THE REGIONAL PENSION FUND CRISIS

WM 970

This is being written several weeks before the Toronto Session begins. In our last mailing, we noted that our liberals may try to bring the women's ordination issue onto the floor of the Session. Whether or not that happens, another crisis is also looming,—which also may or may not enter the Sky Dome and Metro Toronto Center during the ten-day June 29-July 8 Session.

REGIONAL CONFERENCE BACKGROUND

In 1944, the Spring Council approved the formation of black conferences. The number of blacks coming into the church immediately increased. By 1947, five black conferences were operating; and, for the first time, the percentage of the U.S. black population that was Adventist exceeded the percentage of U.S. whites who were Adventists.

Eleven regional conferences were formed between 1944 and 1999.

In 1968, at the annual meeting of North American black Adventist leaders attending their Regional Advisory Council, they proposed that the General Conference create two black unions in North America.

This recommendation was rejected the next year by a specially appointed interracial commission, but 16 other proposals were accepted. That year, Charles Bradford became the first secretary of the North American Division, and black leaders were elected to positions as secretaries of unions across North America. Each of those men had attained to the second-highest position in that particular union office.

In 1979, Bradford succeeded Neal Wilson as the first black NAD president. The next year, Robert Carter became the first president of a union (Lake Union).

In 1991, the Pacific Union decided not to form regional (black) conferences within its territory.

By 1992, black members constituted more than twice the percentage of U.S. Adventists as the percentage of black citizens throughout the nation.

In 1944, 9% of U.S. Adventists were black. By 1977, it was 20%; 23% in 1985; and 25% in 1995.

Sensing that trouble was ahead, in October 1999 the NAD hosted the first Race Summit, at the General Conference. More than 300 leaders attended the three and one-half day summit to discuss the future of race relations in the church.

But this meeting did not solve a special problem. In brief, this is what it is:

Out of 15,000 retirees in the NAD, only about 500 are from regional conferences. **In 1998, regional conferences contributed $10 million to the retirement fund, but less than $2 million was returned in benefits to the regional employees. In addition, the ratio of overall workers to tithe is less in regional conferences than in most of the non-regional conferences.**

Ten years earlier, when a task force discovered an inequity in contributions in Canada, it created a plan that was more fair for each Canadian conference. (There are no regional conferences in Canada.) But the NAD did not copy this in the U.S.

In 1985, the South Central Conference (regional) established a subsidiary fund for its employees to supplement NAD retirement benefits. Each pay period, the workers contributed a set amount of money to the special fund, and the conference made additional contributions. Several years later, the plan was fully funded and retirees received an average of $500 in addition to the regular NAD benefits and Social Security. But the NAD prohibited other conferences from developing a similar plan.

Time passed, and black leaders became more concerned. Some wanted an arrangement put in place based on the Canadian plan; others wanted the South Central plan. But it appeared that a stalemate had been reached, and NAD was unwilling to take further steps in reconciling the matter.

THE UNDERFUNDED NAD RETIREMENT FUND

An underlying problem here is that the NAD is faced with an enormous retirement debt, which we discussed several years ago (*Our Church Retirement Fund Crisis—Part 1-2 [WM–668-669],* January 1996; *Changes in the Church's Pension Funds [WM–838],* July 1998).

The cause of our NAD Retirement Fund crisis is essentially the

DATE OF PUBLICATION: JULY 2000

KEY POINTS FROM AN EARLIER TRACT STUDY

Donald R. Pierson, administrator of the Seventh-day Adventist Retirement Plans, addressed General Conference, union, conference, and institutional leaders in attendance at the 1994 North American Division year-end meeting.

Pierson told the church officers that only $147,729,519 was in the funds. He disclosed that only 81.11 percent of the amount which should be there still remains!

There should be approximately $178 million in that fund. But the money is just not there.

You have probably read in the press that many corporations in America are dangerously lowering their retirement funds, in order to use the money elsewhere. This reckless use of funds has entered our own church. This is unfortunate.

Here is further information on this retirement fund crisis:

THE 1979 DECADE-END AUDIT

As of 1979, that fund had a $400 million unfunded liability. That means, of the total amount in the investment fund, $400 million was no longer there!

Yet that fund is the retirement nest egg for 10,000 Adventist workers in North America. What are they to do when the fund is all spent?

More than 15 years ago, money began being siphoned out of those funds faster than they were being replenished. Yet, back then, there was no excuse for this. In the 1970s, new workers were being hired faster than older ones were retiring.

In 1979, an actuarial study was authorized by the General Conference, to see if the assets and payment liabilities (to both active and retired participants) were in balance. Such statistical studies are used to establish insurance risks and payment liabilities.

But that 1979 actuarial evaluation revealed that about $400 million was not there! No assets of any kind—liquid or investments—covered it! No cash, no securities (stocks, bonds, or CDs), and nothing else!

