The Church Pension Group Annual Report 2008

"Distant missionaries as well as rectors near by felt a fresh thrill of devotion and the laymen and women of the Church, grateful for this beginning, set their hand toward the permanent support of pensions. It was a new day for the Church, for the dignity and efficiency of the clergy, and for their leadership of the people."

The Story of the Pension Fund
— Bishop William Lawrence, 1931

the story of the pension fund

retold for a new generation

Statistical Highlights

Cumulative Pension Fund Operations

	Since Inception (1917)
Total assessments and original pledges received	$1,891,649,621
Investment income and gains*	10,301,322,220
Total income	12,192,971,841
Benefits paid for clergy and dependents	3,064,959,079
Transfers to special funds	1,366,398,042
March 31, 2008 Funded Reserve	$7,761,614,720

*Net of expenses and other deductions

Participant Statistics

	2008	2005	2002
Active Fund Participants†			
Number			
Male	5,099	5,444	5,751
Female	2,499	2,267	2,045
Total	7,598	7,711	7,796
Participants' Average Age	53.3	53.1	52.7
Average compensation	$62,930	$59,689	$54,932
Those Receiving Benefits			
Retirees			
Normal Retirement	3,252	2,808	2,600
Early Retirement	3,097	2,931	2,683
Disability Retirement	438	378	375
Total	6,787	6,117	5,658
Average Annual Pension Benefit	$27,162	$20,668	$19,090
Average Age	73.7	73.4	73.1
Surviving Spouses			
Number	2,569	2,519	2,468
Average Benefit	$17,626	$12,987	$11,610
Average Age	78.1	77.6	77.0

† Those for whom payments are made into plan. Participant statistics as of December 31, 2007.
Source: Buck Consultants, Inc. Actuarial Report

Ordinations by Calendar Year

	2007	2004	2001
Number of Individuals Ordained*	402‡	509	448
Average Age at Ordination	47.4	47.4	47.9

* Includes both U.S. and non-U.S. ordinations under all canons.

‡ This figure may increase when additional information is received from dioceses.

This annual report is printed on Mohawk Options 100% PC Smooth White paper, which is made with 100% post-consumer process chlorine-free waste fiber. This paper is certified by Green Seal and by SmartWood for FSC standards. The electricity used to manufacture this paper is offset with 100% Green-e certified wind certificates. Printed by Candid Litho, an FSC certified printer.

Retold for a New Generation

We are a storytelling Church. Whether it is in the reciting of the Eucharistic Prayers, the reading of the Holy Scriptures, the illustrations used in a preacher's sermon, or the sharing of our own experiences of God's presence in our lives with others, we are a Church that tells stories, and not only do we learn from them, but we are enriched by them.

And so it was with much interest that we recently came across an original copy of a booklet entitled *The Story of the Pension Fund, Retold for a New Generation*, written and disseminated by Bishop William Lawrence in 1931. In it, he writes of the origins of the Church Pension Fund (CPF) fifteen years earlier, its guiding principles, and the record of its growth, retelling the story for the clergy and lay employees of that time.

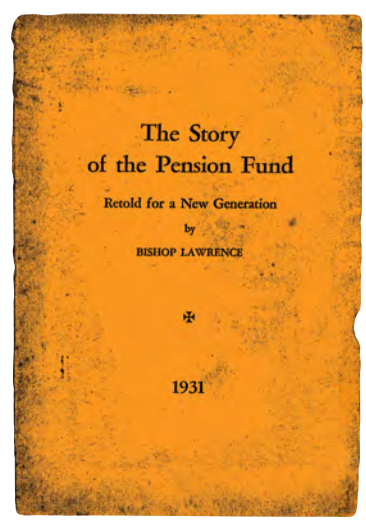
This year, as we embark on an extensive review of the Church Pension Fund Clergy Pension Plan and continue our work in regard to General Convention resolutions on lay employee benefits and Church-wide healthcare coverage for active employees — all of which should have a positive impact on generations of clergy and lay employees to come — it seems appropriate to take a leaf from Bishop Lawrence's book and tell the story of the past year in light of the Church Pension Fund's history and the guiding principles handed down to us by its originators.

Recently, the CPF Board crafted its own statement of Guiding Principles. Interestingly, it echoes principles contained in Bishop Lawrence's book, expanding upon them to serve the needs of today's Church. For example, Bishop Lawrence stated that an essential element of a pension system is certainty, and that *"whether the pension be small or large,"* the cleric *"has a right to that assurance throughout his active years and upon his retirement must receive it not as a favour or charity but as a right."* Today's Guiding Principles state that *"the Plan should provide sufficient financial resources to allow full career clergy and their beneficiaries the ability to maintain the lifestyle they enjoyed prior to retirement and to live comfortably and with dignity in retirement."* The same principle, retold for a new generation.

Today, as then, CPF Trustees and Church Pension Group (CPG) staff are thankful for the opportunity to serve the Episcopal clergy and lay workers of our Church, and appreciative of the responsibility we bear not only to the current generation but to those that follow. We are grateful that, despite the recent turmoil in the financial markets, pension fund assets are safe and investments have once again outperformed the market; and that the work of our affiliate companies continues to enhance the service we provide to the Church.

As we retell the story of the Church Pension Group during 2008, we are mindful of our mission as stated by the CPF Board in 2003 — *to fulfill our fiduciary responsibility by serving the clergy, lay workers, dependents, parishes, dioceses and other institutions in The Episcopal Church through the provision of pensions and other benefits and services that will contribute to their lifetime economic, physical, emotional and spiritual well-being.*

It is, in a sense, a retelling of what Bishop Lawrence wrote in 1931: *"The members of the Church are not individuals acting each for his own personal benefit, but they form a mutually depending body, clergy and laity, a great group, a Church."*



The Board of Trustees

Dear Friends,

The past year has been both busy and productive. Much progress was made on a number of important initiatives undertaken in support of the Church, and the total return on our invested assets once again outperformed the market.

The long-term efforts of the Investment Committee and staff have once again resulted in excellent investment returns. Despite market turmoil, the Fund's total Assets Available for Benefits rose to nearly $9 billion as of March 31, 2008. Despite continuing market volatility since that date, the Fund's financial condition remains very strong, with assets well in excess of liabilities, and your pension benefits are fully secure.

The CPF Board approved an annual pension benefit cost-of-living increase for the 29th consecutive year and a supplementary pension benefit increase of $10 per month for clergy plan participants, surviving spouses, and lay employees enrolled in the lay defined benefit plan. Several other benefit enhancements were also instituted, as noted below.

A comprehensive review of the Clergy Pension Plan was initiated early in 2008, we continued our work on two unprecedented studies authorized by resolutions of the 75th General Convention that are of vital importance to the Church, and the affiliate companies had a productive year, as well.

This report provides an overview of the past year's enhancements and events, updated investment performance as of March 31, 2008, and the latest details of our work in response to the two General Convention resolutions mentioned above, the first dealing with lay employee benefits and the second with the feasibility of Church-wide healthcare coverage for active clergy and lay employees.

Benefit Enhancements

The continued investment success of the past year and overall financial health of CPF supported a number of benefit enhancements:

2.3% Cost-of-Living Increase plus $10 Per Month: Effective January 1, 2008, the CPF Board approved a 2.3% cost-of-living increase to monthly pension benefits for retired clergy and surviving spouses participating in the Clergy Pension Plan, dependent children receiving a benefit, and lay employees retired from the lay employees' defined benefit retirement plan. The board also approved a supplementary benefit increase of $10 per month for retired clergy, surviving spouses, and lay retirees in order to give proportionately more to those with the lowest benefits.[1]

Increase in CPF Subsidy of Medicare Supplement for Clergy Retirees: The Episcopal Church Medical Trust modernized the post-65 retiree Medicare supplement plans in 2003. The Comprehensive and Premium Plans were introduced, later supplemented by the Plus Plan. Thus, retirees can now choose from three plans to meet their healthcare needs and fit their

"The Pension Fund has paid out, in these fourteen years [since its inception], more than eight million dollars…"
— The Story of the Pension Fund, 1931

The Pension Fund has paid out, since its inception, more than three billion dollars in benefits for clergy and dependents.
— The Church Pension Group Annual Report, 2008

[1] Those of you whose benefits began during 2008 received a pro-rated increase proportional to the number of months you have been retired.

financial resources. Although the plans have been continually improved — hearing and travel benefits were added for all plans and additional benefits were added to the Comprehensive Plan — there had been no cost increase to retirees for these plans prior to 2008.

Despite the addition of some government funding for the inclusion of prescription drugs, as well as administrative savings and group purchasing savings via Medco, it became necessary to increase the per-month cost of the three plans for 2008, primarily because of medical and prescription drug price inflation and the high usage of prescription drugs.

However, the Church Pension Fund is pleased to be able to increase its subsidy of the post-65 retiree Medicare supplement from $235 per member per month to $250, thus fully covering the cost increase of the Comprehensive Plan, while mitigating the cost increases of the Plus and Premium Plans.

For a full description of the healthcare benefits and costs of the post-65 retiree Medicare supplement plans, please contact the post-retirement member services team at (866) 273-4545 or mtcustserv@cpg.org.

Increase in Clergy Retiree "Allowed Earnings": Many clergy continue to serve the Church through temporary or part-time employment during retirement. Retired clergy can now earn up to $31,500 from Church employment during 2008 and still receive full pension benefits.

Customer Satisfaction Study

In order to better serve clergy and lay employees, both active and retired, CPG has instituted a customer satisfaction study project which will extend over the next several years. The project began with the selection of The Center For Client Retention to conduct a customer satisfaction survey in regard to our pension and retirement services. From this, a series of benchmark measures were established against which to quantify our level of customer service and evaluate our progress in improving it, and to introduce a greater level of accountability toward those we serve. We are studying the results of that survey and the many comments transcribed by the interviewers who conducted it. While we are quite pleased with the overall levels of customer satisfaction revealed by the study, some areas for improvement have been identified. During the coming year and beyond, we will be extending this study to our other affiliated companies in order to establish benchmarks for them as well. Our intent is to formulate plans to improve any areas of weakness while continuing to build on areas of strength. We expect to survey our constituents and customers at regular intervals to ensure that we are making progress in our efforts to serve you better.

CPG Supports the Millennium Development Goals

In acknowledgment of the fact that achieving the Millennium Development Goals is a stated mission priority of The Episcopal Church for the next three years, the Church Pension Fund Board affirms the following policies in support of that initiative:

- CPF will continue to make social responsibility in investments an important priority consistent with its fiduciary duty, particularly as those investments may support achieving the Millennium Development Goals.
- In its own management and operations, CPF will continue to promote gender equality and empower women.
- CPF will continue to review its business operating policies and practices and take actions at reasonable costs to better ensure environmental sustainability. (As an example, the annual report you are reading was printed on FSC-certified 100% recycled paper and the oils in the inks are 100% plant-derived.)

The CPF Board recently approved the formation of an *ad hoc* Commission on CPG Corporate Sustainability, to be chaired by Bishop Peter Lee, Vice Chair of the CPF Board. The commission will explore "green" opportunities, control our carbon footprint, seek reductions in harmful emissions, and generally look to minimize our environmental impact.

CPG's diversity initiatives continue through the Diversity and Workplace Values Committee of the CPF Board.

We are committed to continuing to support the Millennium Development Goals in ways that are consistent with our mission.

> "The present assets are 28 million dollars which are so held or pledged for reserves that the amount of every promised pension is assured…"
> — The Story of the Pension Fund, 1931

> "The clergy pension plan is fully funded, and sufficient resources have been set aside to fund ongoing benefits for all current active and retired plan members and their eligible spouses."
> — The Church Pension Group Annual Report, 2008

Investment Performance

Financial markets showed mixed results in fiscal 2008. While markets were generally strong early in the fiscal year, the tightening of credit conditions as a result of problems in the leveraged loan market and subprime mortgages led to significant market turbulence and volatility in the last three quarters of the fiscal year. As equity valuations were not cheap going into the fiscal year (something we pointed out in last year's annual report), it is not surprising that bonds outperformed stocks for the first time in many years. Not all equity markets performed similarly. Stocks in emerging markets were up more than 20%, while the S&P 500 was down more than 5% and small capitalization U.S. equities were down 13%. Although bonds outperformed stocks, high-yield bonds showed negative returns as credit spreads widened due to the tighter credit conditions.

