



Big Picture Finance Report August 30, 2020

Introduction

It has been a challenging year for the Susquehanna Annual Conference, as you all know. Our churches have had to wrestle with the complications brought on by the COVID pandemic, the urgency of some social issues, and ongoing uncertainty about the future of the United Methodist Church. At the same time, growing costs of doing ministry and decreasing sources of funding for that ministry require of us difficult choices. As we get ready for annual conference session on October 3, we want you to know some important information to help you make thoughtful decisions about how we use our finances to support our many ministries.

We all know the importance of Shares of Ministry. They help us to be able to share God's love through what we say and do much more effectively because we combine our resources. We thank you for being faithful stewards of your resources. Your commitment has made Susquehanna United Methodists among the most faithful givers across the United Methodist connection this year. You can take pride in that! Your Shares of Ministry are making some great things possible. For example:

- The "GROW! Living as Spiritual Transforming Leaders" curriculum, which guides laypeople as they grow in their spiritual lives and ministries
- Missions grants
- Continued development in camp and retreat ministry centers
- Guidance and assistance to churches that are just starting or are reviving
- Advocacy for the poor, the overlooked, and the oppressed
- Disaster Response ministry that has helped us minister in the time of COVID
- Oversight and services to help churches provide health insurance and pensions for our clergy, and to maintain reliable accounting of our gifts and expenditures for ministry

And much more that help our churches grow strong and share God's love. We are better together!

We cannot thank you enough for your being so dedicated with your resources. And we know that there are many demands on your financial resources right now. Shares of Ministry,

insurance premiums, pastoral and staff compensation, and your church’s ministries all require funding.

This report will examine these commitments and the various sources of funding—both Shares of Ministry and others. It will describe how these affect the decisions of the Commission on Equitable Compensation, the Board of Trustees, the Board of Pensions, and the Council on Finance and Administration.

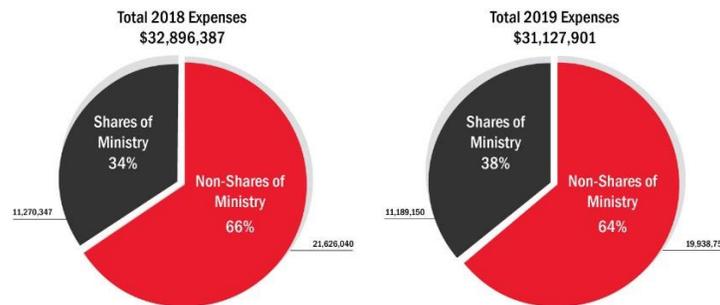
At the end of 2019, these boards and commissions engaged in some frank conversations. All agreed to take an honest look at how we are funding ministry and the costs of ministry in the local church and the annual conference. Ultimately, they wanted to see how we can be the best stewards of the resources God has entrusted to us for forming disciples of Jesus Christ for the transformation of the world.

Each year these groups report on their work during annual conference session. This report provides a broader picture of how the work of these groups interrelate. We hope this will help conference session members make informed decisions about the recommended conference budget.

At every annual conference session, you consider a recommended budget. Presently, this comes to nearly \$11.7 million. This budget is funded by your faithful remittance of Shares of Ministry. We use it to come alongside churches and their community ministries as well as ministry we provide in our conference, our nation, and the world. We are indeed better together.

However, there are some significant costs to ministry that have been covered not by the Shares of Ministry budget but by direct billing to the churches and conference reserves. These items include health insurance and property and casualty insurance premiums and pension contributions.

Therefore, while shares of ministry are important, they are just one source of the funding that keeps our annual conference running.



Costs of certain services and benefits have been rising. These are putting an increasing demand on conference funds, particularly those from Shares of Ministry remittances. However, many of our churches are not able to remit Shares of Ministry at a greater amount that they currently

do. Likewise, they cannot handle significantly higher costs of insurance and pension contributions. Thus, it is not likely that we can accommodate rising costs by increasing Shares of Ministry amounts. And resources from reserves, gifts, and bequests are being spent down. Because we must balance needs with financial resources, the conference must make urgent and difficult decisions right now.

Commission on Equitable Compensation

Rev. John Overman, chair

The charge of the Equitable Compensation Commission is to not only make sure that all clergy are compensated with a fair and proper salary, but that such objectives are affordable for local churches, particularly small membership churches and charges.

For many years (as far back as we can remember), the annual conference set minimum salaries at or slightly above the inflation rate. Typically, the norm has been between 2 and 3 percent annually. At the same time, surging health care costs have partially consumed clergy compensation, as we have been contributing a portion of our salaries to cover that benefit.

