed in the operations of PC(USA). The review committee is pleased about the ability of some staff to direct inquiries to sources of funds that might be a response to a congregation's needs, even when those funds don't come thru PILP. We encourage building of that skill set among more staff as often callers are not sure where to turn when first calling for information.

E. *Financial Reporting*

As it is required to segregate all funds from the other assets of PC(USA), PILP established a separate financial accounting system and there is no co-mingling of funds. An annual audit is provided by a regional accounting firm. The PILP's financial condition is reported to the GAC and to the General Assembly.

F. *Other Observations*

The Board of Directors of PILP and PILP management are knowledgeable about and fully conversant with the mission of the PC(USA), its current overall condition, and the *Constitution of the PC(USA)*.

The General Assembly Committee on Review commends PILP for its personnel policies, which are modeled after those of the General Assembly Council.

IV. Program Effectiveness

The final criterion focused on an assessment of program effectiveness. It is the conclusion of this General Assembly Committee on Review that the programs and services of the agency are consistent with its assembly mandate. The program offers investments that provide a competitive financial return plus the opportunity to support Presbyterian Church (U.S.A.) congregations. It offers low-cost loans to Presbyterian Church (U.S.A.) bodies to buy, renovate, and expand worship and mission space. Guided by the best practices of the financial community, the program is committed to faithful stewardship of the resources entrusted to it for the support of the Presbyterian Church (U.S.A.).

While the agency does not currently have a formal process for measuring the delivery of services, they inquire randomly of borrowers and investors, seeking evaluation of their experience with the program. That ongoing feedback helps them to assess what they offer and their performance. They have considered offering evaluation surveys—a formal process with borrowers after they have completed the process of a new loan and again several years into the loan. They have also considered a similar survey of investors in two time-periods—immediately after purchasing an investment and a couple of years into an investment.

The agency had made 117 loans with investor funds in the six-and-a-half years since they began making loans and 95 loans with endowment funds in the three years and three months that they have been servicing the Church Loan Program. (For comparative purposes, the 117 investor loans represent more than three times the loan amounts of the 95 endowment loans.)

The congregational characteristics of a church that receives an approved loan vary a great deal. In all cases, they have been able to demonstrate their ability to service the debt. Sometimes this is because they believe they simply have adequate cash flow, other times it is because they believe they can raise the money in a capital cam-

paign and they have the pledges to support their belief. There have been new church developments with dramatic growth trends in membership, attendance, and pledges that have been approved for a loan based on future growth. (However the agency will discuss these situations with the presbyteries in more detail to ensure that they are in full support of the church and loan—and fully understand the added responsibilities that this may have on the presbytery as a guarantor.)

Although records are not kept on loan approval/decline ratios, an estimate of the number of loans rejected is twelve or less. The main reason for the low number of loans that are declined is the extensive consulting work that is completed prior to the application. The congregational characteristics of a church whose loan has been rejected also vary. They have the common thread of asking for a loan that they are not able to service. Either the loan request is too large or their revenue (or their ability to raise what would appear to be sufficient revenue in the future) is too small. The agency will work with these churches to help them in their decision as to the best direction for them to proceed.

The breakdown of loans (as of August 2003) by racial ethnic categories is as follows:

Predominant Membership	Number of Loans	% of Loans	Amount (in Millions)	% of Funds
African American	6	5.6%	\$2.6	6.4%
Asian—Korean	3	2.8%	1.1	2.7%
Asian—Other	1	0.9%	0.4	1.0%
Caucasian	76	70.4%	28.0	70.4%
Hispanic	1	0.9%	0.3	0.8%
Multicultural	13	12.0%	5.4	13.6%
Presbytery Loans	8	7.4%	2.0	5.1%
Total	108	100.0%	\$39.8	100.0%

The normal loan process begins with the applicant holding at least one extensive discussion (and usually multiple conversations) with a marketing person or an underwriter of PILP. The purpose is to ascertain what the church is seeking and to explain how the coordinated loan program can work for their church. The initial talks give the agency the opportunity to share with potential borrowers much of what they have learned from working on hundreds of loans.

A primary goal of these consultations is “right-sizing” the loan request to balance “need” with debt service capacity. The PILP is conscientious in helping a congregation to avoid the pitfalls of entering into a mortgage-poor situation that would starve the church of needed program dollars or potentially financially handicapping their church. They are also effective in assessing that the church is looking at the entire financial picture, understanding how best to use their assets and how to estimate future cash flows. They often seek a complete preliminary evaluation or review to see how numbers stack up in order to more effectively counsel the church on their capital plans. This careful consultation process is designed to help in guiding the borrower so that by the time an application is filed, the project has been adjusted to fall within acceptable underwriting guidelines. In cases where adjustments are needed to dollar amounts or structure, most churches agree once they understand the reasoning. Sometimes, applications are withdrawn while the church rethinks its direction. In some cases, the church decides that their plan is truly viable and goes elsewhere for their lending needs, but this is a relatively small number of potential borrowers.

The primary purpose of PILP is to broaden churches’ access to capital. The PILP serves as a valuable alternative source of funds. And, PILP serves as a respected resource to churches in assisting them in careful assessment of their financial needs in order to improve their viability with local lenders. It is worth noting that PILP’s assistance in developing the loan package has sometimes brought about rates even below PILP’s from local lenders, to the advantage of the local congregation. However, it is essential for PILP to gain critical mass to operate efficiently and effectively. Now at \$40 million, the agency’s goal is to grow both investments and loans by 25 percent in 2004.

The president/CEO and the governing board have policies and procedures by which they assure that the agency staff hold the necessary and appropriate skills, licenses, and experience to perform their work. The review committee is pleased to see the agency's commitment to staff development and ongoing training through their professional development program. The staff is highly dedicated, mission-minded, and sincerely enthusiastic about their work.

As stated in the program's self-review:

Management and the board continue to develop the program's intellectual capital through training and professional accreditation that enhances the probability of success in the syndication and securitization markets.

The review committee agrees with the management and the board in their goal to augment the sales team as soon as it is financially prudent by adding an additional staff person to serve Southern California and the southwest.

While PILP has had an effective strategy for producing quality communication with its constituencies, it is time to move forward in enhancing communication through new and creative ways and in producing materials in additional languages, such as Korean and Spanish. There is room for improvement in the area of marketing from a multicultural perspective. Currently, the program advertises exclusively in *Presbyterians Today* magazine. The review committee would like to see PILP consider advertising in additional Presbyterian publications and elsewhere. It would be very helpful to have a PC(USA) guide listing all the possible areas for denominational grants and loans.

In the area of current and emerging technologies, PILP has a good initial Website, but there is room for improvement in making the Website a more interactive and effective tool in helping PILP to fulfill its mission and in generating new leads. And it would be worthwhile for PILP to encourage presbyteries to offer a link to PILP from their individual Websites.

V. Conclusions

The following conclusions are a summation of suggestions to PILP by the committee on review. These suggestions are intended to help strengthen the programs and services of PILP as it continues to grow and mature. The committee on review would like to thank Chairman Molly Baskin, President and CEO Jay Hudson, PILP's board of directors, the staff of PILP, the Office of the General Assembly, and the General Assembly Council for their assistance and cooperation in completing this review. Members of the review committee are appreciative of the considerable planning and preparation that was done prior to each of their visits.

1. By helping presbytery committees to work more effectively on all the aspects of inspections and permitting earlier in the loan application process, PILP can shorten the time that loans are committed but not taken up.

2. The committee suggests that PILP work with GAC to develop a "one-call" system for loans and grants. Just as PILP has combined the administration of the Church Loan Program and Investor Loan Program, we suggest that PILP work with the GAC to develop a comprehensive directory of all church loans and grants.

3. In the area of marketing, the review committee encourages PILP to broaden its print advertising and enhance its Website. An additional marketing emphasis should be placed on further educating presbytery executives, stated clerks, and church development personnel on the roles that PILP is prepared to play in providing loans and investment opportunities. In strengthening its marketing strategy, PILP should target the culturally diverse community.

4. The leadership of PILP is to be recognized for its commitment to the General Assembly's intent that its agencies serve the church's mission. The hope of this committee is that as PILP grows and matures, it will strengthen its strategic business plan in ways that are fully responsive to the mission priority of the church for significant growth in racial ethnic congregations.

APPENDIX

Findings from the Presbyterian Investment and Loan Program’s Evaluation
(From Questionnaires Circulated by PC(USA) Research Services)

A. *Background*

The review committee chose to ask the perceptions of several groups dealing with PILP: Investors, borrowers from both the Endowment Funds program and the Investor Loan Program, other congregations, middle governing bodies, other PC(USA) agencies and PILP leadership.

B. *Respondents*

A random sample of 500 congregations and a random sample of 498 investors were asked to participate in the evaluation. Forty-seven percent of the congregations responded and 72 percent of the investors responded. All 182 presbyteries and synod executives were asked to participate and 54 percent responded. Ninety-seven loan recipients whose loans were funded (partially or in whole) through the investor funds of PILP were invited to participate and 56 percent responded. Loan recipients whose loans were funded exclusively through the endowment funds of the Church Loan Program were also invited to participate and 56 percent responded. Lastly, 31 PILP leaders, including members of their board of directors, the PILP management team, and program officers and leadership from other PC(USA) agencies, were also asked to participate and 81 percent responded.

C. *Results*

Those things in which we were interested included: how effective PILP is in making itself known; the extent to which the options PILP offers are known; satisfaction with the options; how important is PILP’s work within the denomination. As might be expected, those who had need of either securing loans or making short-term investments were the most knowledgeable. If those needs were not on one’s radar screen, it was not unusual to have respondents unaware of the offerings.

1. *Familiarity*

Respondents were asked about their familiarity with PILP. Very few congregations were familiar with PILP, while majorities in the other samples were familiar. (See Table 1.)

Table 1
Respondents Familiarity with PILP by Sample:
Percentages Responding “Very Familiar” & “Familiar”

	Very Familiar or Familiar
Congregations	17%
Investors	68%
Presbyteries & Synods	74%
Loan recipients	81%

2. *Source of First Knowledge About PILP*

Overall, respondents were most likely to have heard about PILP through their presbytery, though presbyteries and synods first learned about PILP through the General Assembly. (See Table 2.)

Table 2
How Respondents First Heard About PILP

	Congregations	Presbyteries & Synods	Loan Recipients	Investors
Presbytery	44%	27%	54%	14%
Synod	2%	6%	3%	1%
General Assembly	8%	38%	5%	5%
InfoPak mailing	18%	2%	3%	4%
<i>Presbyterians Today</i>	4%	-	-	3%
Word of Mouth	11%	5%	10%	11%
Contact from PILP staff	1%	14%	9%	11%

3. Responses of PILP Loan Recipients

a. Loan recipients were asked to assess the work of PILP based on their recent experiences with PILP loan services. When asked about the extent they were aware of the different loan services, those receiving loans funded partially or fully through PILP investor funds (PILP-funded) were much more aware of the choices when compared to those whose loans were funded through the Church Loan Program (CLP-funded). As might be expected, recipients were most knowledgeable about the type of loan they were seeking. (See Table 3.)

Table 3
Loan Recipients’ Awareness of Loan Services Available through PILP
Percentages Responding “A Very Great Extent” and “A Great Extent”

	PILP-funded	CLP-funded
New construction or building purchase loans	78%	63%
Site and site addition loans	70%	54%
Renovation/repair loans	55%	38%
Loans to refinance existing bank loans	52%	20%
Incentive loans for improvement in accessibility, technology, and energy loans	24%	22%

b. Loan recipients were asked how satisfied they were with the effort put forth by PILP in explaining the different loan rates, guidelines, and features associated with their loans. Some 30 percent of the recipients of CLP-funded loans said that the assistance on the affordability analysis was “not applicable” as did 18 percent of the recipients of the PILP-funded loans. About 20 percent of the recipients of the CLP-funded loans also said “not applicable” to interest rebates and availability of presbytery/synod loans. (See Table 4.)

Table 4
Loan Recipients’ Satisfaction with PILP’s Explanation of Their Loan Service
Percentages Responding “Very Satisfied” and “Satisfied”

	PILP-funded	CLP-funded
Types of loans available for your project	89%	83%
General loan policies and guidelines	85%	75%
Potential for interest rebates	80%	52%
Loan interest rates	76%	74%
Availability of local presbytery/synod loans	60%	50%
Assistance in project affordability analysis	58%	37%

c. Satisfaction with the various aspects of obtaining a loan through PILP was also measured. Responses were lower for those using CLP-funded loans. Responsiveness and helpfulness of the staff ranked high with both groups. The Website’s helpfulness was generally considered low. (See Table 5.)

Table 5
Loan Recipients’ Assessment of the Process of Obtaining a Loan through PILP
Percentages Responding “Very Satisfied” and “Satisfied”

	PILP-funded	CLP-funded
Responsiveness of staff to initial inquiry	89%	81%
Overall quality of service after the loan was closed	87%	74%
Helpfulness of staff during loan processing	86%	73%
Responsiveness of staff during loan processing	83%	80%
Length of time required for loan approval	76%	56%
Amount of information required for loan approval	74%	57%
Helpfulness of PILP’s Website	36%	25%

d. Effectiveness was another measurement. Overall, 90 percent or more of the recipients of loans said the service/assistance received from PILP was “excellent” or “good.” Similar percentages were either “satisfied” or “very satisfied.”

