Wespath
BENEFITS | INVESTMENTS

1901 Chestnut Avenue
Glenview, Illinois 60025-1604
1-800-851-2201
wespath.org

General Conference

Wespath Contingencies for Potential UMC Restructure or Disruption

Updated March 16, 2022

Wespath has been planning for various potential scenarios that might affect the future structure of the Church, with emphasis on assuring that clergy benefits remain as secure as possible. *Wespath strives to be a bridge-building, non-anxious presence in the midst of change*. We seek to maintain the continuity of benefits for those who serve and investment management services for Methodist-related entities.

The decision by the Commission on General Conference to postpone the 2020 General Conference to 2024 has generated new questions from across the denomination regarding how pension obligations will be handled by Wespath if local churches or annual conferences separate from The United Methodist Church (UMC) before the next General Conference. The following new Q&As provide Wespath's responses to these questions. We will update these FAQs periodically as more information becomes available.

Please note: Wespath's proposal for a new clergy retirement plan (Compass) is on hold until General Conference can consider the legislation.

Q: May an annual conference separate from the UMC under *The Book of Discipline?*

A: This question will be answered by the UMC's Judicial Council. In early March 2022, the Council of Bishops requested a declaratory decision from the Judicial Council on this and related questions. That request has been added to the docket (see the press release **here**).

Q: Can the pension withdrawal liability requirement of ¶1504.23 be avoided if a local church, group of churches or annual conference takes a particular path of separation from the UMC?

A: No. The pension withdrawal liability requirement of ¶1504.23 of *The Book of Discipline* applies *regardless of the separation path* taken by the departing church, churches, or annual conference. Thus, whether a local church or most or even all local churches in an annual conference separate from the UMC under ¶¶2553, 2548.2, 2549, or otherwise, ¶1504.23 applies to that change in relationship to the UMC, and the pension withdrawal liability payment is required.

Q: Are there any paths of separation from the UMC that would permit a local church, group of churches or annual conference to "take its pension obligations with it"—in other words, continue to be a plan sponsor of the Clergy Retirement Security Program (CRSP) after they separate or disaffiliate from the UMC?

A: No. Under current plan terms—which cannot be modified without General Conference approval—a local church that separates from the UMC *may not* be a plan sponsor of the Clergy Retirement Security Program (CRSP) and, therefore, cannot take pension responsibilities with it when separating from the UMC. If the Judicial Council were to rule that an annual conference is permitted to separate from the UMC, Wespath's interpretation of the plan language is that such a separating annual conference similarly could not be a plan sponsor of CRSP. Only ***UMC annual conferences*** (and the General Council on Finance and Administration) may sponsor CRSP. This means that annual conferences (and the local churches within them) that remain in the UMC will remain liable for funding the pension obligations under CRSP.

Q: I've heard that churches that separate from the UMC under ¶2548.2 may take their pension obligations with them and avoid a pension withdrawal liability payment when they disaffiliate. Is this accurate?

A: That is not correct. As noted in the above Q&A, a local church that separates from the UMC may not be a plan sponsor of CRSP. As such, it is not possible for a church that separates to take their pension obligations under CRSP with them or remain directly liable under CRSP for pension funding. The obligation for pension funding remains with the annual conference (i.e., the churches that remain within that annual conference) regardless of the path taken by a separated local church.

The pension withdrawal payment requirement of ¶1504.23 applies to a separation under ¶2548.2 by a local church. While ¶1504.23 mandates a pension withdrawal payment, it does not address the timing of payment under all potential paths of separation. For disaffiliations under ¶2553, the pension withdrawal payment is required to be paid *before disaffiliation is final*. For separation paths *other than ¶2553*, e.g., under ¶2548.2, while the payment is due in full, the annual conference, in its sole discretion, may agree to adjust the timing of the payment.

Q: If the Judicial Council concludes that annual conferences may separate from the UMC, how would Wespath handle pension obligations of separating annual conferences?

