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News & Notes

Winter 2020-2021

50 Years Serving Ministers, Missionaries, and Church Staff

by Ric Stanghelle, FCMM President

In 2021, FCMM ("Free Church Ministers and Missionaries") will mark our 50th Anniversary. We are very grateful that, in 1971, leaders of the EFCA had the vision to establish a retirement plan that could provide a steady income for pastors and missionaries in retirement. From those early years, FCMM has grown to provide other benefits such as Long Term Disability and Life Insurance (now called the Benefit Plan), and a Payroll Service. Today, church lay employees are eligible for benefits and retirement along with pastors and missionaries.

To the churches that are contributing to the Retirement Plan on behalf of your staff, thank you! This is a valuable benefit. Scripture calls us to honor those who serve well – especially those whose work is preaching and teaching. I Timothy 5:17-18. One of the ways we can show our love to those who serve our churches is by providing for them in their current ministry and for their future retirement.

And to the churches that are providing disability income protection to your staff through the Benefit Plan, thank you for your care for these families! This benefit also gives the church flexibility of resources to continue staffing ministry during a disability.

I was a pastor in an EFCA church for 32 years and I am grateful for those who saw the need to do this early in my ministry. At FCMM, we recommend that churches contribute the equivalent of 10% of a pastor's salary and housing to their retirement fund. Then if the pastor or staff member can add at least 5% to it by voluntary salary deferral contributions, it will provide a solid base for retirement years.

Today, FCMM is providing monthly retirement income to over 400 pastors and missionaries from their accumulated contributions, along with other alternatives forms of post-employment income. If you are not currently in the Retirement Plan or the Benefit Plan, please talk with us to see how you could get started today!

History of FCMM

by Jerry Rich, FCMM Vice President

Prior to 1971, pastors in the Evangelical Free Church of America (EFCA) had no program for retirement income. While many denominations had longstanding pension plans in place, these were typically funded through an assessment on local churches. Pensions paid out by denominational church benefits boards to retired clergy were normally tied to longevity of service and not to the specific assessments paid. The congregational ethos of the EFCA, however, made a typical pension program untenable in this association of autonomous churches where assessments could not be levied and support for the association came only through voluntary contributions.

A benevolent program to assist retired pastors, called the Minister's Annuity and Aid Plan, was in place but it provided, at most, meager financial payments.

Early Years

Recognizing the need for a more substantial pension program, the EFCA formed the Free Church Ministers' and Missionaries' (FCMM) Retirement Plan in 1971 as a trust under the EFCA. FCMM met the IRS definition of a church benefits board. The Plan was structured as a defined benefit plan with compensation credits based on contributions by employers only. As with other pension plans, and before the launch of 401(k) and 403(b) defined contribution retirement plans, the form of retirement income was by an annuity based on the compensation credits. However, unlike other pension plans, the FCMM Plan allowed up to 30% of contributions to be invested in a stock portfolio offered by FCMM, at the member's option. The annuity fund was called Option A and the stock portfolio fund, which did not require converting to an annuity, was titled Option B.

For twenty years, FCMM was operated by a Board and a volunteer administrator. Throughout the 1980s and early 1990s, a booming stock market and high interest rates influenced the FCMM Board to implement a series of bonuses and payout increases without a thorough understanding of the actuarial consequences and hedging against future market contractions.

Adding Management

In 1992, John Herman, Executive Director of Pastoral Care Ministries, was also named plan administrator for FCMM and asked to allocate 30% of his time to the retirement plan. In 1993, he led the board to contract with a professional investment adviser and to develop an asset allocation model. In 1994, Pastor Ross Morrison was elected to the FCMM Board. From his financial background, Ross began to examine how compensation credits were determined and how viable the projections were.

By 1998, Ross's study, and the results of a professional actuarial study showing a large liability challenge, led the board to convert from the almost-indecipherable compensation credit "multiples" schedule to the equivalent rate of accumulation of 6%. As a defined-benefit pension plan, there was no legal path to changing this "baked-in" rate that would become less viable in slower-growth market conditions. But the Board now had the tools to track the actuarial liability and make better-informed decisions.

Because of continued growth in retirement assets and program complexity, Ross Morrison was employed by EFCA Pastoral Care Ministries in 2002 to devote half-

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time to FCMM as plan administrator and half-time to other pastoral care duties. Ric Stanghelle, a pastor who had served on the Board since 1995, was elected chairman, serving in that capacity until 2018.

By the late 1990s and early 2000s, it was clear that limiting the retirement plan to clergy hindered churches with multiple staff from providing important benefits to other staff. A pastor of administration with an EFCA church, Jerry Rich, began advocating for such improvement. As the Board considered this and other needed changes, Jerry was elected to the Board in 2002, serving until 2011.

The EFCA formed the Free Church Ministers' and Missionaries' (FCMM) Retirement Plan in 1971.

