Financial Wellness

General information regarding Financial Wellness for denominational employees who currently participate in the church's Adventist Retirement Plan (DC Plan). Designed for those NOT immediately approaching retirement.

Contents

AdventistRetirement

Seventh-day Adventist® Church
NORTH AMERICAN DIVISION

9705 Patuxent Woods Drive | Columbia MD 21046
Telephone (443) 391-7328 | Fax (443) 259-4880

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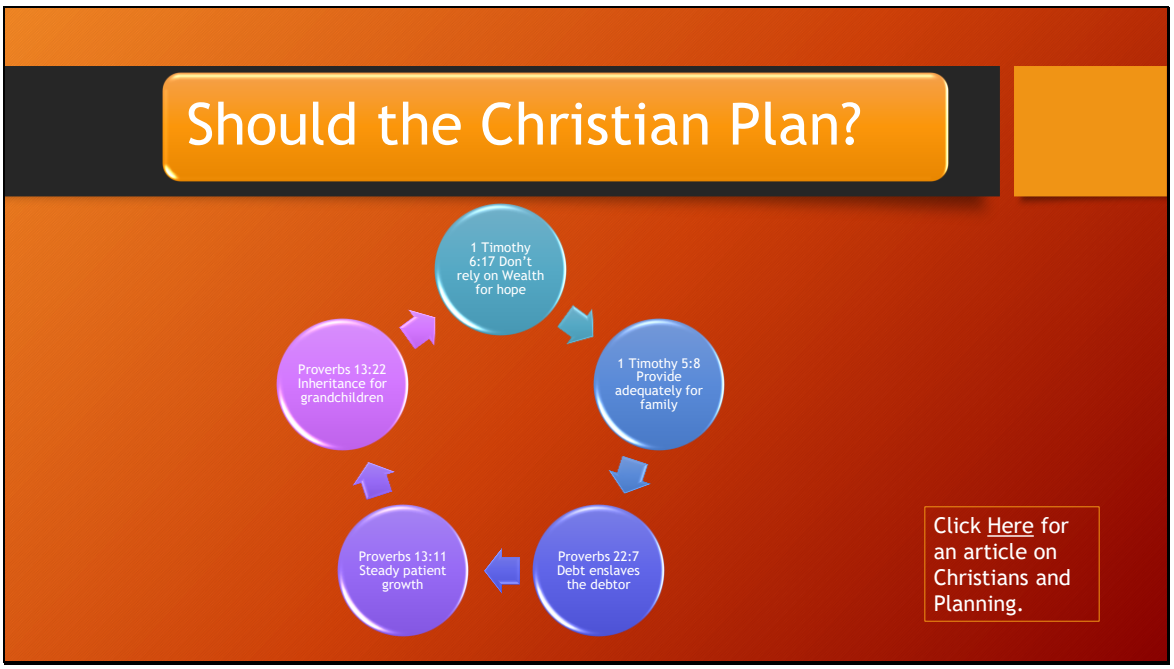
There are links throughout this document to ease in navigation. For instance each of the links under Contents will take you directly to the related section.

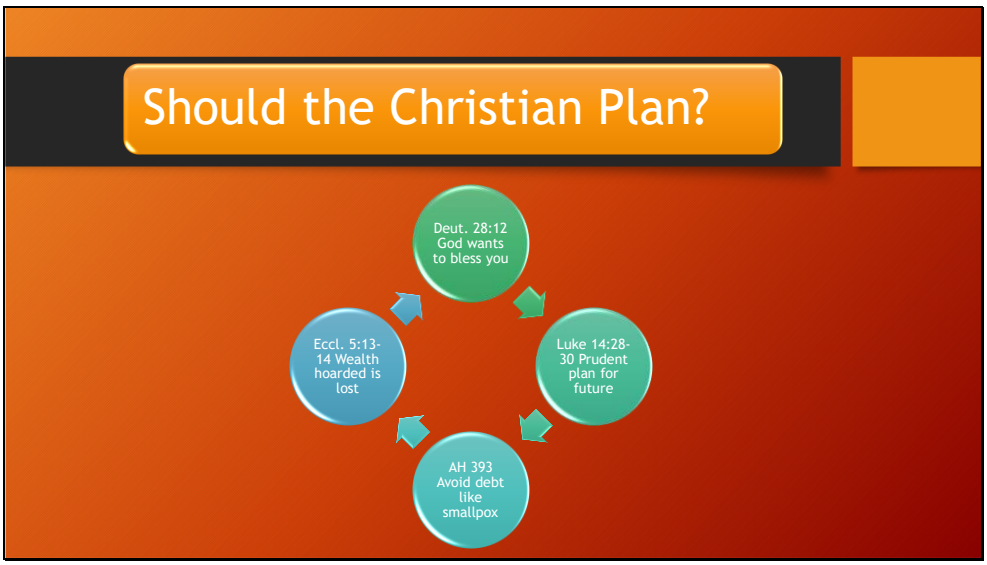
Throughout this document you will also find links that will take you to specific content web sites which you may find to be of value.