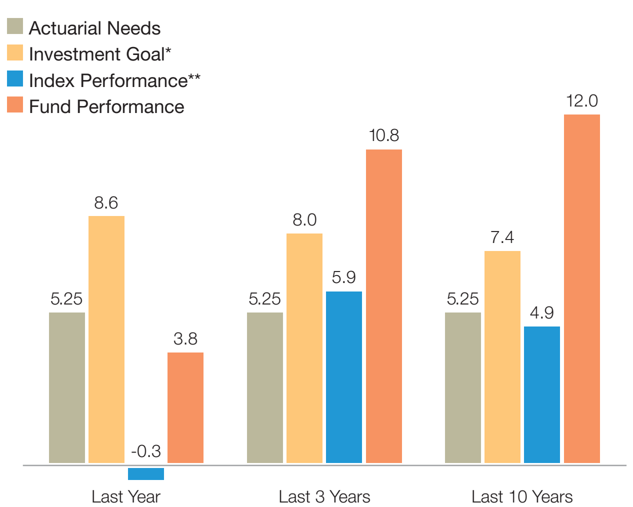
Notwithstanding the market turmoil, the Church Pension Fund performance was positive in fiscal 2008, as shown in the left-hand exhibit below. Although the Fund outperformed an index portfolio of 65% S&P 500 stocks and 35% Lehman Brothers Government/Corporate bonds, it did not meet its investment goal of a return of 4.5% over inflation. Despite this one-year result, the Fund performance compares very favorably against all three indices on a three- and ten-year basis, periods that are much more relevant for determining future benefit enhancements. This is largely a result of the Fund's well-established program of non-traditional investments such as non-U.S. equities, real estate, private equity, and specialized strategies such as risk arbitrage, distressed debt, and hedge funds.

That investment performance has increased the Fund's total Assets Available for Benefits to nearly $9 billion, as shown in the right-hand exhibit below, and enabled us to maintain $2.7 billion in Additional Funds. Required Reserves are the dollars required for paying pension and other benefit obligations; the Securities Valuation Reserve is an amount held as a provision against the possibility of a significant loss of value in the investment portfolio; and Additional Funds are assets available for benefits in excess of both the Required Reserves and the Securities Valuation Reserve. The Fund is in very strong financial condition, with assets well in excess of liabilities.

Although the Fund's long term investment performance has been excellent, we are not immune to financial market volatility. We are confident that the Fund's broad diversification positions the Fund well for continued growth over the long term. While periods of market turbulence can be unsettling, they can actually provide attractive opportunities and the Fund, as a long term investor, is in a strong position to take advantage of them.

Investment Performance for Periods Ending March 31, 2008

Annualized Total Return in Percent

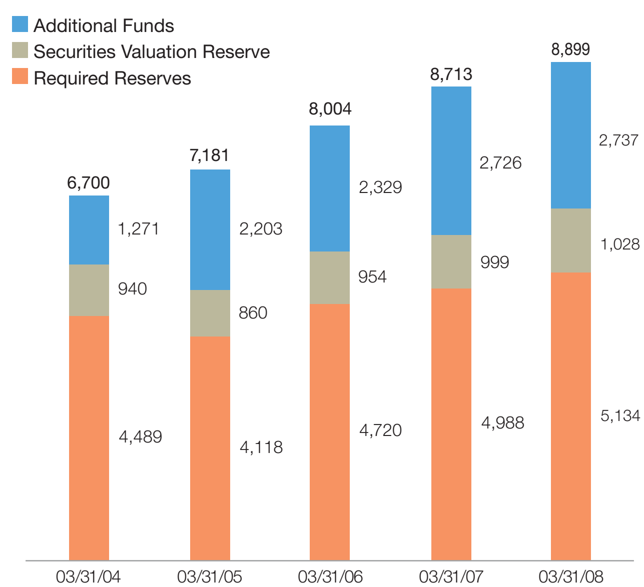


*Investment Goal is a return of 4.5% over inflation.

**Composite performance of a portfolio weighted 65% in S&P 500 stocks, 35% in Lehman Brothers Government/Corporate bonds

Assets Available for Benefits*

Dollars in Millions



*Total assets excluding non-benefit liabilities, assets commingled for investment purposes, legacy and gift funds, investments in affiliated companies, and home office building

Significant Accomplishments

- CPG continued its work on the unprecedented research studies, analyses, and recommendations as authorized by the 75th General Convention resolutions on lay employee benefits and a Church-wide denominational health plan.

- The Fund's total Assets Available for Benefits reached nearly $9 billion as of March 31, 2008; the Clergy Pension Plan was ranked 132 in the U.S. by *Pension and Investments* magazine based on size of assets.

- The Episcopal Church Medical Trust introduced a web-based application that allows diocesan and parish administrators to manage enrollment and account balances, in a real-time self-service environment.

- The Church Insurance Company of New York was established so that New York Church institutions can avail themselves of the cost and coverage advantages of a captive property and casualty insurance company.

- The CPF Board's Retirement Programs Committee authorized CREDO Institute, Inc. to conduct six CREDO conferences for lay employees during the 2008–2009 period.

- Church Publishing Incorporated (CPI) developed a strategic plan to guide future CPI growth and completed the initial phase of a significant rebranding campaign.

- Two new dioceses joined Church Life Insurance Corporation's group life insurance program.

- Nearly 90% of clients with matured annuities chose to keep their funds with Church Life Insurance Corporation.

- Total participants in The Episcopal Church Lay Employees' Defined Contribution Retirement Plan and The Episcopal Church Retirement Savings Plan rose 9% during the past year.

The Church Pension Fund Will Adopt GAAP in the Upcoming Year.

The Church Pension Fund was notified in early 2008 by the State of New York Insurance Department (the "Department") that the annual audited financial statements for retirement systems and pension funds will be required to be prepared based on U.S. generally accepted accounting principles ("GAAP") instead of the current accounting practices prescribed or permitted by the Department. The Church Pension Fund agreed with the Department to adopt this change for the year ending March 31, 2009.

Comprehensive Review of the Clergy Pension Plan

For almost a year, the Retirement Programs Committee of the CPF Board of Trustees and the staff of the Retirement Programs and Services department of the Church Pension Group have been preparing for and engaging in a comprehensive review of the Clergy Pension Plan. After a thorough interview process that included a number of major human resources firms, we engaged the services of Towers Perrin to assist us in the review. Since Towers Perrin works with the pension plans of a large number of organizations outside the Church, we felt that they could provide a fresh and unbiased perspective on how well, or how poorly, the Clergy Pension Plan serves Plan participants in the domestic and overseas dioceses of The Episcopal Church.

While the board and staff believe that the Clergy Pension Plan is a good plan, we wanted to know how it compares with other retirement plans — not only those of other religious organizations but those in the corporate world as well. In addition, we wanted to ensure that the Clergy Pension Plan provides our beneficiaries with a retirement that is not just "adequate" but "comfortable."

The work done by Towers Perrin was multifaceted. First, they engaged in conversations with both staff and trustees in individual and group settings. Then, with staff participation, they developed and circulated surveys that were distributed to active clergy, retired clergy, surviving spouses, and the bishops of Province IX and the other overseas dioceses, and conducted focus group discussions during several Planning For Tomorrow conferences. Using what was learned during those interviews, surveys, and focus groups, they assisted the staff and trustees in the development of a set of Guiding Principles by which the Clergy Pension Plan, and any future enhancements to that Plan, could be measured. A set of "comparator organizations" was identified so that we could measure our plan against other organizations' pension plans to see how we compared. Finally, Towers Perrin developed a set of proposals for possible Plan improvements.

The review of the Clergy Pension Plan yielded some interesting learnings:

- Our Plan produces a high "replacement ratio" compared with the plans of other organizations. In other words, the retirement benefits provided by the Clergy Pension Plan generally return to clergy who have served a 30-to-40-year career a high percentage of the amount they were earning just before retirement. It is important to note, however, that compared to the other organizations in the comparator group, our clergy population is much lower paid. Therefore, despite the higher replacement ratio, our population is actually receiving a lower pension benefit in real dollars than are beneficiaries in the comparator organizations.
- Our retired beneficiaries say that they are "comfortable," but this appears to be an "anxious" comfort, as they also report being worried about their financial future, especially in regard to increasing medical costs, future housing costs, having enough income once they cease working in retirement, and leaving adequate resources for a surviving spouse.
- Conversation in the focus groups in particular revealed that there is a sensitivity toward a perceived inequality in the Plan — those who have earned a higher level of income enjoy a higher pension benefit in retirement, while those who served in smaller and less financially viable settings receive a lower pension benefit despite earning the same number of years of Credited Service. Focus group participants and survey respondents suggested that any future increase in the pension benefit calculation should be done in such a way that the lower-compensated clergy would get a proportionally larger increase, thus continuing our practice of moving toward greater equity among clergy beneficiaries.

"It will be a happy day when our aged pastors upon retirement receive not charity, but an allowance to which they have a claim for services rendered and paid in from month to month by their successive parishes through their years of active service."

— The Story of the Pension Fund, 1931

"The Plan should encourage and reward longer service to the Church by clergy. The Plan should function in the most equitable manner possible for all. The design of the Plan should minimize differences based on marital status, gender, and age."

— The CPF Clergy Pension Plan Guiding Principles, 2008

- The most anxious group of beneficiaries is that of the surviving spouses, particularly those whose clergy husbands died during active service. For this group, the combination of survivor pension and life insurance does not seem to produce enough income to render these beneficiaries “comfortable.”
- There are a variety of needs among the retiree population, and more flexibility in the Plan could be helpful. For example, some retired clergy are concerned about future escalating medical costs. Others are concerned about significant future housing costs. Some are worried about entry fees into long term care facilities, or the cost of long term care insurance. Still others are concerned about providing adequate financial support for a surviving spouse in the future.
- Members of the clergy who retired early or under disability are concerned with the cost of medical insurance prior to reaching age 65, at which time Medicare and the Medicare supplement programs are available to them.
- Seminary debt service has precluded many clergy who were ordained in the last 20 years from saving for retirement.
- The seven-year Highest Average Compensation (HAC), part of the retirement calculation, does not conform to industry standards. A computation based on five years is more normative.
- In regard to the overseas dioceses of The Episcopal Church, a one-size-fits-all approach probably is not effective.

Overseas Dioceses

Within the context of the review of the Clergy Pension Plan, Towers Perrin studied average income levels of the general populations of Province IX and other overseas dioceses. In addition, they became familiar with and reported the descriptions of the government-provided pension and medical benefits for each country. CPG staff members studied the income levels of clergy in the various overseas dioceses. Staff also visited each of the countries to discuss a possible Church-wide denominational health plan, and via personal meetings with bishops, staff, and clergy in the various dioceses, learned about the effectiveness, or lack thereof, of the government-sponsored programs.

In personal conversations, staff members heard concerns in some overseas dioceses about minimum pensions, and concerns in others about the level of clergy compensation. We learned that some overseas dioceses have very good retiree medical programs, while others need additional assistance in this area. While we understand that there are significant needs in the overseas dioceses, we also feel that we need to learn more.

To that end, CPG staff are preparing to meet with the bishops of Province IX either before or after their provincial meeting in late October 2008 in order to learn much more about the individual and collective needs of our Plan participants in the various dioceses. Plans to meet with representatives from the other overseas dioceses are being developed as well. From these meetings, we hope to develop a strategy for the education of clergy in regard to Plan benefits, the training of administrative staff, and a listening process so that we can become more familiar with and responsive to the needs of the dioceses located beyond the U.S. mainland.