A: While Wespath would need to review the specifics of a Judicial Council ruling (when issued), in general, Wespath's view is that all local churches that leave with a separating annual conference would, pursuant to ¶1504.23, owe a pension withdrawal liability payment to the churches of the annual conference that remain with the UMC.

Q: Is Wespath working with the Global Methodist Church (GMC) to provide employee benefit plans to clergy and laypersons of their denomination? Is the GMC able to continue sponsoring CRSP for its clergy?

A: Wespath is in dialogue with the GMC to provide their churches employee benefit plans going forward, including retirement and health and welfare plans, after the GMC is formed. Discussions are still in progress. But any retirement plan will not be the same plan as CRSP, as no disaffiliating group may continue to sponsor that plan. The retirement plans under discussion would be a new defined contribution plan specifically for the GMC. Wespath provides retirement services to some disaffiliated local churches already, by offering sponsorship in the United Methodist Personal Investment Plan (UMPIP).

Q: I heard that there is a UMC "comity agreement" for local churches that transfer to the GMC under ¶2548.2 that would accomplish the same things as the Protocol, such as transferring pension liabilities to a GMC plan and preserving clergy pensions—is that right?

A: No, that is not correct. *There is not a denominational comity agreement.* Annual conferences might create comity agreements that suit their local context, but even then, the terms of the Protocol cannot be accomplished without General Conference. At most, a comity agreement might adjust how pension withdrawal payments are paid (in the sole discretion of annual conferences), but the obligation to pay the withdrawal liability is still owed by the separated church and the obligation to fund CRSP is still owed by the UMC churches that remain in the annual conference. In addition, clergy who terminate their UMC relationship under ¶360 of *The Book of Discipline* will have their pension benefits converted to an account balance and transferred to UMPIP.

There are draft versions of comity agreements that reflect attempts by some parties to come to common understandings, but these are not final agreements. Agreements of this sort will not work in all circumstances. They would need legal review and would need to be configured to local context and circumstances, which can vary significantly from conference to conference. We encourage conferences contemplating agreements of this sort, or other negotiated arrangements, to work with Wespath staff on provisions related to pension matters.

Q: Can Wespath provide benefits to the GMC and its churches or to a local church that disaffiliates to become an independent Methodist church?

A: Yes. Under *The Book of Discipline*, Wespath is permitted to administer benefit plans and manage funds for churches that disaffiliate from the UMC. However, under current terms of CRSP—which cannot be modified without General Conference approval—a local church or group of churches that separates from the UMC *may not* be a plan sponsor of CRSP. This means that any plan Wespath administers for a new Methodist denomination and its churches or a local church that becomes an independent Methodist church will not be the same as CRSP.

Q: Why would Wespath provide services to disaffiliating churches or a new Methodist denomination?

A: Wespath's mission is to care for those who serve. We believe that includes serving multiple expressions of Methodism. Moreover, the UMC has authorized and encouraged Wespath to do just that (see ¶2553 and ¶1504.17). There are economic benefits in the scale of Wespath's assets, which reduce costs for all participants and investors. Further, there are theological groundings in Methodist unity and Christian unity (see, e.g., ¶6) for Wespath's big tent philosophy for serving multiple expressions of Methodism.

FAQS FROM MAY 2021

The following set of questions relate to the Protocol of Reconciliation & Grace Through Separation (Protocol, i.e., the mediated proposal for separation/formation of a traditionalist Methodist expression), as described here:

- **UM News article** (January 3, 2020)
- **Protocol website** (Protocol of Reconciliation & Grace Through Separation)

Please note: The Protocol and Wespath's proposed new ¶2555 (described below) become effective only if approved by the General Conference (postponed to **2024**).

Q1: I read that the UMC may split into two or more denominations. How are pension and retirement benefits secured if a split is approved by the General Conference?