Loan recipients were asked how effective PILP was in providing for different constituencies with different needs. From Table 6 below it appears that PILP is effective in providing congregations with the opportunity to borrow funds. Nearly 20 percent of those receiving CLP-funded loans responded, “don’t know” to the questions about investing and supporting church growth. (See Table 6.)

Table 6
Loan Recipients’ Assessment of PILP’s Effectiveness in Providing Loans for Different Constituencies
Percentages Responding “ Very Effective” and “Effective”

	PILP-funded	CLP-funded
Providing congregations with the opportunity to borrow funds	89%	80%
Providing Presbyterians with the opportunity to invest as part of stewardship	70%	48%
Providing Presbyterians with the opportunity to support church growth through investing	69%	49%

e. Loan recipients were asked about the extent to which PILP provided some leadership, the importance of their work, and how it enriched the life of the church. All agreed that the work was important. (See Table 7.)

Table 7
Loan Recipients’ Assessment of PILP’s Leadership,
the Importance of Its Work, and Enrichment of the Church
Percentages Responding “ Very Effective” and “Effective”

	PILP-funded	CLP-funded
To what extent does PILP exhibit leadership in guiding the church with the investment and loan services it provides?		
“A very great extent” and “A great extent”	66%	48%
“Some extent”	18%	29%
How important do you believe the work of PILP is to PC(USA)?		
“Very important” and “Important”	93%	88%
To what extent do you think the work of PILP enriches the life of the church?		
“A very great extent” and “A great extent”	67%	52%
“Some extent”	20%	32%

f. Loan choices and opportunities were options for most borrowers. Nearly all of the loan recipients considered commercial loan services; 87 percent of those with PILP-funded loans and 89 percent of those with CLP-funded loans. Presbytery and synod loans had also been considered by some.

A variety of purposes are met with loans through PILP. (See Table 8.)

Table 8
Type of Loan Received from PILP

	PILP-funded	CLP-funded
Site and site addition loan	11%	12%
New construction or building purchase loan	60%	40%
Renovation/repair loan	11%	27%
Incentive loans for improvements in accessibility,		
Technology or energy conservation	-	9%
Refinance existing bank loans/bonds	17%	3%

g. Is PILP to be recommended to other borrower applicants? The large majority of those with whom PILP has given loans would recommend them to others. (See Table 9.)

Table 9
As a Borrower, Would You Recommend PILP Loans to Other Congregations?

	PILP-funded	CLP-funded
Yes, definitely	82%	63%
Yes, probably	11%	25%
Not sure	7%	9%
No	-	3%

4. *Responses Of Investors*

a. Of the 360 investors responding to the questionnaire, 96 percent described their most recent investment experience with PILP as “Excellent” or “Good.” When asked to rate several areas related to their investment, usually two-thirds or more were satisfied. (See Table 10.)

Table 10
How Satisfied Are You with the Following Areas Related to Your Investment?

	Very Satisfied & Satisfied	Not Applicable
Interest Rate paid on investment	69%	1%
Number of investment choices	66%	18%
Promptness of response to investment questions	66%	30%
Accuracy of response to investment questions	65%	31%
Mission accomplished through my investment	89%	3%

Loan recipients were asked how effective PILP was in providing for different constituencies with different needs. From Table 11 below it appears that PILP is effective in providing congregations with the opportunity to borrow funds.

b. Investors strongly feel that PILP is providing opportunities for the different constituencies of the PC(USA). (See Table 11.)

Table 11
Borrowers’ Assessment of PILP’s Effectiveness in Providing for Different Constituencies
Percentages Responding “ Very Effective” and “Effective”

	Very Effective & Effective	Don’t Know
Providing congregations with the opportunity to borrow funds	79%	15%
Providing Presbyterians with the opportunity to invest as part of stewardship	67%	15%
Providing Presbyterians with the opportunity to support church growth through investing	77%	10%

c. From the investors’ viewpoint, PILP is rather successful in providing investment opportunities for congregations and individuals. (See Table 12.)

Table 12
From Your Experience With PILP, How Successful Would You Say PILP Is in Providing Investment Opportunities for the Following Constituencies?

	Very Successful & Successful	Somewhat Successful	Don’t Know
Congregations	62%	8%	25%
Individuals	59%	17%	20%
Presbyteries and synods	33%	6%	60%

d. Investors were asked about the extent to which PILP provided some leadership; the importance of their work and how it enriched the life of the church. All agreed that the work was important. Many investors said they didn't know about how PILP's leadership guides local churches with its services. (See Table 13.)

Table 13
Investors' Assessment of PILP's Leadership in Guiding Churches, the Importance of PILP's Work and Enrichment of the Church

	<u>Investors</u>
To what extent does PILP exhibit leadership in guiding the churches with the services it provides?	
"A very great extent" and "A great extent"	35%
"Some extent"	19%
"Don't know"	43%
How important do you believe the work of PILP is to PC(USA)?	
"Very important" and "Important"	96%
To what extent do you think the work of PILP enriches the life of the church?	
"A very great extent" and "A great extent"	66%
"Some extent"	22%

e. Investor willingness to recommend PILP investments to others is very strong. (See Table 14.)

Table 14
Would You Recommend PILP Investments to Others Who Are Looking for a Similar Investment?

	<u>Investors</u>
Yes, definitely	52%
Yes, probably	37%
Not sure	9%
No	1%

5. *Responses of Congregations and Presbytery and Synod Executives*

These questions in the survey were from the 132 congregations and 96 presbyteries and synods responding to the survey and were at least somewhat familiar with PILP. Presbyteries and synods are also known as "Middle Governing Bodies" and "MGB" will be used in the tables for identification.

a. *Awareness*

Overall, congregations were less aware than MGB executives of the choices available through PILP, especially the loan choices. (See Table 15.)

Table 15
Awareness of PILP's Services According to Congregations and MGB Executives Percentages Responding "A Very Great Extent" and "A Great Extent" or "Not at All"

	<u>A Very Great Extent and A Great Extent</u>		<u>Not at All</u>	
	<u>Congregations</u>	<u>MGB</u>	<u>Congregations</u>	<u>MGB</u>
Loan choices	13%	60%	21%	2%
Investment choices	11%	47%	24%	8%
Information on presbytery and synod loan options	7%	38%	43%	11%
Assistance to borrowers in affordability analysis	4%	30%	35%	18%
Loan interest rebates	2%	43%	48%	13%

b. *Satisfaction*

Most presbytery and synod executives were satisfied with the available choices, while among congregations, around one-half of the respondents were not aware of the choices offered through PILP. (See Table 16.)

Table 16
Respondents' Satisfaction with the Choices Available through PILP
Percentages Responding "Very Satisfied" and "Satisfied" or "Am Not Aware"

	Very Satisfied and Satisfied		Am Not Aware	
	Congregations	MGB	Congregations	MGB
Loan choices	39%	70%	42%	12%
Investment choices	33%	70%	46%	16%
Information on presbytery and synod loan choices	29%	61%	53%	20%
Loan interest rebates	27%	62%	59%	24%
Assistance to borrowers in affordability analysis	26%	57%	58%	29%

c. *Effectiveness*

One-quarter of the congregations (28 percent) and 57 percent of the MGB executives said that PILP is either "effective" or "very effective" in providing congregations with the opportunity to borrow funds. Fewer respondents in both categories reported similar levels of effectiveness in providing Presbyterians with the opportunity to support church growth through investing.

Just 17 percent of the congregations and 54 percent of the executives said that PILP is "effective" or "very effective" in making its services known throughout the PC(USA). Congregations and executives were asked about how effective PILP is in serving different constituency groups. More MGB executives believe PILP is "effective" in serving those with borrowing needs than those with investing needs. (See Table 17.)

Table 17
Respondents' Assessment of PILP's Effectiveness Serving Its Different Constituencies
Percentages Responding "Very Effective" and "Effective" or "Don't Know"

	Very Effective and Effective		Don't Know	
	Congregations	MGB	Congregations	MGB
Congregations with borrowing needs	23%	59%	58%	12%
Presbyteries and synods with borrowing needs	14%	46%	74%	23%
Congregations with investment needs	16%	36%	67%	28%
Presbyteries and synods with investment needs	10%	37%	76%	27%
Individuals with investment needs	9%	25%	72%	44%

Interestingly, 45 percent of the congregations "don't know" if they have made an investment with PILP, and 37 percent of the congregations "don't know" if they have taken out a loan from PILP. In contrast, only 8 percent of the executives "don't know" about making an investment with PILP, and 3 percent of the executives "don't know" if they have taken out a loan from PILP. Only 11 percent of congregations report an investment with PILP, and 18 percent report a loan from PILP. One-third of MGB executives (35 percent) report that their presbytery, synod, or church has made an investment with PILP, and 43 percent report a loan from PILP. The importance of the work of PILP to PC(USA) is perceived more highly by the MGB executives than those congregations that are familiar with PILP. (See Table 18.)

Table 18
How Important Do You Believe the Work of PILP Is to the PC(USA)?

	Congregations	MGB
Very important	27%	41%
Important	42%	43%
Somewhat important	20%	8%
Not very important	10%	8%
Not at all important	2%	1%

d. The executives had more feeling than did the congregations about the leadership in investment and loan services and the extent PILP cooperated with other agencies and/or offices doing similar work. (See Table 19.)

Table 19
Responders' Assessment of PILP's Leadership in Guiding Churches,
and Extent PILP Cooperates with Other Agencies/Offices in Similar Work

	Congregations	MGB
To what extent does PILP exhibit leadership in guiding the churches with the services it provides?		
"A very great extent" and "A great extent"	8%	46%
"Some extent"	22%	26%
"Don't know"	53%	15%
To what extent does PILP cooperate with other agencies and/or offices within the church in areas of similar work and responsibility?		
"A very great extent" and "A great extent"	11%	33%
"Some extent"	8%	15%
"Don't know"	80%	48%

e. Two-thirds or more of the executives said that all the loan choices were "helpful" or "very helpful" and somewhat fewer congregations said the same. (See Table 20.)

Table 20
Responders' Assessment of PILP's Loan Choices
Percentages Responding "Very Helpful" and "Helpful"

	Congregations	MGB
Renovation/repair loans	59%	77%
Incentive loans	56%	70%
Site and site addition loans	46%	77%
New construction/building purchase loan	8%	81%
Loans to refinance existing bank loans/bonds	28%	66%

f. Nearly one-half to two-thirds of the executives thought the investment choices from PILP were "helpful" or "very helpful." One-third to one-half of the congregations responded similarly. (See Table 21.)

Table 21
Responders' Assessment of PILP's Investment Choices
Percentages Responding "Very Helpful" and "Helpful"

	Congregations	MGB
Fixed Rate, interest-bearing notes	45%	66%
Rebate support	44%	66%
Ready access, interest rate notes	40%	55%
Adjustable rate, interest-bearing notes	36%	45%

6. *Responses of the PILP Board, Program Officers, and Management Team*

Members of the PILP Board of Directors and management team and program officers were asked to identify their particular leadership role within PILP. One-half were members of the board of directors. Forty-four percent identified themselves as holding other leadership roles within PC(USA), yet outside of PILP.

a. According to this group, PILP appears to be successful in providing services to the PC(USA). (See Table 22.)

Table 22
PILP Leader’s Assessment of PILP’s Effectiveness
in Providing Services and Opportunities
Percentages Responding “Very Effective” and “Effective”

	<u>Very Effective or Effective</u>
Loan services	88%
Investment choices	80%
Affordability analysis	64%
Information on presbytery and synod loan choices	64%

b. This group was also asked to assess PILP’s ability to reach its constituencies. It appears that PILP is more effective in reaching those in need of loan service than those with funds to invest. (See Table 23.)

Table 23
PILP Leader’s Assessment of PILP’s Ability to Reach Its Constituencies
Percentages Responding “Very Effective” and “Effective”

	<u>Very Effective or Effective</u>
Congregations with borrowing needs	84%
Presbyteries and synods with borrowing needs	80%
Presbyteries and synods with investment needs	48%
Congregations with investment needs	44%
Individuals with investment needs	20%

Item 14-B

Recommendations to Receive Reports Concerning the Benefits Plan of the Presbyterian Church (U.S.A.)

The Board of Pensions recommends that the 216th General Assembly (2004) do the following:

1. **Receive the report of the Board of Pensions regarding its grant of the following experience apportionments in the Pension Plan and the corresponding amendment of Appendix B of the Benefits Plan (the History of Experience Apportionment table):**
 - a. **A 2 percent (2%) increase in retirement and survivor's pension benefits for members and eligible survivors receiving benefits as of December 31, 2003, effective August 1, 2004; and**
 - b. **A 2 percent (2%) increase in accrued pension credits for active and vested inactive members of the Pension Plan as of December 31, 2003, effective August 1, 2004.**

Rationale

The process for amending the Benefits Plan of the Presbyterian Church (U.S.A.) ("Plan") is established in the Plan document. The specific provisions of the Plan that relate to amendment are:

Sec. 19.1 **Right to Alter or Amend Plan.** The right to alter or amend the Benefits Plan is reserved solely to the Board except that any alteration or amendment to a provision of Articles VI, VII, VIII and IX (relating to the Pension Plan) that is in the nature of a benefit reduction to the members or a dues increase shall be effective only with the approval of the General Assembly. Notice of any such proposed alteration or amendment to the Pension Plan requiring the approval of General Assembly shall be given by the Board to members, local churches and presbyteries at least sixty (60) days prior to the date of the meeting of the General Assembly at which such alteration or amendment will be considered. Notice of any other amendment to the Benefits Plan shall be provided by the Board to the General Assembly, Members, local churches and Presbyteries in such manner as the Board deems reasonable and appropriate based on the nature of the amendment.