The money had traveled somewhere. It is believed that part of it may have gone into unsecured loans.

THE 1989 DECADE-END AUDIT

On December 31, 1989, a second study was completed. This one was not a full actuarial study as the one in 1979. But, nonetheless, it revealed that the retirement fund crisis was getting worse!

An additional deficiency (unrelated to the $400 million missing in 1979) was found in 1989.

> "The foregoing deficiency [$35,825,085.00, as of December 31, 1989] is unrelated to the unfunded accrued liability for current retirees and active participants, which was estimated by the Plan's consulting actuaries to be approximately 400 million as of the last actuarial evaluation in 1979."—*Auditor's Note 7, 1989 General Conference Financial statement Summary of North American Division Retirement Fund.*

As of 1979, that fund had a $400 million unfunded liability. That means, of the total amount in the investment fund, $400 million was no longer there!

The 1989 audit found $36 million to be missing,—but it was a different amount and unrelated to the $400 million found to be missing in 1979!

In the year 1990 alone, the General Conference transferred $10.7 million ($10,722,500) to LLU from the annual offering. That is a little over 6 percent of the entire General Conference world budget income! The world budget is to be used primarily for mission and institutional work throughout the world field (totaling $169 million). Why is so much of it poured into one little town east of Los Angeles?

The report shows that the situation is dramatically changing. From 1982 to 1987, there was a fairly rapid increase in persons receiving benefits, although increases through 1993 were not as rapid.

But, contrasting, this is the unfavorable fact that 855 people joined the retirement plan in 1993 (by retiring) while 386 dropped out (by dying). The developing trend is for far more additions than deletions to the plan each year.

Each year, the number of pensioners is getting bigger and the number of workers is getting smaller; yet the amount paid in by the church into the funds is based on the number of workers, not the number of retirees.

The number of workers who will retire in the future is projected to gradually increase during the next 12 to 15 years. To make matters worse, the year 2010 will see a major increase when the baby boomers start to retire.

Church leaders are thinking, not of getting to the core of problem by getting rid of the liberals in the church,—but putting patches on problem, in the hope of holding it together a little longer.

To properly fund North American Retirement Funds, for its current 11,854 retirees, would cost over half a billion dollars! About $581 million would be required! That figure is nearly four times the current $147 million in the retirement fund.

Yet, that $581 million would only fund the number of retirees we now have. Earlier we noted that the number of retirees would rapidly increase while the number of payments coming in for current workers is, because of cutbacks and layoffs, decreasing.

— Our Church Retirement Fund Crisis [WM–668-669], January 1996.

same as with our national Social Security Fund. Just as Congress has been doing for decades, so have the brethren: **They have borrowed money from the fund to use for other purposes.** In addition, as with Social Security, there has not been an ever-increasing number of supporting church members to balance off the increasing number of retirees.

Because of this, the NAD is convinced that, however the black retirement fund problem may be resolved,—the black conferences must continue to be responsible for (*i.e.*, pay off) their share of **the fabulous retirement fund debt—in the millions and millions of dollars—which has been racked up over several decades.**

Because no indication of forthcoming solutions was presented at the October 1999 meeting, in December leaders from the various regional conferences made a decision—which threatened to burn down the entire NAD retirement fund house!

Several of the regional conferences decided to entirely stop sending their retirement fund contributions to the NAD(!), and instead put them into an escrow account, to be held until the issue is solved.

(An "escrow account" is a money account held by a third party, until fulfillment of certain conditions.)

MORE POINTS FROM AN EARLIER TRACT STUDY

If Loma Linda University or its Medical Center went into bankruptcy, our retirement funds might collapse.

Leadership continues to infuse massive amounts of money into Loma Linda University—and especially into its Medical Center—in order to help meet operating expenses and purchase new equipment.

LLMC is frantically trying to become the best equipped acute-care center in the southwestern quarter of America.

Yet, ironically (as discussed earlier in some detail), the number of non-Adventist students at LLU continues to increase each year, and the number of Adventist students keeps dropping.

Why are we so heavily subsidizing a school which has so many faculty and students who are not of our faith? What is the purpose of our denomination in so heavily underwriting the bills at Loma Linda—especially when so many of its graduates are non-Adventists?

There is no doubt that becoming the most advanced leader in southern California modern medicine is clearly one of the Loma Linda's objectives, but that is not what the people put their money into the church for.

Every year, one of the major offerings taken in our churches throughout North America is the Loma Linda Offering. Each such offering totals millions of dollars and is sent to Loma Linda University, to help defray expenses. LLU and LLMC seem to have a direct line to the General Conference.

There is so much poverty in our work elsewhere in the world field, and so much wealth amassed in that one little town; yet the money keeps pouring in.

In the year 1990 alone, the General Conference transferred $10.7 million ($10,722,500) to LLU from the annual offering. That is a little over 6 percent of the entire General Conference world budget income! The world budget is to be used primarily for mission and institutional work throughout the world field (totaling $169 million). Why is so much of it poured into one little town east of Los Angeles?

