The Roman Catholic Archdiocese of Boston Pension Plan Changes

Employee Communication Meetings

September/October 2010

Why we are here today

- The volatility of financial markets since 2007 has had a negative impact on Pension Plan assets, requiring us to make changes to the structure of the RCAB retirement program
- The changes – a Plan freeze effective December 31, 2011 and voluntary lump sum payouts – will help protect the Plan from further financial risk
- These changes will not take effect until December 2011, giving time for you to review available options in advance of making decisions about retirement planning
- Additional information will be shared throughout 2011, including individualized information for eligible employees

Guiding principles behind Pension Plan changes

- In deciding on the changes, the Pension Plan's Trustees had the following goals:
  - Protect the pension benefits already earned by current and former employees and retirees
  - Reduce the volatility of pension assets
  - Create a strategy that will not increase employers' benefit budgets while enabling them to provide retirement programs for employees

Today's agenda

- Overview of the RCAB Pension Plan
- Review of the Plan's financial status today and as projected into the future, and discussion of the case for change
- Outline of changes and timing of implementation
- Time for questions

RCAB Pension Plan: background and history

- The RCAB Pension Plan is an employer-funded "defined benefit" plan started in 1963 whose assets are held by a charitable trust
  - "defined benefit" = pension benefit paid monthly, until death; amount set or "defined" when payments begin
  - assets held "in trust" - can be used only to pay employees' benefits and Plan administrative expenses
  - Audited Financial statements through 6/30/09 available online at www.bostoncatholic.org/annualreport.aspx (under Related Organizations)
- The Plan is overseen by a Board of Trustees that includes:
  - Archbishop of Boston, Chancellor, Vicar General
  - Priests and lay individuals with pension/finance expertise

RCAB Pension Plan: background and history

- For employees of the Archdiocese of Boston and other Catholic entities throughout the Archdiocese
  - Employees of parishes and schools
  - Employees of approximately 75 other Catholic employers in the New England region
- The current Plan:
  - Has approximately 10,000 participants, about 40% of whom are active employees
  - About 30% of participants are receiving pension payments (over $1 million in payments are made to retirees each month from the Plan)
  - About 30% of participants are former employees who have vested benefits

RCAB Pension Plan: Employee-level view

- Upon retirement, each "vested" employee receives pension payments that depend on the employee's length of employment and compensation during each year of qualified service
  - Employee is fully vested after completing five years of service (generally requiring 1,000 hours per year)
- The vested benefit is paid to former employees at age 65
  - Reduced payment is available as early as age 55 for former employees
  - Benefits are payable monthly, for retiree's lifetime
  - Default payment method is "joint and survivor" – retiree receives portion of benefit for his/her lifetime and upon death, his/her surviving spouse receives portion. Spouse may waive this option.

RCAB Pension Plan: Employee-level view

- Since 2004, employees earn benefits according to the following formula:
  - 2% of base pay up to $20,000 during the year, plus
  - 1% of base pay over $20,000 during the year
  - Example: Employee Sharon Sullivan earns $40,000/year salary. She accrues an annual benefit of $400 + $200 = $600. Her employer pays $2,800 for the $600 accrual.

- If Ms. Sullivan's salary is $40,000 for five years in a row, she accrues $600 x 10 = $6,000 as an annual benefit at age 65, payable monthly