Sec. 19.2 **Amendment of Medical Provisions.** The Board, in its sole discretion, taking into consideration claims experience, administrative expenses, changes in the health care industry, and other relevant factors, shall have the right, from time to time, to amend the Medical Plan and report any such amendment to the next succeeding General Assembly of the Church.

Sec. 19.3 **Amendment of Optional Benefit Provisions.** The Board, in its sole discretion, shall have the right from time to time to amend the Optional Benefit Plans or adopt such other additional optional benefits as it deems in the best interest of the Members of the Benefits Plan. Any such amendment or additional optional benefit provision shall be reported to the next succeeding General Assembly of the Church.

Since the 215th General Assembly (2003), the Board of Pensions adopted amendments to the Plan that require the approval of the General Assembly prior to becoming effective or are to be reported as required by the Plan provisions quoted above. Notice of the amendments being presented to the 216th General Assembly (2004) was given by letter dated March 16, 2004, from Earle Robbins, Esquire, chair of the Board of Pensions, to all Benefits Plan members, local churches, presbyteries, and synods.

The Pension Plan provides in Section 7.3 that the Board of Pensions may determine, in its sole discretion, that sufficient Pension Plan assets have accumulated, due to favorable investment and actuarial experience, over and above those required for actuarial reserves, general contingency reserves and other special reserves, to grant an experience apportionment.

The Board of Pensions is pleased to report to the 216th General Assembly (2004) that in the judgment of the Board of Directors of the Board of Pensions, sufficient Pension Plan assets were in hand at the end of 2003 as a result of cumulative favorable investment and actuarial experience to permit an experience apportionment. Therefore, at its meeting on March 6, 2004, the Board of Pensions approved the grant of the following experience apportionment for the Pension Plan and the corresponding amendment of Appendix B of the Benefits Plan (the History of Experience Apportionment table):

- A 2 percent (2%) increase in retirement and survivor's pension benefits for members and eligible survivors receiving benefits as of December 31, 2003, effective August 1, 2004; and
- A 2 percent (2%) increase in accrued pension credits for active and vested inactive members of the Pension Plan as of December 31, 2003, effective August 1, 2004.

2. Receive the report of the Board of Pensions regarding its grant of the following disability benefit increase in the Death and Disability Plan and the corresponding amendment of Appendix C of the Benefits Plan (the History of Disability Benefit Increases table): A 4 percent (4%) increase in disability benefits for those receiving such benefits on December 31, 2003, beginning August 1, 2004.

Rationale

The Death and Disability Plan provides in Section 11.3(h) that the Board of Pensions may determine, in its sole discretion, that sufficient Death and Disability Plan assets have accumulated, due to favorable investment and actuarial experience, over and above those required for actuarial reserves, general contingency reserves, and other special reserves, to grant a disability benefit increase.

The Board of Pensions is pleased to report to the 216th General Assembly (2004), that in the judgment of the Board of Directors of the Board of Pensions, sufficient Death and Disability Plan assets were in hand at the end of 2003 as a result of cumulative favorable investment and actuarial experience to permit a disability benefit increase. Therefore, at its meeting on March 6, 2004, the Board of Pensions approved a Disability Benefit Increase in accordance with Section 11.3(h) of the Benefits Plan of the Presbyterian Church (U.S.A.); in the form of a four percent (4%) increase in disability benefits for those receiving such benefits on December 31, 2003, beginning August 1, 2004, and the corresponding amendment of Appendix C of the Benefits Plan (the History of Disability Benefit Increases table).

3. Receive the report regarding the amendments to Section 2.1(u), 4.4, 13.1(j), 13.4, 13.5, 13.6, 13.7, 13.9, and Appendix B and C of the Benefits Plan of the Presbyterian Church (U.S.A.), as set forth in Appendix A.

Rationale

Since the 215th General Assembly (2003), the Board of Pensions adopted several amendments to the Medical Plan. The intent and effect of each amendment is summarized below. The verbatim text of each amendment is provided in Appendix A. Amendments to the Medical Plan are only required to be reported to the General Assembly. The effective date of the amendments is January 1, 2004, unless otherwise noted.

- *Medical Participation Basis*

The Board of Pensions amended the definition of Medical Participation Basis in Section 2.1(u) of the Plan to increase the minimum Medical Participation basis from 55 to 65 percent of the Pastors' Median salary. In addition, for part-time members, the Medical Participation Basis is now based on a full-time equivalent basis.

- *Minimum Salary Basis Option*

The Board of Pensions amended Sec. 4.4, relating to the Minimum Salary Basis Option, to increase the basis on which the minimum dues payable by members enrolled on the unemployed basis for coverage under the Medical Plan are determined from 55 to 65 percent of the Pastors' Median salary.

- *Mental Health/Substance Abuse Amendments*

The Board of Pensions moved its mental health/substance abuse claims administration services from Highmark to ValueOptions. The Board of Pensions continues to use Highmark for its Medical Plan claims administra-

tion services, other than prescription drug and mental health/substance abuse claims. To effect this change and facilitate stand-alone claims processing, separate deductible and copayment limits were established for mental health/substance abuse charges. The Plan's aggregate maximum member responsibility for medical costs other than prescription drugs did not increase; deductibles and copayments (other than office visit copayments) for mental health/substance abuse claims are combined with those paid for other medical costs, excluding prescription drugs, in determining maximum Member responsibility. These changes were made by amending Sections 13.1(j), 13.4, 13.5, 13.6, 13.7, and 13.9.

- *Office Copayment Increase*

Effective January 1, 2004, the Medical Costs copayment per visit for a primary care doctor increased from fifteen dollars to twenty-five dollars and the copayment per visit for a specialist increased from twenty-five to thirty-five dollars.

- *Maximum Benefit Limit*

The Board of Pensions amended Sec. 13.9(a) to raise the lifetime maximum claims payment limitation from Two Million Dollars to Three Million Dollars.

4. Receive the report regarding the amendment to Section 8.11 of the Retirement Savings Plan of the Presbyterian Church (U.S.A.), as set forth in Appendix A.

Rationale

The Board of Pensions amended Section 8.11 of the optional Retirement Savings Plan to permit an in-service distribution to a participant who is either an ordained minister or a commissioned lay pastor to purchase a primary residence. Under the Benefits Plan, an amendment to an optional plan, such as the Retirement Savings Plan, is to be reported to the next General Assembly. The effective date of the amendment is January 1, 2004.

**Appendix A
Amendments to the Benefits Plan of the
Presbyterian Church (U.S.A.)**

[Text to be deleted is shown with a strike-through; text to be added or inserted is shown as italic with a double underline.]

Sec. 2.1 Definitions.

(u) **MEDICAL PARTICIPATION BASIS.** The greater of (i) Effective Salary or (ii) ~~forty-six~~ forty-six-five percent (~~56~~56%) of the Pastors' Median. *For Members employed on less than a full-time basis, the Medical Participation Basis shall be based on the greater of the equivalent full-time Effective Salary or Minimum Participation Basis.* For purposes of determining annual deductible and maximum copayment amounts, the Board may in its sole discretion establish bands of Medical Participation Basis on which to apply the applicable percentage, provided that the Member shall not be placed in a band that exceeds his or her actual Medical Participation Basis.

Sec. 4.4 Minimum Salary Basis Option. With the exception of a Member enrolled for coverage under the Affiliated Benefits Program, an otherwise eligible Member who is, in the sole determination of the Board, temporarily unemployed or on an approved leave of absence, shall have the option of continuing the same coverage under the Pension Plan, Death and Disability Plan, Medical Plan and Optional Benefits Plans, for such period as may be determined by the Board by paying the required dues (a) for Pension and Death and Disability Coverage, on the basis of such Member's most recent Effective Salary or twenty-five percent (25%) of the Pastors' Median, if less; (b) for coverage under the Medical Plan, on the basis of such Member's most recent Effective Salary or ~~forty-six~~ forty-six-five percent (~~56~~56%) of the Pastors' Median; and (c) for coverage under the Optional Benefits Plans, by paying the required dues for the appropriate coverage or coverages. Optional Benefits Plans coverage may only be continued in conjunction with Pension Coverage or coverage under the Medical Plan.

Sec. 13.1 Medical Plan Definitions.

[Add new definition and renumber all definitions that follow in Sec. 13.1]

(j) *MENTAL HEALTH/SUBSTANCE ABUSE PROGRAM. The managed Mental Health/Substance Abuse Program, administered by the Board, or such other organization as may be designated by the Board, under which a Member, Disabled Member, Retired*

Member not eligible for Medicare or an Eligible Family member is covered or reimbursed for Medical Costs incurred for mental health or substance abuse care through a separate administrative program. The Board may, from time to time, establish separate rules for the Mental Health/Substance Abuse Program, relating to coverage or reimbursement based upon the types of providers, the types of service and their utilization, copay limits, deductibles or copayment maximums and other related requirements, as it, in its sole discretion, deems necessary and appropriate to administer the Mental Health/Substance Abuse Program of the Medical Plan.

Sec. 13.4 **Medical Plan Cost Reimbursement.** Subject to the managed care provisions set forth in Secs. 13.6 and 13.7, and the limitations set forth in Sec. 13.9, and upon satisfaction by the Member and Eligible Family members of any applicable deductible and/or copayment amounts required by the Medical Plan, the Medical Plan shall reimburse *the Member or his or her assignee as follows:*

(a) *MEDICAL COSTS OTHER THAN PRESCRIPTION DRUG AND MENTAL HEALTH/SUBSTANCE ABUSE PROGRAMS.*

The Medical Plan shall reimburse eighty percent (80%) of the reimbursable Network Medical Costs and Non-Network Medical Costs incurred by the Member and the Eligible Family members and sixty percent (60%) of the reimbursable Out-of-Network Medical Costs incurred by the Member and the Eligible Family members.

Upon satisfaction by the Member and Eligible Family members of any applicable annual Maximum Copayment amount, the Medical Plan shall reimburse a Member one hundred percent (100%) of the reimbursable Medical Costs incurred by the Member and the Eligible Family members.

Notwithstanding the above, the Medical Plan shall reimburse a Member one hundred percent (100%) of the charges remaining after the payment by the Member of the copayment amount designated by the Board for an office visit to a Physician who is a Network or Non-Network Provider, subject to the Usual, Customary and Reasonable charges limit for a Non-Network Provider. The copayment per visit for a primary care Physician shall be ~~fifteen~~ twenty-five dollars (\$~~15~~25) and the copayment per visit for a specialist Physician shall be ~~twenty~~ thirty-five dollars (\$~~20~~35). Office visits reimbursed under this Sec. shall not be subject to the annual deductible requirement set forth in Sec. 13.5.

(b) *FOR MEDICAL COSTS ELIGIBLE FOR PAYMENT THROUGH THE PRESCRIPTION DRUG PROGRAM*

For out-patient prescription drug costs reimbursable under the Prescription Drug Program, after satisfaction of any required deductible, the Member shall be responsible for a copayment in the amount of:

(c) FOR MEDICAL COSTS ELIGIBLE FOR PAYMENT THROUGH THE MENTAL HEALTH/SUBSTANCE ABUSE PROGRAM

(1) For Inpatient and Hospital-based Out-Patient Costs. *Subject to the pre-certification requirements set forth in Sec. 13.7(f), for mental health/substance abuse care under the Mental Health/Substance Abuse Program, after satisfaction of any required deductible, the Plan shall reimburse eighty percent (80%) of the reimbursable Network Medical Costs and Non-Network Medical Costs incurred by the Member and the Eligible Family members and sixty percent (60%) of the reimbursable Out-of-Network Medical Costs incurred by the Member and the Eligible Family members.*

(2) For Out-patient Office Visit Costs. *Subject to the case management requirements set forth in Sec. 13.7(f) and the limitations in Sec. 13.9(a)(1)(A), the Mental Health/Substance Abuse Program shall reimburse charges for out-patient office visits for mental health/substance abuse care. The Member shall be responsible for:*

(A) a copayment of twenty five dollars (\$25) per office visit for In-Network and Non-Network Costs; and

(B) a copayment of fifty percent (50%) of Usual, Customary and Reasonable Charges for Out-of-Network Medical Costs.

Copayments for office visits for Mental Health/Substance Abuse Medical Costs are not credited toward satisfaction of the Annual Medical Costs Maximum Copayment Amounts.

Sec. 13.5 **Annual Deductibles.** No reimbursement of Medical Costs shall be paid under Article XIII until the reimbursable Medical Costs exceed the annual deductible limits set forth below.

- (a) For Medical Costs other than the cost of office visits to Network and Non-Network Physicians, prescription drugs eligible for payment through the Prescription Drug Program and mental health/substance abuse care eligible for payment through the Mental Health/Substance Abuse Program, the Medical Costs Annual Deductible shall be:

- (c) For Medical Costs eligible for payment through the Mental Health/Substance Abuse Program other than the costs of office visits subject to the Copayment requirements of Sec. 13.4(c)(2), the Mental Health/Substance Abuse Annual Deductibles shall be:

(1) For Network and Non-Network Medical Costs:

(A) For the Member, two hundred fifty dollars (\$250); and

(B) For the Member's Eligible Family, in the aggregate, an additional two hundred fifty dollars (\$250).