But, in addition to an entire annual church offering, the General Conference regularly loans large amounts of money, from entrusted funds, to LLU or LLMC for various purposes. Here are the loans for just three years:

In 1988, the General Conference loaned LLU $9.5 million from its funds. It was used for an electrical cogeneration plant.

In 1989, the GC Executive Committee voted an additional $8.3 million to help LLU make still more electricity. That was the second half of a $17.8 million loan needed to help LLMC produce additional electricity for its gigantic proton accelerator.

Another loan from General Conference funds, part of which was made prior to 1988, totaled $16.5 million ($16,500,000) by 1988 and $18.3 million ($18,-296,321) by 1989.

In addition to earlier loans for this purpose, another $14 million was loaned to LLMC for its new proton accelerator, at that time still under construction.

It is true that these particular loans are secured, but we should not be pouring so much into one center. LLU ought to be self-sufficient. Some of the wealthiest Adventists in the world live in the Riverside-San Bernardino area, yet we regularly give Loma Linda 6 percent of the church's world operating budget, plus immense loans, one after the other.

— Our Church Retirement Fund Crisis [WM–668-669], January 1996.

At last, the North American Division leaders took action! They immediately appointed a task force to solve the problem,—and bring the regional retirement money back into NAD coffers.

On February 22, 2000, regional conference leaders presented the task force with several possible pension plan options for NAD consideration. As mentioned earlier, two especially favored ones were the Canadian and South Central plans. They also wanted a revamping of the current system for a more equitable and improved benefits plan for the entire Division.

Whatever happens, the NAD pension fund is in dangerous waters. It is a wonder it has not sunk by this time. But, unfortunately, church leaders are like the folk on Capital Hill: They do not want to do anything which would create present hardships (especially to themselves since they will soon retire), so they console themselves that their successors can work on the unpleasant task of doing what needs to be done to the NAD pension fund.

What kind of a situation are we dealing with here?

If a complete withdrawal of contributions by regional conferences takes place and the NAD continues to carry the liabilities of those conferences (the amount of the total retirement fund debt incurred by the regions), the pension funding levels **will gradually dip to about 4% of full actuarial funding in about 15 years**, before possibly beginning to recover.

But if the regional conferences remain in the NAD pension fund (by continuing to pay their money into it), **the levels may drop to only 8%** funding before recovery might take place.

At the present time, the NAD pension fund is about 13.6% of actual funding.

It is hoped that, after those low dips, the situation will improve,—but that is, at best, speculation; since, after years of hand-wringing, nothing has yet been done to definitely solve the problem. ***Only definitely planned and carried out changes, begun rather quickly, will cause those funds to later recover from the dips!***

When faithful church members speak up about the increasing worldly practices and erroneous teachings, their liberal pastors, backed by the conference office, put them down, take away their church offices, or disfellowship them as troublemakers. All that is left are the lukewarm and the modernists who provide less financial support.

As tithe and offerings drop, conferences keep laying off workers and do not hire new ones to replace those retiring. The number of younger church workers in the Division keeps lessening. Yet the older workers—the larger number—are steadily retiring.

So every year, more and more money is drawn out of the pension funds by retiring workers, and it is not adequately being replaced by the younger ones.

Compounding this is the problem that a sizeable amount of the basic retirement funds have been drained off over the years by committees for other projects, confident that the funds newly paid in by a steadily increasing younger work force could go directly to pay the support of the retirees.

As you can see, this parallels the U.S. Social Security problem, which is caused by two facts: First, the younger population is aborting their children, so the wage earners and Social Security payers are becoming smaller while the older, larger group are gradually retiring.

Second, Congress has taken money from the Social Security fund to spend on a variety of other things, ranging from cold war expenses to pork barrel projects.

We can understand why Congress might do this, since a majority of them may lack Christian principles.

But why our own leaders would essentially do the same thing is puzzling.

WHERE TO LOOK FOR SOLUTIONS

There are solutions, but none of them are likely to be easily done.

1 - More younger workers need to be hired, to offset the large number of those retiring. But, in order to do this, the church must make needed changes so conservatives will once again have confidence to entrust to it their funds. Many of the faithful no longer want to fund the increasing Celebrationism, the trademark lawsuits, and all the rest. They do not want to support liberal ministers, yet that is about all that is sent to pastor their churches. Their protests are ignored or ridiculed, and they are stripped of their church offices.

2 - Less older workers should retire. But there is no way to stop this, except by advancing the age of retirement to 67 or 70.

3 - Increase the amount of contributions paid into the retirement fund by the conferences and the work force. But this will accomplish little as long as committees keep emptying out the basic fund.

4 - Reduce the amount of money given monthly to the retirees.

One or more of the above four solutions will have to be applied, or erelong there will be no retirement fund at all!

— vf