Important Annuity Information that May Have an Impact on Your Benefits

Caring For Those Who Serve

The economic realities of the investment market have caused the General Board of Pension and Health Benefits to examine closely the methods and policies by which it pays benefits to retirees. As you review your retirement options, please be aware that the board of directors has made several changes in the way account balances are converted to annuities. By aligning the administration of annuities with prudent stewardship, these changes help protect pension benefits for retirees today while preserving benefits for those who will be retiring in the future. Please review carefully the following information to see if or how you are affected.

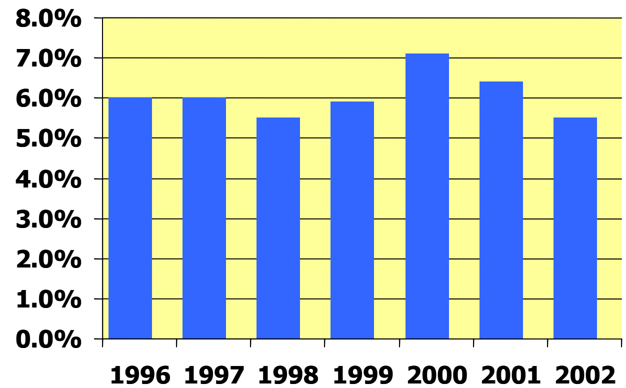
How Annuities are Calculated is Changing

Beginning July 2, 2003, your account balance will be converted to an annuity using a market-related rate of interest. The market-related rate of interest fluctuates from month-to-month, so it is not possible to know the rate that will be in effect on the date you retire. Historically, the rate changes little over time. In December of 1997, it was 5.6%; in December of 2002, 5.3%. After you retire, your benefit is fixed and will not change.

Annuities distributed from the following plans are affected:

- MPP
- MPP Supplement One (pre-1982)
- Cumulative Pension and Benefit Fund (CPBF)
- Staff Retirement Benefits Program (SRBP)
- Personal Investment Plan (PIP).

Annuity Interest Rate*
(As published by the Pension Benefit Guaranty Corporation)



*Yearly averages of monthly rates.

Remember, if you retire on or before July 1, 2003, you are not affected by these changes.

A Special Transition Period for Participants in MPP

MPP participants who meet eligibility requirements will experience a gradual phase-in of the change to a market-related rate of interest. To qualify for the phase-in, you must be at least 62 years of age or have 35 years of service by July 1, 2003. If you qualify, your MPP annuity benefit will be calculated as follows:

- When you choose to retire, all money accumulated in your MPP account balance up to June 30, 2003, will be converted to a monthly benefit based on an 8% rate of interest (or a market-related rate if the market-related rate is greater than 8%).
- All money accumulated in your MPP account after June 30, 2003, will be converted to a monthly benefit based on a market-related rate of interest.
- Your total monthly benefit will be the sum of these two amounts.

Example: Reverend William Johnson, age 60, has 35 years of service as of June 30, 2003. When he retires in July of 2007, at the age of 65, the MPP account balance he has accumulated up to June 30, 2003, will be converted to an annuity at a fixed rate of interest of 8% (unless the market-related rate of interest is higher). The account balance he has accumulated after June 30, 2003, will be converted to a monthly benefit based on the market-related rate of interest current at the time of retirement. The total of these two calculations will be his regular monthly MPP retirement benefit.

The account balances of MPP participants who do not meet the eligibility requirements above and who retire after July 1, 2003, will be converted to annuities at retirement based on a market-related rate of interest.

In addition, beginning July 2, 2003, Ministerial Pension Plan (MPP) and MPP Supplement One (pre-1982) annuities will be based on the RP-2000 mortality table as opposed to the 1983 Individual Annuity Mortality (IAM) table. Both tables are published by the Society of Actuaries. The RP-2000 table is more appropriate for large retirement plans in which annuities are mandatory, such as MPP. For most participants, the new table will result in just about the same level of benefit.

An Important Change for Participants in CPBF and PIP

Beginning January 1, 2004, annuities from CPBF and PIP will be outsourced to an insurance company. This means that if you annuitize your CPBF or PIP account balance, your monthly annuity check will come from an insurance company and not from the General Board. CPBF and PIP participants who request an annuity may use the insurance carrier chosen by the General Board, or a carrier of their choice. **(CPBF and PIP participants are not required to annuitize their account balances.)** Annuities already established prior to January 1, 2004 will be outsourced by January 1, 2005, but with no change in the amount of the monthly benefit. If you do not annuitize your CPBF or PIP account balance, this change does not affect you.

Questions and Answers About the Annuity Changes

Q: What is an annuity?
An annuity is a financial instrument that provides a monthly (or yearly) income. The person receiving the annuity is called the annuitant. Based on the terms of the annuity, the annuitant receives a specific monetary benefit for a specified period of time. Many annuities are structured to pay benefits for the lifetime of the annuitant and, upon the annuitant's death, the lifetime of the annuitant's contingent annuitant.

