SUMMER 2024 PENSION OFFICE NEWSLETTER

Plan Update

Investment Performance

The Pension Plan assets continue to be invested in a diversified portfolio of equities, fixed income, and alternative investments. The asset allocation includes a low volatility portion similar to cash in the amount of nineteen months of monthly cash requirements. This allows the portfolio to remain intact in periods of market decline by having sufficient cash available. Ongoing improvements in cash flow have again reduced monthly cash requirement from our investment portfolio.

The marketable securities portfolio, including the low volatility portion, managed by Morgan Stanley, earned 8.63%, net of fees for the 12-month period ending July 31, 2024. This compares to 12.41% earned for the same period by our benchmark representative of an asset allocation of 60% global equities, 35% intermedi-ate bonds, and 5% cash.

The performance of illiquid alternative investments is subject to delayed reporting of 1 to 5 months. Because of this, the Plan's performance is best evaluated over a longer period of time. These illiquid investments have produced an net return of 7.07% during the 1-year period ending June 30, 2024.

It must be reported that the cash flow of the Plan has improved dramatically over the past three years as increased participation and the raise in parish contributions have ameliorated the amount needed to meet expenses (administrative, benefits paid out, etc.). Regular monthly transfers from the low volitility reserves to meet shortfalls have been stopped. That reserve fund has been lowered from $1.5 M to $500k for emergencies.

Update continued on page 2

The Pension Plan Newsletter is a periodic publication to all OCA Pension Plan members and those mandated to participate by the All-American Council and the Holy Synod of Bishops. We hope to inform, answer questions, and most importantly, report on the Plan.

Things to Ponder

New hires are putting more of each paycheck into their 401(k). Not necessarily by choice.

Nearly a third of companies that use automatic 401(k) enrollment now start workers saving at 6% of their salaries or higher, about double the share of organizations that did so a decade ago, according to Vanguard Group.

A default 6% contribution rate was once considered too onerous for younger workers and too paternalistic by those who favor leaving decisions to individuals. "Initially, many companies defaulted people into the 401(k) at 2% or 3% of pay and that's where many stayed," said Dave Stinnett, head of strategic retirement consulting at Vanguard. "Now, companies are trying to get workers into the plan and saving as aggressively as possible."

The share of companies that auto-enroll workers at a 3% contribution rate has fallen to 33%. It was 56% in 2007.

Higher savings rates help ensure people take greater advantage of matching employer contributions—free money workers often leave on the table, companies say. It also boosts employees' total savings rates closer to the 12% to 15% of annual income financial advisers often recommend for a secure retirement.... Participants in plans with automatic enrollment saved 12.7% in 2023, on average. In 401(k) plans that require workers to sign up, savings rates averaged 10.3% last year.

Anne Tergesen
"6% of Your Paycheck Is Becoming
the New Standard for 401(k) Saving"
Wall Street Journal, June 28, 2024

There are several...studies indicating that DB *(defined benefit - ed.)* to DC *(defined contribution - ed.)* plan conversions and reductions in pension benefits increase income inequality as well as poverty among the elderly. For example, Robert Brown and Steven Prus, in their research paper Social Transfer and Income Inequality in Old Age, show that the lower the percentage of seniors receiving income from a public pension, the higher the income inequality among them.

Similarly, Kees Goudswaard and Koen Caminada, in a 2010 article in International Social Security Review, and Camila Arza in Pension Reforms in Europe, conclude that the shift from DB to DC plans generally results in poverty and higher income inequality among retirees.

Ponder continued on page 2

Update continued from page 1

These are the annual amounts (were/are) needed from the reserve fund to meet expenses:

2022: $1.6 million
2023: $838k
2024: $50k (projected - anticipated to be zero)

Once the cash flow turns positive (anticipated in 2025) with increased participation, assets can be moved back into the investment accounts, building for the future and funding status of the Plan.

Fair Market Value of Assets (YTD)

January 1, 2024	$23,907,189
July 31, 2024	$25,246,043

Participation

There are currently 382 (40 participate in more than one employer) active participating and 20 inactive members for a total of 402 active/inactive participants. There are currently 245 monthly benefits recipients.

These numbers are from 306 "employers," which includes parishes, dioceses, OCA Chancery, seminaries and pension office.

Administration

All members are reminded to PLEASE make sure your contact information (mailing address, phone number, email address) is accurate and up-to-date. Any member can call or text the Pension Administrator Michael Stieglitz at 516-464-0415. He can run projections of benefits and teach use of the member portal.

Ponder continued from p. 1

While the above studies show that transitioning from DB to DC plans increases income and wealth inequality, a 2023 study by Nari Rhee backed by both the National Institute on Retirement Security and UC Berkeley's Labor Center shows that participation in public pensions decreases economic inequality among the elderly. For example, the study finds that public pensions play an outsized role in the retirement income security of older adults and help narrow racial and gender wealth gaps.

"The Hidden Costs of Pension Reforms:
Rising Income Inequality, Lagging Economic Growth"
National Conference on Public Employee Retirement Systems

Older Americans—including young boomers with retirement accounts powered by a booming stock market—remain a major force in the economy. Those 55 and up control nearly 70% of U.S. household wealth, Federal Reserve data show. But that age group also includes older adults with little if any retirement funds socked away, or only Social Security to lean on, who are facing golden years laden with risk. For millions of younger boomers, who could live at least two more decades, a lost job or expensive medical problem could upend their stability while ramping up pressure on younger generations.

The baby-boom generation's long span means the youngest boomers hit major life events at different times than their elders. Their midcareer years, when earnings typically start to peak, got upended by the 2007-09 financial shock, according to retirement experts. Younger boomers without traditional pensions had to shoulder more investment risk while saving for retirement. There is also a greater share of non-white young boomers who are more likely to lack retirement accounts.

About a third of younger boomer households lacked retirement benefits beyond Social Security in 2022, the most recent year available, according to a closely watched Federal Reserve tool called the Survey of Consumer Finances. When the older boomers were roughly the same age, a smaller amount—one quarter—were missing these retirement benefits.

Many others have only meager savings or are worried that soaring health costs will quickly drain their reserves.

More of these young boomers "are going to enter into retirement without the resources they need," said David John, who studies retirement savings issues at the AARP Public Policy Institute....

Jon Kamp, Scott Calvert, and Paul Overberg
America's 60-Year-Olds Are Staring at Financial Peril
Wall Street Journal, July 22, 2024

What is an Estate Plan?

An estate plan consists of several legal documents that lay out what happens to your assets and liabilities when you die or become incapacitated. At the very least, it will consist of a last will and testament, a living trust, an advance directive and power of attorney.

While you may feel an estate plan is unnecessary because you lack sufficient assets to pass along to your family, it isn't all about the money. It also entails making sure your wishes about future medical care are understood and can drastically reduce the potential for family disagreements.

One of the biggest disadvantages to not developing an estate plan while you're healthy and of sound mind is that you remove the ability to make hard decisions on your own. In this case, the court may determine how to distribute your assets, or worse, your entire estate can go to the state. That's why it's so critically important to make smart estate planning moves now, and why everyone, including millionaires to anyone just starting out, should have an estate plan.

Daniel Bortz and Kathryn Pomroy
Kiplinger Retirement Tips Newsletter
July 25, 2024