RCAB Pension Plan: Funding Employee Benefits

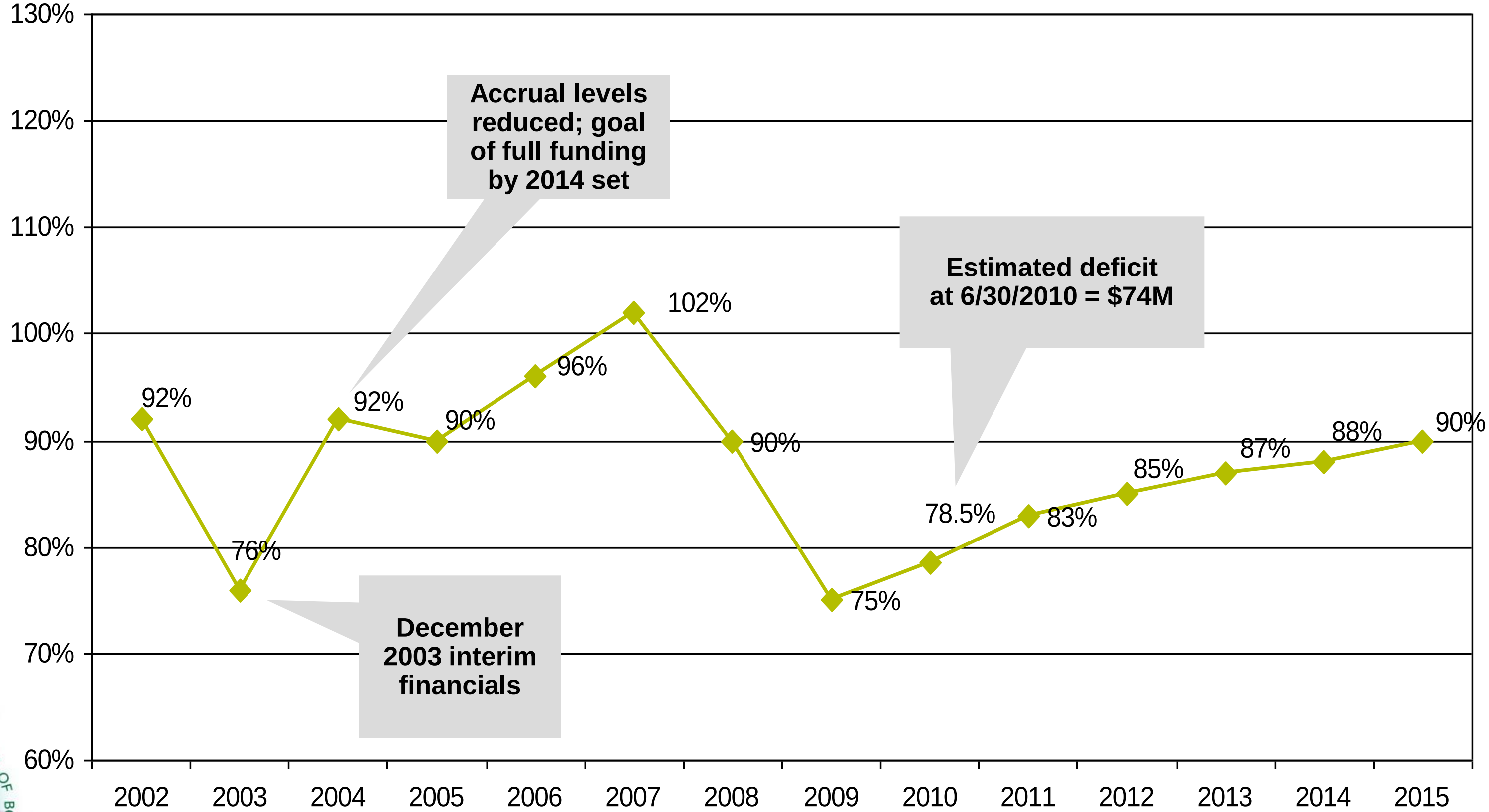
- Pension Plan is funded through two sources:
  - Employer contributions (approximately 7% of basic annual earnings)
  - Returns on investments of assets

- Contributions have been invested in order to:
  - Maintain enough funds in the Plan to pay pension benefits to employees already retired
  - Make pension payments to all future retirees
  - Funds invested in Common Investment Partnership with other assets – mix of equities/stocks and fixed income/bonds – performance reviewed quarterly by Trustees

A look at the Plan's funded status

The Plan's funded status (assets as a percentage of liability for accrued benefits) has dropped sharply due to recent market downturns

As of 6/30/10, assets are estimated at $265 million, while liabilities are estimated at $339 million.



RCAB Pension Plan faces challenges in the future

- Financial stress on Plan expected to increase due to:
  - Investment volatility
  - Lower investment returns
  - Employees covered by the Plan are living longer

- Employers face financial pressures on all sides, including pressure to maintain and increase employee compensation.

"Status Quo" is not in employees' and employers' best interests long-term. We must take action now to reduce the Plan deficit and improve the Plan's funded status.

Plan Trustees have reviewed options for limiting plan's financial exposure

- The Plan's Board of Trustees has been working with outside advisors (pension consultant, legal counsel, and Plan actuary) since October 2009 to analyze alternatives and form a proposed action plan
- Key objectives included:
  - Proposed changes should not cause any employee to have a benefit that he/she has already earned involuntarily reduced
  - Plan should be managed to improve funding status

Part 1 — Pension Plan benefit freeze

- Active employees will stop earning benefits as of 12/31/2011
  - Amounts already earned will not be reduced by the freeze
  - Employees who have five+ years of vesting service under the Plan will remain vested
  - Employees with at least one year of service but less than five will be allowed to continue to add years of service towards vesting through continued employment
  - Employees must be hired no later than 12/1/2010 to participate in the Pension Plan
- Many employers in the United States have already frozen their defined benefit plans
- Several employers in the RCAB Pension Plan have frozen their position in the Plan over the past 5 years

Part 2(a) — One-time in-service lump sum opportunity in 2011/2012 - NEW

- Eligible employees (age 55+ as of 12/31/11) will be given the opportunity to voluntarily elect a lump sum in 2011 in lieu of future monthly benefit payments
- Each lump sum payment will represent:
  - The "present value" of the monthly payments that would have been made to an employee if he began receiving payments at age 65 and continued receiving them until his death. The "present value" will take into account an employee's age, applying a time-value reduction for payments made prior to age 65; ***and***
  - A reduction to reflect the Plan's funded ratio for the four quarters of the most recent calendar year (if less than 100%)

Part 2(a) — One-time in-service lump sum opportunity in 2011/2012

- Employees not vested and/or not age 55 as of 12/31/11 will be allowed to “age in” to this option
- Lump sums taken in cash are taxable, but can generally be rolled over tax-free to a 403(b)/401(k) plan or to an IRA in order to defer taxes and allow for continued retirement savings
- Employees electing a lump sum are <u>strongly</u> encouraged to roll over their payments into a tax-deferred account
- Decision to receive a lump sum is voluntary and based on individual circumstances
- Employees will have the opportunity to elect lump sums during a limited 45-60 day window in the Fall of 2011