Q: What annuity management decisions have been made by the board?
Beginning July 2, 2003, all MPP, MPP Supplement One (pre-1982), SRBP, CPBF, and PIP account balances will be converted to annuities using a market-related conversion rate. For MPP participants who are at least age 62 or have at least 35 years of service by July 1, 2003, there will be a transition feature (please see below).

Beginning July 2, 2003, all MPP and MPP Supplement One (pre-1982) account balances will be converted to annuities using the RP-2000 mortality table.

Beginning January 1, 2004, all new CPBF and PIP annuities will be outsourced to an insurance company. (If you retire in December 2003 and your first annuity check arrives in January of 2004, you are affected by this change.)

Beginning January 1, 2005, all existing CPBF and PIP annuities will be outsourced to an insurance company. (There will be no change in the terms of the original annuity.)

Q: What is a market-related annuity conversion rate?
Annuities are paid out of funds that continue to earn interest over the life of the annuity. What these earnings are expected to be over time influences how much the annuity can pay in monthly benefits. Since future earnings cannot be known exactly at the time the annuity is calculated, a reasonable prediction is made as to what the unpaid funds will earn over time. This prediction is the annuity conversion rate. As a kind of interest rate, the annuity conversion rate is affected by market forces and, hence, changes from time to time.

Q: How is the market-related annuity conversion rate determined?
The Pension Benefit Guaranty Corporation (PBGC), a federal corporation established in 1974 to protect and support defined benefit pension plans, publishes a market-related conversion rate monthly. The General Board uses the rate published by the PBGC for the month immediately preceding the first month benefits are paid. If a participant retires on July 1, his or her annuity will be based on the rate published for the month of June. The rate may be found in the first column at **http://www.pbgc.gov/services/interest/VAL_ANNU.HTM**.

Q: What rate has the General Board been using to convert account balance to annuities?
Since 1982, the General Board has been converting account balances to annuities using a conversion rate of 8%.

Q: How will the rate change affect monthly benefits?
The current market rate is approximately 6%. A monthly benefit calculated at 6% as opposed to 8% will result in an approximate 20% reduction in monthly benefits. An example: a $100,000 account balance converted at 8% (assuming the participant is 62 years of age) will yield an approximate monthly benefit of $625. At 6%, the same account balance will yield a monthly benefit of approximately $513.

Right now, the market-related conversion rate is below what the General Board has traditionally used to calculate annuities, but remember, the market rate may go up and may someday exceed the 8% rate the General Board has been using.

Q: Who is affected by this rate change?
Everyone who has an MPP, MPP Supplement One (pre-1982), CPBF, SRBP or PIP account balance.

Q: What if I retire on or before July 1, 2003?
Your annuity will be calculated using the 8% conversion rate.

Q: I already have an annuity. Will the monthly benefit amount change after July 1, 2003?
No. The change to a market-related rate of interest applies only to annuities set up after July 1, 2003. It is not retroactive.

Q: Are there any exceptions to the market-related rates that go into effect after July 1, 2003?
Yes. For MPP participants who are 62 years of age or who have 35 years of service on or before July 1, 2003, there is a transition period.

Q: How does the MPP transition feature work?
If you are an MPP participant who qualifies for the transition feature (see above), your annuity will be the sum of the following two calculations:

- Your account balance as of June 30, 2003 will be converted at the existing 8% rate.
- Whatever accrues to your account on or ***after*** July 1, 2003 will be converted at the market-related rate in effect for the month preceding the month you retire.

The sum of these two calculations will be your retirement benefit. This transition feature protects those MPP participants who are age 62 or have 35 years of service at the time the change to the market-related rate takes place.

Q: What is a mortality table?
A mortality table is a series of predictions concerning life expectancy. Pension plans use mortality tables to structure annuities.

Mortality tables are extremely important in the calculation of annuities as annuities usually provide benefits for the lifetime of the annuitant. A reasonable expectation of the annuitant's remaining life expectancy is essential in calculating benefits. If the mortality table expects you to live another 20 years, but, in fact, you live 10, there are more than likely excess assets in the plan. These excess assets are used to provide benefits for the participants who live longer than the mortality table would expect.

Q: What kind of mortality table does the General Board us in calculating annuities?
The General Board has been using the 1983 Individual Annuity Mortality (IAM) table to calculate annuities, but beginning July 2, 2003, it will use the RP-2000 mortality table for MPP and MPP Supplement One (pre-1982). It will continue to use the 1983 IAM for PIP, CPBF, and SRBP. Both tables are published by the Society of Actuaries. The 1983 IAM is designed for individually underwritten annuities whereas the RP-2000 is designed for large retirement plans in which annuities are mandatory (such as MPP and MPP Supplement One).