Caveat: Examples in this document make certain assumptions in describing various decisions made by employees. This document is designed to assist the employee in thinking through various age categories, as opposed to providing legal, financial or investment advice. A financial planner will be the best source of advice.



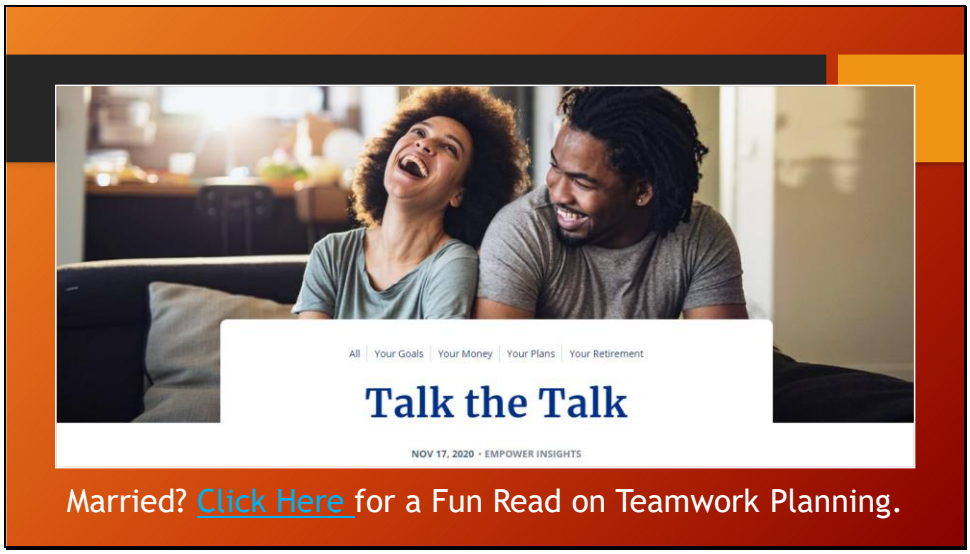
Before diving into the details of financial planning, let us deal directly with a challenge the Christian faces. Scripture seems to provide mixed messages. Many messages deal with the danger of putting our hope in wealth. The eye of the needle and lilies of the field metaphors warn about the danger of wealth preventing the rich from accepting God's kingdom. "You cannot serve God and mammon."

However other passages support prudent planning. God's abundance is promised to those who comply with the covenant relationship. Many scriptures provide good counsel in avoiding both pitfalls of neglect and greed. Provide adequately for your family. Avoid debt. Be patient and grow your family blessings 'little by little.' Leave an inheritance for the grandchildren.