Going Forward

The Retirement Programs Committee held full-day meetings in April and May, during which the report from Towers Perrin was received, survey results were reviewed, and the effects of possible future benefit enhancements were studied. Actuaries from Buck Consultants calculated the effect of specific benefit enhancements on the Required Reserves, as well as the impact of those enhancements on the retirement benefits of clergy and surviving spouses. The changes and enhancements currently under consideration directly correspond to the needs identified by the review of the Clergy Pension Plan; they also conform to the Guiding Principles identified at the beginning of the study.

Over the next several months, the Retirement Programs Committee and the full CPF Board will continue to consider recommendations for enhancing the benefits available through the Clergy Pension Plan, so that the resources that have accrued may be stewarded in a way that responds to the needs discovered in the review, and the Plan beneficiaries may truly experience a “comfortable” retirement.

"Hence the Church had to be content with planning at first for very small pensions and build up a system which in time would reach its practical ideal… Supported by two fresh and complete re-studies of vital statistics and actuarial calculations the Fund has included the entire class of clergy which was at first excluded and every widow that can be discovered."
— The Story of the Pension Fund, 1931

Findings and Conclusions of the Comprehensive Lay Employee Study Undertaken in Response to 75th General Convention Resolution A125

Some Background

In the quote above, Bishop Lawrence rejoices in the inclusion, after much study, of a "class of clergy" that had previously been excluded. Today, a full understanding of lay employee demographics and benefits is vital to the Church's determination of what should constitute fair provision of lay employee pension benefits. Resolution A125 of the 75th General Convention authorized and requested the Church Pension Group to undertake the first comprehensive research study of Episcopal Church lay employees. The findings of that study, highlights of which appear below, support the work of the Church's Task Force to Study Employment Policies and Practices and the A125 Feasibility Study Group's feasibility study regarding whether pension benefits for lay employees should be made compulsory and be administered by a single provider.

Our research study of lay employees took over a year to complete. First, a confidential lay employee census was sent to every Episcopal congregation in the U.S.; Episcopal dioceses and institutions were also surveyed. We then selected The Gallup Organization, a well-known and respected research firm, to conduct an individual survey of all lay employees, including those identified through that census, and all lay employees whom we had in our records because they have a CPG product. We also publicized the availability of the survey through the Church's diocesan administrators as well as via the CPG website in an attempt to invite all of the Church's lay employees to participate; we wanted to ensure that every voice was heard. In addition, we conducted a study of lay employees in overseas Episcopal dioceses.

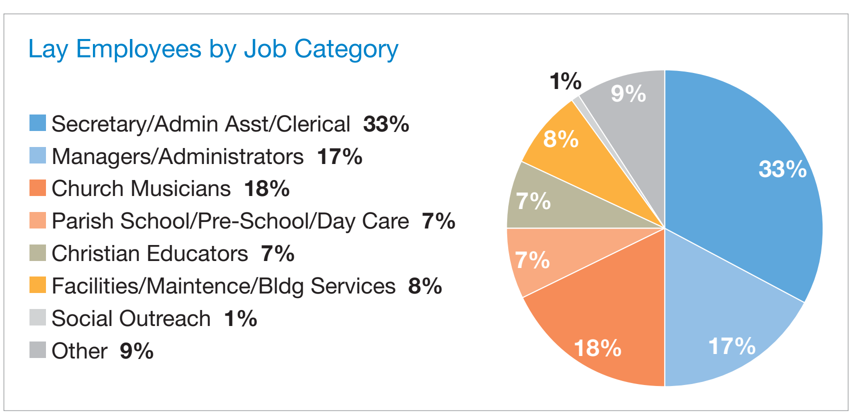
We also looked at comparable employees in other sectors to see if Episcopal Church lay employees differ significantly from their peers. We researched pension benefits provided by other denominations and not-for-profit employers, and reviewed retirement plan documents from dioceses and congregations that do not provide lay employee retirement plans through the Church Pension Group. This part of our authorized study will help ensure that any lay employee retirement plan(s) that may ultimately be recommended as part of the Church's A125 Feasibility Study Group's feasibility study will take into account not only CPG's plans but the other plans currently in effect around the Church.

The full report of the Lay Employee Study will be available in the fall of 2008. What follows is an overview of the findings to date.

Demographics, Employment Conditions, and Compensation

The data collected from the employer census and individual lay employee surveys revealed much about the lay employees serving the domestic dioceses and congregations of The Episcopal Church. Key findings include:

The majority of the lay employees are responsible for some form of congregational administration. Lay employees occupying secretarial, administrative assistant, or clerical positions account for 33% of the total lay employee workforce. 18% of lay employees are church musicians, 7% work in a parish school, pre-school, or day care, and 7% are Christian educators. Diocesan employees make up approximately 5% of the lay employee workforce. Social outreach employees, facilities workers, and "other" account for the remainder.



Of the lay employees responding to the survey, 54% have worked for their employer for five years or longer. The lay employees were almost evenly split between those working 20 hours or more per week and those working fewer than 20 hours per week.

A majority of the respondents reported that they had a written job description (73%), but of those who did, only 27% stated that their job description was up to date. Further, approximately 43% of the respondents felt that their roles and responsibilities were unclear at least part of the time. Finally, only 38% reported that they had received a formal performance appraisal or annual review in the twelve months prior to responding to the survey.

Compensation averaged $36,500 for all lay employees working 20 or more hours per week. Average compensation for Episcopal Church male lay employees exceeded that of Episcopal Church female lay employees in all employment classifications except diocesan employees and church musicians.

The average age of all lay employees is 53. Approximately 72% of the lay employees are female, with an average age of 49. The majority of the lay employees (approximately 68%) are either married or partnered.

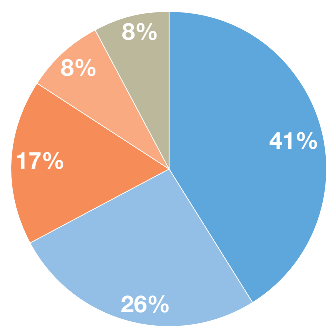
A Strong Sense of Mission

Survey findings indicate that lay employees have a strong sense of mission. 58% of lay employees are Episcopalians, and 43% of lay employees said they were members of the congregations in which they were employed. 52% of lay employees took a pay cut to work in the Church; only 26% received a pay increase. Most lay employees indicated they were happy with those they work with, and highly value the time flexibility their jobs afford them to fulfill other commitments.

Lay Employees Have a Strong Sense of Mission

Survey Question: "In making your employment decision, how important was the mission and purpose of this organization?"

- Extremely Important **41%**
- Somewhat Important **26%**
- Neutral **17%**
- Somewhat Unimportant **8%**
- Not At All Important **8%**



Benefits Vary by Employer and Number of Years and Hours Worked, but Many Have No Benefits

Findings indicate that approximately 30% of the lay employees working in congregational settings who meet the eligibility criteria of the 1991 General Convention Resolution D165(a) — the intent of which was to provide pensions to lay employees working 1,000 hours or more per year — do not receive the lay pension benefits contemplated by that resolution more than 15 years after its passage.

Approximately 93% of diocesan employees who work 20 or more hours per week and who have been employed for a minimum of one year have employer-provided pension benefits. In contrast, only 70% of lay employees who work 20 or more hours per week in a congregational setting and who have been employed for a minimum of one year have employer-provided pension benefits.

Further, while the compliance rate with the 1991 Resolution D165(a) increases based on the hours a lay employee works per week, even at the highest level — 40 hours or more per week — approximately 18% of the lay employees who have been employed by a congregation for a minimum of one year are not provided lay pension benefits.

When we segment the population of lay employees employed by congregations who have pension benefits by their tenure and hours worked, we find that only 29% of the lay employees who have been employed for less than four years and who are working between 20 and 29 hours per week have lay pension benefits. While the percentage increases for longer-tenured lay employees who work between 20 and 29 hours per week, only 50% of the employees whose tenure exceeds 20 years are provided lay pension benefits.

Census data reveals that parish school, pre-school, and day care lay employees of the Church who work 20 or more hours per week and who have worked for the Church for more than one year are also underserved with regard to lay pension benefits. Only 58% of these lay employees are provided pension benefits.

77% of male lay employees who work 20 or more hours per week in congregational settings have lay pension benefits. However, only 68% of female lay employees who work 20 or more hours per week in congregational settings have lay pension benefits. When combined with the fact that 72% of the lay employees are female, it indicates a tendency to under-provide pension benefits to the lay employees of The Episcopal Church.

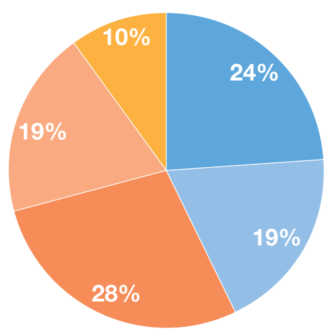
Lay Employees Are Understandably Anxious About Retirement; Women Are Especially Concerned

As previously stated, approximately 72% of all lay employees are female; of these, about 68% are married or partnered. Notwithstanding the importance placed on their spouse's or partner's pension plan, 42% of the married or partnered female lay employees are not confident that they will be able to maintain their current standard of living in retirement. Additionally, among single and divorced female lay employees, 63% do not believe they will be able to maintain their current standard of living in retirement. When one also considers that women spend, on average, 11.5 years away from work while caring for children or elderly parents, and that the majority of married women will outlive their husbands which may result in a reduction in household income, the plight of the female lay employee who has a limited or no employer-provided pension benefit becomes even more problematic.

Many Lay Employees Are Anxious About Retirement

Survey Question: "How confident are you of being able to maintain your current standard of living when you retire?"

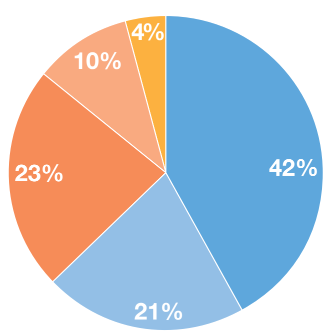
- Not At All Confident **24%**
- Not Too Confident **19%**
- Neutral **28%**
- Somewhat Confident **19%**
- Extremely Confident **10%**



Retirement Anxiety Levels for Female Lay Employees Who Are Single or Divorced

Survey Question: "How confident are you of being able to maintain your current standard of living when you retire?"

- Not At All Confident **42%**
- Not Too Confident **21%**
- Neutral **23%**
- Somewhat Confident **10%**
- Extremely Confident **4%**



Conclusions

Full descriptive profiles of the responding lay employees in the various employment classifications, together with illustrative graphs, are included in the Lay Employee Study, available in the fall of 2008. That study also includes information about pension benefits provided to lay employees of overseas Episcopal dioceses, other denominations, and not-for-profit organizations, as well as a review of retirement plan documents from sources other than the Church Pension Group.

The following conclusions can be drawn from the information contained in that comprehensive research study.

- The Episcopal Church has a highly motivated group of lay employees with a strong sense of mission and service to the Church.
- There is a high level of anxiety about the future, particularly among those who rely most on the Church for retirement income. These include many single, divorced, and widowed women, a group which, in the wider population, is most likely to experience poverty in old age.
- This anxiety about the future negatively affects the lay employees' sense of satisfaction with and engagement in their work.
- Lay employees value the Church as a work environment that provides a sense of flexibility and that has people in it who care about them personally.
- In terms of the formal structures of employment, such as the correct assignment of employees into exempt and non-exempt from overtime compensation classifications, the creation or updating of job descriptions, and annual performance appraisals, the record of the Church as a whole is poor.
- Weak formal employment practices around the Church gradually erode the sense of mission and joy that lay employees receive from their work.
- Lay employee pension benefits are already provided to the employees in 80% of the domestic dioceses and to 67% of the employees working for the largest domestic congregations through one provider – the Church Pension Group.
- A review of the plan documents and the summary plan descriptions that were submitted by the dioceses and congregations who are not participating in a Church Pension Group lay pension plan did not reveal any significant features that are not already part of the Church Pension Group's lay pension plans.
- The lay pension plans sponsored by other providers by and large comply with the provisions of Resolution D165(a) of the 70th General Convention.
- The estimated average cost to provide lay pension benefits for those lay employees who currently do not have them ranges from $34 to $12 per pledging unit annually, depending on the size of the congregation. The average annual cost across the Church is approximately $20 per pledging unit.
- The average annual cost to provide lay pension benefits for those lay employees who currently do not have these benefits is less than 1% of the Church's operating revenue.

