Q&A

LAY EMPLOYEES PENSION Plan

What is the Lay Employees Pension Plan?

The Archdiocese of Milwaukee Lay Employees Pension Plan is a multi-employer plan, meaning the plan participants are parishes, schools and other institutions who employ lay people in service to the mission of the Church in the Archdiocese of Milwaukee. The Archdiocese of Milwaukee serves as the plan administrator in managing the plan, including overseeing investments and determining the plan benefits.

What are the plan benefits?

The Lay Employees Pension Plan is a defined benefit pension plan. A defined benefit pension plan is a pension plan in which an employee receives a specified monthly benefit on retirement that is determined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns.

Why is it necessary to change our pension plan now?

The funding level of the pension plan is sufficient to meet the current benefit payments, however, long-term, the plan would be financially unsustainable. Action must be taken to ensure the plan can meet its obligations to current and future retirees. Knowing the plan would not be sustainable in the long-term, it would be irresponsible not to do something now to ensure the plan's viability going forward. Realizing that, the Archdiocesan Finance Council recommended that changes be made to the plan to ensure benefits are there for employees at retirement.

Why would the plan be unsustainable?

Over time, the expected rate of return on the investments of the pension plan funds and the contributions by the employers, would not cover the expected pay out of retirement benefits that have and will accrue. It would be irresponsible to delay and push this problem down the road. As stewards, we want to make sound financial decisions that protect all members of the pension plan now and into the future.

Why can't employers just contribute more to the plan?

All employers (mainly parishes and schools) increased the amount paid into the plan beginning July 1, 2009. Continuing to ask employers to increase its contributions places an unrealistic financial burden on parishes and schools.

Is this change related to the bankruptcy?

The archdiocese's Chapter 11 reorganization proceeding had no impact on the pension plan. All contributions made by employers to the pension plan are irrevocable and may only be used to pay benefits under the plan. Pension contributions and payments to retirees continued, uninterrupted, throughout the bankruptcy.

What does this mean for plan members who are already retired?

There is no change in the formula or benefit for plan members who have already retired.

How are pension benefits determined?

Pension benefits are determined by a formula recommended by the Archdiocesan Finance Council and approved by the Archbishop. That formula has changed multiple times since the plans inception in 1970. There are three main components in the formula: years as a member of the plan; salary level; and a fixed multiplier percentage. An individual's pension benefit is calculated by plugging in individual employee data into that formula.

What does it mean for current plan members?

For current plan members who have not yet retired, it means, at the time of retirement, you will receive one pension benefit calculated under two different formulas. The current formula for all the years of service from your membership in the plan through December 31, 2016, and a second calculation for all the years of service from January 1, 2017, until the end of your employment or your retirement. Those two calculations will be combined to provide one pension benefit.

What is the current formula?

The current formula for calculating the pension benefit was approved on April 1, 2000. It will remain in effect for all earned benefits through December 31, 2016. The formula is:

- Years of membership x 1.35% x monthly pay average = monthly pension benefit at age 65

Years of membership are usually years of service minus 1, because you become a member of the plan after 1 year of service. You are vested in the plan after five years of continuous plan membership, which is equal to six years of continuous service.

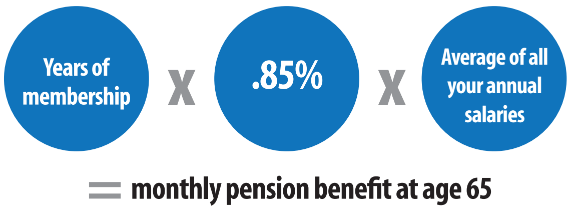
Monthly pay average is your average monthly basic pay during your three highest paid years of salary history.

