Pension Perspective

FROM THE BRETHREN PENSION PLAN — APRIL 2007

Dear Pension Plan Member —

In the last two quarterly Pension reports, Plan members were notified of the possibility of a future change to one of the Plan's annuity interest rates. In February, the Brethren Benefit Trust Board of Directors voted to change the rate on Part A accounts from eight to seven percent, effective Sept. 1, 2007. The interest rate on Part B accounts, currently at six percent, will be subject to the annual review of the Board in April. This rate is expected to remain unchanged for another year.

As stated in previous editions of *Pension Perspective*, the reduction in annuity rate on Part A accounts reflects the reduced investment return on Pension investments since 2000. Although the performance of the stock and bond markets improved in 2006, the annualized return in the Retirement Benefits Fund (RBF) during the last seven years has been approximately 3.5 percent. While the Pension Plan maintains adequate reserves to cover its annuity liabilities, the recent low investment returns require an annuity interest rate strategy that is more conservative to ensure the long-term health of the Plan. (See "Understanding the annuity rate change" on page 3.)

"In February, the Brethren Benefit Trust Board of Directors voted to change the rate on Part A accounts from eight to seven percent, effective Sept. 1, 2007."

This change in rate in no way reflects negatively on the security of the Church of the Brethren Pension Plan. The Plan continues to grow — currently there are 4,180 members, including 1,299 annuitants, with assets totaling $294 million — and the Plan is fully funded. The estimated market value of assets in the RBF is $112 million, which is sufficient to cover current benefit liabilities. The lowering of the annuity rate will provide additional assurance of liability coverage.

Included in this publication is a list of frequently asked questions and responses. We expect that this information will further clarify the decision on the annuity interest rate and, if applicable, help you to make a timing decision regarding the start of your annuity.

As always, when you have questions about the Pension Plan, we refer you to the *Participants' Handbook* (which is available on our Web site), your Human Resources Office, or to our Pension Department at **800-746-1505**.

Sincerely,

Wilfred E. Nolen
President

Lori Domich
Member Services Representative

Frequently asked questions about the rate change

Q: If I have already annuitized, will changing the annuity rate affect my current monthly payment?

A: No. The rate change will only affect new annuitants. If you are already receiving a monthly benefit, then it will continue at its current amount.

Q: If I choose to "retire" now in order to secure the eight-percent annuity rate in my Part A account, can I still work and contribute into my Pension account with BBT?

A: Unless your employer's supplement states otherwise, you may begin receiving your annuity at age 60 while continuing to work. If you are 55 but not yet 60, you may annuitize but will have to "separate from service" for at least six months before resuming participation in the Plan. Annuity ages vary for organizations, so consult your employer's supplement to determine the guidelines that apply to you.

Q: If I am 60 and can annuitize my account at eight percent now while continuing to work and contributing to the Plan, doesn't it make sense to annuitize at this time before the rate is lowered?

A: Yes. New contributions will be placed in a supplemental account that you will annuitize at a later date.

Q: How much notice will I need to give BBT in advance if I decide to annuitize before the rate change comes into effect on Sept. 1, 2007?

A: BBT requires a three-months notice before starting an annuity. To receive the eight-percent rate, individuals need to notify BBT by June 1, 2007. Staff will send you application forms and compare the amount you would receive each month under the different kinds of optional payments for a single-life or a surviving-spouse annuity.

Q: How will lowering the rate from eight percent to seven percent affect the annuity I will receive?

A: If a 60-year-old individual has $100,000 saved for retirement and annuitizes at eight percent, he/she would receive a monthly payment of $785; at seven percent, it would be $721. However, by working one more year, earning a five-percent investment return, and contributing $7,500 more to the Plan, the annuity at seven percent would increase to $823 per month. For a 65-year old, the same $100,000 would receive $845 at eight percent and $897 a year later at seven percent with the same contribution and investment return.

Q: How does BBT's Pension Plan rates compare with other pension plans?

A: BBT surveyed other denominations with similar defined contribution pension plans within the 50-member Church Benefits Association to determine how our plan compares. Our survey showed that no other denomination is paying an eight-percent annuity rate and only a few are paying seven percent. Some have moved to a floor rate of four percent with supplemental payouts when possible.