(2) For Out-of-Network Medical Costs:

(A) For the Member, three hundred seventy five dollars (\$375); and

(B) For the Member's Eligible Family, in the aggregate, an additional three hundred seventy five dollars (\$375).

- (d) Notwithstanding subparagraphs (a), (b) and (c) above, no more than two (2) Medical Costs Annual Deductibles, two (2) Prescription Drug Program Annual Deductibles, and two (2) Mental Health/Substance Abuse Program Annual Deductibles shall be applicable to a Member and such Member's Eligible Family in any one calendar year; and

Sec. 13.6 **Maximum Copayment Amounts.** Reimbursements under Article XIII shall be subject to the following annual Copayment maximums:

- (a) FOR MEDICAL COSTS OTHER THAN THOSE ELIGIBLE FOR PAYMENT THROUGH THE PRESCRIPTION DRUG PROGRAM AND MENTAL HEALTH/SUBSTANCE ABUSE PROGRAM ("THE ANNUAL MEDICAL COSTS MAXIMUM COPAYMENT").

(7) Except as provided in Sec. 13.4(c)(2) (relating to copayments for office visits Medical Costs under the Mental Health/Substance Abuse Program), copayment charges paid by a Member and a Member's Eligible Family for Mental Health/Substance Abuse Medical Costs in excess of the Mental Health/Substance Abuse Annual Deductible(s) shall be credited toward satisfaction of the Annual Medical Costs Maximum Copayment Amounts.

(c) FOR MEDICAL COSTS ELIGIBLE FOR PAYMENT THROUGH THE MENTAL HEALTH/SUBSTANCE ABUSE PROGRAM ("THE MENTAL HEALTH/SUBSTANCE ABUSE ANNUAL COPAYMENT MAXIMUM"). In the event that during a given calendar year, the Mental Health/Substance Abuse Program Copayment charges for Medical Costs other than the cost of office visits subject to the copayment requirements of Sec. 13.4(c)(2) paid by a Member and a Member's Eligible Family, in excess of the applicable Mental Health/Substance Abuse Annual Deductibles, exceed:

- (1) one thousand five hundred dollars (\$1,500) for a Member and one thousand five hundred dollars (\$1,500) for the Member's Eligible Family for Network and Non-Network Medical Costs; and
(2) two thousand five hundred dollars (\$2,500) for a Member and two thousand five hundred dollars (\$2,500) for the Member's Eligible Family for Out-of-Network Medical Costs.

no further copayments for Mental Health/Substance Abuse Program charges shall be required for the balance of that calendar year and all reimbursable Mental Health/Substance Abuse Program charges in excess thereof shall be paid to the Member on the basis of one hundred percent (100%) reimbursement, subject to the managed care provisions of Sec. 13.7(f) below.

Notwithstanding the provisions in Secs. 13.4(c), 13.5(c) and 13.6(c), a Member's or Eligible Family Member's aggregate annual deductibles and copayments under Secs. 13.4(a), 13.4(c)(1), 13.5(a), 13.5(c), 13.6(a) and 13.6(c) shall not exceed in any Plan Year the sum of that Member's or Eligible Family Member's responsibility for Medical Costs under Secs. 13.5(a) and 13.6(a).

Sec. 13.7 **Managed Care Provisions.** The following provisions shall apply in all cases:

- (f) PSYCHIATRIC CARE. A Member, or someone on behalf of the Member, must apply to and receive from the Board, or such other organization as may be designated by the Board, a certification authorizing an in-patient confinement and hospital based out-patient services and approving the provider thereof prior to the confinement or services. Certification under this Section is also required for reimbursement of charges allowed under Sec. 13.9(a)(1)(A) (relating to out-patient care if reimbursement is sought for out-patient treatment continuing beyond twenty (20) visits). If a Member, or someone on behalf of the Member, fails to obtain the pre-certification required in this Section from the Board, or its designee, the Board may request an independent review of the Medical Necessity of the services prior to adjudicating the claim and such Member's reimbursement for care found to be Medically Necessary shall be reduced by an amount designated by the Board to cover the cost of the review.

Sec. 13.9 **Exclusions and Limitations.** The following exclusions and limitations shall apply to the reimbursement of claims under the Medical Plan:

- (a) MAXIMUM BENEFIT AND TREATMENT REIMBURSEMENT LIMITS. The maximum benefits payable under Article XIII for the Member and the Member's Eligible Family during the full period of their participation in the Medical Plan shall be ~~two~~ three million dollars (\$~~2~~3,000,000) for each covered person. After the payment of benefits to a Member, on each

January 1 on which such Member is a participant in the Medical Plan, there shall be restored to the remaining maximum benefit the lesser of the amount of benefits paid to the Member for the preceding Plan Year or five thousand dollars (\$5,000). In addition to the maximum benefits limitation, certain covered Medical Costs are also subject to the following additional limitations:

(1) Reimbursement for Treatment of Mental and Nervous Disorders.

~~(A) In-patient and facility-based services. The maximum benefits payable for charges for treatment of nervous and mental disorders if provided by a Hospital or licensed treatment facility on an in-patient or day-patient basis shall be limited to up to 48 days per person in any one (1) calendar year. In determining the number of allowable days, a "day" of in-patient treatment in a Hospital or treatment facility designated by the Board or its designee as a preferred provider for mental and nervous disorder treatment shall count as three-quarters (.75) of a day; a "day" of treatment in a residential treatment program or a partial hospitalization program shall count as a half (.5) day; and a "day" of intensive out-patient treatment in such facilities shall count as a quarter (.25) day.~~

Out-patient services. Reimbursement for charges for treatment provided by a psychiatrist, clinical psychologist Ph.D., Diplomate or Fellow Member of the Association of Pastoral Counselors, clinical marriage counselor or family therapist who is either state licensed or a clinical member of the American Association for Marriage and Family Therapy, licensed clinical social worker, or psychiatric nurse specialist on an out-patient basis beyond twenty (20) visits for out-patient treatment is subject to the managed care provision of Sec. 13.7(f). In addition to the providers designated in this paragraph, the Board may, from time to time, in its sole discretion, authorize reimbursement of charges for out-patient services rendered by a professional counselor who has satisfied the state licensing requirements of a state that has been pre-approved by the Board.

~~(B)~~ Extension of Limits for Treatment of Mental and Nervous Disorders Where Case Management Indicates Additional Services Are Medically Necessary. The Board may extend the number of days or visits to be reimbursed for mental and nervous disorders under Subsection (A) and ~~(B)~~ above if the Board determines in its sole discretion that continued medical treatment is required under an appropriate treatment plan. Charges for services beyond the limits established in this Section shall only be reimbursed if the Member or Eligible Family member, or someone acting on behalf of the Member or Eligible Family member, applies to and receives from the Board, or such other organization as may be designated by the Board, a written certification authorizing the extension of the day or visit limits.

**APPENDIX B
HISTORY OF EXPERIENCE APPORTIONMENTS**

The Pension Plan in Sec. 7.3 grants to the Board discretion to determine periodic Experience Apportionments. The following table provides a history of those Experience Apportionments for the Pension Plan.

Year	Experience Apportionment
2003	2%

**APPENDIX C
HISTORY OF DISABILITY BENEFIT INCREASES**

The Benefits Plan in Sec. 11.3(h) grants to the Board discretion to determine Disability Benefit Increases. The following table provides a history of those increases for the Disability income benefits.

Year	Disability Increase
2003	4%

Retirement Savings Plan

A new Section 8.11 shall be added to the optional Retirement Savings Plan to read as follows:

Section 8.11 Withdrawals of Voluntary Employing Organization Contributions. *Upon the written request of a Participant on a form supplied by the Board or its designated agent, and subject to the approval of the Board, a Participant who is (i) either an ordained minis-*

ter of the Word and Sacrament or a lay pastor commissioned by a presbytery and (ii) employed in Eligible Service may withdraw Voluntary Employing Organization Contributions, including the interest thereon, for purpose of purchasing a primary residence. The Board, in its sole discretion, shall determine if a withdrawal is an eligible withdrawal under this Section 8.11.

Item 14-Info

A. *New Covenant Trust Company, N.A. and New Covenant Annuity Insurance Company Reports*

1. *New Covenant Trust Company, N.A.*

New Covenant Trust Company, N.A. (NCTC) was chartered January 2, 1998 as the first Nationally Chartered Trust Company owned by a not-for-profit Foundation. The NCTC serves as back-office service provider for the Foundation and the endowment funds it holds as fiduciary for the benefit of the General Assembly, local congregations, and other Presbyterian-affiliated organizations. The company also serves as investment advisor to New Covenant Funds and trustee of various types of trust instruments in which there is a Presbyterian or Presbyterian-related beneficial interest. The NCTC's Board has enacted policies and procedures to ensure compliance with banking and securities law and provides oversight of the delivery of Trust Services to the Presbyterian community.

In 2003, the Trust Company elected a new president and COO, William Precious, a white, male, lay, under 50, who is an elder in the Synod of Living Waters. Precious came to NCTC with a strong background in banking and personal trust. Robert E. Leech remains CEO and has been appointed vice-chair of the board.

Also this year, the NCF Investment Department of NCTC was instrumental in the selection and hiring of a new record-keeper and transfer agent for the New Covenant Funds in order to assist the Funds to accomplish its goal to provide excellent customer service.

The Foundation and its subsidiary consistently strive to deliver superior service to the Presbyterian Church (U.S.A.) and seek to enhance the vehicles available to Presbyterians to express their Christian faith and generous stewardship. We are also exploring ways to partner with Presbyterian and related organizations in the delivery of enhanced trust services, such as Personal Trusts, Wholly Charitable Trusts, and Charitable Remainder Trusts. These estate-planning devices provide an opportunity to care for loved ones while providing for planned giving opportunities.

The following individuals have been confirmed by former General Assemblies and continue in their service as directors of New Covenant Trust Company, N.A.

a. *Foundation Trustees*

Karen C. Anderson, CPA, white, female, married, lay, under 50, Synod of the Pacific; D. Fort Flowers Jr., banker, white, male, married, lay, under 50, Synod of the Sun; George J. Hauptfuhrer III, investment manager, white, male, married, lay, over 50, Synod of South Atlantic; Robert A. McNeely, banker, black, male, married, lay, over 50, Synod of Southern California.

b. *Former Foundation Trustees*

Georgette L. Huie, elder, Asian, female, single, lay, over 50, Synod of the Pacific; Richard J. Seiwel (former adjunct trustee), investment advisor, white, male, married, lay, over 50, Synod of the Trinity; Ray U. Tanner, retired banker, white, male, married, lay, over 50, Synod of Living Waters.

c. *GAC Designee*

Nagy L. Tawfik, GAC staff, Middle Eastern, male, married, lay, over 50, Synod of Living Waters.

d. *OGA Designee*

Doska D. Ross, OGA staff, white, female, single, lay, over 50, Synod of Living Waters.

e. *NCTC Staff*

Robert E. Leech, white, male, married, lay, over 50, Synod of Living Waters.

2. *New Covenant Annuity Insurance Company*

The 211th General Assembly (1999) authorized the creation of New Covenant Annuity Insurance Company (*Minutes*, 1999, Part I, pp. 500–2). Due to intervening events, including the establishment of New Covenant Funds in July 1999 and continued work on New Covenant Trust Company, N.A., the Foundation has delayed the creation of the insurance company.

B. *The Board of Pensions of the Presbyterian Church (U.S.A.) 2003 Report*

Marking the 286th Anniversary of the Beginning of the Work Now Carried on by this Board, and Presented to the 216th General Assembly (2004) Meeting in Richmond, Virginia, June 2004

This introduction paraphrases the subtitles of the reports made by the Board of Pensions to the General Assemblies in the 1940s. In its echo, the Board of Pensions of the Presbyterian Church (U.S.A.) presents a year of continuity in service to the servants of the church when we are all in the midst of great change.

The responsibilities assigned to the Board of Pensions by the General Assembly are:

- The design and administration of a comprehensive program of retirement, death, disability, medical, and optional benefits for ministers, missionaries, and other church workers.
- The design and administration of a program of financial assistance to help meet needs that are beyond the scope of the pension and benefits program.
- The establishment and operation of a retirement housing program for eligible retirees and their spouses.
- The receipt, investment, and disbursement of the funds required to support these plans and programs for the sole and exclusive benefit of members and beneficiaries of the Benefits Plan of the Presbyterian Church (U.S.A.) and other beneficiaries of the assistance and retirement housing programs.

This report summarizes the basic design of the Benefits Plan of the Presbyterian Church (U.S.A.) and key statistics regarding the administration of the Benefits Plan and the programs of assistance and retirement housing. And, again, this is a report “of the work now carried on by” the Board of Pensions.

I. Narrative

A. *The Benefits Plan of the Presbyterian Church (U.S.A.)*

The Presbyterian Church (U.S.A.)’s benefits program is contained in the Benefits Plan of the Presbyterian Church (U.S.A.). The Benefits Plan provides pension, death and disability benefits, medical benefits, optional benefits (additional death benefits, optional supplemental disability, dental coverage, long-term care insurance, and retirement savings), and a retirement and financial planning program. Participation in this program is mandated for all ministers of the Word and Sacrament in installed positions. A church may also enroll other church employees. The same benefits, excluding the pension, are now offered to employing organizations for certain non-mandated employees of the Presbyterian Church (U.S.A.) or affiliated organizations through the Affiliated Benefits Program. Moreover, these employees may participate in the Retirement Savings Plan.

