Orthodox Church in America
Pension Plan Review
Frequently Asked Questions

1. **Why did the OCA undertake a review of the OCA Pension Plan ("the Plan")?** For some time now (but particularly in the wake of problems with other defined benefit plans), there have been questions about the Plan. The footnotes to recent OCA financial statements include discussion of the Plan and remark that it has, in recent years, had a funding ratio below 50%. As a matter of due diligence and in response to concerns, the OCA as Plan sponsor, undertook a review of the Plan in early 2021. The purpose was to determine the vitality of the Plan to ensure that it has the resources needed to provide promised benefits in perpetuity.

2. **How was this review conducted?** Initially, an *ad hoc* committee, chaired by the OCA Treasurer, worked for several months to report on the Plan to His Beatitude Metropolitan Tikhon. Their findings were reported to His Beatitude, then subsequently to the Holy Synod and the Metropolitan Council. Having received the information from this initial report, the Metropolitan Council appointed a subcommittee to further review the Plan. The subcommittee likewise reported to the Metropolitan Council which then engaged a third party actuarial firm, Cheiron, Inc., to refine their understanding, with an eye to potential paths forward.

3. **What were the findings of the review(s)?** The *ad hoc* committee, the pension subcommittee of the Metropolitan Council, and Cheiron all found that the Plan was underfunded and has been, in recent years, on a path of decline. Each emphasized the importance of better, more realistic, and more regular reporting to Plan stakeholders.

4. **Is the Plan in danger?** Under current conditions and in time, yes. The Plan is funded less than 50% and projections show that, when making reasonable actuarial assumptions, it will not return to adequate funding under current plan provisions. There are, however, clear paths forward to restore plan health.

5. **Why make changes to the OCA Statute regarding the Plan?** The Plan is quite underfunded and this will get worse as time goes by. This can be corrected now, but attention and immediate action by Plan members and by the OCA, as Plan sponsor, is required. If action is postponed, the problems will likely worsen and a time will come when it will not be possible to restore the Plan.

6. **What is the purpose of the proposed amendment?** First, the amendment ensures that complete and pertinent information, including information about Plan risks and the future stability of the Plan, is available to the Pension Board, Metropolitan Council, and other Plan constituents. Secondly, the amendment would foster an environment of greater collaboration, enhanced review of Plan performance, and consistent subject matter expertise among decision makers. The Pension Board would be restructured such that Plan participants would elect three of their own number as board members; three additional board members who are not Plan members but who have specific skills and expertise would

be nominated by the Metropolitan, vetted by the Metropolitan Council, and confirmed by the Holy Synod. Those six would name a seventh person to serve as chair.

7. **Doesn't the Metropolitan Council already receive information from the Pension Board about the Plan?** In the past, reports to the Metropolitan Council have included information about investment returns and plan membership, but not specific information about the actuarially determined liability, funding ratio, historical trends, and future projections. The delineation of minimum expected information, to be provided twice a year, will enable the Metropolitan Council and the Plan participants to better understand the state of the Plan.

8. **If the proposed amendment passes, does it permit Pension Plan funds to be taken by the OCA?** No. The OCA and the OCA Pension Plan are separate legal entities and each is subject to an external audit in accordance with auditing standards generally accepted in the United States of America (US-GAAS). Further, Plan assets are held in trust. Any change to the Trust would require that the Pension Board propose an amendment to the Trust, the Metropolitan Council accept that amendment to the Trust, and the Holy Synod confirm the action. The proposed amendment does not change any of those requirements, nor does it remove the fiduciary duty that the Pension Board members have to Plan beneficiaries. Rather, the amendment encourages greater involvement on the part of Plan members and the Plan sponsor.

9. **Why is a change in the Pension Board proposed?** Currently, the Statute calls for six members to be elected at the AAC and another, a bishop, appointed by the Holy Synod. There is no explicit requirement that the members be participants in the Plan nor that they have any particular expertise regarding pension plans. The proposed amendment to the OCA Statute provides that three members are elected by Plan participants who must be participants themselves. It further provides for the nomination by the Metropolitan of three non-participants as members who would be vetted by the Metropolitan Council and confirmed by the Holy Synod. This would enable the election of individuals who have a personal stake in the Plan and the appointment of individuals who have specialized knowledge regarding pension plans. The six members would select a seventh member to act as the chair.