Many denominations outsource their pensions to commercial institutions. Commercial annuity rates are currently around five percent. Recent quotes in *Annuity Shopper* for monthly payments for a $100,000 single-life annuity for a 60-year woman are $577 from First Colony, $556 from Allianz, and $584 from MetLife. (See above for a comparison with BBT rates.)

Q: Will there still be Part B accounts?

A: Yes. All contributions made to the Plan since July 1, 2003, are Part B account monies; contributions prior to that date are Part A. The annuity rate for Part B is reviewed annually and is currently set at six percent.

Q: BBT has occasionally made a 13th payment to annuitants at the end of a year. Is that possible in the future?

A: A bonus payment is possible, depending on market returns, but less likely since BBT provides a generous rate up front on its annuities. It is important that annuitants set up their own inflation hedge by saving a portion of their annuity to supplement this "fixed income" in the future.

Understanding the annuity rate change

The decision to lower the annuity rate on the Pension Plan's Part A accounts is a direct result of decreased market returns. In the past, BBT's diversified, balanced approach to investing was able to achieve sufficient annual returns to cover an eight-percent annuity rate, and, on occasion, even provide a 13th payment to annuitants at the end of particularly strong years. BBT's Retirement Benefits Fund, which is invested approximately 60 percent in equities and 40 percent in fixed income, reflects this decrease. Since 2000, it has only returned approximately 3.5 percent, far below the eight-percent payout rate on Part A accounts. Even though returns from equities have improved over the past three years, BBT's rate change recognizes that, overall, the markets are not providing the returns required to sustain an eight-percent annuity rate over the long-term.

The chart shows the slow rise and fall over 45 years of the 10-Year U.S. Treasury Note, a good indicator of fixed-income returns. Commercial annuity rates are closely correlated with the up and down movements in U.S. Treasury instruments. Since the early 1980's, there has been a slow and steady decline in yields to the present-day yield below five percent.

A balanced portfolio seeks to reduce risk by allocating a portion of assets in fixed income, like Treasury Notes, while achieving above-average performance by investing the remainder of assets in equities. If a balanced portfolio has 40 percent of assets in fixed income and achieves an annual yield of seven percent, then 8.7 percent return is required from equities to achieve a total portfolio return of eight percent. If the bond portion only returns five percent, however, then equities need an annual return that exceeds 10 percent to achieve a portfolio yield of eight percent and to cover investment fees.

BBT's decision to lower the annuity rate on Part A accounts recognizes that the current return on bonds is such that it is unrealistic to consistently achieve sufficient returns on equities to boost portfolio returns to cover the Pension Plan's Part A rate of eight percent. While BBT has been reluctant to lower a rate that so many Church of the Brethren Plan members have anticipated for so long, the long-term health and stability of the Plan require such a change be made at this time.

Markets and Economy

The Standards and Poor's 500 Index gained 0.6 percent in the first quarter, as solid returns in January and March offset a two percent decline in February. Rapid deterioration in the subprime mortgage market reignited worries that a decline in residential real estate prices will constrain consumer spending. This was offset by expectations that the Federal Reserve Board is close to cutting its discount rate.

Acquisitions and rising commodity prices helped the Utilities (up 9.3 percent) and Materials (up 9.0 percent) sectors deliver the best performances in the index. International equities were strong during the first quarter with the MSCI EAFE Index posting a 4.08 percent return. Of the two broad regions, the Pacific (up 4.57 percent) outperformed Europe (up 3.86 percent). Bonds continued a slow but upward trend with the Lehman Government/Credit Index up 1.47 percent for the quarter.

Do you have questions about your Pension Plan account? Contact Lori Domich, member services representative, at 800-746-1505 or at ldomich_bbt@brethren.org.

Quarterly Fund Performance Report

for the period ending March 31, 2007

All Pension investment funds must meet socially responsible investment guidelines.