Example estimate: One-time lump sum opportunity

- Sharon Sullivan has a $6,000 annual benefit ($500 monthly benefit) if she retires and begins payments at age 65
- If she elects a lump sum payment at age 55, the estimated amount of her lump sum payment would be $6,000 multiplied by a "present value" factor which takes into account her age *and* the number of years payments will likely be made to her over her lifetime

$6,000 x 5.40 (PV factor for age 55) = $32,400

- In addition, to maintain the Plan's funded position, the lump sum would also be reduced to reflect the Plan's funded ratio (assume that the 2010 average funded ratio is 79%)

$32,400 x 79% = $25,596

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Part 2(b) — In-service annuity opportunity - NEW

- Eligible employees will be given the one-time opportunity to voluntarily elect an annuity while continuing to work
  - Not available under current Pension Plan design, unless over age 70.5
  - Eligible employees must be age 55 and vested as of 12/31/2011 to elect an in-service annuity in 2011.
  - Each in-service annuity will be based on the employee’s accrued annual benefit as of 12/31/11 and will be reduced to reflect:
    - an employee’s age, reducing the amount for every year the employee is under age 65; ***and***
    - a reduction to reflect the Plan’s funded ratio for the four quarters of the most recent calendar year (if less than 100%)

Example estimate: In-service annuity opportunity

- How the voluntary in-service annuity option will work:
  - a 55-year old has a $6,000 annual benefit ($500 monthly benefit) if she retires and begins payments at age 65.
  - If she elects to begin in-service annuity payments at age 55, her benefit would be reduced by 60% to reflect her age and the additional 10 years of payments she will receive.
    - $6,000 x 40% = $2,400 annual benefit ($200 monthly benefit)
  - In addition, to maintain the Plan's funded position, the in-service annuity would also be reduced to reflect the Plan's funded ratio (assume that the 2010 average funded ratio is 79%)
    - $2,400 x 79% = $1,896 annual benefit ($158 monthly benefit)

Part 2(a) and 2(b) — Summary of new benefit payment options

	Vested Actives age 55 or older Election Period - Fall 2011	Other Vested Actives	Terminated Vesteds under age 65 Election Period – Early 2011
Lump Sum Option	One-time opportunity during election period — will reflect reduction for commencement prior to age 65 *and* plan's funded status (*e.g.*, 79% of present value of benefit).	No option allowable now, but one-time election period is expected to open following 55th birthday. Payment will reflect reduction for commencement prior to age 65 *and* the Plan's funded status.	One-time opportunity during election period, regardless of age — lump sum payment will reflect reduction for commencement prior to age 65 *and* the Plan's funded status.
Annuity Option	One-time opportunity during election period — will reflect reduction for commencement prior to age 65 *and* the Plan's funded status (*e.g.*, 79% of present value of benefit).	No option available now, but one-time election period is expected to open following 55th birthday. Payments will reflect reductions for commencement prior to age 65 *and* the Plan's funded status.	One time opportunity during election period, regardless of age — annuity payments will reflect reductions for commencement prior to age 65 *and* the Plan's funded status if under age 55.

Note: Non-vested active employees will be given the same options as "Other Vested Actives" once they have completed service to become vested.

Part 3 — Phase in an employee-directed retirement savings strategy

- Parishes/schools will have a single retirement savings plan with required employer contributions
  - Design to be determined, but employer contributions anticipated to be about 2% of pay
  - Central or common payroll system likely needed for legal compliance
- All other locations will have option to implement their own plan as desired
- More information to follow as we work with employers over the next year

Communication and implementation timeline

WHAT	WHEN
• Hold employee informational meetings	Fall 2010
• Mail Benefit Statements for 2009, with estimated benefits for 2010 and 2011	December 2010
• Determine funded status of Plan for 2010 • Communication about lump sum option with former employees with vested benefits	Early 2011
• Communication regarding update on 403(b)/401(k) plan for affected locations, and any other relevant information	Late Spring 2011

• Information package sent to eligible employees (age 55+)
  • Personalized statement with estimated value of employee's benefit and lump sum
  • Description of options
  • Election and waiver form
	Fall 2011

Communication and implementation timeline

WHAT	WHEN
• Information meetings for eligible employees (age 55+) on lump sum and annuity elections • Individual sessions to review options will be available	September – October 2011
• Lump sum/annuity payment election period	September – October 2011
• Information meetings for active employees on new 403(b)/401(k) options • Education/enrollment sessions on employee-directed retirement savings	November-December 2011
• New 403(b)/401(k) accounts ready to receive employee contributions, including lump sums • Pay out lump sums and begin annuity payments to those electing them	January - March 2012

For more information . . .

- Visit www.catholicbenefits.org/pension for additional information, including updated FAQs (by early November)
- Complete a Request form
- Please call or e-mail with any questions – see Contact Sheet