CHURCH PENSION FUND
Passionate About Our Purpose

Cost-of-Living Adjustment Frequently Asked Questions

December 2020

General

1. *How does The Church Pension Fund Board of Trustees (the CPF Board) determine whether a cost-of-living adjustment (COLA) is granted?*

The CPF Board may grant a COLA under select Plans* when inflation justifies it and the financial condition of the relevant Plan allows for it. The CPF Board relies on outside experts and resources to determine whether economic conditions with regard to inflation support an increase in benefits. For guidance on inflation, it has been our practice to look to the *U.S. Bureau of Labor Statistics' Consumer Price Index*, which also is the basis for the *U.S. Social Security Administration's* annual COLA determination. The CPF Board realizes that the Consumer Price Index may not be a perfect proxy for retiree living expenses in every case, but it is the most well-recognized and objective measure available, so the CPF Board continues to see value in referring to it when making its COLA decisions.

To evaluate the financial strength of its Plans, CPF stress tests them using sophisticated financial models to determine whether each Plan can support the granting of a COLA without compromising its financial strength over the long term.

In its final decision-making, the CPF Board weighs carefully the results of these analyses because when a COLA is granted it results in increased payments to all retirees and beneficiaries in perpetuity, thus creating a permanent liability (or strain) on the applicable Plan. These tests are designed to protect the long-term viability of the Plans and to ensure the continuity of pension payments received by participants and beneficiaries.

* *The Church Pension Fund Clergy Pension Plan, The Episcopal Church Lay Employees' Retirement Plan, and International Clergy Pension Plan.*

2. *Why do you base the amount of a COLA on the U.S. Bureau of Labor Statistics' Consumer Price Index?*

The CPF Board relies on outside experts and resources to determine whether economic conditions with regard to inflation support an increase in benefits. For guidance on inflation, it has been our practice to look to the *U.S. Bureau of Labor Statistics' Consumer Price Index* because it is the most well-recognized and objective measure available. It is also the basis for the *U.S. Social Security Administration's* annual COLA determination. The CPF Board realizes that the Consumer Price Index may not be a perfect proxy for retiree living expenses in every case, but the CPF Board continues to see value in referring to it when making its COLA decisions.

3. *How does CPF ensure that a Plan* has the ability to grant a COLA?*

When a COLA is granted, it results in increased payments to retired participants and beneficiaries in perpetuity, thus creating a permanent liability (or strain) on a Plan.

The CPF Board may grant a COLA in select Plans when inflation justifies it and the financial condition of the relevant Plan allows for it. To evaluate the financial strength of its Plans, CPF stress tests them using sophisticated financial models to determine whether each Plan can support the granting of a COLA without compromising its financial strength over the long term. In its final decision-making, the CPF Board weighs carefully the results of these analyses. These tests are designed to protect the long-term viability of the Plans and to ensure the continuity of pension payments received by participants and beneficiaries.

** The Church Pension Fund Clergy Pension Plan, The Episcopal Church Lay Employees' Retirement Plan, and International Clergy Pension Plan.*

The Episcopal Church Lay Employees' Retirement Plan (Lay DB Plan)

4. *What prevents the Lay DB Plan from paying a COLA?*

CPF uses a sophisticated set of financial models and actuarial tools to determine the level of assets in the Lay DB Plan—including the amount of assessments paid—necessary to satisfy its current and future benefit obligations. This testing includes traditional actuarial cost methods that involve a variety of assumptions, such as the number of individuals in the plan and these individuals' retirement ages, compensation levels, and life expectancies.

Compared to The Church Pension Fund Clergy Pension Plan (Clergy Pension Plan), which has approximately 6,200 participants and was created in 1917, the Lay DB Plan is relatively small. It was created in 1980, meaning that it has had much less time to accumulate investment income and to reinvest that income, and has approximately 1,100 participants (about 13% of the total eligible active lay employee population).

In addition, it was not until 2006 when the Lay DB Plan had access to the full range of asset classes available to the Clergy Pension Plan. While this action has had a positive impact on the growth of the assets in the Lay DB Plan, our stress tests have shown that the granting of a COLA at this time would compromise its financial strength over the long term.

For additional details on the Lay DB Plan's financial status, see the *CPG Annual Report*.

5. *When was the last time the Lay DB Plan paid a COLA?*

The CPF Board last approved a COLA to retirees and beneficiaries in the Lay DB Plan in 2009. To evaluate the financial strength of the Lay DB Plan, which is a newer, smaller plan than the century-old Clergy Pension Plan, CPF stress tests it using sophisticated financial models to determine whether it can support the granting of a COLA. Unfortunately, our analysis indicates that the granting of a COLA at this time would compromise the Lay DB Plan's financial strength over the long term.

We understand that this is disappointing to participants and beneficiaries in our Lay DB Plan, but we believe that it is the best decision we can make to protect the long-term viability of the Lay DB Plan and the continuation of pension payments that participants and beneficiaries receive.

For additional details on the Lay DB Plan's financial status, see the *CPG Annual Report*.

6. *Do Church Pension Group (CPG) employees receive cost-of-living increases?*

   CPG employees do not receive cost-of-living increases. Retired employees of CPG have not received a COLA to their pensions since 2009.

International Clergy Pension Plan (ICPP)

7. *Can you explain the benefit adjustment analysis that was performed for the ICPP?*

   Over the last triennium, the CPF Board has worked to find solutions to address the impact of local inflation and exchange rates on the purchasing power of retirement benefits, banking fees incurred by individuals when accessing their ICPP benefits, disability coverage, healthcare support, and other initiatives. We are pleased to announcea number of benefit enhancements approved by the CPF Board effective January 1, 2021, including a periodic benefit adjustment analysis to account for purchasing power loss.

   The recent benefit adjustment analysis examined the purchasing power of ICPP retirees and beneficiaries between October 1, 2017, and September 30, 2020, by country. If retired clergy or beneficiaries residing in a particular country were found to have suffered a loss in purchasing power, they will receive an annual purchasing power adjustment effective January 1, 2021. Any cleric who retired prior to January 1, 2021 (or his or her beneficiary) will receive the adjustment if the retiree or beneficiary resides in the applicable country.

8. *How often is the ICPP benefit adjustment analysis to account for purchasing power loss conducted?*

   The ICPP analysis to determine whether there has been a loss in purchasing power will be performed every three years, and any purchasing power adjustment will be capped at 5%. For further details, please visit *cpg.org/icpp*.

9. *In what countries did individuals receive a purchasing power adjustment?*

   The CPF Board granted a purchasing power adjustment for 2021 to retirees and beneficiaries living in the following countries.

Country	**COLA**	**Purchasing Power Adjustment**	**Total Benefit Increase for 2021**
Cuba	1.3%	5.0%	6.3%
Honduras	1.3%	1.1%	2.4%
Philippines	1.3%	5.0%	6.3%
Taiwan	1.3%	0.5%	1.8%
Venezuela	1.3%	5.0%	6.3%

10. *Will CPF perform a periodic benefit adjustment analysis in the U.S.?*

    We will not perform a periodic benefit adjustment analysis to account for purchasing power loss in the U.S. because the CPF Board already takes into account U.S. inflation when determining the annual COLA.

It has been the practice of the CPF Board to look to the U.S. Bureau of Labor Statistics' Consumer Price Index as a benchmark to guide its thinking on inflation. Many other organizations, such as the U.S. Social Security Administration, look to the Consumer Price Index when making decisions about COLAs.