The 215th General Assembly (2003) approved changes to the Benefits Plan amendment process to accommodate the change to biennial meetings of the General Assembly of the Presbyterian Church (U.S.A.). The right to amend the Benefits Plan is reserved solely to the Board of Pensions. Amendments to the Plan that constitute a reduction in Pension Plan benefits or an increase in Pension Plan dues are effective only upon approval by the General Assembly. The Bylaws of the Board of Pensions require approval of a two-thirds majority of directors present at a duly constituted meeting to amend the Pension Plan, other than a benefit reduction or a dues increase (which amendments require the approval in advance of the General Assembly). The Board of Pensions must provide sixty-days notice to the General Assembly, Plan members, local churches, and Presbyteries of any amendment requiring General Assembly approval and reasonable notice of any other amendment to the Benefits Plan.

The component parts of the Plan have unique liabilities and cash flow requirements, with separate investment portfolios and actuarial valuations. This report provides tables showing financial reports on the component parts of the Plan and programs.

B. *The Community Nature of the Benefits Plan*

The Benefits Plan of the Presbyterian Church (U.S.A.), administered by the Board of Pensions, is designed to care for and protect the community of Benefits Plan members as a whole.

The employing organization's cost of providing benefits to its employees who are enrolled for pension, medical, and death and disability benefits is not based on the family configuration, sex, or age of its employees. The dues contributed by an employing organization are based on a percentage of its employees' salaries and represent that employer's share of the cost of protecting the entire community. The salary bases used to determine the dues for the Pension Plan, the Death and Disability Plan, and the Medical Plan reflect minimum and maximum amounts.

In the same way, the benefits are "leveled" with minimum benefits accruing to employees paid under the median salary for their employee classification (ministers, exempt, nonexempt) and caps on medical deductibles and co-pay expenses for higher paid members.

C. *Dues and Optional Benefits Funding, Including the Affiliated Benefits Program*

In 2003, employing organizations continued to contribute to the Benefits Plan the same dues (28.5 percent of the members' effective salaries) as in 2002 through June 30, 2003; on July 1, 2003, medical benefits dues increased from 16.5 percent to 17.5 percent, raising the total dues responsibility to 29.5 percent. The total dues include 11 percent for pension benefits and 1 percent for death and disability benefits in addition to the dues for medical benefits.

For the Affiliated Benefits Program, the dues level for medical benefits increased 15 percent. This increase paralleled a similar increase for the traditional coverage of the Medical Plan and was necessary to sustain the sound financial status, protect reserves, and maintain the financial stability of the program. For medical coverage, the dues vary by level of coverage—single member, married, a single parent with a child or children, or a family. An employing organization can require that the member contribute for the coverage.

Optional death benefits, optional disability coverage, optional dental insurance, long-term care insurance, and the 403(b) Retirement Savings Plan are funded independently through voluntary employer and/or member contributions.

TABLE I
Assets and Liabilities Available for Benefits and Assistance
The Board of Pensions of the Presbyterian Church (U.S.A.)
2003–2002

	<u>2003</u>	<u>2002</u>
Investments:		
Balanced Portfolio	\$5,974,039,000	\$4,868,098,000
Income Portfolio	32,280,000	30,613,000
Other Investments	230,440,000	195,728,000
Other Assets	<u>17,971,000</u>	<u>20,399,000</u>
Total Assets	6,254,730,000	5,114,838,000
Less: Liabilities	<u>83,643,000</u>	<u>84,561,000</u>
Net Assets Available for Benefits	<u>\$6,171,087,000</u>	<u>\$5,030,277,000</u>

TABLE II
Net Assets Available for Benefits
The Board of Pensions of the Presbyterian Church (U.S.A.)
2003–2002

	<u>2003</u>	<u>2002</u>
Pension Plan	\$5,455,528,000	\$4,455,310,000
Death and Disability Plan	446,444,000	360,122,000
Optional Death Benefits Plan	11,677,000	8,891,000
Optional Retirement Savings Plan	142,235,000	103,898,000
Medical Plan	32,924,000	28,856,000
Medicare Supplement	6,034,000	7,462,000
Dental Plan	(137,000)*	
Assistance and Retirement Housing Programs	62,938,000	54,580,000
Endowment and Trust Funds	<u>13,444,000</u>	<u>11,158,000</u>
Net Assets Available for Benefits	<u>\$6,171,087,000</u>	<u>\$5,030,277,000</u>

*A charge peculiar to 2003 as part of a transition to a new expense allocation among various product offerings of the Board of Pensions.

II. Accomplishments

A. Pension Plan and Death and Disability Plan

1. Enrollment and Benefits Initiated in 2003 and 2002

TABLE III
Enrollment, Initiation of Benefits,
Plan Members and Beneficiaries
The Board of Pensions of the Presbyterian Church (U.S.A.)
2003–2002

	<u>2003</u>	<u>2002</u>
New Members Enrolled	1,055	1,218
Pensions Initiated		
Retirement	681	686
Survivor	239	186

Death and Disability Benefits Initiated		
Disability	71	66
Educational Benefits	16	11
Death Benefits to Dependents	535	520
	As of	As of
	<u>12/31/03</u>	<u>12/31/02</u>
Number of Disabled Members	318	317
	As of	As of
	<u>12/31/03</u>	<u>12/31/02</u>
Pensioners		
Retired	12,325	12,046
Survivors	<u>3,805</u>	<u>3,724</u>
Total Pensioners	<u>16,130</u>	<u>15,770</u>
Members (excluding pensioners)		
Active Members	15,375	15,518
Disabled Members Accruing Pension	318	317
Credits	<u>7,892</u>	<u>7,803</u>
Inactive Members	<u>23,585</u>	<u>23,638</u>
Total Members		
Total Plan Members and Pensioners	<u>39,715</u>	<u>39,408</u>
Affiliated Benefits Program Members	<u>2,607</u>	<u>2,067</u>
Total Members and Their Dependents	<u>55,935</u>	<u>56,185</u>

2. Pension Plan and Death and Disability Plan Payments

The Plans paid the following pension, death, and disability benefits in 2003 and 2002.

TABLE IV
Total Pension, Death and Disability Benefits Paid
The Board of Pensions of the Presbyterian Church (U.S.A.)
2003–2002

	<u>2003</u>	<u>2002</u>
Pension Plan		
Retirement	\$203,705,000	\$200,201,000
Survivor	40,099,000	39,108,000
Pension Dues Paid for Disabled Members	967,000	999,000
Other	<u>3,000</u>	<u>13,000</u>
Total Pension Benefits Payments	<u>\$244,774,000</u>	<u>\$240,321,000</u>
Death & Disability Plan		
Disability	\$5,597,000	\$5,803,000
Healthcare and Death & Disability Dues Paid for Disabled Members	2,147,000	2,037,000
Educational	237,000	271,000
Other Death Benefits	<u>6,593,000</u>	<u>5,492,000</u>
Total Death & Disability Benefits	<u>\$14,574,000</u>	<u>\$13,603,000</u>

The Pension Plan and the Death and Disability Plan are separately valued. Table V and Table VI show the distributions for each of the funds.

TABLE V
Pension Plan Funds and Distributions
The Board of Pensions of the Presbyterian Church (U.S.A.)
2003

Net Assets beginning of year		\$4,455,310,000
Sources of Funds:		
Investment Return	\$1,188,546,000	
Dues	68,934,000	
Other	<u>107,000</u>	
Subtotal		<u>1,257,587,000</u>
Total		\$5,712,897,000
Uses of Funds:		
Pension Plan Benefits	\$244,774,000	
Administrative and Other Expenses	<u>12,595,000</u>	
Subtotal		<u>257,369,000</u>
Net assets end of year		<u>\$5,455,528,000</u>

TABLE VI
Death and Disability Plan Funds and Distribution
The Board of Pensions of the Presbyterian Church (U.S.A.)
2003

Net Assets beginning of year		\$360,122,000
Sources of Funds:		
Investment Return	\$97,233,000	
Dues	<u>7,036,000</u>	
Subtotal		<u>104,269,000</u>
Total		\$464,391,000
Uses of Funds:		
Death and Disability Plan Benefits	\$14,574,000	
Administrative and Other Expenses	<u>3,373,000</u>	
Subtotal		<u>17,947,000</u>
Net assets end of year		<u>\$446,444,000</u>

3. *Pension Benefits Overview*

The pension provided by the Benefits Plan is based on the credits accrued by a member during his or her career of service for the church. Under the Plan provisions, a member accrues credits annually at 1.25 percent of the member's effective salary. To the extent that a member's full-time salary is less than the median salary for that employment classification, the member's credits accrue at 1.25 percent of the median salary rather than his or her own lower salary.

Table VII shows, for various salary ranges, the percentage of final salary that has been replaced by the combination of the Plan's retirement benefit and Social Security. The Benefits Plan is designed to

work together with Social Security benefits to provide adequate retirement income for members, without recognition of a spouse's Social Security benefits. The replacement percentage is higher for lower salary levels because the Social Security benefit formula is weighted heavily in favor of lower wage levels and because the median salary calculation enhances the benefits of members with lower salaries.

TABLE VII
Average Pensions of Minister Retirees
at or after Age 65 with at Least 15 Years of Service
The Board of Pensions of the Presbyterian Church (U.S.A.)
2003

Salary at Retirement	Number of 2003 Retirements*	Average Plan Pension	Social Security Benefits**	Total Retirement Income	Total Retirement Income as % of Final Salary
Less Than \$30,000	22	\$18,971	\$10,201	\$29,172	149%
\$30,000-34,999	11	22,154	13,103	35,257	110%
\$35,000-39,999	16	25,508	13,954	39,461	104%
\$40,000-44,999	16	31,035	15,515	46,550	109%
\$45,000-49,999	14	25,971	14,493	40,463	86%
\$50,000-54,999	20	29,528	16,383	45,911	87%
\$55,000-59,999	11	30,505	15,327	45,832	79%
\$60,000-64,999	13	32,057	16,413	48,470	78%
\$65,000-69,999	8	34,199	16,267	50,466	75%
\$70,000-74,999	10	33,583	17,774	51,357	72%
\$75,000 and Over	31	52,417	20,214	72,631	74%
Entire Group	172	\$32,015	\$15,623	\$47,637	86%

*For 2003, the average length of service was 35 years

**Does not include spouse benefit

4. Pension Plan and Death and Disability Plan Amendments

a. Pension Experience Apportionment and Disability Benefit Increase.

The designs of the Pension Plan and the Death and Disability Plan provide for the granting of experience apportionments and disability benefit increases respectively when the Plans have favorable investment experience, favorable actuarial experience, and adequate contingency reserves.

In light of continuing stock market losses that effectively eroded all contingency reserves, no pension apportionment or disability increase was recommended for 2003.

(1) History of the Pension Apportionments and Disability Benefit Increases

A major function of the experience apportionments is to help the pension credits of active members and the retirement income of Plan members keep pace with inflation. The recent experience apportionments and disability benefit increases are shown in Table VIII compared to the Consumer Price Index (CPI), a measure of inflation in consumer goods and services.

TABLE VIII
Experience Apportionments and Disability Benefit Increases
Compared to Consumer Price Index (CPI)
The Board of Pensions of the Presbyterian Church (U.S.A.)
1999–2003

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Pension	10.0%	9.0%	3.0%	0.0%	0.0%
Disability	3.0%	4.0%	3.0%	2.0%	0.0%
CPI	2.7%	3.4%	1.6%	2.4%	1.9%

(2) *Impact of Pension Apportionments*

For the years 1993 through 2003, Table IX shows the number of ordained minister Plan members (with at least fifteen years of service) retiring at or after age sixty-five and the average annual amount of their pension at the time of retirement. Based on the defined benefit plan and experience apportionment, the Benefits Plan has been able to provide significant increases in pension benefits during the last eleven years. The average pension with an inflationary increase based on the CPI is shown for comparison.

TABLE IX
Average Pension of Retirees Adjusted by Experience Apportionments
Compared to Inflationary Increase
The Board of Pensions of the Presbyterian Church (U.S.A.)
1993–2003

Year of Retirement	Number of Retirements	Average Annual Plan Pension at Retirement	Value of Average Pension in 2003 Reflecting Inflationary Increases	Value of Average Pension in 2003 Reflecting Experience Apportionments
1993	180	\$17,007	\$21,513	\$29,689
1994	216	18,375	22,632	29,701
1995	202	19,772	23,759	31,028
1996	192	19,958	23,216	29,000
1997	145	23,370	26,731	32,036
1998	157	23,698	26,679	29,266
1999	168	27,110	29,718	30,436
2000	153	27,651	29,314	28,481
2001	173	31,661	33,037	31,661
2002	151	30,039	30,610	30,039
2003	172	32,015		

b. *Administrative Changes to the Pension Plan and Death and Disability Plan*

During 2003, the Pension Plan and the Death and Disability Plan were amended to ensure clarity and completeness. The Plan was amended to change the name of the Disability Experience Apportionment to Disability Benefit Increase. In addition, the Plan was amended to add Appendices B and C that show the schedule of past experience apportionments and disability increases. These amendments were reported to the 215th General Assembly (2003).