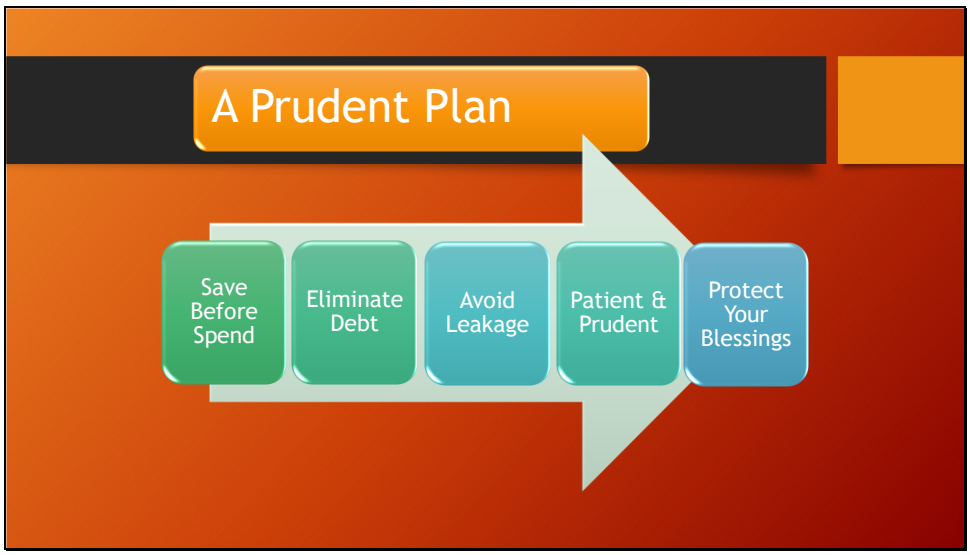


Ellen White has strong advice regarding debt, including the vivid image of avoiding smallpox. (See this Adventist Home quote.) Scripture indicates it is God's desire to abundantly bless His people but cautions that wealth hoarded is often lost. The principle of a modest, prudent plan, caring for immediate family, avoiding debt, living generously, and leaving a legacy for future generations is spelled out across Scripture.

We believe that it is not inconsistent for a believer in the imminent return of Jesus to also provide a prudent financial plan. So, let us dive in. How does the Adventist Employee develop a prudent financial plan to meet these biblical principles? Here is the link to the



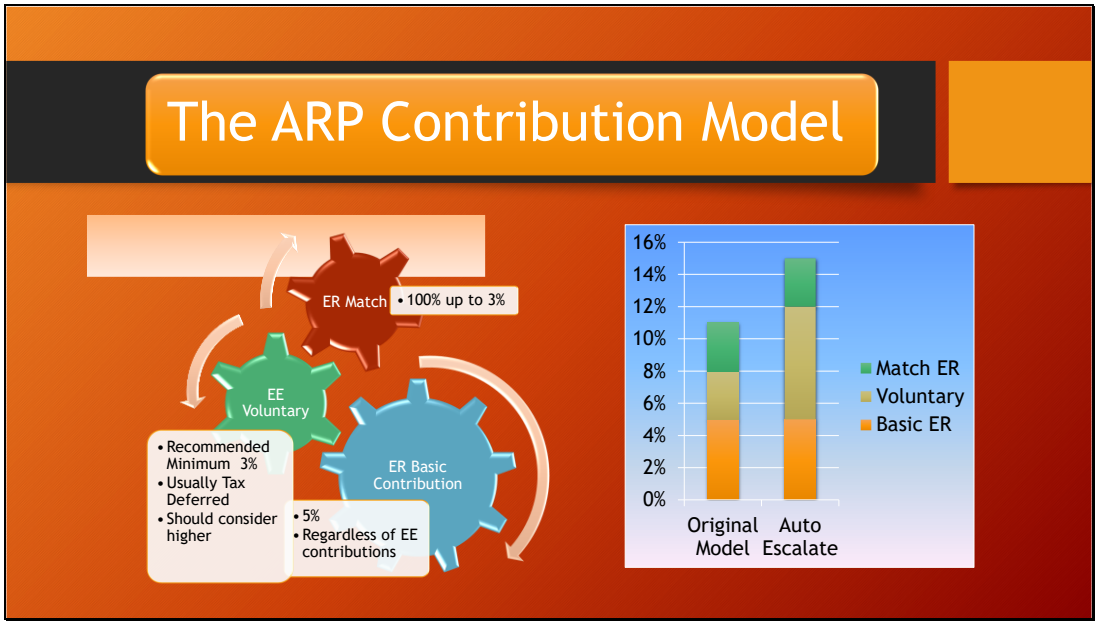
Married couples: Look at retirement planning as a team effort. Your spouse's expectations may surprise you. Have the talk while making those expectations a reality is still possible. One wife is quoted: I have half the money and twice the husband and it is driving me nuts! Here is a short read from Empower Retirement with some great ideas for building a team approach.



Books are written and consultants consult on how to develop a prudent plan. Suggestions made here are certainly not comprehensive, nor original. Here are some components of a prudent plan.