We welcome your feedback and questions. Contact Linda Puckett at (800) 223-6602 x6260; *lpuckett@cpg.org*.

> "The members of the Church are not individuals acting each for his own personal benefit, but they form a mutually depending body, clergy and laity, a great group, a Church."
> — The Story of the Pension Fund, 1931

Update: Denominational Healthcare Coverage Feasibility Study and Recommendations

In the face of rapidly rising healthcare costs, as well as justice issues surrounding healthcare benefits for active Church employees, the 75th General Convention passed a resolution authorizing CPG to undertake a healthcare coverage feasibility study and to report its findings and recommendations to the 76th General Convention in July 2009.

That study, which has been ongoing for the past 24 months and will continue into 2009, is being conducted under the leadership of the CPF Board's Healthcare Coverage Feasibility Study Advisory Group, headed by David R. Pitts. Under the oversight of that group, the project team has evaluated other denominations' experiences of healthcare coverage provision, and is analyzing current healthcare industry economics, performing an in-depth evaluation of the Church's current approach to providing employee healthcare benefits, and analyzing past, current, and projected costs. Episcopal employers and clergy and lay employees have been extensively polled throughout the study process through a formal census, multiple surveys and data collection requests, and in-person presentations and group discussions.

Integral to the study has been the comprehensive collection and extensive analysis of healthcare benefit data from across the Church. Findings of that data analysis, in conjunction with direct input from Church employers and employees, are being used to formulate a set of recommendations that will be presented to the 76th General Convention.

A Growing Financial Burden for Episcopal Employers

The cost of providing healthcare benefits for employees of The Episcopal Church continues to rise at an alarming rate. In 2008, the cost to The Episcopal Church as an employer for employee healthcare benefits is expected to increase by 10.5%. Total spending on employee healthcare benefits by domestic U.S. congregations, dioceses and official agencies of The Episcopal Church in 2008 is projected to be $133.7 million, or $10,237 per employee. Our analysis suggests that total annual spending on employee healthcare benefits in 2008 could represent approximately 10% of Plate and Pledge. Left unchecked, spending on employee healthcare benefits could increase at similar levels for the next two triennia, reaching $250.4 million in 2015, or potentially 15% of our projections of Plate and Pledge. (Our projections of Plate and Pledge assume a growth rate of 2.5% for years 2009–2015.)

To put the rising cost of Church employee benefits into a larger perspective, the 2008 increase of 10.5% is more than three times the rate of inflation, and approximately four times the rate of average clergy salary increases. This situation is not unique to The Episcopal Church. According to the Kaiser Family Foundation and the Health Research and Educational Trust, premiums for employer-sponsored health insurance in the U.S. have been rising four times faster, on average, than workers' earnings since 2000.

Rising Healthcare Benefits Costs: Shared Concern, Unequal Impact

It is critical to understand the underlying demographics of The Episcopal Church as an employer to measure the impact of employee healthcare benefits on the Church.

Approximately 44% of congregations do not have full-time staff.[2] These congregations typically have a part-time or supply priest, and our research indicates the congregation contributes 50% or less of the cost of healthcare benefits for the priest. Many of these congregations share a priest, e.g., yoked parishes or cluster ministries, and the cost of healthcare benefits is shared across the congregations or is paid for by the diocese. (It is important to note here that while the congregation may employ a part-time priest, the priest serving these congregations may be working more than 30 hours per week by virtue of working in multiple congregations.)

Transitional-, program-, and resource-sized congregations account for only 25% of the total number of Episcopal congregations. However, 50% of full-time clergy and as much as 60% of full-time lay employees are working in these churches. It is no surprise that these larger congregations have large amounts in their budgets for employee healthcare benefits and are eager to find means of containing the rising cost of employee healthcare benefits.

[2] For the purposes of this report, full-time is defined as working 1,500 hours or more per year, and part-time is anything less than 1,500 hours per year.

The Church is the Primary Source of Healthcare Benefits for the Majority of Employees

The analysis of our data from employees presents a complex picture of healthcare benefits coverage. We know that 87% of clergy are working full-time, and that of those full-time clergy, approximately 83% receive their healthcare benefits through The Episcopal Church as their employer. The remaining 17% are covered by their spouses or a former employer, or through some government program. More than two-thirds of clergy have elected for family coverage provided through their Episcopal employer. The vast majority of these clergy receive healthcare benefits at little to no cost to themselves.

The situation for the Church's lay employees is markedly different. Only one-third of lay employees are full-time, and of those, only 65% receive their coverage through their Episcopal employer. A significant research finding was that 3% of full-time lay employees indicate that they are uninsured from any source. As compared to clergy, only one-third of lay employees have elected for family coverage provided through their Episcopal employer. We also know that 50% of lay employees are paying more than half of the cost of their healthcare benefits coverage themselves.

Assessing the Situation of Overseas Dioceses

The in-depth study and research into healthcare in overseas dioceses, recently completed by the project team, have given us a new appreciation for the enormity of the task facing The Episcopal Church as it seeks to provide adequate employee healthcare benefits, especially to those employees working in different countries. Several overseas dioceses (e.g., Ecuador, Colombia, and Venezuela) have socialized medicine. The situation in these countries is complicated, and the presence of a national healthcare system does not guarantee that our clergy and lay employees have access to adequate healthcare.

In fact, our analysis to date leads us to believe that clergy and lay employees in overseas dioceses are in need of additional healthcare benefits. However, the cost of even the most basic healthcare insurance plan typically exceeds the monthly cash compensation paid to clergy and is beyond the means of the congregations and/or dioceses to provide. Many issues and concerns have arisen from our overseas research, and the Church Pension Fund is actively engaged with the bishops and leadership of these dioceses to develop meaningful recommendations that will assist them in addressing their employee healthcare benefits needs.

Consideration of a Mandatory Denominational Health Plan

The bishops, priests, and lay experts who serve on the CPF Board's Healthcare Coverage Feasibility Study Advisory Group played a major role in the formation of our strategic direction, and in the identification of the four central objectives that we believe are essential to a denominational health plan.

- First and most important, it should bring overall *savings* to The Episcopal Church. This can be achieved by leveraging our size through large-scale purchasing of healthcare benefits.
- Second, it should achieve an *appropriate balance* between the cost of providing adequate health benefits and the current financial constraints facing The Episcopal Church.
- Third, it should undertake the necessary measures to achieve *equity* in benefits for full-time clergy and lay employees.
- Fourth, it should provide for *local control* so that dioceses have the flexibility to make decisions about healthcare benefits that reflect local polity and preferences.

Another key objective of a denominational health plan is to engage and empower employees to lead healthier lives, which will allow them to better serve the Church, and also help contain future healthcare cost increases. A denominational health plan will allow the Church to implement comprehensive and integrated care management programs and processes that will deliver improved health outcomes. While each diocese may be engaged in health and wellness programs locally, a denominational health plan would look to expand, add, or enhance wellness programs over time in order to more proactively manage the underlying health risk of our employee population. There will be some up-front cost to implement some of these programs effectively and then engage members to participate in them, change certain lifestyle behaviors, and better manage their health. Since employee turnover in the Church is typically low, an integrated health and wellness program will have a much greater and more immediate "return on investment."

Next Steps

The data indicates that there is nearly unanimous agreement that healthcare benefits costs must be controlled. There is some disagreement about the best way to address rapidly escalating employee healthcare benefits costs. A small number of survey respondents believe that the voluntary system now in place, based on market competition, is the best way to solve our problems. Some others believe that if all Episcopal employees simply adopted healthier lifestyles, healthcare benefits costs would decrease as we would need and use less medical care. However, survey results indicate that a significant majority of employers and employees think that the formation of a denominational health plan is key to reining in employee healthcare benefits costs for The Episcopal Church.

While there may never be complete agreement on any proposed solution to control the high cost of healthcare benefits, there is sufficient research, actuarial evidence, and support from within The Episcopal Church to pursue the creation of a denominational health plan. In order to launch a mandatory denominational health plan for active clergy and lay employees, a resolution would need to be presented to the 2009 General Convention, outlining the principles and administration of a denominational health plan to provide healthcare benefits for eligible clergy and lay workers and their eligible dependents.

We Invite Your Feedback

Email us directly at dhpstudy@cpg.org, or go to www.cpg.org and click on Healthcare Coverage Feasibility Study on the right side of the screen. Then click on the *email us* link under “Tell Us What You Think.”

Affiliates

During the past year, the affiliate companies continued to expand and improve the products and services that CPG provides to individuals and institutions of The Episcopal Church.

The Church Insurance Companies[3] continued to increase the proportion of Episcopal churches they insure. Almost 2,500 clients were visited at their locations, and client retention was 99% for the third straight year. In mid-year, the Church Insurance Company of New York was established so that New York Episcopal institutions could avail themselves of the cost and coverage advantages of a captive insurance company. The Diocese of Rochester immediately joined the new program, followed soon after by the Diocese of Albany. The Episcopal Safety Program, a partnership between individual dioceses and the Church Insurance Company of Vermont, was expanded to cover 35 dioceses. Several years of operational improvements in Church Insurance have resulted in expense ratios significantly lower than the industry, and better value for Episcopal Church clients.

Church Life Insurance Corporation welcomed two new dioceses into our group life insurance program this past year — the Dioceses of California and New Jersey — thus adding nearly 700 new participants to the program. In addition, the Diocese of Pennsylvania expanded its group life participation, adding over 125 new lives. These changes accounted for a 9% growth in the number of lives covered under the diocesan group life insurance plan. This was also a very successful year for the continuation of Church Life's Matured Annuity Program, with nearly 90% of matured annuitants choosing to keep their funds with the company, a clear indication of participants' satisfaction with Church Life products. And more than 1,000 clergy and lay employees joined either The Episcopal Church Lay Employees' Defined Contribution Retirement Plan or The Episcopal Church Retirement Savings Plan (RSVP) during the past year, increasing the total membership in those two plans to over 12,000 participants. (Church Life provides the annuities that are part of these plans.) Church Life expanded the partnership with the Church Insurance Agency Corporation (CIAC) representatives in an effort to raise awareness of our life insurance and retirement savings programs in twelve geographic regions throughout the country.

Church Publishing Incorporated (CPI) includes the imprints and product-line divisions Church Publishing, Seabury Books, Morehouse Publishing, Morehouse Church Resources (non-print church supplies, lectionaries), and Morehouse Education Resources (Christian formation and curriculum materials). The past year was a time of exhilarating transition for CPI. New leadership was recruited and a new management team was established. Dr. Davis Perkins, a leader with 25 years of experience in denominational publishing, was named Senior Vice President & Publisher, and Marian Hewitt, a financial professional with comparable experience in New York publishing, was named Vice President, Finance & Administration. Peter Velander, a publishing professional with extensive experience in lectionary curriculum publishing as well as the development of electronic resources for liturgical use, was appointed to lead Morehouse Education Resources (which includes the popular lectionary-based curriculum *Living the Good News)*. Seasoned executives Frank Tedeschi, Mark Dazzo, and Laury Poland round out the CPI executive staff. In addition, Sharon Ely Pearson was tapped to fill the newly-created position of Christian Formation Specialist, and industry veteran Trevor Floyd was hired to launch the new Morehouse Vestments & Ecclesiastical Arts product line. The highlight of CPI's past year, however, was the formulation and subsequent approval of a strategic plan which mandates significant top-line sales revenue growth and projects financial viability for CPI. This plan was unanimously and enthusiastically approved by the CPI Board of Directors and the Church Pension Fund Board of Trustees. The latter group also authorized capitalization of the strategic plan.