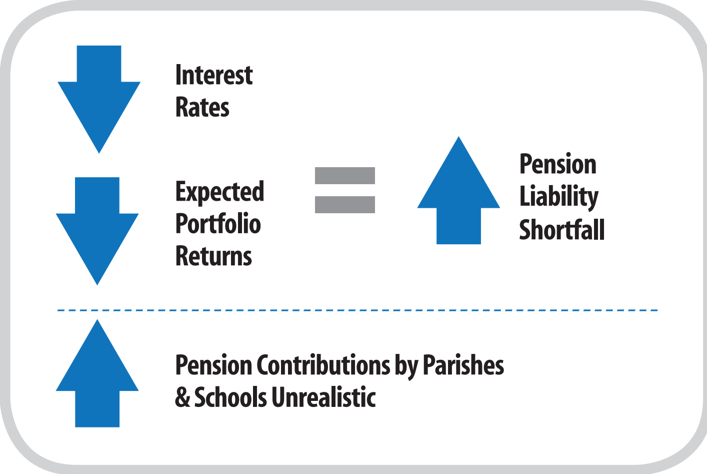
What is changing in how benefits will be calculated?

The current pension formula will be "frozen" for all pension plan members as of December 31, 2016, and all pension benefits earned through that date will remain unchanged. Effective January 1, 2017, a new formula will be used to calculate pension benefits earned from that date forward.

What are the changes from the old formula to the new formula?

There are two changes that make up the new formula. The first is that the multiplier is reduced to .85 percent. When the plan was started, the multiplier was .75 percent. It was elevated over time to the current 1.35 percentage because investments were providing higher rates of return. For the past number of years, the opposite has occurred, with record low interest rates, which reduces earnings on investments. Lowering the multiplier ensures continued health for the overall pension plan. The second change is that the salary average will now be calculated as an average of all your annual salaries during the course of your employment after January 1, 2017, instead of the highest three years of annual salary. This only applies for years of service after January 1, 2017. (Previous years of service will still be calculated under the "old" formula.)





How can I calculate my projected benefit?

A pension benefit calculator can provide you with an estimate for your pension benefit based upon the numbers you enter. You can access that calculator at www.archmil.org/pension-calculator.

When do I become a member of the pension plan?

As a full-time lay employee, you become a member in the pension plan after you complete one year of service. As an estimate, in calculating your pension benefit, you take the number of years of employment, minus one, and determine the number of years you have been a member of the pension plan.

What does it mean to be "vested" in the pension plan?

To be "vested" refers to a plan member's right to receive his or her accrued pension benefit. A member of the Lay Employees Pension Plan is vested after five years of plan membership (six years of service).

How many individual members are in the plan?

There are 6,350 individual members of the Lay Employees Pension Plan as of July 1, 2015, including 2,651 active (employed) members; 1,994 current retirees; and 1,705 deferred vested members (individuals who worked long enough to be vested, but then left to work at a different company that is not part of the pension plan).

What if I work less than six years?

If your total years of continuous employment is less than six years, you are not eligible for pension benefits under the plan, unless your position is eliminated, in which case, you are automatically vested in the plan.

How many employers are in the plan?

There are approximately 182 employers in the Lay Employees Pension Plan, including archdiocesan parishes, schools and other institutions ministering within the Archdiocese of Milwaukee, as well as those individuals on the archdiocesan staff.

What is the impact of this change for retirees?

There is no change for current retirees. Those employees already retired had their pension benefit calculated at the time of their retirement and it remains unchanged. Retirees continue to receive their pension benefits as is.

What about someone who no longer works for the archdiocese or a parish or school?

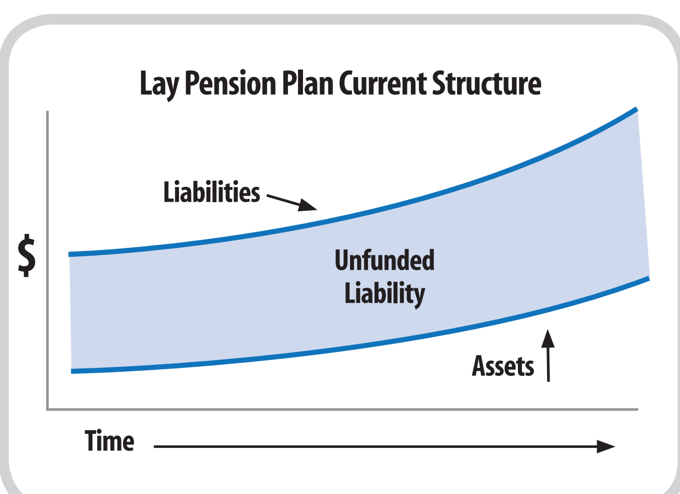
You must have worked for an employer participating in the plan for six years or more to become vested in the Lay Employees Pension Plan. If you are vested, but no longer work for a participating employer, your pension benefit will not change. The benefit will be calculated based upon your years of service prior to December 31, 2016. If you are not vested in the plan, you are not eligible for any pension benefit.