- **Save before Spend**. Employees have told us how, right after first employment, a parent or an older colleague encouraged them to, before anything else, sign up for the 403(b) Retirement Plan. "Save it and forget it." How grateful they were for that good advice.
- **Debt** is a serious problem for young employees today. Conferences tell us that some Seminarians emerge with educational debt approaching $80,000.
- **"Leakage**" is a term we use to describe how assets can drip out of the Retirement Plan account even as contributions continue to be made.
- Use **patient** and prudent investment strategies. You are here for the long haul.
- Finally, it makes sense to have **protectio**n against the vagaries of life. Bad stuff happens. Have appropriate insurance and legal documentation in place.

Save Before Spend

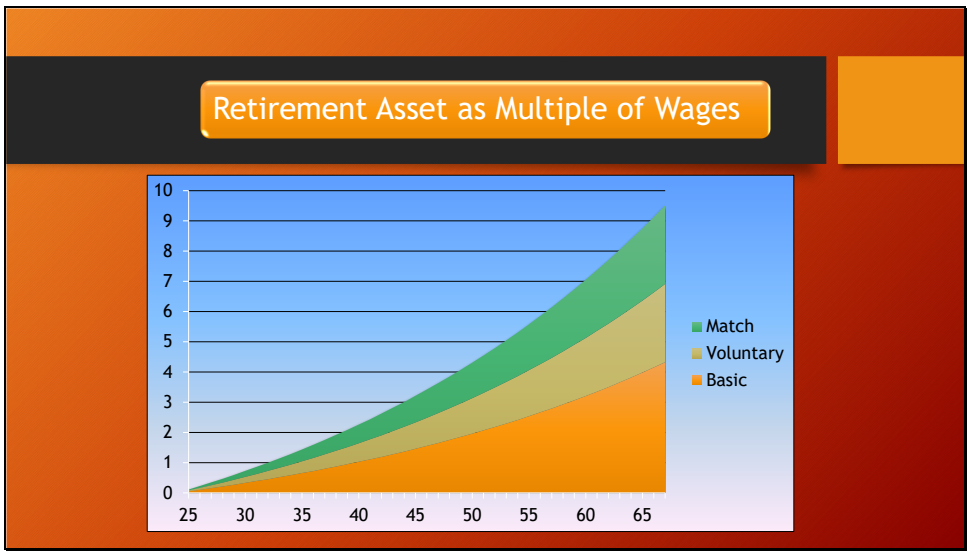


For years, the plan has modeled contributions with the

- Employer Basic Contribution 5%
- Employee Voluntary Contribution at least 3%
- Employer 100% Match 3%
- Total Contribution 11%

This is a valid model for somebody contributing for thirty-five to forty years. However, many employees probably will not accumulate enough with this model due to employment gaps, withdrawals and contribution procrastination, and the plan has adopted an Auto Enroll and Auto Escalate model for all employees.

New employees will automatically be enrolled with a 3% contribution, and all employees currently below 7% Voluntary will be 'escalated' by one percent each year until reaching 7% Voluntary yielding a total of fifteen percent including the Basic, Voluntary and Match. Employees have the option of declining either the auto enroll and/or the auto escalate.



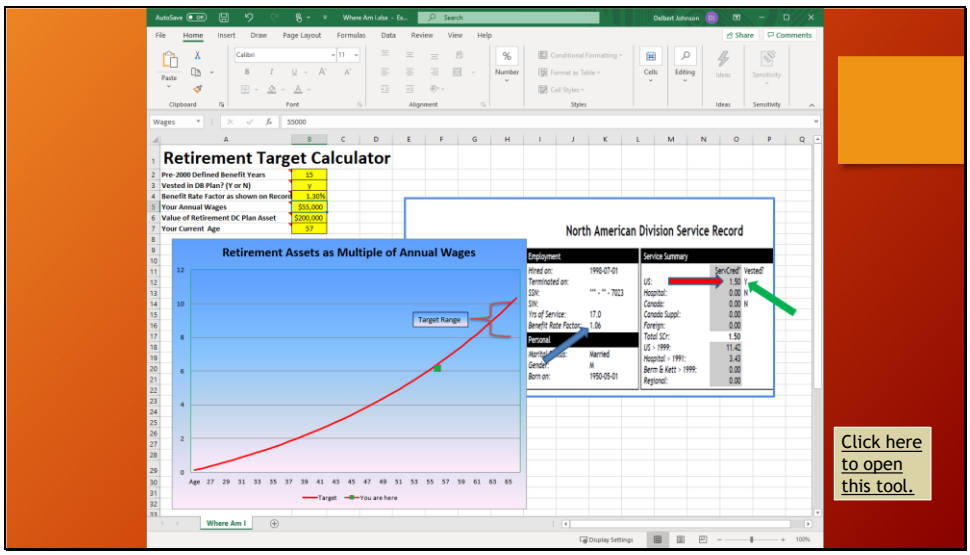
Because of the challenge of predicting inflation, some retirement advisors suggest that a target Retirement Asset should be described in terms of a multiple of annual wages instead of in dollars. The graph shows a full career. Since the Defined Contribution Plan has only been in place since 2000, no Employee will at this point have forty years of DC Employment.