The Episcopal Church Medical Trust (Medical Trust) made significant progress in 2007 in aligning our product and service model to better meet the needs of our Church, while maintaining positive operating results, thereby increasing member surplus. Continuing a six-year trend, the number of those we serve rose again this year, as we added three dioceses and approximately 200 employee households. As of March 31, 2008, we provide health benefits for more than 6,500 active and retired lay employees and 8,600 active and retired clergy. This continued growth of the Medical Trust allows us to maximize benefits

[3] Collectively, The Church Insurance Agency Corporation, The Church Insurance Company, The Church Insurance Company of New York, and The Church Insurance Company of Vermont

and services for members through risk diversification, economies of scale, and purchasing power. We continued to work to improve employee health by encouraging healthy living and illness prevention via monthly newsletters, health fair workshops, and plan designs. Benefits specialists and wellness professionals made visits to over 20 participating groups in 2007. Diocesan and parish administrators assisted in the development and implementation of a web-based enrollment and billing system that allows the Church to manage member participation and account balances in an online, real-time environment. During the coming year, the Medical Trust will undertake an initiative that will provide retired members with the option of making Open Enrollment elections for 2009 through the Internet, with Plan Documents available electronically, thus reducing the Church's reliance on paper, consistent with our efforts to further support environmental and financial objectives.

CREDO Institute, Inc. has as its mission to serve as a collaborative alliance providing resources for Episcopal leadership and wellness programs. Twenty-five conferences were held in 2007. The second conference for clergy whose first language is Spanish was conducted and received high evaluations. Thirty new faculty members were recruited for the 2008–2009 contract period. Six lay employee CREDO conferences are planned for the next two years, and CREDO's continued collaborative efforts with the College for Bishops, Fresh Start, and research initiatives continue. Research projects were initiated to address important wellness issues in the areas of clergy emotional health and family wellness, bishops' and spouses' wellness and life balance, Episcopal identity, and ordained women. These research projects are guided by nationally respected university-based research consultants and will eventually inform the CREDO curricula while offering important data for continued development of the health and well-being of those who serve The Episcopal Church.

"With the continued loyalty and support of the laymen and women of the Church, the devotion of the clergy, and the sound administration of the Fund, the time for the completed system and adequate pensions will approach with each passing year."
— The Story of the Pension Fund, 1931

As did Bishop Lawrence, the current CPF Trustees view the continuing provision of adequate benefits as a work in progress. Changing needs, the ongoing enhancement of benefits, and the study and provision of programs such as those addressed by the General Convention resolutions dealing with lay employee benefits and Church-wide healthcare coverage, as well as periodic reevaluations of the Clergy Pension Plan, are sure to raise up additional ways that CPG can support both clergy and lay employees. We are determined to appropriately use the God-given funds, skills, and talents with which we have been entrusted to provide that support in ways that are welcomed by the Church and consistent with our mission.

As always, we thank you for your prayers and continued support as we pursue our ministry on your behalf.

Faithfully,

David R. Pitts
Chair

The Rt. Rev. Gayle E. Harris
Vice Chair

The Rt. Rev. Peter James Lee
Vice Chair

T. Dennis Sullivan
President

Officers of the Board

(seated) David R. Pitts, T. Dennis Sullivan
(standing) The Rt. Rev. Peter James Lee, The Rt. Rev. Gayle E. Harris

Statements of Assets, Liabilities and Fund Balances

March 31	2008	2007
Assets		
Investments and Cash:		
Equity securities, other than affiliated companies, at market (cost: 2008–$2,884,454,000; 2007–$3,010,976,000)	$3,332,010,967	$3,823,611,638
Fixed income securities, at amortized cost (market: 2008–$2,537,091,000; 2007–$2,308,931,000)	2,419,708,257	2,242,310,664
Limited partnerships and trust interests	3,228,531,303	2,517,626,264
Mortgage loans, at amortized cost	28,314,835	33,254,640
Affiliated companies, at equity in underlying net assets	115,291,492	99,552,431
Home office building and improvements, at cost less accumulated depreciation	18,699,295	17,417,300
Short-term securities, at cost which approximates market	211,244,360	335,254,657
Cash and cash equivalents	107,678,109	259,158,329
Total Investments and Cash	9,461,478,618	9,328,185,923
Receivables and Other Assets:		
Receivable from brokers	144,472,289	118,383,664
Notes receivable	2,049,999	2,105,524
Assessments receivable, less allowance for doubtful accounts (2008–$1,599,000; 2007–$1,819,000)	3,413,341	2,453,580
Accrued investment income and other assets	29,391,245	27,090,644
Total Assets	$9,640,805,492	$9,478,219,335
Liabilities and Fund Balances		
Liabilities:		
Payable to brokers	$ 302,283,905	$ 356,871,167
Accrued expenses and other liabilities	76,518,038	70,561,512
Total Liabilities	378,801,943	427,432,679
Special Funds:		
Major Medical Supplement Fund	909,654,322	880,102,287
Life Insurance Benefit Fund	88,597,847	87,016,148
International Clergy Pension Plan	79,883,321	77,682,047
The Episcopal Church Lay Employees' Retirement Plan	115,836,391	109,500,031
Staff Retirement Plan of The Church Pension Fund and Affiliates	84,700,243	80,956,505
Restricted Legacy and Gift Fund	14,762,223	15,690,909
Unrestricted Legacy and Gift Fund	13,714,450	15,076,736
Supplemental Pension Fund	59,249,245	57,934,012
Total Special Funds	1,366,398,042	1,323,958,675
Other Funds:		
Investment in affiliated companies	115,291,492	99,552,431
Investment in home office building and improvements	18,699,295	17,417,300
Total Other Funds	133,990,787	116,969,731
Total Liabilities, Special Funds and Other Funds	1,879,190,772	1,868,361,085
Funded Reserve	7,761,614,720	7,609,858,250
Total Liabilities and Fund Balances	$9,640,805,492	$9,478,219,335

See accompanying notes to financial statements.

Statements of Changes in Funded Reserve

Years Ended March 31	2008	2007
Additions		
Revenues		
Assessments	$ 83,353,453	$ 81,107,114
Interest	129,919,233	122,737,492
Dividends and other income	60,037,644	50,180,331
Total Revenues	273,310,330	254,024,937
Investment Gains and Losses		
Net gain on limited partnerships and trust interests	324,687,375	327,882,014
Net realized gain on sales of investments	315,755,035	421,121,961
Net (loss) gain from changes in unrealized depreciation and appreciation of equity securities	(363,208,729)	26,272,088
Net Investment Gains	277,233,681	775,276,063
Total Additions	550,544,011	1,029,301,000
Deductions		
Benefits and Expenses		
Pensions and other benefits	239,498,275	216,621,149
Medical supplement	21,609,831	20,078,907
Life insurance	8,801,917	8,451,062
Total benefit payments	269,910,023	245,151,118
Investment management and custodial fees	30,644,598	27,259,650
General and administrative	43,434,747	40,295,781
Enterprise-wide projects	5,156,940	6,154,638
General Convention Resolution projects	1,868,389	—
Total Benefits and Expenses	351,014,697	318,861,187
Other Deductions		
Increase in Major Medical Supplemental Fund	29,552,035	36,955,451
Increase in Life Insurance Benefit Fund	1,581,699	369,925
Increase in International Clergy Pension Plan	1,112,282	4,448,976
Increase in Supplemental Pension Fund	1,315,233	887,974
Increase in home office building and improvements	1,281,995	236,151
Increase in non-admitted assets and other deductions	12,929,600	4,459,208
Total Deductions	398,787,541	366,218,872
Net Increase in Funded Reserve	151,756,470	663,082,128
Funded Reserve at Beginning of Year	7,609,858,250	6,946,776,122
Funded Reserve at End of Year	$7,761,614,720	$7,609,858,250

See accompanying notes to financial statements.

Notes to Financial Statements

Organization

The Church Pension Fund (the "Fund") is a corporation chartered in 1914 by the Legislature of the State of New York. Its incorporators and their successors are broadly authorized, as Trustees of the Fund, to establish and administer the clergy pension system of The Episcopal Church, including pensions, insurance, annuities, accident, health and other programs. The Fund was established by the General Convention of The Episcopal Church; the Fund and its affiliates are official agencies of The Episcopal Church for these purposes and operate under the Canons of The Episcopal Church.

The Fund began its operations on March 1, 1917. Subsequently, affiliates of the Fund were formed as its activities expanded. Major affiliates and their years of formation include: Church Publishing Incorporated, 1918; Church Life Insurance Corporation, 1922; The Church Insurance Company, 1929; The Church Insurance Agency Corporation, 1930; The Episcopal Church Clergy and Employees' Benefit Trust, 1978; The Church Insurance Company of Vermont, 1999; CREDO Institute, Inc., 2001; and The Church Insurance Company of New York, 2007. All operations of the Fund and its affiliates, informally known as the Church Pension Group, are governed by the Fund's Board of Trustees or by subsidiary Boards, which include Fund Trustees. Except for the President, all Fund Trustees serve without compensation and are elected by the General Convention from a slate of nominees. In general, Fund Trustees serve for a maximum of two consecutive six year terms.

The Fund's Clergy Pension Plan (the "Plan") is a defined benefit pension plan, the assets of which are pooled for the benefit of all participants. As a church plan, it is exempt from Titles I and IV of the Employee Retirement Income Security Act of 1974 and, therefore, is not subject to Pension Benefit Guaranty Corporation requirements. The Plan and other plans sponsored by the Fund and its affiliates have long been recognized as exempt from federal income taxes. The Fund and certain of its affiliates are also exempt from certain federal, state and local income taxes.

The Fund maintains a master trust with an undivided ownership interest in the portion of the Fund's assets allocable to (1) the Plan benefits for retired participants and their dependents, (2) the benefits under The Episcopal Church Lay Employees' Retirement Plan (the "Lay Plan"), and (3) the benefits under the Staff Retirement Plan of The Church Pension Fund and Affiliates (the "Staff Plan"). The master trust agreement names the Fund as trustee and the Northern Trust Company as custodian. The portion of the master trust (1) attributable to the Plan is funded, as necessary, to at least equal the actuarial liability of the Plan benefits for retired participants and their dependents on an annual basis, and (2) attributable to the Lay Plan and the Staff Plan is funded at the discretion of the Fund. As of March 31, 2008 and 2007, master trust assets, which are included in the statements of assets, liabilities and fund balances, relating to the plan benefits described above, amounted to $2.5 billion and $2.4 billion, respectively. Prior to June 30, 2006, the master trust held only assets attributable to the Plan benefits for retired participants and their dependents.

Basis of Presentation and Significant Accounting Practices

Since 1914, the Fund has elected to be examined by the New York Insurance Department. As a result, the Fund's statutory-basis financial statements are prepared in accordance with accounting practices prescribed or permitted by the State of New York Insurance Department ("NY SAP"). The State of New York Insurance Department recognizes only NY SAP for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under the New York State Insurance Law. The National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual, effective January 1, 2001, ("NAIC SAP") has been adopted as a component of NY SAP. The State of New York has also adopted certain prescribed accounting practices that differ from those found in NAIC SAP. Specifically, certain EDP equipment, software, furniture and fixtures and leasehold improvements are non-admitted assets under New York State Insurance Law.