The clergy salaries in our conference are very much in the middle of the denominational average. Roughly half of all clergy in the U.S. average more income than we do, and half average less. Even in Pennsylvania, Susquehanna Conference not only sits between the Eastern and Western Conferences geographically, but in this category as well. Our clergy, on average, earn less than clergy in the Eastern Pennsylvania Conference, but more than those in Western Pennsylvania.

To assist and share in the challenges on the road ahead, the Equitable Compensation Commission will, for the first time in recent memory, propose no minimum increase for 2021. Please note that these are and have always been *minimums*. We strongly encourage local churches to generously compensate the clergy, especially when their work, dedication, sacrifice, and effectiveness are merited.

Last year (2019), of our roughly 540 charges, around 16 percent paid at or within 1 percent of minimum salary. This includes clergy who have served over 12 or 15 years.

Over the past five years (due to ever-increasing clergy costs), the annual conference has lost 46 full-time appointments—about one-third of those in 2020 alone.

The work of the Commission on Equitable Compensation also funds grants and sustentation for local churches that need pulpit supply or salary assistance for a short time, usually five years or less. In nearly every single case, grants have been used to bring a local parish to the minimum salary that was required, with the aim of helping them reposition and strengthen their ministry for the future. Your Shares of Ministry is the largest source of these annual supplements.

We understand that this news is difficult to hear. And that many of you and your congregations will be affected. But making these changes now will better position the conference for success in the future. Building a sounder future for the conference will not only make the Susquehanna Conference stronger but it will make us better together.

Property and Casualty Insurance (Board of Trustees)

Rev Lew Parks

Purpose. The Susquehanna Conference has roughly 140,000 clergy and church members engaged in worship, formation, acts of ministry and mission in or about the vicinity of roughly 2.5 billion dollars' worth of buildings and land. The purpose of the conference's property and casualty insurance program is "to assist and enable each local congregation and the Conference in protecting and safeguarding their tools for ministry: persons, property, assets." We do this by providing cost-effective and comprehensive insurance through a group plan.

History. In the late 1970s Bishop John Warman of the former Central Pennsylvania Conference created a task force to explore the possibility of creating a self-insurance program. The task force was created in response to three findings: disparities in coverage among the churches, churches underinsured or uninsured in some areas, and complaints about the disproportionate impact of insurance premiums on the local church budget. The task force completed its work and on June 10, 1981, the annual conference voted to enter the new Property and Casualty Insurance Program effective at noon, November 17, 1981.

Changes. As the program approaches its 40th year of existence, it continues to deliver on its promise to "protect and safeguard tools for ministry". Most dramatically it, that is, we the annual conference constituent members, have replaced catastrophic losses such as our most recent three: Otterbein, Duncannon, Hebron, Millersburg, and Bethany in Milton. More routinely we have addressed hundreds of property and liability claims through the years with a high level of satisfaction. In response to historical events, we added new forms of coverage for such areas as sexual abuse or molestation, automobiles, and cyber liability. Internally, we have worked toward fairness among the churches in premium allocation ("parity"), extended coverage to additional congregations at the formation of the Susquehanna Conference, and sought current appraisals for all properties.

How it works. The property and casualty committee, through its broker bids the program, determines an insurance carrier, and settles on an annual master policy premium. The pro-rated premium is distributed among the churches toward the end of the calendar year. Churches are expected to pay their premiums in advance. The majority of our churches are current in their premiums -even in this half year of COVID. Most of the rest will catch up by the end of the calendar year. All participants—whether paying premiums a year in advance, which 68 of our churches do, or being several months in arrears—remain fully covered. This program is an expression of our connection. That same connection is the vehicle for best practices in risk management including education, inspections, and peer accountability.

Future. The nearly forty-year history of the conference's property and casualty self-insurance program has included more years of moderate loss than years of severe loss, more years of no or moderate premium increase than steep increase. Once, in 2018, we were able to give ourselves a dividend. As we go forward, the property and casualty insurance committee will seek to address the financial challenges now facing local churches by maintaining a vigorous

program of risk management, by placing the program out to competitive bid regularly, and by participating in discussions on appropriate coverage. Our confidence is this: that our congregations and their leaders will remain careful stewards of their properties, programs, and personnel “in season and out of season”; that the benefits of connection are apparent; and that the success of this homegrown program speaks for itself.