The Basic series shows what the Basic contribution would grow to, given modest assumptions. Some employees do not contribute anything because the Employer contributes even if the Employee doesn't. The employer Basic contribution would flow and grow to about four times annual wages after a forty-year career of employer-only contributions. That would not be adequate to maintain the standard of living enjoyed prior to Retirement.

In this example, in addition to the employer Basic contribution, the Employee voluntarily contributed three percent, which resulted in a forty-year total growth to about seven times annual wages. The literature we read suggest that this level would provide a modest retirement income. Many would find it inadequate.

However, because of the Employee Voluntary contribution, the Employer adds the Match, and the total account would grow to over nine times annual wages. The literature that we read suggests that eight to ten times annual wages should provide a standard of living approximating that enjoyed prior to Retirement. Whether six or eight- or ten-times last wages will work for an individual depends on other factors. This graph is designed to show the importance of earning the match to reach a general rule of thumb target.

Notice the shape of the curve. It is not a straight line. Compound Returns tend to push the curve higher as the years go by. It does not take many years of faithful contributing and normal market performance for the average annual investment returns to begin to exceed the personal contribution. That is a great tipping point, although it does not mean the Employee should stop contributing.

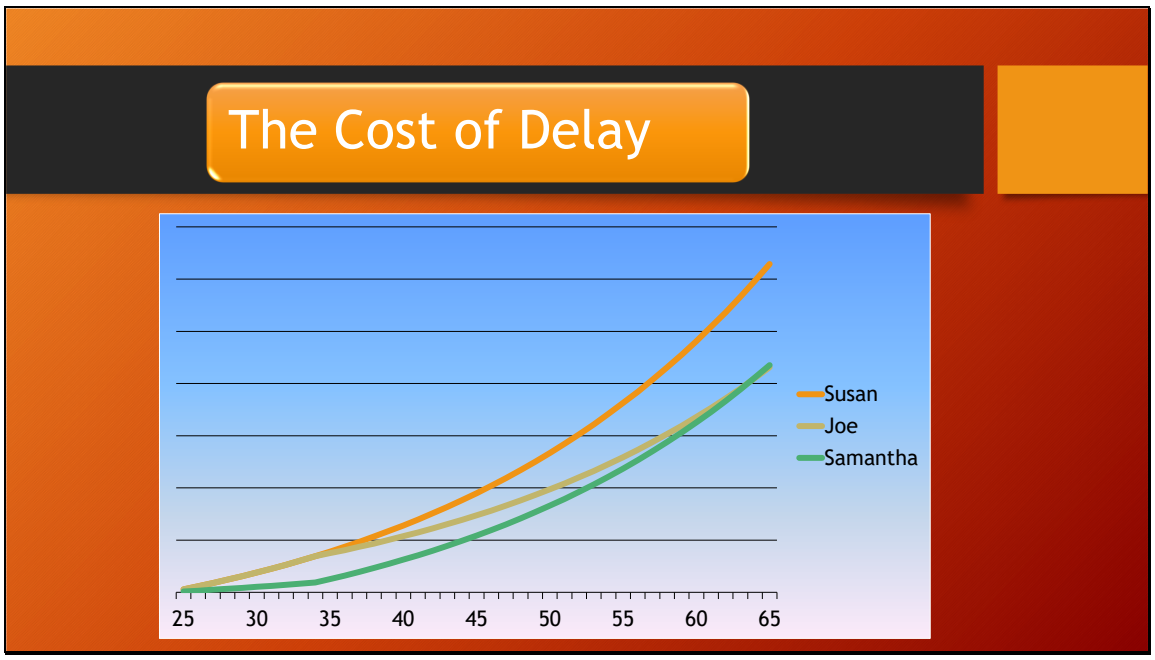


This spreadsheet can help estimate where an employee of any age is along a target curve. The entry fields are the yellow boxes at the top. Employees can review the personal service record to determine the three important components to estimate any pension from the pre-2000 plan which is then captured in the target curve.