Accounting practices of NY SAP are a comprehensive basis of accounting that differs from accounting principles generally accepted in the United States of America ("GAAP"). The more significant variances from GAAP, the effects of which have not been determined but are presumed to be material, are as follows:

- Rather than valuing all of its fixed income securities at fair value, the Fund values these investments at amortized cost. Common shares of its affiliates are recorded at the Fund's equity in the affiliates' net assets rather than consolidated.
- At acquisition mortgage-backed and asset-backed securities are valued at cost, including brokerage and related fees. Subsequent to acquisition, mortgage-backed and asset-backed securities are revalued based upon estimates of future cash flows. Prepayments and defaults are significant variable elements in estimating the cash flows of these securities. These assumptions are obtained from dealer surveys or internal estimates and are recognized using either prospective or retrospective adjustment methodologies. The prospective methodology recognizes, through the recalculation of the constant yield recorded in investment income in future periods, the effects of all changes in cash flows as a result of changes in these assumptions. This retrospective methodology changes both the constant yield recorded in investment income and the asset value so that expected future cash flows produce a return on the investment equal to the return expected over the life of the investment as measured from the date the security is acquired. These changes are recorded in investment income in the reporting period in which they are determined. For GAAP purposes, all such securities other than high credit quality securities are adjusted using the prospective method when there is a change in estimated future cash flows. If it is determined that a decline in fair value is other-than-temporary, the cost basis of the security is written down to fair value. If high credit quality securities are adjusted, the retrospective method is used.

- Clergy pension obligations and the major medical supplement fund are computed assuming a 5.25% interest rate, projections of future service and earned benefits and the assumption that clergy salaries will increase in future years. Under GAAP, the present value of these obligations would likely be lower because a higher interest rate might be used and future service, earned benefits and salary increases would not be anticipated.
- Under NY SAP, an asset valuation reserve is required for life and annuity insurers to stabilize surplus against investment declines. Similar to this treatment, although not required, the Fund has established a securities valuation reserve which is described below in the section marked "Components of Funded Pension Reserve." No such reserves are permitted under GAAP.
- Certain assets designated as "non-admitted" are excluded from the accompanying statements of assets, liabilities and fund balances and are charged directly to the funded reserve.

The preparation of the Fund's financial statements requires management to make estimates and assumptions that affect the financial statements and accompanying notes. Actual results could differ significantly from these estimates.

Certain amounts in the March 31, 2007 financial statements have been reclassified to conform to the March 31, 2008 presentation.

Investments in Equities

The Fund has direct investments in the common stocks of a wide range of unaffiliated companies which are carried at quoted market value. Included are investments in common stocks of domestic and foreign corporations and holdings in large as well as midsize and small companies. Realized gains and losses on the sales of common stocks are computed on the first-in, first-out basis. The gross unrealized gains and losses on, and the cost and market value of the Fund's investments in, common stocks are summarized as follows:

March 31 (in thousands)	2008	2007
Cost	$2,884,454	$3,010,976
Gross unrealized		
Gains	516,354	878,396
Losses	(68,797)	(65,760)
Market Value	$3,332,011	$3,823,612

Investments in Fixed Income Securities

The Fund's investments in fixed income securities are carried at amortized cost. The Fund recognizes interest income on the accrual method. Amortization of premium and accretion of discount are calculated using the interest method. In addition, this calculation uses the retrospective method, based on anticipated prepayments, for loan-backed securities. Realized gains and losses on the sales of fixed income securities are computed on the first-in, first-out basis.

The amortized cost and estimated market value of fixed income securities, by contractual maturity, are as shown below. Actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

March 31, 2008 (in thousands)	Amortized Cost	Estimated Market Value
Due in 1 year or less	$ 55,900	$ 56,115
Due after 1 through 5 years	348,782	381,977
Due after 5 through 10 years	437,380	454,265
Due after 10 years	1,577,646	1,644,734
Total	$2,419,708	$2,537,091

The amortized cost and estimated market value of investments in fixed income securities are summarized as follows:

March 31, 2008 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury and obligations of U.S. government corporations and agencies	$1,252,068	$127,604	$ (2,472)	$1,377,200
Corporate	815,517	16,847	(29,090)	803,274
Loan-backed	170,261	822	(11,072)	160,011
Foreign governments	113,228	16,533	(123)	129,638
Asset-backed	68,634	1,033	(2,699)	66,968
Totals	$2,419,708	$162,839	$(45,456)	$2,537,091

March 31, 2007 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury and obligations of U.S. government corporations and agencies	$1,230,730	$ 59,577	$ (6,746)	$1,283,561
Corporate	681,819	16,744	(9,443)	689,120
Loan-backed	142,909	599	(1,450)	142,058
Foreign governments	99,514	7,934	(93)	107,355
Asset-backed	87,339	313	(815)	86,837
Totals	$2,242,311	$ 85,167	$(18,547)	$2,308,931

During the years ended March 31, 2008 and 2007, proceeds from the sales of investments in fixed income securities were $5.8 billion and $6.0 billion, respectively. Gross gains of $58.4 million and $50.4 million and gross losses of $30.0 million and $27.1 million were realized on those sales during the years ended March 31, 2008 and 2007, respectively.

Impairment

The values of equities, fixed income securities and real estate limited partnerships are adjusted for impairments in value deemed to be other-than-temporary. The Fund considers the following factors in the evaluation of whether a decline in value is other-than-temporary: (1) general economic conditions; (2) the financial condition and near-term prospects of the issuer; (3) the Fund's ability and intent to retain the investment for a period of time sufficient to allow an anticipated recovery in value; and (4) the period and degree to which the market has been below cost. This evaluation is a quantative and qualitative process subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other-than-temporary. The values of mortgage-backed and asset-backed securities are considered other-than-temporarily impaired when the estimate of undiscounted cash flows are less than the current asset value. When it is determined that other-than-temporary impairment has occurred, the asset value of the security is written down to the estimate of undiscounted cash flows. If the impairment is other-than-temporary, a direct write-down is recognized in the statement of changes in funded reserve as a realized capital loss and a new cost basis is established.

The unrealized losses on equities in an unrealized loss position for less than twelve months were $47.2 million and for twelve months or longer were $21.6 million. The unrealized losses on fixed income securities in an unrealized loss position for less than twelve months were $25.0 million and for twelve months or longer were $20.5 million. Unrealized losses of $93.8 million related to securities with an unrealized loss position of less than 20% of cost or amortized cost represented 5% of the cost of such securities while unrealized losses of $20.5 million of unrealized losses related to securities with an unrealized loss position of more than 20% of cost or amortized cost represented 40% of the cost of such securities. As part of an ongoing investment monitoring process, the Fund has reviewed its investment portfolio and concluded, as of March 31, 2008, that there were other-than-temporary impairments on equities of $199.6 million which have been recognized.

Derivative Financial Investments

The Fund uses futures contracts primarily to maintain its asset allocation within ranges determined by the Investment Committee. Such futures contracts trade on recognized exchanges and margin requirements are met by pledging cash and cash equivalents. The contractual amount of the open futures contracts aggregated approximately $236 million and $224 million at March 31, 2008 and 2007, respectively.

The contractual amounts of these instruments are indications of the open transactions and do not represent the level of market or credit risk to the portfolio. Since some of the futures held by the Fund are adjusting market risk elsewhere in the portfolio, the measurement of the risks associated with these instruments is meaningful only when all related and offsetting transactions are considered. Market risks to the portfolio are caused primarily by changes in U.S. interest rates or in the value of U.S. equity markets.

With respect to credit risk, futures contracts entail daily cash settlement, thus limiting the cash receipt or payment to the change in market value of the underlying instrument. Accordingly, the amount of credit risk represents a one-day receivable. Settlements, which amounted to $54 million and $8 million for the years ended March 31, 2008 and 2007, respectively, are recorded in the accompanying financial statements as a component of realized gains and losses.

Investments in Limited Partnerships and Trust Interests

Certain financial information for fiscal 2008 and 2007 and the carrying values of investments in limited partnerships and trust interests are summarized as follows:

2008 (in thousands)	Beginning Balance	Contributions	Operating Results & Net Capital Gains	Distributions	March 31 Balance
Venture capital	$ 312,813	$ 75,048	$ 17,582	$(155,426)	$ 250,017
Public equities	1,226,565	288,912	39,175	(126,448)	1,428,204
Real estate and REITs	691,671	296,888	105,107	(85,420)	1,008,246
Private equity	286,577	277,604	166,674	(188,791)	542,064
Totals	$2,517,626	$938,452	$328,538	$(556,085)	$3,228,531

2007 (in thousands)	Beginning Balance	Contributions	Operating Results & Net Capital Gains	Distributions	March 31 Balance
Venture capital	$ 225,844	$ 78,244	$ 58,000	$ (49,275)	$ 312,813
Public equities	836,205	301,217	129,231	(40,088)	1,226,565
Real estate and REITs	736,019	239,876	103,012	(387,236)	691,671
Private equity	196,498	96,224	79,011	(85,156)	286,577
Totals	$1,994,566	$715,561	$369,254	$(561,755)	$2,517,626

Investments in partnerships and trusts include participation in real estate partnerships and trusts, partnerships owning publicly-traded securities, and partnerships with venture capital and private equity holdings. The carrying values of these investments are based upon the Fund's equity in the partnerships' net assets as reported in their respective annual audited financial statements and the Fund's contributions made and distributions received through March 31, 2008 and 2007, respectively.

The investments of real estate partnerships are generally carried at cost or at cost less depreciation as reported in the partnerships' financial statements. The Fund's share of the net assets of such partnerships on an estimated market value basis is approximately $72 million and $242 million higher than the March 31, 2008 and 2007 carrying values, respectively. Investments in publicly-traded real estate investment trusts ("REITs") approximated $97 million and $230 million at March 31, 2008 and 2007, respectively, and are carried at estimated market value. Partnerships investing in publicly-traded equities are carried at the Fund's interest in the market value of the underlying securities based on their quoted values.

The net assets of venture capital and private equity limited partnerships are carried at market value as estimated by the respective general partners at December 31, 2007 and 2006, as reported in the partnership financial statements, adjusted for the Fund's contributions made and distributions received through March 31, 2008 and 2007, respectively. For this intervening period, the changes in the unrealized appreciation or depreciation for these investments have not been reflected in the accompanying financial statements. Because of the inherent uncertainty of the valuations, however, those estimated market values may differ, perhaps materially, from the values that would have been used had a ready market for the investments existed.

The net gain on limited partnerships and trust interests for the fiscal years ended March 31, 2008 and 2007 include realized and unrealized gains and losses, operating results, dividends and interest, less investment management fees and other expenses, and are summarized in the following table:

March 31 (in thousands)	2008	2007
Net realized capital gains	$ 35,750	$ 67,214
Net unrealized capital gains	292,009	300,576
Operating results	779	1,464
Operating results and net capital gains	328,538	369,254
Dividends and interest	–	–
Direct fees and other expenses	(3,851)	(41,372)
Net gains on limited partnerships and trust interests	$324,687	$327,882

At March 31, 2008, the Fund had open investment commitments to partnerships of $1.7 billion which are expected to be funded during future years. In this regard, from April 1, 2008 through April 30, 2008, the Fund invested an additional $44 million and made additional commitments of $102 million in limited partnerships and trust interests. Although there is a secondary market in partnerships, most of these investments are illiquid and there may be penalties should the Fund not fulfill its funding and holding period commitments.

Other Assets

The Fund's investments in mortgage loans are carried at amortized cost. The estimated market value of these loans is determined by the discounted cash flow method, taking into account prepayment risk. At March 31, 2008 and 2007, the estimated market value of mortgage loans was approximately $29.6 million and $34.3 million, respectively.

The investment in the organization's home office building and improvements is carried at cost less accumulated depreciation. The home office building and improvements are depreciated on a straight-line basis over their estimated useful lives. Accumulated depreciation amounts to $8.7 million and $7.6 million at March 31, 2008 and 2007, respectively.

Investments with original maturities of one year or less are classified as short-term investments and are carried at cost, which approximates market value.