Performance Report

FUNDS	BENCHMARKS

Common Stock Fund:

Rate of Return

Current quarter 2.5%

Year to date. 2.5%

Five years 6.9%

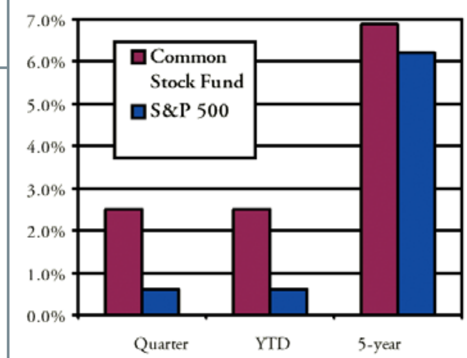
S&P 500:

Rate of Return

Current quarter 0.6%

Year to date 0.6%

Five years 6.2%



Balanced Fund:

Rate of Return

Current quarter 2.0%

Year to date. 2.0%

Five years 6.1%

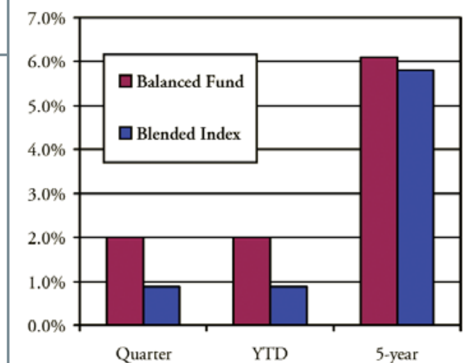
Blended Balanced Index:

Rate of Return

Current quarter 0.9%

Year to date. 0.9%

Five years 5.8%



Bond Fund:

Rate of Return

Current quarter 1.4%

Year to date. 1.4%

Five years 4.3%

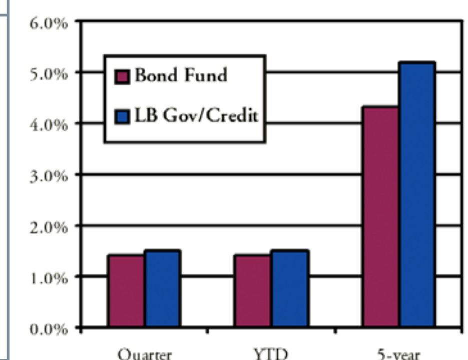
Lehman Bros Gov/Credit:

Rate of Return

Current quarter 1.5%

Year to date. 1.5%

Five years 5.2%



Short-Term Fund:

Rate of Return

Current quarter 1.1%

Year to date. 1.1%

Five years 2.0%

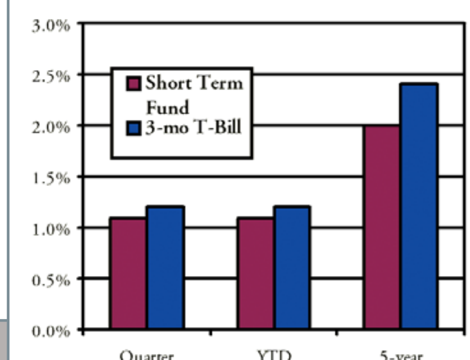
3-Month T-Bill:

Rate of Return

Current quarter 1.2%

Year to date. 1.2%

Five years 2.4%



Community Development Investment Fund:

Rate of Return

Current quarter. 0.5%*

Year to date 0.5%*

Three years 2.3%*

*Interest accrues on a quarterly basis.

This ministry-focused fund does not have a benchmark.

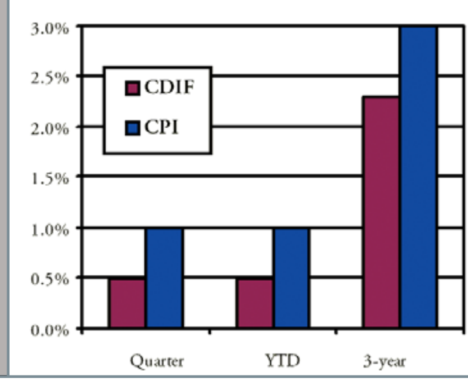
Consumer Price Index:

The CPI is an indicator of inflation. It is not a benchmark for the CDIF.

Current quarter 1.0%

Year to date. 1.0%

Three years 3.0%



Returns for periods longer than one year are annualized.