A1: A provision of that Protocol incorporates by reference a GC 2020 petition to manage the clergy pension plans in such a reorganization/division scenario that Wespath drafted and submitted to GC 2020 (Wespath's **petition** to add a new ¶2555 to *The Book of Discipline*). This petition is designed to protect clergy pensions if annual conferences or groups of local churches separate from the UMC to form or join a new Methodist church, without imposing financial hardship on these groups or leaving undue risk to the UMC. The petition would work in harmony with the mediated Protocol.

Q2: How would pensions be managed under the mediated Protocol for separation/restructure?

A2: Wespath's **petition for a new ¶2555** to *The Book of Discipline* would apply in the event that one or more annual conferences or a group of local churches change their affiliation from the UMC to create or become part of a new expression of Methodism, such as a new "traditionalist Methodist church" or other new Methodist expression. A group changing affiliation in this manner would remain or become the plan sponsor of a sequestered portion of the UMC's clergy pension plan [the Clergy Retirement Security Program (CRSP) which includes predecessor pension plans, i.e., the Pre-82 Plan and Ministerial Pension Plan (MPP)] if Wespath determines that the group has sufficient membership and organizational structure and is financially viable. Wespath would manage the spun-off plan for the new Methodist expression.

- Earned pensions of the clergy and retirees whose membership moves to the traditionalist Methodist church or other new expression would be preserved and supported by the new expression. Pension benefits would be secure provided that the traditionalist Methodist church or other new expression or denomination continues to support its spun-off portion of the clergy benefit plan.

Q3: How are pensions secured if the traditionalist Methodist church or other new expression cannot or chooses not to remain a plan sponsor?

A3: It is likely that a traditionalist Methodist church formed under the Protocol will have sufficient scale and organization to be a separate plan sponsor.

However, if a group changing its affiliation does not meet the sufficiency/viability standards, or chooses not to remain a plan sponsor, the local churches making up the group would be required to make a withdrawal payment to cover their share of defined benefit (DB) pension obligations for their associated active and retired clergy. Clergy changing or terminating membership in the UMC would have accrued DB pension benefits converted into an account balance, which would be transferred to their United Methodist Personal Investment Plan (UMPIP) account.

FAQS FROM MAY 2021

Q4: Would defined contribution (DC) accounts (such as UMPIP accounts) be affected by the proposed reorganization of the Church?

A4: No. Defined contribution (i.e., account balance) plans maintained by Wespath (such as UMPIP and some other plans) have individual accountholders. Generally, those accounts are not affected by a separation or reorganization of the UMC like described in the Protocol. The withdrawal payment focuses on liability for *DB benefits only* [i.e., clergy retirement plan benefits payable under the Pre-82 Plan, Ministerial Pension Plan (MPP) and DB portion of Clergy Retirement Security Program (CRSP)].

Q5: Will Wespath's relationship with retirees change if the mediated Protocol is approved?

A5: No. Wespath will continue to support retirees and participants regardless of changes that may be approved in the UMC.

Q6: Would this proposed reorganization of the UMC affect Wespath's ability to serve its institutional investors?

A6: No. Under federal and church law, Wespath can and will continue to serve its institutional investor clients. Wespath, through its subsidiary Wespath Institutional Investments LLC (WII), can serve a broad range of investors that share common bonds and convictions with or are related to the UMC. Under the mediated Protocol, a new expression of Methodism would share Wesleyan/Methodist roots, and likely would share close ecumenical and missional relationships with the UMC. Wespath and WII can continue to offer an array of professional services and support to organizations, clergy and lay employees that are affiliated with the UMC or new expression.

FAQS FROM MAY 2021

The following set of questions further explain Wespath's petition for a new paragraph to The Book of Discipline (¶2555).

- **Petition**
- **Rationale**

Q7: What is the purpose of the proposed new paragraph 2555?

A7: A new paragraph (¶2555) would address how pensions are to be handled if an annual conference or a group (or groups) of local churches change their affiliation with or disaffiliate from The United Methodist Church.