5. *Death and Disability Plan*

a. *Death Benefits*

The Benefits Plan pays death benefits to the dependent family members of a deceased active Plan member in the form of a lump sum death benefit, a survivor's pension, and educational benefits for eligible children. A salary continuation benefit is payable to any designated beneficiary as well as a lump sum benefit for a deceased active Plan member with no eligible dependents. Under the Living Needs provision, a portion of the death benefits may be paid prior to death to provide financial assistance to a terminally ill Plan member. The survivor's pension, educational benefits, and a reduced salary continuation benefit are payable to eligible survivors at a retired member's death.

b. *Disability Benefits*

If a Benefits Plan member becomes disabled, he or she receives an annual disability benefit of 60 percent of the greater of the effective salary (to a maximum of \$70,000) or the applicable churchwide median salary, with the initial amount not to exceed 100 percent of effective salary. This benefit, payable on a monthly basis, is provided while the member remains disabled. The annual disability benefit payments cease at the earlier of a return to work, attainment of age sixty-five, or death, and are subject to certain minimum benefit periods for those persons who become disabled at age sixty-two and older. In addition to providing a monthly income, the Plan also provides (at no cost to the member or the employing organization) medical coverage, death benefits, and pension credit accrual up to age sixty-five. The Optional Death Benefits also continue without further cost for those members enrolled in the program prior to disability. The disability benefit is designed to supplement Social Security disability income coverage.

6. *Medical Plan*

a. *Overview*

The Medical Plan provides its benefits and services to Plan members subject to the same financial challenges and market forces affecting all medical benefits delivery systems that exist today. In this, the Board of Pensions is no different from any other employer benefit plan sponsor. The Board of Pensions tries to exercise good stewardship of the dollars entrusted to the Medical Fund, providing financial protection against medical expenses for Plan members and their families, while maintaining dues at affordable levels for churches. Members may choose among doctors and hospitals, but have economic incentives to select those providers that have agreed to negotiated, discounted pricing.

The Medical Plan provides coverage for almost all Plan members and their families through a preferred provider organization (PPO). A PPO provides coverage through networks of doctors and hospitals that have agreed to accept discounted fees in exchange for patient volume. The PPO plan design encourages members to use network providers by providing a higher benefit for network services. Members always have the option to use out-of-network doctors and hospitals and referrals are not required for specialist care. In areas where network doctors and hospitals are not available, the higher benefit level applies to eligible charges. Approximately 90% of Plan members covered under the PPO have access to network services. For most Plan members, the network access in 2003 was provided through Blue Cross Blue Shield networks (the BlueCard[®] program) administered for the Board of Pensions by Highmark (formerly Blue Cross of Western Pennsylvania and Blue Shield of Pennsylvania). Separate Blue Cross Blue Shield arrangements applied in the Louisville, Kentucky, area (a self-insured HMO [health maintenance organization] arrangement with benefit levels that closely parallel the value of the PPO) and Puerto Rico (a fully-insured contract).

In 2003, Plan member use of network doctors and hospitals resulted in approximately \$90 million in gross savings for the Plan and its members (savings are shared between the Plan and its members; about 80 percent to the Plan and 20 percent to the members). These savings, and PPO savings in prior years, which have helped to fund the contingency reserves, allowed the Board of Pensions to maintain dues at 16.5 percent for the first half of 2003 although fairly significant changes to the prescription drug benefit had to be introduced at the beginning of

the year. Continuing double-digit medical trends forced the Board of Pensions to further action and the decision was made in October 2002 that a mid-year increase in dues, to 17.5 percent, effective July 1, 2003, would be required.

Given the apparently unending upward spiral in cost, the Board of Pensions has had to take additional dues and benefits measures for 2004. Effective January 1, 2004, minimum dues for Medical Plan participation are now based on 65 percent of the churchwide median salary for pastors serving churches, up from 55 percent. Dues for part-time church workers are determined on the greater of the minimum participation basis or the equivalent full-time salary and the required dues percent increased to 18.5 percent for all participating positions. On the benefits side, the network office visit copay increased by \$10, from \$15 to \$25 for a visit with a primary care practitioner and from \$25 to \$35 for a visit with a specialist. (The copay required for a network visit with a mental health professional remains at \$25.) The Board of Pensions also made the decision to move responsibility for claims processing of all mental health/substance abuse claims from Highmark to ValueOptions, the organization that provides medical counsel to the Board of Pensions and its members on mental health/substance abuse treatment. By combining services, the Board of Pensions expects to reduce some of the administrative complexity generated by having both Highmark and ValueOptions involved. Lessening the administrative complexity with Highmark has resulted in a lower fee, making the change a financial positive for the Plan.

Separately, the Board of Pensions has continued its efforts to partner with other denominations through the Church Benefits Association (CBA) to negotiate more favorable financial arrangements through joint purchasing efforts. The first initiative focused on the contract with the pharmacy benefit manager (Express Scripts); by negotiating as part of a larger group, the Board of Pensions is saving \$1 million or more in each year of the present three-year contract (2002–2004). In 2004, a number of denominations have joined us in obtaining PPO access and administration services from Highmark; we hope to take advantage of that coalition effort to improve both price and service over time.

The Affiliated Benefits Program (ABP), introduced in August 2000, allows eligible employing organizations to offer medical or medical, death, and disability benefits to non-mandated employees on slightly different terms from those applicable to the Benefits Plan. By January 1, 2003, approximately 2,200 members were enrolled for the ABP, from more than 380 different employing organizations, including Prairie Village Retirement Center, Nebraska, Presbyterian Children's Home of the Highlands, Virginia, and the Presbyterian Home in the Presbytery of Huntington, Pennsylvania. As of January 1, 2004, the number of church workers enrolled approximates 2,600. With the present rate of growth in healthcare costs, the Board of Pensions is particularly aware of the difficulty smaller employing organizations encounter in trying to continue to provide comprehensive medical coverage for their employees; we know that we have helped a number of Presbyterian-affiliated employers confronted by cost increases they could not absorb. While the Board of Pensions hopes to offer a meaningful alternative for the long-term, the Board of Pensions is also mindful of the need to carefully monitor the financial performance of these new groups in conjunction with the overall performance of the Medical Fund and is interested in measured rather than rapid growth.

In addition to maintaining benefit plans to provide assistance with medical expenses, the Board of Pensions is actively engaged in encouraging Plan members and their families to adopt healthy lifestyles and use appropriate preventive care services. When fewer than half of the participants are responsible for 97 percent of the claims, there are opportunities to improve both professional and self-care, leading to improved health status and, longer term, to reduced expense. One response is a new, more proactive program targeted to chronic conditions, specifically diabetes and cardiac conditions, introduced July 1, 2003; through it we hope to help more than 1,500 patients with these health problems. The Plan also continues to provide education about and coverage for the right kinds of preventive care and access to resource services such as a twenty-four-hour nurse line and an employee assistance plan. Other initiatives include support for clergy in their first calls, subsidies to encourage the establishment of local clergy colleague groups, and educational efforts built around such themes as Breast Cancer Awareness Month and Nutrition Month. The Board of Pensions also sponsors a 5K walk, run, or roll event at the General Assembly.

Concerned about issues of quality in healthcare and patient safety for a number of years, the Board of Pensions has tried to find ways in which to encourage change in the provider community and provide education for

Plan members and their families. In 2002, the Board of Pensions produced a member education video built on the theme of “How to Protect Yourself Against *Preventable* Medical Mistakes,” accompanied by a print piece, *Health S.E.N.S.E.* For 2003, the Board of Pensions stayed with this theme, sending out a series of five postcards, reminding members and their families of the key messages in the video. As a member of the Leapfrog Group, a national organization of large medical plans focused on promoting patient safety changes within the healthcare system, the Board of Pensions has led efforts by local employers in the Philadelphia and Louisville areas to encourage hospital participation in surveys that collect data about their adherence to certain patient safety protocols.

The 213th General Assembly (2001) asked the Board of Pensions to comment in its future reports about the parity of mental health benefits provided through the Benefits Plan by, “Urge[ing] the Board of Pensions of the Presbyterian Church (U.S.A.) to evaluate, on an annual basis, issues of parity between coverage for mental health and medical and surgical benefits under plans offered by the Board of Pensions and include their evaluation in their annual reports to future General Assemblies” (*Minutes*, 2001, Part I, pp. 48–49). In 2003, although the Medical Plan contained specific limits on coverage for mental health services, those limits were routinely waived if medical necessity for additional services was established. This waiver option gave Plan members and their families access to the same benefits for mental health treatment as for any other illness, as long as the medical necessity criterion was met. In 2004, to facilitate the separate processing of claims, mental health/substance abuse claims now have their own deductible and copay provisions. These requirements will be coordinated with those for the balance of the Plan, excluding drugs, to make sure that the administrative change does not increase the total amount any family has to pay. The various internal limits or review points within the facility-based covered expense list have been removed, but medical necessity for the services must still be approved. The Board of Pensions believes that the parity standard is satisfied.

b. *Medical Continuation*

Under the Medical Continuation coverage, members who terminate active Plan participation may elect to continue coverage on a subscription basis. A retiring member not yet eligible for Medicare (or a terminated vested member who elects to defer receipt of pension income), whose age and service status meet certain criteria, may continue coverage until Medicare eligibility. (Those retiring prior to January 1, 1995, did not have to meet the same requirements.) Retiring members whose age and service do not satisfy these criteria, surviving or divorced spouses, children who have attained the Plan’s limiting age, and members whose coverage has terminated for other reasons, also are eligible to continue coverage. The period for medical continuation coverage varies.

Table X and associated technical explanation provide information about historical financial experience, projected experience for 2004, and the accounting requirements with which the Board of Pensions now conforms. (The Plan is required to recognize significant liabilities as a result of accounting rules set forth by the Financial Accounting Standards Board. These Financial Accounting Standards address two benefit commitments: post-retirement benefits and post-employment benefits as reported in Table X.)

TABLE X
Financial Results for the Medical Fund,
Active and Continuation Members Medical Provisions
The Board of Pensions of the Presbyterian Church (U.S.A.)
1999–2003 and Projecting 2004
(Amounts in \$1,000s)

	1999	2000	2001	2002	Est. 2003 ¹	Proj. 2004 ¹
Dues Percentage	<u>15.5%</u>	<u>15.5%</u>	<u>15.5%</u>	<u>16.5%</u>	<u>17.0%</u> ²	18.5%
Net Revenue (net of credits)	\$96,111	\$99,235	\$104,793	\$118,814	\$134,011	\$148,971

14 Assembly Committee on Pensions, Foundation, and PILP

Total Claims and Expenses ³	<u>91,921</u>	<u>101,823</u>	<u>112,020</u>	<u>122,657</u>	<u>132,499</u>	<u>143,969</u>
Net Income and Fund Balances:						
Net Income	4,190	(2,588)	(7,227)	(3,843)	1,512	5,002
Previous Fund Balance	44,604	48,221	48,536	43,604	29,277	32,924
Other Income	(271)	0	0	0	0	0
Change in Post-Retirement and Post-Employment Liabilities ⁴	<u>302</u>	<u>(2,903)</u>	<u>(2,295)</u>	<u>10,483</u>	<u>(2,135)</u>	<u>1,773</u>
New Fund Balance	<u>\$48,221</u>	<u>\$48,536</u>	<u>\$43,604</u>	<u>\$29,277</u>	<u>\$32,924</u>	<u>\$36,152</u>
Ratio of Claims and Expenses to Total Revenue	95.5%	102.6%	106.9%	103.2%	98.9%	96.6%
Average Enrollment	17,067	17,143	17,692	18,810	19,363	19,363

¹ Since 1994, participants have had up to twelve calendar months after the date on which the service occurred to submit a medical claim. Incurred claims costs are revised each year as additional claims are submitted. Therefore, the claims costs reported above are different from those reported in the financial statements prepared on a Generally Accepted Accounting Principles (GAAP) basis.

² Dues are 16.5 percent for January–June 2003, and 17.5 percent for July–December 2003.

³ The Board approved dues credits and benefit improvements for several years, ending in 2001, to gradually adjust the medical contingency reserve down to the target range.

⁴ Changes in accounting standards require the Board to recognize the financial liabilities created by the Benefits Plan's post-retirement and post-employment provisions.

For post-retirement benefits, these liabilities represent the present value of the active Plan subsidy provided to those retired members, their spouses and surviving spouses participating in the Medical Continuation coverage as well as an accrual for active members who will become eligible for the subsidy if they retire prior to Medicare eligibility. The free coverage period now associated with retirement generates an additional liability.

For post-employment benefits, these liabilities represent the present value of the Plan's commitment to maintain medical coverage for disabled members and their families. The liabilities are created to the extent that the income received from the Death and Disability Plan for these members fails to fully cover the claims and administrative costs being incurred by them and their families. Additional liability is created for terminated Plan participants continuing in the Medical Continuation coverage (divorced spouses, ex-dependent children, and members terminating for reasons other than retirement) to the extent of the active dues subsidy and for members who enjoy the protection of the free coverage period.

Milliman USA, the Board of Pensions' Medical Actuarial Counsel, prepared Table X and notes.