- Qualifying pre-2000 defined benefit years is at the red arrow. Our sample service record shows 1.5 years, but we are going to enter 15 years for a more typical case.
- Vesting status is at the green arrow. In this case the employee is vested.
- Benefit Rate Factor (blue arrow) is an indicator of ten highest years' pay rate, pre-2000.
- We entered annual wages, not including benefits or reimbursements such as Area Travel or Tuition Assistance.
- We entered the current value of all Retirement account assets.
- We entered the current age.

The red line is the target curve. It ends at the target range for a Retiree at 8-10 times annual wages. The dot or square shows where this 57-year-old employee is on the target curve. With a modest pension from the pre-2000 defined benefit plan, current annual wages of $55,000 and current DC Plan Assets of $200,000, the employee is on track to reach the target range by 65 or 66. Obviously volatile market activity would impact reaching the target on a timely basis.

Click on the slide to open this spreadsheet online. Enter your own numbers and play 'what if'.



There are always reasons Employees find to NOT contribute. The graph shows three imaginary employees with the same wages and investment returns.

- Susan began to contribute at age 25 until she reached age 65.
- Joe also began at age 25, however stopped at age 35 after only ten years of contributing.
- Samantha delayed contributing, starting at age 35 and contributed until age 65.

These three cases tell an important story.

- Susan's career-long contributions maximized compound returns; interest being earned on interest. At about age 37, her average annual investment earnings are exceeding her annual contributions.
- Joe's stop at age 35 is unfortunate, but if he does not make any withdrawals, his account continues to increase with employer basic contributions and market growth. It ends up far less than Susan's. Without other compensating income, he will have a modest retirement income.
- Samantha's situation is surprising. A ten-year delay in starting contributions puts her behind both Susan and Joe. She contributes for thirty years, and finally catches up with Joe who contributed for only the first ten years. Joe's ten years of contributions end up being about the same value as Samantha's 30 years of contributions.

The lesson here is that those who contribute throughout the career will be rewarded, but early years are more important than later years. Delay is costly.

Eliminating Debt

Today's employees struggle with managing debt. Vendors push the concept of 'buy now, pay later.' New employees emerge from school with significant educational debt, and banks rush to sign them up for credit cards. Colleagues drive nice cars and have exciting toys. "Why not me?" Debt can easily snowball and overwhelm. Becoming debt free is part of a prudent plan.

Many advisors suggest that protecting yourself from surprises by saving a modest emergency fund comes before debt elimination. This avoids adding to debt if an emergency occurs. Most advisors urge clients to 'earn the employer's match' by contributing at least 3% even while working to eliminate debt. Others urge putting all available resources into eliminating non-mortgage debt before saving, even at the loss of the match. Whatever the strategy, the priority is to become and remain debt free as soon as possible.

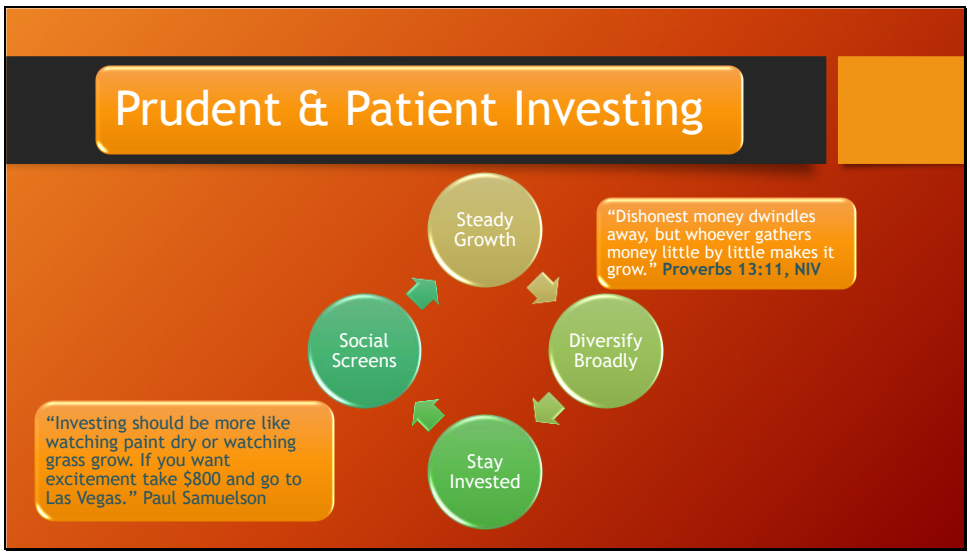
Advisors sometimes define ‘good’ and ‘bad’ debt based on what happens to the ‘asset’ after purchase. Does it appreciate or depreciate? However, a 6% home equity loan taken to pay off a 20% credit card obligation could be good debt! An auto loan that enables you to get a better job may be prudent. A real estate loan on an undesirable house becomes bad debt. Educational debt for a degree not valued in the market becomes bad debt. The sad reality is that all debt must be repaid by someone, someday.

