FAQS

FCMM Pension Plan Merger – November 1, 2016

What is the financial status of the FCMM PENSION Plan?

The FCMM Pension Plan, a plan described under section 401(a) of the Internal Revenue Code, was fully funded in mid-2007. The severe market downturn in 2008 left the Pension Plan approximately 70% funded. Unfortunately, market conditions since then have not allowed the funding gap to improve – at the end of 2015, the Pension Plan was 71.6% funded. As of September 30, 2016, the Pension Plan had $64,300,000 in assets and $90,450,000 in estimated liabilities. At projected market returns, if nothing is done, the Pension Plan will run out of money in ten years or less.

What is the financial status of the FCMM RETIREMENT Plan?

The FCMM Retirement Plan is an Internal Revenue Code section 403(b)(9) church retirement income account defined contribution plan. Defined contribution plans are fully funded - a member's benefit is based on contributions put into the plan and investment returns on those contributions. Option C, the Conservative Growth with Annuity Benefit fund (the successor to the Pension Plan "Option A"), is structured for flexibility so the fund will be able to survive adverse market events.

What action is being taken?

As described in the accompanying letter, the FCMM Board of Trustees has decided to merge the Pension Plan into the Retirement Plan. Monthly payments will stop for most participants, and the cash value will be adjusted downward based on age for all Pension Plan members under age 80 or those who have not annuitized before 2004, effective December 31, 2016. This action will bring Pension Plan liabilities into balance with invested assets and then the resulting values will be merged into the Retirement Plan. The Board determined that this action is necessary to protect against the insolvency of the Pension Plan and is in the best interests of all Pension Plan members.

The trustees did consider a termination and liquidation of the Pension Plan, but that would have resulted not only in reduction of benefits for all who are 59½ and above, but also the elimination of any benefits to those under age 59½. Merging the Pension Plan into the Retirement Plan gives members the greatest range of options. In addition, the merging of plans, rather than termination, allows the housing allowance designation for eligible distributions to be retained.

Why is the merger occurring now?

Legislation was passed by Congress in late 2015 that enables church plans to merge 401(a) pension plans with 403(b)(9) retirement income account plans. This merger option was not available until the legislation was enacted.

For the first time in the history of the Pension Plan, there seem to be no plausible economic projections that will result in returning the Plan to full funding.

How will the merger impact me?

In a separate mailing, you will receive a statement of the amount that will be transferred from the Pension Plan to the Retirement Plan on January 3, 2017. This adjusted dollar value will appear on your Retirement Plan statement as "Option A" and will be eligible for you to invest or withdraw as described in another FAQ. The resulting Option A in the Retirement Plan is intended to be a short-term repository for your funds. Because the Option A subaccount will not receive any earnings, we urge you to direct the investment of this subaccount into one of the Retirement Plan's investment fund options as soon as possible. This subaccount will be eliminated at the end of 2018 – any funds remaining in the Option A subaccount at that time will be transferred to Option C in the Retirement Plan.

What is the impact on Pension Plan members age 80 and above in pay status?

There will be no change in monthly benefit amounts for members who are age 80 and older or those who annuitized before 2004. They will continue to receive their monthly payment from FCMM.

What is the impact on Pension Plan members under age 80 in pay status?

At end of 2016, all annuities for those under 80 will be canceled and replaced with a cash value determined on an age-adjusted scale. Those closer to age 80 will have smaller value reductions than those farther away from age 80. The cash value will be transferred to the Option A subaccount in the Retirement Plan on January 3, 2017.

When will the last Pension Plan monthly payment be made?

The last monthly benefit payment from the Pension Plan (the payment scheduled for 1/3/2017) will be deposited to member bank accounts on 12/30/2016. This will result in an extra payment in 2016. The earliest a new monthly benefit payment schedule can begin is February 1, 2017.

If your current monthly benefit payment includes both Pension Plan and Retirement Plan benefits, please note that the Retirement Plan payment portion will continue monthly as scheduled, with that portion deposited January 3, 2017.

What is the impact on Pension Plan members not yet in pay status?

Values of the Pension Plan Retirement Annuity Credit for those under age 80 who are not currently receiving benefit payments (i.e. not "in pay status") will be converted to a current dollar value on an age-adjusted scale. No member will receive less than the value contributed to the Pension Plan by his or her employer. Those closer to age 80 will have smaller value reductions than those farther away from age 80. This cash value will be transferred to the Option A subaccount in the Retirement Plan on January 3, 2017.

When can I receive payments from Retirement Plan Option A?

No payments will be made from the Option A subaccount in the Retirement Plan until a member notifies FCMM.

You may choose among the following selections, by notifying FCMM at any time:

- If you are age 59½ or greater, continue monthly income payments at the amount that used to be paid from the Pension Plan, resulting in a fixed number of payments from any investment Option(s) in the Retirement Plan rather than a lifetime payout.
- If you are age 59½ or greater, "annuitize" the adjusted value using the in-plan monthly retirement benefit for a new benefit amount.
- If you are age 59½ or greater, invest in a Thrivent annuity owned by the Retirement Plan for the benefit of the member. As with the FCMM monthly benefit, Thrivent annuity payments may be designated as housing allowance eligible.
- Take the Option A funds as a lump sum distribution or establish a new recurring payment amount. If you are under age 59½, a 10% early withdrawal penalty will

apply if you take a distribution and do not roll the money into another eligible retirement plan or IRA.