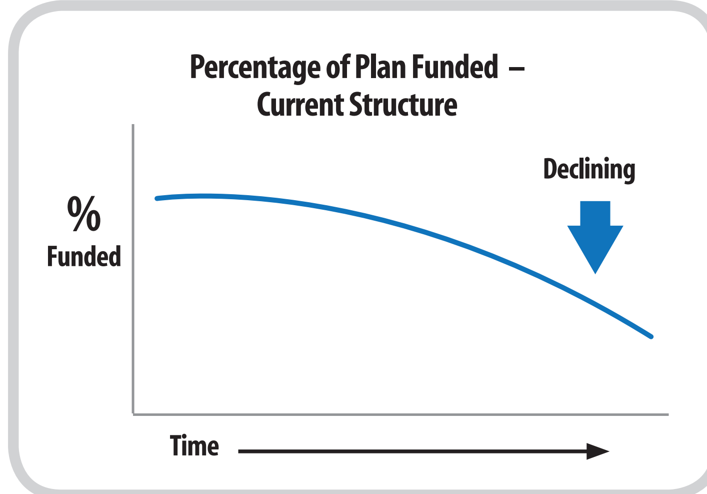
What about pension for priests?

There is no impact to priests because priests contribute to their own pension plan separate from the Lay Employees Pension Plan.

What about teachers in Catholic schools?

Catholic school teachers, principals and staff are members of the Lay Employees Pension Plan and would be affected by this change for years of service after January 1, 2017. Prior years of service will be calculated according to the current formula.





What about the workers at Catholic Cemeteries?

Catholic cemeteries employees that are members of their local union, have their own pension plan and are not part of the Lay Employees Pension Plan.

What is the funding level of the plan?

The pension plan is funded through contributions from employers and returns on investments. As of July 1, 2015, the pension plan was 82 percent funded. The Plan had assets in excess of $236 million. The Plan's actuarial present value of the accumulated plan benefits was approximately $287 million at June 30, 2015. That calculation is made by determining what benefits have accrued and assuming they all had to be paid out on one specific date. However, pensions are paid out over a lengthy period of time. Funding percentage is an indicator of the long-term health of the pension plan. Plan advisors who use actuarial calculations have indicated the plan cannot sustain itself over time without a formula change.

Why isn't the plan fully funded?

Each year, actuaries for the pension plan calculate whether enough money is in the plan to cover the expected lifetime payouts, assuming the funds are prudently invested. If the amount is less than enough to cover expected lifetime expenses, a plan is said to be "underfunded." When the stock market declined in 2008, investment values were reduced and the plan was underfunded. However, investments like pension plans, are designed to build over significant amounts of time. Thus, when the stock market improved in recent years, the amount of underfunding was reduced through the investment gains on the plan portfolio.

Did the parishes not put enough money into the plan?

The participating employer contributes seven percent of the employee's annual salary to the plan. Parishes and other employers contributed what they were required to contribute under the plan structure.

Were the plan assets mismanaged in any way?

No, the plan assets are professionally managed. The Archdiocesan Investment Committee, which reports to the Archdiocesan Finance Council, directs a professional investment advisor and a number of reputable investment managers according to the policies approved by the Finance Council. Members of the Investment Committee are lay professionals with specific expertise in the area of asset and wealth management. The committee operates by strict guidelines that are benchmarked against industry standards and approved by the Finance Council.

Who has been advising the archdiocese about its pension plan, and are they qualified?

The pension plan has engaged United Capital Financial Advisors, LLC as the Investment Advisor to the plan. Members of the Investment Committee are well-respected members of their profession and the community.

Did some of the plan's assets have to go to pay victims and creditors?