Adding New Capabilities and Incorporating

During the next three years, lay participation was added, a new successor Retirement Plan was designed as a 403(b)(9) defined-contribution church plan, salary deferral contributions were allowed, and new investment fund Options were made possible.

Because it was clear that the existing Pension Plan ("Option A") faced an uncertain future in a lower-growth market and inflexible crediting of earnings, it was decided to freeze the Pension Plan. The plan would receive no more contributions, which would be directed to the Retirement Plan starting in 2004. However, the legacy Pension Plan itself could not administratively be terminated or benefits revised under existing regulations. The decision of the Board was to close Option A to new contributions and continue to operate it with the goal of benefitting from market improvement, if any. Both the required crediting of 6% annually and the generous annuity schedule had to be maintained for members, resulting in unfunded liability that would continue to grow.

Beginning in 2004, the new Retirement Plan opened Option C as a successor to the Pension Plan by structuring it with a required annuity benefit (no cash withdrawals). The former Option B stock portfolio eventually became the Retirement Plan's Option D, and a bond/income portfolio was called Option E. Both employer contributions and employee salary deferral contributions were allowed in this new plan.

Over the next few years, the Retirement Plan's structure allowed additions of investment Options in mutual fund families: Option F American Funds, Option G Vanguard Funds, and Option J Biblically Responsible Funds that included Timothy Plan and GuideStone mutual funds. Option H was added to allow members who wished to invest in Christian Investors Financial, the EFCA ministry capital financing organization.

In 2010, Ross Morrison began devoting full time to FCMM and the organization employed staff exclusive to FCMM (not sharing other denominational responsibilities). In 2012, the EFCA National Conference approved the formation of FCMM as a separate corporate identity, safeguarding the assets and liabilities of both FCMM and EFCA as separate entities.

Jerry Rich was employed in 2011 to assist with client services, marketing, education, and financial coaching. In 2012 he started the quarterly "News & Notes" FCMM newsletter. Jerry currently serves as Vice President of FCMM.

With the new incorporation of FCMM, a Benefits division was added alongside, but separate from, the Retirement Plan. In 2013, the Benefits division acquired the Long Term Disability (LTD) insurance program from the former EFCA Pastoral Care department. Now called the Benefit Plan, the expanded program bundles LTD and Life/AD&D insurance and offers employer choices in how to provide the benefit. FCMM subsequently launched a Payroll Service for churches in 2014.

Addressing the Pension Plan Gap

In 2014, an attempt to cap increasing liabilities of the Pension Plan was made by discontinuing the 6% crediting rate, but sluggish markets prevented improvement in the long-term prospect. FCMM leadership undertook a difficult, but necessary, change to the Pension Plan in 2016, based on Congressional enactment of the Church Plan Clarification Act at the end of 2015. The Pension Plan was brought into balance with the market value of invested assets. With the exception of annuitants age 80 or higher, the adjusted balances of members were transferred to the Retirement Plan. A newer, actuarially-realistic annuity was offered through the Retirement Plan but new distribution options were also enacted, giving more choices than annuitizing member's balances.

A New Era

Ross Morrison retired in February 2018, following 24 years of association with FCMM, having brought this FCMM ministry into a new era of sophistication and service. Ric Stanghelle was selected as the new president with a rich history of both pastoral ministry and FCMM involvement.

In four years, from 2016 to the end of 2020, Retirement Plan assets have grown from $190 million to just over $300 million, with nearly 4,000 members now investing in 7 Options, comprising more than 130 choices of funds. The Benefit Plan provides Long Term Disability and Life/AD&D insurance to nearly 1,300 church staff members. 40 churches currently make use of the Payroll Service.

Besides the specific services for retirement and benefits, FCMM seeks to offer relevant information for churches and Plan members to understand how to structure benefits and administer them effectively. The FCMM website provides information such as tax booklets and articles on pay essentials, housing allowance, and significant developments in church benefits.

Throughout its 50-year history, FCMM has maintained the single purpose of enabling pastors, staff members, and missionaries to serve Christ throughout their lives by assisting employing ministry organizations in providing retirement and other benefits.

Rates and Fees for 2021

The earnings rate for the Lifetime Fund (Option C) has been set to continue at 2%. Option C is a collective investment fund that aims to provide steady long-term earnings to the member. Invested funds can be transferred to other Options only once in a 12-month period. The Fund is structured to offer reliable value towards a monthly income benefit ("annuity") for which 100% of accrued value can be converted. If funds are instead transferred or withdrawn, a fair market value (reduction) may be applied when accrued value is greater than current market value.

Retirement Plan operating expenses are funded by a fee charged to member accounts. For mutual fund Options (F, G, and J), the fee is directly deducted after the close of each quarter based on the average daily market value. For FCMM managed collective funds (Options C, D, E, and H), the allocated cost is applied before returns are posted; that means returns are net of such fees. 2021 member fees are unchanged except for Option G, Vanguard Funds, which will be assessed a slightly increased fee of 64 basis points (0.64%) annually. For more information about fees, see Form 41 Retirement Plan Fees for 2021.