Here’s a great quote from Ellen White*:* **Do Not Emulate Fashionable Neighbors**—It is not best to pretend to be rich, or anything above what we are—humble followers of the meek and lowly Saviour. We are not to feel disturbed if our neighbors build and furnish their houses in a manner that we are **not** authorized to follow. AH 384.2

Many advisors dive right into the best methods to eliminate debt, ignoring what should be the most obvious first step. **Quit adding to debt!** Paying off debts while continuing to incur new debts is a futile exercise.

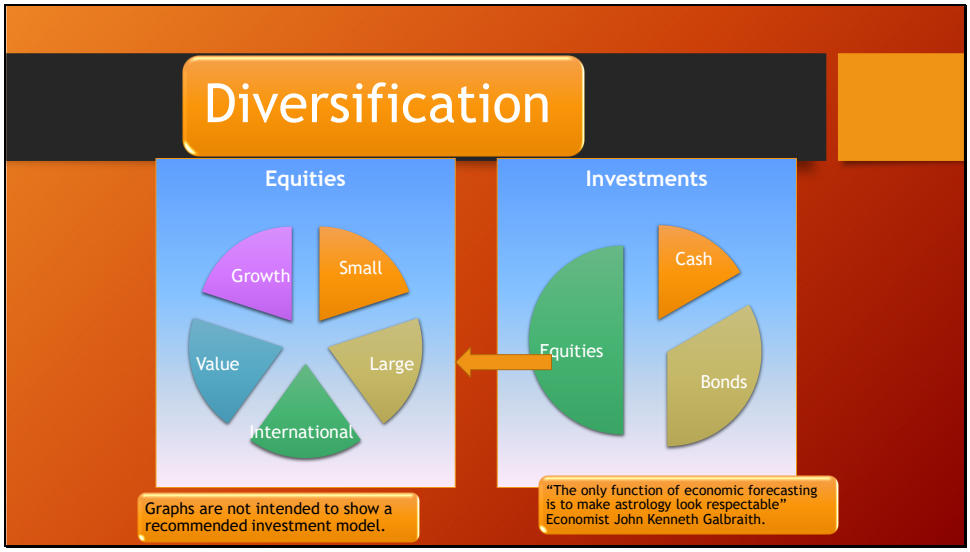
Happily, about 70% of our denominational Employees contribute regularly to the Defined Contribution Retirement Plan. Sadly, leakage happens. Leakage refers to assets being siphoned out of the Plan. Leakage can include many factors. The four major areas are:

- Loans taken against Retirement assets and not repaid before Retirement.
- Withdrawals taken prior to Retirement.
- Excess Fees and Commissions
- Contribution failures or delays



Investment strategies are described in countless books and by a multitude of counselors. This subject goes well beyond this document. However, a few investing principles are broadly accepted when looking at long-term Retirement investing.