No, the pension plan is not an asset of the Archdiocese of Milwaukee. It does not belong to the archdiocese and was not part of the bankruptcy. No money from the pension plan was used to settle any aspect of the Chapter 11 bankruptcy proceeding.

Then why is this issue coming up now?

The concern for the pension plan has been studied for nearly 10 years. It was decided not to take any action during the time of the bankruptcy proceeding. Now, it has been determined that any additional delay in action would risk the long-term viability of the plan.

I'm only a few years away from retiring…can't these changes be grandfathered so they don't affect long-term employees?

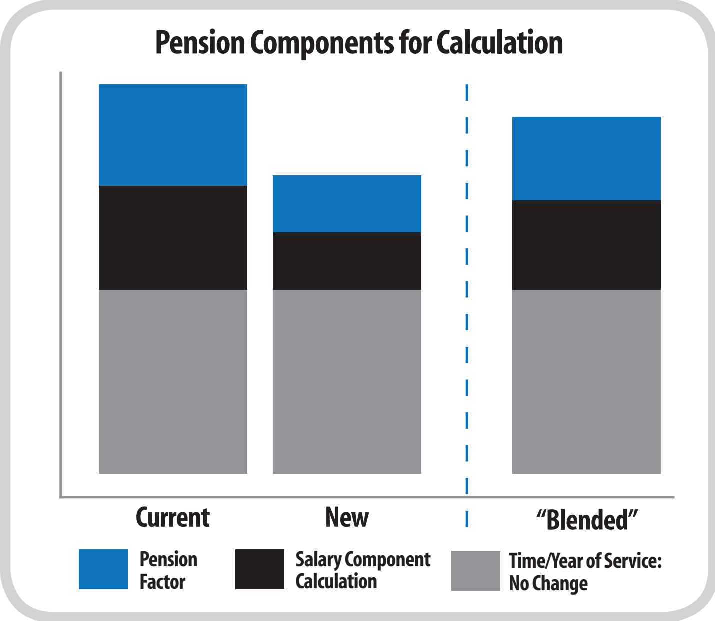
The effect on long-term employees is actually minimized because your pension benefit remains unchanged for your past years of service through December 31, 2016. It is only going forward for years of service after January 1, 2017, that the new formula will be used.

Changing our pension formula from 1.35% to .85% is a big drop; couldn't these changes have been made more incrementally over time?

Changing the benefit every year or every couple of years creates a plan that becomes extremely difficult to manage administratively.

Is this change temporary? When the fund balance increases over time will our benefits increase again?

At this point, it is anticipated this will be a permanent change, but we cannot predict the future. What we can do is take the action today that we think is necessary to best manage the fund into the future.



Will it benefit me to move my retirement up and retire before December 31, 2016?

Your retirement date is your personal decision. Regardless of when you retire, your pension plan benefit will remain the same through December 31, 2016. In addition, you will continue to earn pension benefits after December 31, 2016. Those benefits will simply be calculated using a different formula than benefits earned before January 1, 2017. Upon retirement, your pension benefit will be calculated under two formulas based upon the years of service before January 1, 2017 and the years of service after January 1, 2017.

Should I be looking at ways to supplement my retirement?

Your pension plan benefits work with Social Security and your personal savings to help provide you with the financial security you need to retire comfortably. Personal savings programs such as a Tax Sheltered Annuity (TSA), like 401(k) or 403(b), or Individual Retirement Account (IRA) or other retirement savings plans are all important parts of your total retirement income. The pension plan was not designed to be your only source of retirement funding.

Is the pension that I have earned secure? When I retire, can I expect to get everything I have earned up to that date?

Your benefits earned prior to January 1, 2017, are frozen and remain unaffected by this change.

Will I continue to receive annual statements?

Although you did not receive an annual statement in spring of 2016, you are now able access an online tool for your pension calculation at www.archmil.org/pension-calculator. This will provide you with an estimate for your pension benefit using the current formula for service years through December 31, 2016, and for years of service after January 1, 2017, using the new formula. Annual statements will be provided in 2017.

Where should I go if I have additional questions?

You can send additional questions to pension@archmil.org.