What is the difference between the Pension Plan benefit, the Retirement Plan benefit (in-plan "annuity"), and the Thrivent annuity?

Pension Plan monthly benefit calculations were made, as required by the Pension Plan, according to certain longevity actuarial tables. The Retirement Plan in-plan annuity benefit uses current actuarial data, so monthly benefits for members under age 80 will be less than benefits previously calculated under the Pension Plan because different actuarial tables are used for each plan. In general, a Retirement Plan in-plan annuity will range around 50% of the canceled Pension Plan annuity because of both the adjustment to market value and the different interest rates and longevity tables used. (The Pension Plan annuity was calculated using a 6% interest rate based on the 1983 longevity tables, and the Retirement Plan in-plan annuity currently pays 5% based on the 2010 longevity tables.)

In addition to the Retirement Plan's monthly income benefit option (the in-plan annuity), FCMM is partnering with Thrivent Financial to offer their immediate annuity products. Thrivent provides not only fixed income products, but offers added optional features that can adjust future monthly payments by a specified percentage or in relation to changes in the Consumer Price Index (CPI-U). Both FCMM and Thrivent monthly payments may be designated as eligible for housing allowance for members whose accounts contain contributions made while eligible for housing allowance and reported as such to FCMM.

What options do I have to invest or transfer the Retirement Plan Option A money?

A member may, by notifying FCMM at any time, choose to:

- Transfer funds in the Option A Retirement Plan subaccount into other investment options in the Retirement Plan. (Note: Non-"annuitized" funds for members older than age 70½ may be subject to annual required minimum distribution rules.)
- Roll the Option A funds out of the Retirement Plan to another qualified retirement plan or IRA. (Note: Rollouts generally lose the opportunity to be designated as eligible for housing allowance.)

Did the Pension Plan "lose" money?

The Pension Plan's investment portfolio decreased during the severe market downturn caused by the Great Recession. However, Pension Plan returns compare favorably (at or above) other balanced market indexes.

The Pension Plan's design mandated a level of benefits that, since the 1990's, has been much higher than actual market returns. This generous design, coupled with sluggish market returns, caused the Pension Plan's funded status to decline. As discussed in another FAQ, the Board has been carefully tracking long-term projections and current markets, making prudent investment decisions, and looking at all options to protect the members' benefits under the Pension Plan.

Why didn't FCMM tell us about the underfunded status of the Pension Plan?

FCMM balanced communicating the funding challenges of the Pension Plan with the possibility that a robust market could bring Pension Plan assets and liabilities back into balance. The annual audited financial statements of the Pension Plan, posted performance reports, and statements listed the funded status of the Pension Plan.

In 2003, the FCMM Board "froze" the Pension Plan to new members. FCMM communicated to members why it was freezing the Pension Plan and establishing the FCMM Retirement Plan as the plan into which future contributions would be made. The Retirement Plan offered many investment fund options for members and included an in-plan monthly benefit ("annuity") option which has the flexibility to weather varying market conditions.

In 2007, the Pension Plan was fully funded. Unfortunately, the Great Recession caused significant under-funding of the Plan, while at the same time members' accounts continued to be credited with 6% annually.

By 2014, with a few years of higher returns in equities (stocks) but low interest returns in bonds, the Board determined that its fiduciary responsibility required an action to end the automatic 6% crediting to member accounts. Economic projections at that time indicated a normalization of interest rates rather than the artificially low rates that have continued to be experienced. Many investment advisors believed that a strong market recovery was still possible. As long as there was a possibility that the Pension Plan could be brought into balance, the Board avoided the most drastic option – terminating the Pension Plan. Plan termination would have resulted in no benefits for members below retirement age, combined with a reduction in benefits for those members already in pay status.

FCMM communicated to Pension Plan members that ending the 6% crediting was done to keep the under-funding from worsening. Without significant favorable market returns, however, the Pension Plan could not be brought back into balance.

Until the passage of the Church Plan Clarification Act in December 2015, FCMM had no way to address the realities of the Pension Plan caused by its plan design, other than termination of the Pension Plan. The Church Plan Clarification Act made it possible for church plans to merge 401(a) pension plans into 403(b)(9) retirement income account plans, and transfer the market value of each member's defined benefit plan account into the defined contribution retirement plan.

<u>May my spouse or my financial adviser discuss my account with FCMM?</u>
Yes, after you've given authorization for this party by completing and signing Form 12 Third Party Disclosure, available from FCMM's website.

<u>What do I need to do now?</u>
As described above, members younger than age 80 will have choices to make regarding investment or distribution of their adjusted values transferred from the Pension Plan to the Retirement Plan. You may indicate your selection or request more information by completing and returning the enclosed **Form 44:** (for those not in pay status with the Pension Plan) or **44A:** (for those currently receiving monthly benefits in pay status) **Option A – Merger Response Form**.

<u>Where can I find more information?</u>
Much of the enclosed information along with additional material and links to applicable forms may be found at a special webpage: www.fcmmbenefits.org/pensionplan. (Please note: the address listed must be typed; the page is not linked from the FCMM website.)

Contact FCMM at fcmm@fcmmbenefits.org or call (800) 995-5357. Our call volume may result in some delay in replying, so please provide your contact information in any message you leave.

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