Q: Will switching mortality tables affect the benefit I receive?
For most participants, the new table will result in just about the same level of benefit. Overall, however, it is a better fit for the MPP and MPP Supplement One plans.

Q: What does outsourcing annuities mean?
Currently, all MPP, MPP Supplement One, CPBF, SRBP and PIP account balances are converted to annuities by the General Board. The General Board prepares and mails the monthly benefit checks. Outsourcing means that certain account balances will be given to an insurance company for conversion to annuities. The insurance company will prepare and mail the monthly benefit check.

Q: Are all annuities being outsourced?
No. Currently, the General Board has decided to outsource only CPBF and PIP annuities.

Q: When will the outsourcing take effect?
Beginning January 1, 2004, all new CPBF and PIP annuities will be outsourced. By January 1, 2005, all existing CPBF and PIP annuities will be outsourced.

In other words, if you retire on March 1, 2004, and you request an annuity from either your CPBF or PIP account balance, your account balance will be given to an insurance company. The insurance company will convert your account balance to an annuity and will pay your monthly benefits.

If you retired in 2001 and are receiving an annuity from either your CPBF or PIP account balance, sometime by January 1, 2005, your annuity will be bought from an insurance company. The insurance company, not the General Board, will continue to pay your monthly benefit.

Q: Will my monthly benefit change?
No. If you already are receiving an annuity based on either your CPBF or PIP account balance, outsourcing will not affect your monthly benefit check. The insurance company to which your annuity has been outsourced will continue to honor the terms of your original annuity.

Q: Do I have any choice in the selection of the insurance company?
The General Board will contract with a highly-rated, reliable insurance company for purposes of outsourcing. If you are uncomfortable with the General Board's selection, you may request a lump-sum distribution of your account balance and take the distribution to an insurance company of your own choice.

Q: Will the insurance company selected by the General Board adhere to the investing guidelines of The United Methodist Church?
The General Board cannot control the investing practices of private companies, but the General Board can select companies whose investing practices reflect its own. It is also possible that to secure the volume of business generated by the General Board's outsourcing decision, an insurance company may adjust its own investing guidelines to more closely match the General Board's.

Q: Do I have to take an annuity?
CPBF and PIP offer a number of distribution options. Participants are under no obligation to receive an annuity from their account balances.

MPP participants, however, must receive at least 75% of their account balance as an annuity. Also, MPP Supplement One (pre-1982) benefits are available only as an annuity.

Q: After outsourcing takes place, who will determine the rate at which my account balance is converted to an annuity.

CPBF and PIP annuities that already have been set up by the General Board will be outsourced at the rate at which they were originally converted (8%). The original terms of the annuity will continue.

New annuities that are being set up by the outsourced insurance company will be converted at the rate in effect at the insurance company.

How the Annuity Interest (Conversion) Rate and Mortality Table Affect Your Monthly Benefit

Many factors influence the conversion of your account balance to an annuity. Some of these include:

- the type of annuity you have requested (joint-life, single-life, period-certain, etc.),
- your age,
- the age of your contingent annuitant,
- any cost-of-living increases,
- the annuity interest (conversion) rate,
- the conversion mortality table.

The annuity interest (conversion) rate is especially important as annuities are paid out of funds that continue to earn interest over the life of the annuity. Since future earnings cannot be known exactly at the time the annuity is calculated, a reasonable assumption is made as to what the unpaid funds will earn over time. This prediction is the annuity interest (conversion) rate. Since the interest (conversion) rate is affected by market forces, it changes from time to time.

Mortality tables also affect your monthly benefit. Different tables reflect different populations. MPP and MPP Supplement One (pre-1982) use RP-2000, a mortality table geared to large retirement plans requiring annuity distributions. CPBF, PIP and SRBP use the 1983 Individual Annuity Table because these plans offer non-annuity distribution options.

The following table shows how your monthly benefit, beginning at age 65, is affected by differing interest (conversion) rates. The first two monthly benefit figures (in bold) represent the conversion rate in effect through July 1, 2003.

		Monthly Benefits with 2% Annual Cost-of-Living Increases			
		CPBF, PIP, SRBP[1]		MPP and MPP Supplement One (pre-1982)[2]	
Account Balance at Age 65	Interest (Conversion) Rate	Joint-life annuity with 70% to contingent annuitant	Single-life with no refund	Joint-life annuity with 70% to contingent annuitant	Single-life with no refund
$100,000	8.0%	**$657**	**$766**	$683	$796
$100,000	7.0%	$603	$712	$625	$738
$100,000	6.0%	$546	$654	$568	$680
$100,000	5.0%	$491	$597	$513	$623

[1] Mortality table: 1983 Individual Annuity Mortality Table blended 80% male, 20% female
[2] Mortality table: RP-2000 blended 80% male, 20% female