Annual claim and administrative expense experience for 1999 through 2003 (estimated) and projected experience for 2004 are displayed in the table above. To be conservative, estimated final experience for 2003, when all outstanding claims have been processed, and projected experience for 2004, are based on unfavorable assumptions.

Table X above analyzes claims experience assuming unfavorable trends. On the unfavorable basis, estimated incurred claim and administrative expenses in Table X total \$132,499,000 for 2003, including managed-care fees. This is 98.9 percent of total income for the medical portion of the Benefits Plan (dues at an average of 17.0 percent of effective salary, subscription income, and investment income). (Using more favorable assumptions, the estimated expenses total \$129,918,000, 96.9 percent of the total income for the medical portion of the Plan.) Outstanding liabilities for the Medical Continuation coverage, the free coverage period and continued coverage for disabled members and their families total an estimated \$39,500,000.

c. Medicare Supplement

The Board of Pensions offers the Medical Plan to retirees not yet eligible for Medicare and a Medicare Supplement to those who are sixty-five years of age and older. While the retiree pays most of the cost, the Medical Plan provides some subsidy for early retirees and Vacancy and Post-retirement Service Dues are used to subsidize the Medicare Supplement. The Medicare Supplement also has benefited from \$6,000,000 transferred from the Board of Pensions' general assistance funds between 1998 and 2001.

Annual claim and administrative expense experience for 1999 through 2003 (estimated) and projected experience for 2004, are displayed in Table XI below. To be conservative, estimated final experience for 2003, when all outstanding claims have been processed, and projected experience for 2004 are based on unfavorable assumptions.

On the unfavorable basis, estimated incurred claim and administrative expenses total \$25,642,000 for 2003. This is 106.4 percent of total income for the Medicare Supplement portion of the Benefits Plan (vacancy dues, post-retirement service dues, subscription income, and investment income). Using more favorable assumptions, the estimated expenses total \$25,261,000, 104.8 percent of total income for the Medicare Supplement portion of the Plan. Plan reserves for the Medicare Supplement then stand at \$6,416,000 (estimated).

TABLE XI
Medicare Supplement Subscribers
and the Financial Results of the Medicare Supplement Program
The Board of Pensions of the Presbyterian Church (U.S.A.)
1999–2003 and Projecting 2004
(Amounts in \$1,000s)

	1999	2000	2001	2002	Est. 2003	Proj. 2004
Total Revenue	\$15,810	\$18,355	\$21,618	\$23,208	\$24,105	\$28,258
Total Claims and Expenses	16,583	8,792	21,555	24,155	25,642	28,590
Net Income and Fund Balances:						
Net Income	(773)	(437)	63	(947)	(1,537)	(332)
General Assistance Fund Transfer	2,000	1,000	1,000	0	0	0
Previous Fund Balance	5,842	6,890	7,455	8,518	7,571	6,034
Other Adjustments	(179)	2	0	0	0	0

New Fund Balance	6,890	7,455	8,518	7,571	6,034	5,702
Ratio of Claims and Expenses to Total Revenue	104.9%	102.4%	99.7%	104.1%	106.4%	101.2%
Average Enrollment	10,448	10,504	10,643	10,558	10,625	10,678

Milliman USA, the Board of Pensions' Medical Actuarial Counsel, prepared Table XI.

7. *Optional Benefits*

a. *Retirement Savings Plan*

The Retirement Savings Plan, a 403(b) defined contribution plan administered by the Board of Pensions, offers members of the Benefits Plan an opportunity to supplement retirement income through a tax-deferred savings plan. Participation in the Retirement Savings Plan is also open to any person employed in eligible service who works at least twenty hours per week, regardless of whether or not the employer is enrolled in the full Benefits Plan program.

As of December 31, 2003, there were 4,687 members making contributions through salary reductions and/or receiving contributions from their employers and 8,200 total participants. The total value of all accounts was \$142 million at the end of calendar year 2003.

Record-keeping services for the Retirement Savings Plan are provided by Fidelity Investments. Participants can access their accounts through the Internet or a telephone system. Investment transfers and valuations are done daily and there is no administrative fee for the Plan. Participants may choose from ten investment options with different risk and return profiles. The fund choices include seven Fidelity mutual funds, Ariel Fund, and two socially responsible investment options based on the guidelines of the Presbyterian Church (U.S.A.) for investments in companies involved in military-related activities, handguns, landmines, gaming, alcohol, and tobacco.

b. *Optional Death Benefits*

The Optional Death Benefits Plan offers members the opportunity to apply for additional death benefits coverage in the amounts of \$25,000, \$50,000, \$75,000, \$100,000, \$150,000, or \$200,000. Benefits are payable to the member's named beneficiary. Members also may purchase coverage in the amount of \$25,000 or \$50,000 for spouses, and \$5,000 or \$10,000 for each child. The member is the beneficiary for these benefits. All coverage, other than for dependent children and up to \$50,000 for a member at first eligibility for this program, is subject to medical underwriting. As of December 31, 2003, there are 6,032 participants, including spouses and children, enrolled in the program.

Based on favorable portfolio and actuarial experience, the Board of Pensions reduced the required subscription rate structure in 1999 and added temporary benefit improvements for 2000 and 2001. A subscription rate holiday also was granted for the first quarter of 2001 for those enrolled on January 1, 2000, and earlier.

In 2002, the subscription rate structure was modified to reflect tobacco use. Tobacco users whose participation began before 2002 and who had not increased their benefit levels in 2002 or 2003 were granted a two-year period during which the former blended rates continued to apply. Starting January 1, 2004, if they continue to use tobacco products, the higher tobacco user rate structure applies.

c. *Optional Supplemental Disability Benefits*

The maximum protected effective salary for disability benefits under the Benefits Plan is limited to \$70,000. A review of Plan member information in 2000 showed that the limit affected approximately 430 members with

salaries of \$80,000 or more who then were not fully protected in the event of disability. Given the likelihood that one's obligations are linked to one's income, becoming disabled could cause additional financial hardship for those without adequate coverage. The new program introduced October 1, 2000, offers the option of purchasing additional protection in amounts of \$10,000 of covered salary up to the maximum Pension Participation Basis (currently \$205,000); the benefit level is still 60 percent. Of the members eligible, 176 had elected to participate as of December 2003. Dues are determined by age and amount of coverage and may be paid by the member or by the employing organization on behalf of the member.

d. *Optional Dental Benefits*

The Dental Plan, a group program, offers comprehensive coverage and is available to all active Plan members except seminarians. For underwriting reasons, retired members are unable to participate in the program. Financed totally by voluntary member or employing organization contributions, the coverage is provided through a fully insured contract underwritten by Aetna. Members are offered a choice between a DMO (dental maintenance organization) and a PPO (preferred provider organization), a PPO only, or out-of-area indemnity coverage, depending on their access to network providers. A passive PPO has been added in 2004 so that members with limited network access are not penalized for use of out-of-network services and indemnity members receive the advantage of discounts if they happen to use a participating provider.

As of December 31, 2003, there were 6,873 members enrolled with participation distributed among the options as follows: DMO, 1,060; PPO, 5,213; and indemnity, 600.

e. *Optional Long-Term Care Insurance*

A new optional benefit was added effective April 1, 1999, in response to many requests from Plan members. Plan members, including retirees and spouses, have the opportunity to purchase long-term care insurance. Continental Casualty Company, a unit of CNA, underwrites this benefit on a level premium basis. Coverage without underwriting is available to members who are in active employment with an employing organization that participates in the Plan administered by the Board of Pensions if they apply when first eligible; all other coverage is subject to medical underwriting. In 2002, participants were given the opportunity to update their fixed dollar coverage levels to recognize the impact of inflation since 1999, without medical underwriting, and 372 people did so.

There were 1,127 participants on December 31, 2003, and there have been eleven approved claims since the program was introduced. Three claimants have died, two no longer qualify for benefits, and one has discontinued the use of covered services. Five claimants are now receiving benefits.

f. *Vision and Hearing Discount Programs*

To provide assistance with the cost of purchasing vision and hearing services, the Board of Pensions offers two programs. Through Vision One, members have access to eye examination services, glasses, and contact lenses at discounts ranging from 25 percent to 50 percent. Through Beltone, members have access to audiology services and hearing aids at discounts of 15 percent.

8. *Assistance Program*

a. *Overview*

The Assistance Program of the Board of Pensions of the Presbyterian Church (U.S.A.) values the commitment and sacrifice of the men and women who are called to serve the church. Through our efforts, we seek to provide a system of programs that act as a safety net to meet the urgent and emergency financial needs of church workers and their families consistent with the Board of Pensions' mission in support of the ministry of the Presbyterian Church (U.S.A.).

The Assistance Program is designed to meet the financial needs of employees and retirees of the Presbyterian Church (U.S.A.) that are beyond the scope of the Benefits Plan. No Benefits Plan dues are used for the Assistance Program. The Assistance Program consists of three parts: the Financial Assistance Programs, the General Assistance Programs, and the Retirement Housing Programs.

b. *The Financial Assistance Programs*

The Financial Assistance programs consist of Income Supplements, Shared Grants, and Emergency Assistance Grants. These programs are supported by the Christmas Joy Offering, gifts, legacies directed to the Board of Pensions, and endowment income. In addition, there are several programs established many years ago to meet special needs of specific groups of the church.

(1) *Income Supplements*

The Board of Pensions provides income supplements to those retirees whose income from all sources is below target levels established by the Board of Pensions. The Board of Pensions reviews the levels for eligibility to try to keep pace with inflation. The target levels for 2003 were \$21,600 for a single person and \$26,100 for a couple.

The Board of Pensions approved a Christmas Gift of \$200 for each individual and spouse receiving an Income Supplement as of November 1, 2003. This gift was sent to 210 individuals and 72 married couples at a cost of \$71,000.

(2) *Shared Grants*

Shared Grants are provided for financial emergencies or special needs of active and retired employees of the church and their families. A church worker need not be a member of the Benefits Plan to participate in the Shared Grants program. These grants are normally shared equally by the Board of Pensions and either the employing organization or the presbytery. Shared Grants must be initiated at the local level (that is, by the congregation, employing organization, or governing body).

In 2003, approximately 174 Shared Grants were given to individuals or families. The Board of Pensions contributed \$390,000 in 2003 compared to \$449,000 in 2002.

(3) *Emergency Assistance Grants*

Emergency Assistance Grants are provided to church workers, active or retired, when financial resources for a Shared Grant are not available from a governing body or employing organization. They may also be available when home care or skilled nursing care is needed and no other financial resources, including Medicaid/MediCal and community resources, are available. Medical or mental healthcare expenses which may be deemed necessary, but beyond the scope of the Benefits Plan, are also the focus of this program. In 2003, Emergency Assistance Grants totaling \$49,000 were given to eleven individuals and families.

(4) *West Virginia Project*

Using the income from the Annie Gebhardt Fund and the Frances Littlepage Irwin Fund, the Board of Pensions initiated a new grant program in 1999 for ministers of the Word and Sacrament who reside in the state of West Virginia, as the donors designated. Administered by the Board of Pensions in cooperation with the Presbyteries of West Virginia, Shenandoah, and Upper Ohio Valley, the grants are matched as part of the Shared Grants program.

(5) *Nursing Home Care Assistance Program*

This program was closed to new entrants beginning in 1998. The Board of Pensions completed a major redesign of its Financial Assistance Programs in 1997 to meet the extraordinary needs of retirees and their spouses who

may need nursing home care, while continuing to have the flexibility to react to emergency needs. Beginning in 1998, applicants who need financial assistance for skilled nursing care must first apply to Medicaid (MediCal in California) before seeking funds from the Board of Pensions. Funds have been set aside to continue coverage for those recipients who were receiving Nursing Home Care Assistance prior to 1998.

Detailed descriptions of the Financial Assistance programs are available from the Board of Pensions.

c. The General Assistance Programs

(1) Special Groups

The Special Groups Assistance grants consist of various financial programs (for example, Coemar Supplements, Missionary Pensions, Emma B. Kennedy Fund) established to meet special needs of specific groups in the church. These were usually created through an arrangement with another church entity. These forms of assistance are closed to new applicants and will cease at the death of the last recipient. Funds for these programs were usually transferred to the Board of Pensions to manage and disburse to the eligible persons. In some of the cases, the funds given to the Board of Pensions have been depleted. Rather than terminate the assistance when the particular funds ran out, the Board of Pensions has assumed the responsibility to continue to carry out the arrangement.

(2) Relief of Conscience Grants

Relief of Conscience Grants are distributed to members of the Benefits Plan who are parents of an infant (defined as being twelve months old or younger) adopted on or after July 1, 1992. One grant of \$500 is given for each eligible adopted child to assist in the payment of medical expenses incurred by the child at the time of adoption that were not reimbursed by the Benefits Plan. The moneys for these grants come from the Relief of Conscience Fund, recipient of the offset of dues that occurs when an employing organization formally declares it does not wish any of its dues to be used to pay for abortions. In 2003, eleven Relief of Conscience grants totaling \$5,500 were made to individuals or families who had adopted infants any time from July 1, 1992, through December 31, 2003.