10. **Is the proposed amendment an attempt by the administration to take control of the Pension Plan?** No. The independence of the Plan is clearly delineated. The proposed amendment will, however, foster collaboration between the Pension Board and the Plan Sponsor at a time when such collaboration is greatly needed.

11. **Is the OCA at risk if the Plan cannot provide the promised benefits?** First and foremost, the OCA has a moral obligation to Plan members. Secondly, however, the OCA is likely legally liable for the payment of benefits and the Plan is not covered by the government protection program for retirement plans.

12. **Why are there two different measures (funding statuses) describing the health of the Plan?** The Plan's actuary uses speculative measures to project that the Plan's "funded status" is 76%, but also notes in its reporting that by using another measure the current funding ratio is under 50%. This second measure is the one generally accepted by actuaries and used in external financial reporting (i.e., in audited financial statements). The former measure projects future funding based upon assumptions, primarily that the Plan assets will grow at a rate of 7% and the administrative expenses are 1.5% of covered payroll. However, the Plan has averaged a 4.75% return over a ten-year period and the administrative expenses have consistently exceeded 2% of covered payroll. Therefore, the assumptions aren't currently supportable. Also, since the prospective "funded status" looks to future funding, it should always be close to 100%. The OCA, as Plan sponsor, must consider the lower measure as the truer indicator of current Plan health.

13. **Isn't the Plan adequately funded on an annual cash-flow basis at this time?** No. The current contributions do not equal the amounts paid to the retired individuals. This means that, unless Plan assets earn over 6% in a given year, the Plan must use already invested assets to cover payouts and Plan expenses.

14. **What caused the current underfunded situation?** The Plan, as originally designed, did not base benefits upon the length of service in the Plan. This meant that some retirees received benefits far in excess of the contributions made by them and on their behalf. This was corrected in 2010 with a change to the structure of the Plan, but it still created a 'drag' on the Plan that we currently live with. Investment performance has also lagged benchmarks and the actuarially assumed rate of return. In particular, the Plan participated in an investment strategy after the 2008 financial crisis which curtailed the Plan's ability to participate in the market recovery from the crisis and cost the Plan over $3,200,000. The failure of the actuary to recognize the problems and provide full and accurate reports to the Pension Board and the Metropolitan Council likely contributed to this problem.

15. **Did the failure to honor mandatory participation contribute to the current underfunded situation?** Partially. Mandatory participation after 2010 helps the Plan greatly, because the member's benefit is now tied to years of service. Prior to 2010, however, each individual's effect on the Plan's funding status (positive or negative) depended largely on his years of service, so one would have to ask this question on a case-by-case basis for each eligible but non-participating clergyman. The failure to have full participation of those eligible *now* (after 2010) does negatively impact the funding of the Plan, but the impact is not as significant as the factors discussed above.

16. **Can the Pension Plan be restored?** Yes. There are several possible paths forward, based upon more realistic assumptions, which will lead to improvements in Plan funding and to the Plan's ability to provide financial security to retirees over the long term.

17. **Should the Plan be closed or converted to something else?** None of the parties reviewing the Plan--the original *ad hoc* committee, the pension subcommittee of the Metropolitan Council, nor Cheiron--proposed this. Current Plan participants are all entitled to receive

benefits, in the form of an annuity in retirement, which have been promised to them. The OCA is liable for the payment of the benefits and the continuation of the Plan is a moral responsibility. There is always the possibility of creating a new class of participants for new Plan entrants in the future with adequate funding of the obligations to existing members (similar to the 2010 restructuring), but this is a matter that is beyond the scope of review to this point. Such proposals would be under the purview of the Pension Board, subject to Metropolitan Council approval.

Compiled and Submitted by:

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