Board of Pensions

Rev. Michelle Bodle

Review the pie chart in the introduction of this report, and you will see that the Board of Pensions and Health has pieces in each section. I want to start by talking about the overall pie from the perspective of pensions and health benefits, and where there are shortfalls, including in the areas of defined-benefit pensions, active health insurance, and from line items from Shares of Ministry.

Some have asked why the Board of Pensions has not offered a premiums “holiday” during the COVID-19 pandemic. In fact, the board has been providing a “holiday” of many years by covering these shortfalls.

Board of Pension contributions to the health insurance and retirement shortfalls were \$673,000 in 2019 and \$741,000 in 2018.

Shares of Ministry

Even when shares flatline, we still must factor in the shrinking number of churches in the conference. Therefore, pensions and health benefits costs are being borne by fewer churches, many with fewer members than before. This creates a growing burden on all the churches.

Some areas must be covered, such as the Clergy Protection Program (CPP), which covers items such as long term disability for active clergy and death benefits for both our retirees and active clergy and their spouses.

Others may take place every other year, but still must happen at a cost, such as valuation reports.

Still other items, such as seminary health insurance, are budgeted for fewer people than we anticipate will apply, and the board simply covers the difference in cost instead of turning people away.

The Board has been working very hard to cut costs wherever possible, such as moving our billing system in house instead of outsourcing to Pittsburg, but it remains that retiree healthcare is one of the largest single item costs in the shares of ministry budget

Retiree Healthcare

The board looked at models for how other annual conferences addressed this cost. Some have set timeframes when the benefits will no longer cover new retirees. Others have decreasing rates. Other annual conferences have trusts to cover some particular areas under the board’s care, which Susquehanna does not have. It was the desire of the board to set up such a trust,

but with the resources available and in the absence of a bequest that other conferences have at their disposal, we would actually need to increase shares of ministry at an exponential amount in order to do so, which is not feasible.

Therefore, looking at the current options at hand, the Board is making the very difficult decision to decrease each retiree's healthcare stipend by 20 percent in 2021. We realize that this could result in hardships for some individuals, but it is the most judicious approach that allows for the benefit to still be significant for our current retirees and evenly distributed based off of years of service, as within our current scale.

The board also met on August 25, 2020, and made difficult decisions regarding new retirees. We wanted to be fully transparent about this decision in our communication, including both the decision and rationale to you before it is presented as part of our report to 2021 annual conference session. The decision is as follows: For the 2021 retiring class, only those retirees who are 65 years of age or Medicare-eligible before July 1, 2021, will be eligible to receive the Conference Retiree Health Benefit. The retiree's spouse will then receive the Conference Retiree Health Benefit as he or she becomes eligible. Those retiring after July 1, 2021, and their spouses, will no longer receive a conference retiree health benefit.

This decision was not reached lightly and has been discussed, researched, and prayed over for well over a year. Our hope was to be able to delay the date when such action would be necessary. However, we equally want to preserve and prolong the benefit for our current retirees as long as possible. We also recognize that the cost of retiree health care is placing an ever-growing burden on our local churches through Shares of Ministry amounts that our churches cannot withstand. These issues, coupled with the amount being pulled from our reserves annually to cover expenses, make our current practice unsustainable.

The board's deep desire is to be faithful to our retirees and our local churches. Know that these were difficult decisions. One board member, summing up what we were all feeling, said he supported the decision "with a heavy heart." We do not take these or any decisions lightly. They reflect over a year and a half of research before coming to you. We also realize that Shares of Ministry receipts cannot be maintained at our current rate.

Council on Finance and Administration

Rev. Tim Baer

As your Council on Finance and Administration (CFA), we are grateful

- to have held the Shares of Ministry budget level for the past several years
- to have the fresh eyes and wisdom of Mark Knecht, our conference treasurer
- for our churches' faithfulness in supporting Shares of Ministry, even during these trying times

Over the past few years, in conversation with conference boards and agencies

- we have requested records of any reserve funds they administer as part of the budget process
- we have requested them to prudently reduce costs, and they have listened

Nevertheless, we also recognize that pressures relieved in one area (the Shares of Ministry budget) have been pushed to others:

- Health insurance was moved out of the Shares of Ministry budget some years ago only to be placed more directly on the local church and the pastors, and those costs – to both churches and pastors – only continued to rise. Keeping the Shares of Ministry budget level meant there was no relief from the financial pressures.
- Property and Casualty insurance continues to increase, an average of 18% in 2020. Keeping the Shares of Ministry budget level meant the financial pressures only increase.
- We have fewer and smaller churches to bear the burden of our total costs. In the last ten years, we lost 15 percent of our membership and 24 percent of our attendance. Keeping the Shares of Ministry budget level means that fewer people in fewer churches are bearing an increased portion of the costs.
- We have cut budget requests and asked conference agencies to look to their reserves to fill in the gap, and they have, but the gap is still widening. Reserves are being depleted rapidly and the pace of spending is not sustainable. For example, in 2019, our Board of Pensions supplemented their Shares of Ministry budget by spending \$673,000 from reserves, whereas their investment income for the year totaled just under \$0.5 million – and that in an excellent year for investing. In 2018, the Board of Pensions’ contribution to cover the shortfall was \$741,000. This year investment accounts are flat after a terrible start to the year. Where we were previously concerned about spending those reserves too quickly, this year a chunk of that money may not be available depending on the “market” over the coming months. Significant changes – difficult and painful – are necessary.

While there are significant pressure points in our finances, we have both the reserves and collective wisdom to make the necessary changes to preserve our capacity to pursue Jesus’ mission in our communities and world.

There is some remarkable good news and effectiveness displayed in our ministry together. For example, we fund conference camping at \$115,000. In a typical year that is not nearly the actual costs to run and manage 4 large properties and all the programming that occurs there. The real cost is \$1.1 million—ten times what we contribute. And this program had been operating in the black, not by unsustainably spending down reserves. Think of all the children, young people, and adults that we invite to follow Jesus each year through our conference camps. And imagine how our investment is multiplied 10 times to expand impact!

We are grateful, and every United Methodist in the conference should feel good about participating in doing much more together than we would ever be able to do individually. At the

same time, we need to be realistic and prudent in a time of declining resources. We need to make wise decisions and strategically focus on what is most important in doing Jesus work.

Conclusion

Please keep in mind what you have heard today as you look over the conference materials. You can find a recording of the live session of the presentation, along with a document of frequently asked questions, at susumc.org.

Mark Knecht, conference treasurer and benefits officer, contributed to this report.

Remarks from Bishop Jeremiah Park

Grace to you in the name of Jesus Christ, Prince of Peace, Healer of our Brokenness, and Hope of the World!

Thank you to those who viewed our webinar and those reading this report on the “big picture” the Susquehanna Annual Conference’s finances.

As either a lay or clergy member of Annual Conference, one of your responsibilities is to vote on a budget that makes the best use of our shared resources for mission and ministry. Your presence demonstrates your faithfulness and commitment. I am grateful for that.

I also want to thank you for your faithfulness in paying your ministry shares. I am pleased and so thankful! Your generosity in the midst of these trying times speaks to your devotion to Jesus Christ and our shared commitment to make disciples of Jesus Christ for the transformation of the world.

As we look over the past several months, I think we can all agree that few could have predicted how deeply COVID-19 would affect all of us. At the same time, other factors are affecting how we as an annual conference can do ministry.

Among the considerations affecting budgeting decisions is the rising cost of health insurance premiums. Our Board of Pensions has been covering shortfalls in payments for these benefits, but the amount of reserves available to continue that practice are shrinking. Property and casualty insurance rates increased significantly this year. Investment income has not made up for shortfalls in the receipts that we need to continue these important services.

Our conference Council on Finance and Administration has had very difficult decisions to make. They have worked diligently and faithfully in working through the conference plan for funding ministry to be as fair and equitable as possible, as well as sustainable. You will see that many, many readjustments in the budget had to be made.

You will hear more detail about these and other challenges this afternoon. I encourage you to listen carefully and raise any questions you may have. Please listen to all the information being presented so that you have the most current picture based on accurate information.

We have important decisions to make, and with prayer and information, we can make faithful choices.

And remember that we do not make difficult decisions alone nor do we make them in isolation. The decisions that we make affect not only individuals but local churches and their finances and, most importantly the body of Christ and our mission and ministry together. Each person and each church can make a difference. Yet we can do so much more when we join our resources and our hopes for our future ministries. We are better together! Let's take on this task with confidence in God's abundance!

Let me end with the words of God's promise in Jeremiah 29:11-13: "For surely I know the plans I have for you, says the LORD, plans for your welfare and not for harm, to give you a future with hope. Then when you call upon me and come and pray to me, I will hear you. When you search for me, you will find me; if you seek me with all your heart."

God still has plans for us. A future with hope lies ahead. God is hearing our prayers and will fulfill our heart's desire to please God. Even in this time of challenge and change, I am confident that God still has ministry for us to do and will provide what we need for it.

May the love of God, the peace of Christ, and the encouragement from the Holy Spirit guide you this afternoon and in the coming days. And may your faithfulness be a blessing to others. Amen.