(3) Seminary Debt Assistance Program

The Seminary Debt Assistance Program is an initiative of the Board of Pensions developed in cooperation with the church's national offices, presbyteries, and Presbyterian seminaries. This program will provide grants of up to \$2,500 a year for up to four years to repay education debt of ministers of the Word and Sacrament who have graduated from a Presbyterian Church (U.S.A.) seminary and who are serving in a full-time first call to a church of fewer than 150 members with a budget of less than \$150,000. The maximum amount given to one individual over four years will not exceed \$10,000. A limited number of grants will be awarded in any one calendar year. The presbytery of call must have a policy on student/clergy indebtedness and the applicant must attend a financial planning seminar offered by the Board of Pensions. The guidelines for this program seek to address the need of smaller churches for pastoral leadership by alleviating a portion of their pastor's burden of educational debt.

This program was initiated in May of 2001. For the year 2003, seventy grants totaling \$172,500 were awarded to ministers of the Word and Sacrament serving in sixty-one different presbyteries.

d. Retirement Housing Program

The Retirement Housing Program was initiated in 1883 to provide housing for eligible ministers. This program consists of the Homes Program, which offers affordable housing in properties owned by the Board of Pensions, and the Housing Supplement Program, which gives financial assistance to help retirees maintain their own homes or move to a retirement community.

(1) Homes Program

The Board of Pensions owns two individual homes and fifty-eight houses or apartments in four clusters. Homes related to various governing bodies of the church also provide services under contract with the Board of Pensions.

Persons who have served in the Presbyterian Church (U.S.A.) for twenty years or more are eligible for this housing. The program is structured so that residents pay according to their ability, contributing for independent living 30 percent of their total annual income, excluding post-retirement earned income, or an appraised fair rental value of the home, whichever is less.

In recent years, the Board of Pensions strategic direction has been to move away from Board of Pensions-owned homes and to provide financial assistance to those individuals who need housing assistance.

The Board of Pensions requested permission from the 200th General Assembly (1988) to change the Homes Program from one based solely on Board-owned homes to one based on housing assistance supplements. The General Assembly approved this strategic direction for the Homes Program and authorized the sale of properties then owned and received thereafter, with the proceeds going to the Housing Supplement Program. The General Assembly withheld approval for the sale of two housing communities operated by the Board of Pensions and instructed it to continue its "ownership and management of the clusters at Morganwood (Swarthmore, Pennsylvania) and El Sombroso Oaks (Los Gatos, California) with no further sale of these clusters without General Assembly Approval" (*Minutes*, 1988, Part I, p. 97.)

(2) Morganwood

The 214th General Assembly (2002) approved, in principle, the sale of Morganwood, a cluster of twenty-nine housing units in Swarthmore, Pennsylvania.

During the year 2003, the Board of Pensions was approached by representatives of Swarthmore College, a Quaker-affiliated institution adjacent to the Morganwood property, regarding their interest in purchasing the Morganwood property.

Discussions with Swarthmore College have proceeded and an Agreement of Sale has been negotiated. The closing of the agreement is scheduled for January 14, 2004. (As of the writing of this report, the closing has occurred.)

Under the Agreement of Sale, the current residents will be entitled to continue living in their units until they vacate the unit or the expiration of twenty years from the Closing Date, whichever is earlier.

The Board of Pensions will provide a subsidy to the current residents of Morganwood to cover the differential between current rental rates and the new rates established by Swarthmore College for the year 2004. This subsidy is projected to be approximately \$200,000 for the year 2004. The Board of Pensions will review this subsidy with the residents during the year to determine future needs.

The proceeds from the sale will be used to support the Assistance Program of the Board of Pensions and the subsidies to current residents.

(3) *Westminster Gardens*

Westminster Gardens, Duarte, California, was established in 1949, by the Board of Foreign Missions of the Presbyterian Church in the U.S.A., to care for retired missionaries. The denomination assigned responsibility for the oversight of the affairs of Westminster Gardens to the Board of Pensions in 1972. Since its founding, this retirement community has been available to retired church workers and their spouses.

In 2001, the Board of Trustees of Westminster Gardens entered into a management agreement with Southern California Presbyterian Homes that is providing certain management services, including the services of the executive director of Westminster Gardens. This relationship proved advantageous to Westminster Gardens in improving management and services, and in reducing costs.

During 2002, the Board of Trustees of Westminster Gardens undertook a strategic study to consider the mission, management relationship and the long-term financial health of Westminster Gardens. As a result of that study, Westminster Gardens, Southern California Presbyterian Homes, and the Board of Pensions negotiated an agreement whereby the Southern California Presbyterian Homes would assume the control and operation of Westminster Gardens.

The 215th General Assembly (2003) approved the Affiliation Agreement between Southern California Presbyterian Homes and Westminster Gardens. The agreement has been signed by all the parties and has been submitted, with all required documentation, to the Department of Social Services in California for approval, which is expected in 2004.

As part of the Affiliation Agreement, the Board of Pensions will guarantee a Line of Credit, obtained by Westminster Gardens, up to a maximum of \$3,500,000 for up to a maximum of five years. The Line of Credit will be used for the initial phase of rehabilitation work on the Westminster Gardens' property and will be secured by a Promissory Note and Deed of Trust in favor of the Board of Pensions.

Also under the terms of the Affiliation Agreement, the Board of Pensions is providing rent subsidies to residents who are related to the Presbyterian Church (U.S.A.) and the Board of Pensions. The total amount of the subsidy for the year 2003 is \$293,000. This subsidy was in addition to the assistance provided to qualifying residents under the Board of Pensions' Income and Housing Supplements programs.

(4) Housing Supplements

Housing Supplements are financial grants to eligible retirees who cannot, for financial or physical reasons, provide appropriate and adequate housing for themselves in retirement. Funds may be requested to help pay for the costs associated with entering a retirement home, maintaining a current home, and/or moving expenses.

Normally, an applicant must have served the Presbyterian Church (U.S.A.) for at least twenty years and have a commensurate number of years' participation in the pension portion of the Benefits Plan. However, partial grants may be provided for persons who have served the church for more than ten, but fewer than twenty, years.

In 2003, the Board of Pensions provided approximately 191 members with \$1,911,000 through the Housing Supplements Program.

e. Assistance and Retirement Housing Funds

The Assistance and Retirement Housing funds are identified as to purpose and invested to meet the program goals of the Assistance and Retirement Housing Programs. Gifts and legacies are managed in strict accordance with the purpose of the donor.

Tables XII, XIII, and XIV show the sources and uses of funds for the Assistance and Retirement Housing Programs, as well as the operating expenses for the Retirement Housing Program, and a comparison of distributions made under the Assistance and Retirement Housing Programs for 2002 and 2003.

TABLE XII
Assistance and Retirement Housing Funds and Distributions
The Board of Pensions of the Presbyterian Church (U.S.A.)
2003

Net Assets beginning of year		\$54,580,000
Sources of Funds:		
Investment Return	\$ 10,470,000	
Christmas Offering	2,768,000	
Gifts, legacies and other income	<u>1,453,000</u>	
Subtotal		<u>14,691,000</u>

Total		\$69,271,000
Uses of Funds:		
Assistance and Retirement Housing benefits	\$4,989,000	
Retirement housing operations	648,000	
Administrative and Other expenses	<u>696,000</u>	
Subtotal		<u>6,333,000</u>
Net assets end of year		<u>\$62,938,000</u>

TABLE XIII
The Board of Pensions' Expenses
for the Retirement Housing Program
The Board of Pensions of the Presbyterian Church (U.S.A.)
2003-2002

	<u>2003</u>	<u>2002</u>	<u>Percent Change</u>
Board Expenses:			
Independent Living	\$556,000	\$595,000	-7%
Westminster Gardens Grant	<u>92,000</u>	<u>200,000</u>	-54%
Total	\$648,000	\$795,000	-18%
Residents' Contributions	<u>427,000</u>	<u>419,000</u>	2%
Net Board Expenses	<u>\$221,000</u>	<u>\$376,000</u>	-41%

TABLE XIV
Total Assistance and Retirement Housing Benefits Paid
The Board of Pensions of the Presbyterian Church (U.S.A.)
2003-2002

	<u>2003</u> <u>Amount</u>	<u>2002</u> <u>Amount</u>
Income Supplements	\$1,830,000	\$1,747,000
Nursing Home Care Assistance	436,000	604,000
Shared/Emergency Grants	439,000	492,000
Housing Supplements	1,911,000	1,449,000
General Assistance	266,000	306,000
Other Benefits	<u>107,000</u>	<u>142,000</u>
Total	<u>\$4,989,000</u>	<u>\$4,740,000</u>

f. *Funds Development Efforts*

In response to the continuing and emerging needs of ministry and the challenges facing those who serve the church, the Board of Pensions is restarting its funds development effort.

Currently, gifts, legacies, and one half of the Christmas Joy Offering fund the assistance programs. These funds are limited and currently support the short- and long-term obligations of our programs. (No Benefits Plan dues are used for the Assistance Program.)

To meet the increasing demands of our current programs and to fund new programs to meet emerging needs, the Board of Pensions will be seeking additional funds in the coming years. These funds will be used in keeping with the long-standing tradition of the Assistance Program: to support ministers, missionaries, and church workers with unexpected and special needs in ministry.

During 2003, the Board of Pensions held four focus groups to assess interest in our programs, established preliminary strategies, and hired a director of Funds Development. The Board of Pensions is expanding these activities mindful of the other national entities of the Presbyterian Church (U.S.A.) that are also engaged in funds development efforts. In cooperation with the other national church entities, we have developed protocols for funds development activities to assist us in our efforts.

9. Investments

The Board of Pensions Balanced Investment Portfolio includes assets of the Benefits Plans and non-plan accounts. The Benefits Plans include the Pension Plan, Death and Disability Plan, Optional Death Benefits Plan and Medical Plan Long-Term Reserve. The non-plan accounts are the Endowment Fund, Benefit Supplement Fund, Retirement Housing Fund, General Assistance Fund, West Virginia Fund, Chaplains Deposit Fund, GAC Special Cuban Fund, and Restricted Gifts Fund. Non-plan assets are commingled for investment purposes with the assets of the Benefit Plans.

The strategic asset allocation of the Board of Pensions Balanced Investment Portfolio provides the asset allocation range for each asset class of the portfolio, as shown in Table XV below. The Investment Committee of the Board of Directors of the Board of Pensions reviews and approves the portfolio asset allocation at each meeting. The long-term strategic allocation is based on projected liabilities, including current and future benefit payments to Plan participants, as calculated by Towers Perrin, the Board of Pensions' actuary.

TABLE XV
The Balanced Investment Portfolio Asset Allocation
The Board of Pensions of the Presbyterian Church (U.S.A.)
December 31, 2003

Asset Class	Market Value (\$ in Millions)	Actual Percent	Asset Allocation Range
U.S. Equity	\$2,906	48.6%	35–55%
International Equity	1,036	17.4	10–25
Fixed Income	1,918	32.1	25–45
Other Investments	<u>114</u>	<u>1.9</u>	0–10
Total	\$5,974	100.0%	

The assets of the Investment Portfolio at Mellon Trust are unitized, so that each participating Plan and non-plan account owns units of the Board of Pensions Balanced Investment Portfolio rather than individual securities. This reduces costs for all plans and programs. The valuation of units is done monthly by Mellon Trust, using an accounting process similar to that used to develop the net asset value of a mutual fund. Each plan, with the exception of the Medical Plan Long-Term Reserve, owns only units of the Board of Pensions Balanced Investment Portfolio. These plans will have the same asset allocation and investment performance as the Board of Pensions Balanced Investment Portfolio. The assets of the Medical Plan Long-Term Reserve, as well as non-plan accounts, own U.S. government securities and Board of Pensions Balanced Investment Portfolio units, resulting in an allocation with lower equity exposure than the Balanced Investment Portfolio itself. Participation in the Board of Pensions Balanced Investment Portfolio is shown in Table XVI.

TABLE XVI
Balanced Investment Portfolio Participation
The Board of Pensions of the Presbyterian Church (U.S.A.)
December 31, 2003

	<u>(\$ in Millions)</u>	<u>Percent</u>
Pension Plan	\$5,432	90.9%
Death and Disability Plan	446	7.5
Medical Plan Long-Term Reserve	25	0.4

Optional Death Benefits Plan	11	0.2
Non-Plan Program Portfolios	<u>60</u>	<u>1.0</u>
Total Investments	<u>\$5,974</u>	<u>100.0%</u>

Total returns shown on Table XVII include interest and dividend income, as well as realized and unrealized gains or losses on the Board of Pensions Balanced Investment Portfolio assets. Portfolio returns are net of all investment and custodial fees.

TABLE XVII
Annualized Portfolio Returns,
Balanced Investment Portfolio
The Board of Pensions of the Presbyterian Church (U.S.A.)
For Periods Ended December 31, 2003

	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)
Board of Pensions Balanced Portfolio Return	27.5	3.2	4.7	9.1
Consumer Price Index (Measure of Inflation)	1.9	1.9	2.4	2.4
Consumer Price Index Plus 5% Annually	6.9	6.9	7.4	7.4

The assets of the Pension Plan and Death and Disability Plan represent 98.4 percent of the assets of the Board of Pensions Balanced Investment Portfolio. The investment objective of the portfolio is to provide a long-term total return that can sustain and increase the promised pension, death, and disability benefits, as calculated by the Plan actuary, Towers Perrin. This objective must be achieved while maintaining a stable dues level and adequate contingency reserves. The investment portfolio must provide a long-term return of 5 percent above the inflation rate, or the Consumer Price Index plus 5 percent annually, to achieve this long-term objective.