- In some circumstances (likely including the mediated Protocol described above), the disaffiliating group(s) would remain a plan sponsor of a separate portion of CRSP (including Pre-82 and MPP). The group would be responsible for plan assets and pension liabilities for clergy who serve in the separated group (i.e., the new Methodist expression).
- In other situations, the disaffiliating group would cease to have any responsibility for pensions. In this case, the disaffiliating group or local church would be required to make a withdrawal payment to cover the group or church's share of DB pension obligations for clergy serving those annual conference(s) prior to disaffiliation from the UMC. The withdrawal payment would be made to their annual conference(s) or to Wespath, depending on the circumstances.

FAQS FROM MAY 2021

Q8: Under what circumstances would a disaffiliating group remain a sponsor of CRSP, as opposed to making a withdrawal payment?

A8: A disaffiliating group would remain a sponsor of a sequestered portion of CRSP if the group is deemed by Wespath to have sufficient membership and organizational structure and is financially viable to remain a plan sponsor (and chooses to remain a plan sponsor).

If a disaffiliating group does not meet the sufficiency/viability standards, or chooses not to remain a plan sponsor, it would be required to make a withdrawal payment to cover its share of pension obligations. The amount of this withdrawal payment is determined by—and paid to—the annual conference that the group is leaving.

Q9: How will Wespath measure whether a disaffiliating annual conference or group of local churches is viable enough to continue plan sponsorship?

A9: Under the petition that would create a new ¶2555, a disaffiliating group would need to be sufficiently large in membership, financially viable and sufficiently structured organizationally in order to remain a plan sponsor of a sequestered part of CRSP.

- For example, 30 geographically dispersed local churches might not be viable as a plan sponsor, but even a small annual conference likely has sufficient scale and organization to be a separate plan sponsor.

Wespath has developed guidelines and considerations related to this determination. Groups considering disaffiliation should contact Wespath's Church Relations Department at **1-800-851-2201** for more information.

Q10: Under proposed ¶2555, are pension assets and liabilities assigned based on the affiliation decisions of clergy, local churches, or a combination of both?

A10: Pension assets and liabilities would generally be assigned to a disaffiliating group based on decisions of clergy (i.e., whether individual clergy terminate their UMC relationship or remain with the UMC). In practice, this means that pension assets and liabilities would be assigned based on individual participants' earned pensions that the group changing affiliation would retain or become responsible for.

However, there would be exceptions for situations where the normal procedures under ¶2555 create a material risk of a plan sponsor being unable to make future contributions. In such cases, the assignment of plan assets and liabilities would instead be determined by a joint distributing committee with representatives from the disaffiliating group and the impacted annual conference or conferences.

Q11: Under proposed ¶2555, are funding factors or market factors used when assigning pension assets and liabilities to disaffiliating/separating groups?

A11: Generally, pension assets and liabilities would be assigned by measuring such liabilities using *funding factors.* (Funding factors are the same factors used when determining required contributions to the plan.)

However, in situations where the disaffiliating group either declines to continue being a plan sponsor or cannot meet its obligations as a plan sponsor, such liabilities would be measured using *market factors.* (Market factors are similar to what a commercial annuity provider would use.)

Q12: What if a disaffiliating group does not want to continue to sponsor its portion of CRSP?

A12: A disaffiliating group may choose to decline sponsorship of CRSP. Under the petition that would create a new ¶2555, such a disaffiliating group would be responsible for making a withdrawal payment to cover its share of the DB pension obligations. Once the group disaffiliates, it could decide if and how to provide pension/retirement benefits for any future clergy service.

FAQS FROM MAY 2021

Q13: Do accruals of new benefits cease when the disaffiliation becomes effective?

A13: Under the petition language, new service-based accruals would cease at the end of a two-year determination period. This period would begin when a group changing its affiliation votes to leave either its annual conference or the UMC. Until the end of that period, annual conferences would remain responsible for plan contributions, and accruals would continue, as if the disaffiliation were not occurring. The determination period gives clergy and local churches time to choose whether to affiliate with a new Methodist expression or remain with the UMC.