Cash and cash equivalents represent short-term highly liquid investments with original maturities of three months or less and are carried at cost, which approximates market value.

Investments in Affiliated Companies

Investments in affiliated companies represent an important use of the Fund's assets. The wholly owned affiliated companies carry out significant activities that the Trustees, upon the advice and request of The Episcopal Church, have concluded further the Fund's mission. The carrying values of affiliated companies are determined using the equity method of accounting. Changes in the carrying values are credited or charged to other deductions and dividends received are included with the Fund's revenue under dividends.

The accounts of The Church Insurance Company and Church Life Insurance Corporation are maintained in accordance with NY SAP. The other affiliates follow GAAP. The primary activities and financial status of each of the major affiliates are described in the sections below for calendar years 2007 and 2006.

The Church Insurance Companies[1]

Today, more than 75% of Episcopal Church institutions rely on the Church Insurance Companies for their commercial package coverage. The Church Insurance Agency Corporation (the "Agency") provides insurance products and risk-management services to Episcopal institutions. The Agency accesses a broad range of products tailored for the special needs of Episcopal institutions through its sister companies or through its product partners. The Church Insurance Companies have provided property and liability coverage for church institutions since 1929. The Church Insurance Company of Vermont and The Church Insurance Company of New York are single-parent captive insurance companies incorporated in 1999 and 2007, respectively, to allow church institutions to benefit from the coverage flexibility and potential cost advantages of this risk-financing approach. T. Dennis Sullivan is the President and D. Roderick Webster is Senior Vice President and General Manager of The Church Insurance Companies.

[1] "The Church Insurance Companies" means, collectively, The Church Insurance Agency Corporation, The Church Insurance Company, The Church Insurance Company of New York, and The Church Insurance Company of Vermont.

In 2007, The Church Insurance Companies' combined operations had a net income of $8.3 million.

Financial Summary

December 31 (in thousands)	2007	2006
Admitted assets	$182,157	$173,901
Liabilities	118,129	125,458
Capital and surplus	64,028	48,443
Written premiums	39,018	37,893
Net income	8,342	1,451

Church Life Insurance Corporation

Since 1922, Church Life Insurance Corporation ("Church Life") has provided life insurance protection and retirement savings plans to clergy and lay workers who serve The Episcopal Church and to their families. The products Church Life offers include individual and group annuities, IRAs and life insurance coverage. T. Dennis Sullivan is the President and James E. Thomas is Senior Vice President and General Manager of Church Life.

At the end of 2007, Church Life maintained $976.0 million of in-force insurance for its clergy and lay beneficiaries; assets totaled $201.3 million; and the net income for the year was $2.4 million.

Financial Summary

December 31 (in thousands)	2007	2006
Admitted assets	$201,279	$199,385
Liabilities	163,823	164,424
Capital and surplus	37,456	34,961
Insurance in force	975,975	944,707
Earned premiums	27,147	40,405
Statutory net income	2,397	4,177

Church Publishing Incorporated

Since 1918, Church Publishing Incorporated ("Church Publishing") has produced the official worship materials of The Episcopal Church. In addition to basic and gift editions of prayer books and hymnals, Church Publishing now has an extensive title list in the fields of liturgy, theology, curriculum, church history, homiletics and Anglican spirituality. Church Publishing also offers a growing list of Episcopal related recorded music products, vestments, church resources, liturgical and musical software and online services. T. Dennis Sullivan is the President and Davis Perkins is Publisher of Church Publishing.

In 2007, total revenues were $8.5 million and Church Publishing had a net loss of $3.1 million.

Financial Summary

December 31 (in thousands)	2007	Restated 2006
Assets	$16,565	$14,318
Liabilities	7,098	4,759
Capital	9,467	9,559
Revenue	8,504	8,953
Net loss	(3,093)	(3,805)
Capital contribution received from the Fund	3,000	–

CREDO Institute, Inc.

Since 2001, CREDO Institute, Inc. ("CREDO") has provided opportunities for Episcopal clergy to examine significant areas of their lives and to discern prayerfully the future direction of their vocations as they respond to God's call in a lifelong process of practice and transformation. CREDO accomplishes this by organizing conferences led by prominent clergy and lay individuals from around the country that provide clergy and lay participants the opportunity to reflect on spiritual, vocational, health and financial aspects of their lives. CREDO receives substantially all of its funding from the Fund. William S. Craddock, Jr., is the Managing Director of CREDO.

December 31 (in thousands)	2007	2006
Assets	$23,008	$24,270
Liabilities	763	511
Net assets	22,245	23,759
Support and revenue	3,556	3,359
Change in net assets	(1,516)	(1,884)
Capital contributions received from the Fund	4,162	3,794

The Episcopal Church Clergy and Employees' Benefit Trust ("The Benefit Trust")

The Benefit Trust, now in its thirtieth year, funds the health plan options that are offered by The Episcopal Church Medical Trust. The Episcopal Church Medical Trust provides active and retired clergy and employees of The Episcopal Church and their dependents with a broad array of health plan options and serves as the plan sponsor and administrator of such plans. The Episcopal Church Medical Trust offers a wide variety of managed care plans, self-funded preferred provider and indemnity plans and mental health and dental care plans. For retired participants, The Episcopal Church Medical Trust offers Medicare supplement plans, as well as Medicare HMOs in selected regions of the country.

The Benefit Trust is not a subsidiary of the Fund. Accordingly, its assets, liabilities and financial results are not included in the Statement of Assets, Liabilities and Fund Balances. T. Dennis Sullivan is the President and Paul A. Calio is Senior Vice President and General Manager of The Episcopal Church Medical Trust.

Financial Summary

December 31 (in thousands)	2007	2006
Assets	$ 20,791	$ 15,650
Liabilities	16,692	15,361
Accumulated surplus	4,099	289
Revenues	115,579	107,046
Benefits provided	111,803	104,367
Net income	3,810	2,680

Assessments and Benefit Payments

The Fund levies assessments at the rate of 18% of participants' compensation, which includes salaries, other cash compensation and the value of housing.

Assessments were $83.4 million and $81.1 million for the years ended March 31, 2008 and 2007, respectively.

The 18% assessment is allocated as follows in the actuarial valuation of the Fund's obligations:

March 31	2008	2007
Future service credit	15.55%	15.55%
Life insurance benefits	1.30%	1.30%
Expenses	1.15%	1.15%
	18.00%	18.00%

Assessments, together with interest, dividends, realized gains or losses from transactions in the investment portfolio, and gains or losses on partnership and trust investments, provide the funds for benefit payments, expenses and changes in investments and other assets. For the years ended March 31, 2008 and 2007, pension, life, major medical and other benefit payments on behalf of beneficiaries were $269.9 million and $245.2 million, respectively.

Clergy Pension Plan Obligations

Buck Consultants, an ACS Company, conducts annual actuarial valuations of the Fund's pension liabilities based on assumptions for future compensation levels, rates of mortality and disability, and other factors. The significant actuarial assumptions are as follows:

- Interest rate: 5.25% per annum, compounded annually and developed considering annualized yields for long-term government and long-term, high quality corporate bonds that reflect the duration of the pension obligations.
- Vesting: After five years of credited service.
- Compensation: An age-related compensation increase assumption that approximates 4.5% per year over a typical average career.
- Retirement: Normal, at age 65 and after; early, with no reduction at 55 and after 30 years of credited service; reduced benefits at age 60 with less than 30 years of credited service; compulsory, at age 72.
- The George B. Buck 1995 Mortality Table is used for clergy born before 1930 and for spouses and beneficiaries. The George B. Buck 1995 Mortality Table set back 3 years is used for clergy born after 1929. Special mortality tables are used for disability retirements and pensioned children over age 25. No mortality is assumed for pensioned children under age 25.

Components of Funded Pension Reserve

March 31 (in thousands)	2008	2007
Actuarial Liability for Benefits of:		
Retired participants and their dependents	$2,274,571	$2,150,875
Participants not yet retired and their dependents	1,722,161	1,734,691
	3,996,732	3,885,566
Securities valuation reserve	1,028,000	999,000
Additional funds	2,736,883	2,725,292
	3,764,883	3,724,292
Funded Reserve	$7,761,615	$7,609,858

The liability for benefits of retired participants and their dependents represents the actuarial present value of benefits to pensioners and contingent benefits to dependents for those already retired. The liability for benefits of participants not yet retired and their dependents represents the actuarial present value of future benefits for active and inactive clergy and their dependents, less the present value of future assessments. The $111 million increase in the liability for benefits in the current fiscal year is attributable to regular growth, Plan experience and Plan benefit enhancements effective during the fiscal year.

The securities valuation reserve of $1,028 million at March 31, 2008 and $999 million at March 31, 2007 is a provision against the possibility of a significant loss of value in the Fund's investment portfolio. The amount is annually determined based on a conservative formula and reviewed by the Investment Committee. It considers (1) the Fund's actuarial liability for future pension benefits and the Special Funds that have been set aside for major medical, life insurance and supplemental pension benefits, and (2) the historic volatility of investment portfolios similar to the Fund's. This reserve is discretionary in nature and has no specific assets associated with it. The additional funds represent the residual amount by which the Funded Reserve exceeds the total amount of the liability for benefits and reserves described above.

Special Funds

The Major Medical Supplement Fund, the Life Insurance Benefit Fund and the Supplemental Pension Fund are entirely discretionary and no specific assets are designated against them. The Trustees have reserved the right, at their discretion, to change or discontinue the benefits provided by these discretionary funds depending on future financial and economic conditions and investment performance. The largest of these funds, the Major Medical Supplement Fund, now equals 18% of the Fund's actuarially determined liabilities for medical and pension benefits and 9% of the total assets of the Fund.

The Major Medical Supplement Fund was established in 1987 in recognition of the rising costs of medical care for pension beneficiaries. In its early years, this program provided eligible beneficiaries enrolled in Medicare with a major medical supplement to that government program. As medical care for retirement age individuals increased in complexity and expense, the Trustees' approach to this entirely discretionary benefit has moved towards making a specific dollar contribution for each eligible plan member. This dollar contribution can be used to cover some or all of the cost of a Medicare supplement program offered by The Medical Trust.

The amount of the Major Medical Supplement Fund is based upon an actuarial analysis performed by Hewitt Associates LLC, healthcare actuaries to the fund. Hewitt's calculation is based on the current dollar amount provided for each eligible plan member and the Fund's goal of increasing the dollar amount of this discretionary subsidy to contribute to increases in medical costs. The calculation uses an increased medical inflation rate assumption for future years. Additionally, it uses an interest rate of 5.25% which is the same rate as is used in calculating the Plan's pension benefit liability.

The Medical Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was enacted on December 8, 2003. The Act introduced a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care plans that provide a benefit that is at least equivalent to Medicare. Final regulations governing key elements of the Act were released in January 2005 and the calculation of the Major Medical Supplement Fund reflects the effect of the Act.

The Life Insurance Benefit Fund was established to provide for the estimated annual insurance premiums of participants. The fund provides eligible beneficiaries with life insurance during active service and when retired.

The International Clergy Pension Plan ("ICPP") is a nonqualified, multiple-employer plan administered by the Fund on behalf of the retirement plans of certain Anglican churches outside the fifty United States that were previously part of The Episcopal Church and overseas dioceses of The Episcopal Church. Nonqualified plans are not subject to Section 401(a) of the Internal Revenue Code which, among other things, requires that the assets be held in a trust.

In 2004 and 2005, the Church Pension Fund entered into administrative and investment agreements with The Episcopal Church of Liberia, Iglesia Anglicana de México and Iglesia Episcopal Puertorriqueña, each of which sponsors its respective portion of the ICPP. The Fund also administers and invests the assets of the retirement plans sponsored by overseas dioceses of The Episcopal Church. The assets of the ICPP are held by the Fund, outside the master trust (see page 19). The actuarial liabilities of all plans included in the ICPP are determined annually by Buck Consultants and total $61.0 million and $65.2 million at March 31, 2008 and March 31, 2007, respectively.

