



FREE METHODIST CHURCH USA

Larry Roberts, Chief Operating Officer

April 24, 2017

Sunny and 70°

TO: Free Methodist Pension Plan Participants

FM: Larry Roberts

RE: Changes to our pension plan

Brothers and Sister in Christ:

You are among the very few people who still earn benefits in a Defined Benefit pension plan. *CNN Money News* recently reported that, “the percentage of workers in the private sector whose only retirement account is a defined benefit pension plan is now 4%, down from 60% in the early 1980’s.” We believe it’s a significant benefit of being a part of the Free Methodist Church, and we thank God for this blessing.

Unfortunately, there’s a reason why most companies no longer offer Defined Benefit pension plans. They’re expensive, and the market downturns of 2000 and 2008 have taken a toll on all such plans. We hear regularly about another company or even a city that declares bankruptcy because it can no longer afford to pay its retired employees’ pension. Thankfully, the Free Methodist Church plan remains in a relatively strong financial position, and we’re committed to seeing that the plan stays that way.

The board acted in 2014 to change some of the ways benefits would be calculated going forward, effective 1/1/2015. Employees who were 60 years old and older as of 1/1/2015, as well as employees who were 50-59 years old with at least 15-years of vesting service in our plan, were “grandfathered”. The way benefits were calculated for this “older” group did not change when benefit formulas for all younger employees were changed on 1/1/2015.

Since that time, it has become obvious that further changes need to be made and I’m writing today with news of two changes.

1st as of 1/1/2018, those who were previously grandfathered will no longer be grandfathered, and – beginning in 2018 – their future benefits will be calculated the same way as everyone else. This impacts 330 people. If you were not among the grandfathered group as of 1/1/2015, this change does not affect you in any way. For the grandfathered group, the following will take effect on 1/1/2018:

- Your accrued benefit for service through 12/31/2017 will be calculated using the current formula. That formula is: $1.85\% \times \text{Years of Service} \times \text{Average of your Five Highest Consecutive Years' Pay as of 12/31/2017}$.

- For years worked AFTER 1/1/2018, you will earn an additional benefit equal to **1.5%** of your annual earnings. This amount will be added to the accrued benefit that you earned through 12/31/2017.
- The actions taken on 1/1/2015 changed the Normal Retirement Age (“NRA”) from 65 to 67 for those who were not grandfathered. The change being announced today will also move the grandfathered group to an NRA of 67. However, so you have time to plan, this change will not take place until 1/1/2021. You will continue to get full-retirement benefits when you turn 65 if you do so and retire no later than 12/31/2020. **If you take retirement after 12/31/20 you will need to work until 67 to receive your full retirement benefit.** (You can still take early retirement as early as age 62 and receive a lower percentage of your benefits, but they will be based on the 67 NRA, not the 65 NRA.)

Again, you are not affected by this change unless you were 60 or older, or you were 50-59 with at least 15-years credited service in the plan as of 1/1/2015. If you are among the 330 people affected by this change, please [CLICK HERE](#) for more information.

2nd as of 1/1/2018, the required contribution from all churches will increase from 10.5% to **13.5%**. We realize this is a big bump. But it’s necessary to assure that the plan remains healthy. Our primary commitment is to our pastors, missionaries, and church employees who have worked faithfully for many years, expecting to receive a pension when they retire. Our commitment to you is that we will review lowering this percentage every year, and when the plan is sufficiently funded, based on actuarial computations, we will lower the contribution rate. Several denominations change this percentage rate nearly every year, reflecting the many dynamics that impact a plan’s long-term health. We have been blessed to have not needed to change it for many, many years. Our prayer is that this increase will be short-lived, and we will be able to lower the percentage within a few years.

In summary, beginning January 1 of 2018, all churches will need to contribute 13.5% of their covered employees’ salaries to the pension plan. And beginning on that same date, those who have been grandfathered in the plan since the change of 1/1/2015 will have their future benefits computed on the same formula as everyone else. However, the change of NRA from 65 to 67 for those who’ve been grandfathered will not take place until 1/1/2021.

If you have questions on this, please [CLICK HERE](#) for an expanded explanation. Or, of course, you can always contact Willadean Duncan, our HR Director, at Willadean.duncan@fmcusa.org or by calling 800-342-5531.

Thank you for all you’re doing for the Lord! We know He said, “a laborer is worthy his hire”. So we’re confident that He will provide the funds to your churches to meet this need.

May the Lord bless you and your ministry!