The new Methodist expression may choose to sponsor UMPIP or a similar defined contribution (account balance) plan for its clergy who change affiliation to the new Methodist expression.

Q14: How would a new ¶2555 work in tandem with ¶2553? How is it determined which paragraph applies?

A14: If approved by the General Conference, the new ¶2555 would apply in situations where an annual conference or a group of local churches chooses to change their affiliation with the UMC, and the group is deemed by Wespath to have sufficient membership and organizational structure and be financially viable to remain a plan sponsor of a sequestered portion of CRSP.

- If a group changing its affiliation does not meet the sufficiency/viability standards by the end of the determination period, ¶2555 would not apply. In this case, the individual local churches that make up the group changing affiliation would be subject to the terms of ¶2553 and ¶1504.23, which require a withdrawal payment to their annual conference(s). Thus, *either* ¶2555 *or* ¶2553/¶1504.23 would apply to a change of affiliation—*both would not apply at the same time*.

Q15: If a local church stays with the UMC but its annual conference changes its affiliation, would the local church have to pay a withdrawal payment?

A15: No. Local churches that remain part of the UMC would *not* be required to make a withdrawal payment—even if their annual conference changes its affiliation. Instead, the local church likely would become part of another UMC annual conference. The local church's pension obligations would transfer to its new annual conference.

Similarly, annual conferences or groups of disaffiliating local churches that satisfy the sufficiency/viability standards would *not* be required to make a withdrawal payment; they instead would remain plan sponsors of a sequestered portion of CRSP.

A withdrawal payment generally would only be required if the disaffiliated group does not remain a plan sponsor.

Q16: Would ¶2555 cover a scenario under which a group of churches disaffiliates, but later seeks to join a different group that also disaffiliated?

A16: The proposed new ¶2555 would permit Wespath to work with groups changing their affiliation regarding amendments to and administration of their separate portion of CRSP. This language would also permit Wespath to work with multiple groups that have changed their affiliation and that seek to merge and combine their separate portions of CRSP (combining retirement plan assets and liabilities, while keeping such combined pool sequestered from plan sponsors of the UMC).

FAQS FROM MAY 2021

Q17: What if a church or group of churches disaffiliate, but later seek to rejoin the UMC?

A17: If a disaffiliated group later seeks to rejoin the UMC, such a reunion likely would need to be approved by the General Conference. If such an action were to take place, Wespath would be permitted to combine the disaffiliated group's sequestered plan with the portion of CRSP sponsored by UMC annual conferences, giving such reuniting group the benefit of connectionalism once again.

Q18: How will DB pension benefits be handled in the future for the two or more denominations?

A18: For the legacy pension plans, Wespath will manage the divided separate pension plans for the UMC and new expressions as explained above.

Wespath also **proposed a new retirement plan** to the 2020 General Conference (postponed to 2024), called the *Compass* plan, which is an account balance plan (defined contribution) for UMC clergy benefits.

- If the General Conference approves *Compass*, Wespath will manage that plan for the UMC going forward.
- For a new traditionalist Methodist church: after the transition period described above, Wespath is permitted to manage a defined contribution retirement plan for the new denomination. That plan would be designed in consultation with the new traditionalist Methodist church to reflect the polity and capacity of that church and may replicate the features of *Compass*.
- If there is a new progressive Methodist denomination: after the transition period, Wespath may manage a defined contribution retirement plan if the new denomination chooses to retain Wespath for benefits administration and the denomination meets the plan sponsor viability criteria described in Q9. That plan would be designed in consultation with the new progressive denomination to reflect the polity and capacity of the progressive denomination and may replicate features of *Compass*.

A summary of the proposed *Compass* plan is **here**. Links to Wespath petitions and support materials are on our General Conference webpage: **www.wespath.org/gc2020**.