The Lay Plan is a defined benefit plan providing retirement death and disability benefits to employees of participating employers of The Episcopal Church. Effective June 30, 2006, the trust for the assets of the Lay Plan was merged into the master trust (see page 19), and the assets of the Lay Plan were commingled with the assets of the Fund for investment purposes.

The Staff Plan is a defined benefit plan providing retirement and death benefits to substantially all employees of the Fund and its affiliates. Effective June 30, 2006, the trust for the assets of the Staff Plan was merged into the master trust (see page 19), and the assets of the Staff Plan were commingled with the assets of the Fund for investment purposes.

The Restricted and Unrestricted Legacy and Gift Funds stem from bequests and contributions received by the Fund from individuals for the purpose of supporting the tax-exempt purposes of the Fund. The principal balance of the unrestricted account is available for use at the discretion of the Trustees; the principal balance of the restricted account is maintained as an endowment fund in accordance with the wishes of the benefactors.

The Supplemental Pension Fund is a provision for benefits to those participants whose pension payments would be limited by certain sections of the Internal Revenue Code (the "Code") to an amount below their entitlement under the present benefit formula. Subject to certain other provisions of the Code, the supplemental provision provides for payment of the difference between the Code limitation and such participant's earned benefits.

The following charts summarize the activities of the Special Funds for the years ended March 31, 2008 and 2007.

2008 (in thousands)	Beginning Balance	Increase/(Decrease) in Special Funds: Income (loss)	Benefits & Expenses	Transfers From/(To) Funded Reserve	March 31 Balance
Major Medical Supplement	$ 880,102	$ –	$(21,609)	$ 51,161	$ 909,654
Life Insurance Benefit	87,016	–	(8,802)	10,384	88,598
International Clergy Pension Plan	77,682	1,278	(188)	1,112	79,884
The Episcopal Church Lay Employees' Retirement Plan	109,500	7,801	(1,465)	–	115,836
Staff Retirement Plan of The Church Pension Fund and Affiliates	80,957	6,440	(2,697)	–	84,700
Restricted Legacy & Gifts	15,691	(929)	–	–	14,762
Unrestricted Legacy & Gifts	15,077	(477)	(885)	–	13,715
Supplemental Pension	57,934	–	(681)	1,996	59,249
Total Special Funds	$1,323,959	$14,113	$(36,327)	$ 64,653	$1,366,398

2007 (in thousands)	Beginning Balance	Income (loss)	Benefits & Expenses	Transfers From/(To) Funded Reserve	March 31 Balance
Major Medical Supplement	$ 843,147	$ –	$(20,080)	$ 57,035	$ 880,102
Life Insurance Benefit	86,646	–	(8,451)	8,821	87,016
International Clergy Pension Plan	70,487	2,972	(226)	4,449	77,682
The Episcopal Church Lay Employees' Retirement Plan	–	9,088	(2,593)	103,005	109,500
Staff Retirement Plan of The Church Pension Fund and Affiliates	–	11,358	(1,493)	71,092	80,957
Restricted Legacy & Gifts	14,831	860	–	–	15,691
Unrestricted Legacy & Gifts	14,915	1,039	(877)	–	15,077
Supplemental Pension	57,046	–	(615)	1,503	57,934
Total Special Funds	$1,087,072	$25,317	$(34,335)	$245,905	$1,323,959

Expenses

The Fund shares many of its expenses, including staff compensation, with its affiliates on the basis of allocations reviewed with the Board of Trustees. The accompanying financial statements for the Fund for the years ended March 31, 2008 and 2007, include cash compensation expenses of $26.4 million and $23.3 million, respectively. In the same respective years, an additional $12.1 million and $11.9 million in cash compensation expenses were incurred by affiliates of the Fund.

The compensation philosophy of the officers of the Fund and its affiliates is established by the Compensation Committee of the Board of Trustees and approved by the full Board. Effective on or after January 1, 2008, the total remuneration of certain key officers of the Fund and its affiliates is approved by the Compensation Committee of the Board of Trustees. In addition, the total remuneration paid to the President and Chief Executive Officer is ratified by the full Board. The rationale for the total remuneration paid to the key officers involves two elements: (1) market data that is representative of functionally comparable positions in organizations similar to the Fund and its affiliates and (2) individual and corporate performance. Supplemental retirement and life insurance benefits are provided to certain officers under the terms of individual agreements. The accompanying financial statements of the Fund include officers' cash compensation, totaling $11.1 million and $9.2 million for the fiscal years ended March 31, 2008 and 2007, respectively. In the same respective years, an additional $7.4 million and $6.9 million in officers' cash compensation expenses were incurred by affiliates of the Fund.

The cash compensation for the five current officers of the Fund receiving the highest total cash compensation for the year ended March 31, 2008 was as follows:

T. Dennis Sullivan, President & CEO	$930,000
Executive Vice Presidents:	
William L. Cobb, Jr., Chief Investment Officer	$909,000
Daniel A. Kasle, Chief Financial Officer	$607,000
Jim Morrison, Affiliate Operations	$556,000
Senior Vice President:	
Helen Fox-O'Brien, Investment Department	$640,000

The Fund and its affiliated companies have a non-contributory defined benefit staff retirement plan, described above as the Staff Plan (see page 19), covering substantially all of its lay employees. The Staff Plan is reviewed annually by Hay Group, Inc., consulting actuaries. As of January 1, 2007, the date of the most recent valuation, the actuarial present value of accumulated plan benefits was $57.8 million and $2.2 million for vested and non-vested participants, respectively. The assumed rate of return used in the above calculations was 5.25%. The net assets available for plan benefits as of January 1, 2007, were $87.4 million. The excess of the plan net assets over the vested accumulated plan benefit obligations was recorded as a non-admitted asset and was excluded from the accompanying statement of assets, liabilities and fund balances and was charged directly to the funded reserve. The Fund pledged a contribution of $3.7 million to the Staff Plan in the fiscal year ended 2008 and $7.1 million to the Staff Plan in the fiscal year ended 2007.

The Fund and its affiliated companies have a defined contribution investment participation plan for eligible employees, under which employees may contribute up to 100% of their salaries, subject to federal limitations. The first 6% of their contributions is matched 75% by the Fund. Total employer matching contributions under this plan were $1.3 million and $1.2 million for the years ended March 31, 2008 and 2007, respectively.

The Fund and its affiliated companies also provide healthcare and life insurance benefits for eligible retired employees. The Fund has adopted the NAIC model law relating to accounting for post-retirement benefits other than pensions, and accrues the cost of providing these benefits during the active service period of the employee. For the years ended March 31, 2008 and 2007, the Fund and its affiliates recorded expenses of $1.9 million and $1.6 million, respectively, for benefits and interest expense net of interest income. The Fund has initiated a program to fund its obligation for this benefit by contributing to a post-retirement benefit investment account. At March 31, 2008, contributions and earnings had accumulated in this account to $16.9 million to fund obligations of $23.9 million.

For measuring the expected post-retirement benefit obligation, average annual rates of increase in the per capita claims cost were assumed for the fiscal years beginning April 1, 2008 and 2007 for medical costs of 8.5% and 9.0%, respectively. The medical rates of increase were assumed to decrease annually to 3% in the fiscal year beginning April 1, 2019 and remain at that level thereafter. The weighted average discount rates used in determining the accumulated post-retirement benefit obligation were 5.25% at March 31, 2008 and 2007, respectively. If the health care cost trend rate were increased by 1%, the accumulated post-retirement benefit obligation as of March 31, 2008 would increase by approximately $2.1 million.

Report of Independent Auditors

To the Board of Trustees of The Church Pension Fund

We have audited the accompanying statutory-basis statement of assets, liabilities and fund balances of The Church Pension Fund (the "Fund") as of March 31, 2008, and the related statutory-basis statement of changes in funded reserve for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Fund for the year ended March 31, 2007 were audited by other auditors whose report dated June 26, 2007 expressed an adverse opinion on those statements as the Fund presents its financial statements in conformity with accounting practices prescribed or permitted by the Insurance Department of the State of New York, which practices differ from U.S. generally accepted accounting principles.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in the notes to the financial statements, the Fund presents its financial statements in conformity with accounting practices prescribed or permitted by the Insurance Department of the State of New York, which practices differ from U.S. generally accepted accounting principles. The variances between such practices and U.S. generally accepted accounting principles also are described in the notes. The effects on the financial statements of these variances are not reasonably determinable, but are presumed to be material.

In our opinion, because of the effects of the matter described in the preceding paragraph, the 2008 financial statements referred to above do not present fairly, in the conformity with U.S. generally accepted accounting principles, the financial position of the Fund at March 31, 2008, or the changes in its funded reserve for the year then ended.

However, in our opinion, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of the Fund at March 31, 2008, and the changes in its funded reserve for the year then ended in conformity with accounting practices prescribed or permitted by the Insurance Department of the State of New York.

Ernst & Young LLP

July 16, 2008

Officers*

President

T. Dennis Sullivan

Senior Executive Vice President

The Rev. Canon Patricia M. Coller

Executive Vice Presidents

William L. Cobb, Jr.
Maria E. Curatolo
Daniel A. Kasle
Jim W. Morrison

Senior Vice Presidents

Robert J. Ansalone
Paul A. Calio
Patrick S. Cheng
William S. Craddock, Jr.
The Rev. Clayton D. Crawley
Nancy Fisher
Helen Fox-O'Brien
Barton T. Jones
Helen G. Leonard
Davis Perkins
William L. Pye
Alan Snoddy
James E. Thomas
D. Roderick Webster

Vice Presidents

Joan A. Bauer
Carrie E. Bierl
Denise L. Blankinship
Paul J. Brignola
William E. Bullock
Mark J. Dazzo
Angela DiGuiseppi
James W. Dooley
Steven M. Downey
Edward A. Feliciano
Steven J. Follos
Marian Hewitt
Martin Hossfeld
Robert R. Johnson
Sally A. Johnson
Howard J. Kane
Rhonda Kershner
Angela L. Kirk
Linda A. Knowlton
Michelle Langone
Peter Latriano
William M. Lodico
Michael E. Macdonald
Michael Marino
Richard S. Markuson
Holly McAlpen
Paul Morejon
Laury E. Poland
Matthew J. Price
Nicholas P. Procyk
Linda Puckett
The Rev. Charles L. Ramsden
Robert Smulowitz
Paul W. Stephens
Andrea W. Still
Frederick M. Swing
Ellen M. Taggart
Frank L. Tedeschi
Dane M. Tracey
Jerry A. Ulrich
Wesley R. Underwood
Timothy Vanover
Peter Velander
Joyce Flournoy Wade
June Yearwood

Assistant Vice Presidents

Patricia Christensen
Socorro C. Erik
Juan Galdamez
Reid Howard
Charles Hui
Laurie Kazilionis
Jennifer D. Lewis
Joseph Maugeri
Edward Miceli
Stephen F. Michalski
Mary Elizabeth Miller
Michael J. Monahan
Stephen T. Poulos
John D. Webster

Assistant Secretaries

Rose A. Costanzo
Alva G. Griffith

Alan F. Blanchard, President Emeritus

*Includes officers of The Church Pension Fund and officers of affiliated companies which include The Church Insurance Agency Corporation, The Church Insurance Company of New York, The Church Insurance Company of Vermont, Church Life Insurance Corporation, The Episcopal Church Medical Trust, and Church Publishing Incorporated

Principal Outside Advisors

Investment Consultants

Cambridge Associates
Gordon Fowler
Hiram F. Moody, Jr.
Troy Y. Murray
Collins Spencer

Custodian

The Northern Trust Company

Counsel

Davis Polk & Wardwell

Independent Auditors

Ernst & Young LLP

Pension Actuary

Buck Consultants, an ACS Company

Health Plan Actuary

Hewitt Associates

As of March 31, 2008