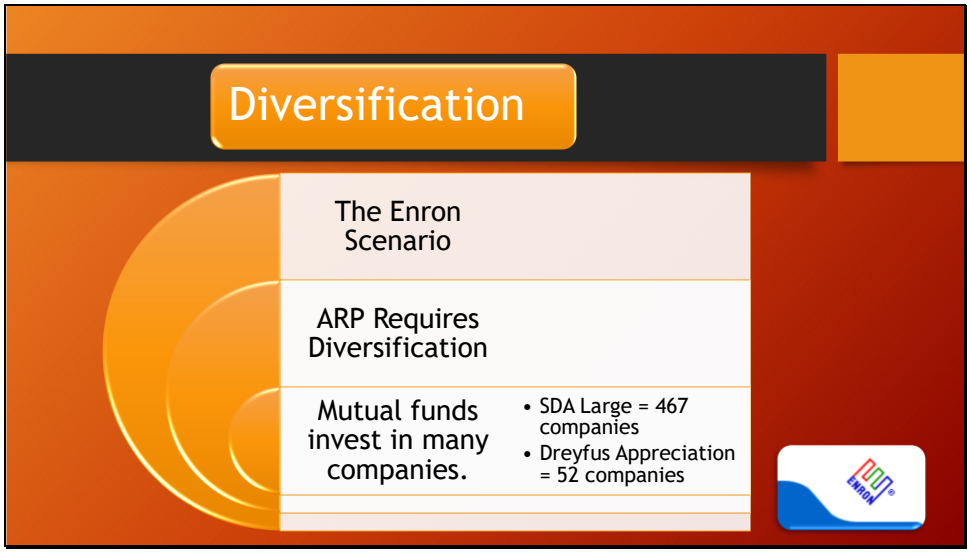
- Plan for long-term steady growth.
- Diversify broadly.
- Stay invested. Even when markets are fluctuating and every instinct says to run to cash, stay the course.
- Consider social screens. You have your personal values. Should your investments have the same values?



Why Diversify? In any given economic situation, not all investments will react the same way. In one economy, small companies may do well and larger ones may not do well. Then, the economic situation changes. Suddenly the positions may reverse.

It is virtually impossible to guess which investment will do better than another in the future. Investment professionals agree that a better way to manage your retirement portfolio is to diversify, that is spread your money into different types of investments.

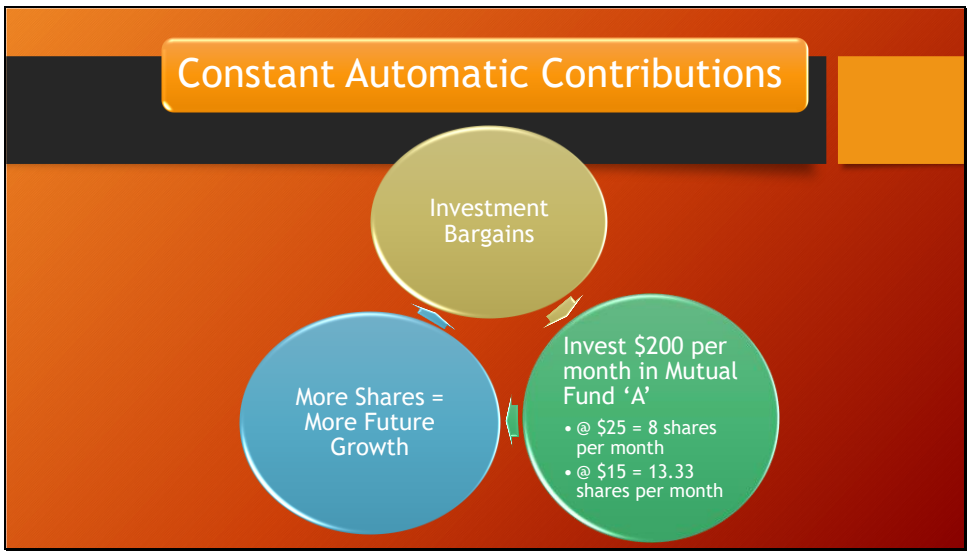
While diversification does not assure a profit or guarantee against loss of principal, it can help reduce overall volatility in the markets and reduce the overall risk.



Some employees participating in the Adventist Retirement Plan have asked why they could not invest in individual companies such as General Electric or Ford Motor Company. ENRON Corporation was an energy, commodities and services company based in Houston, founded in 1985 as a merger. Before its bankruptcy on December 2, 2001, the company claimed revenues of over $100 billion. However, it was discovered that Enron participated in “institutionalized, systematic and creatively planned accounting fraud.” Approximately 20,000 employees lost their jobs because of the failure.

According to one news report, an Enron employee had built up a retirement plan balance of a little over $1 million. Unfortunately, it was all invested in Enron. When the company failed, that employee essentially lost his whole Retirement plan.

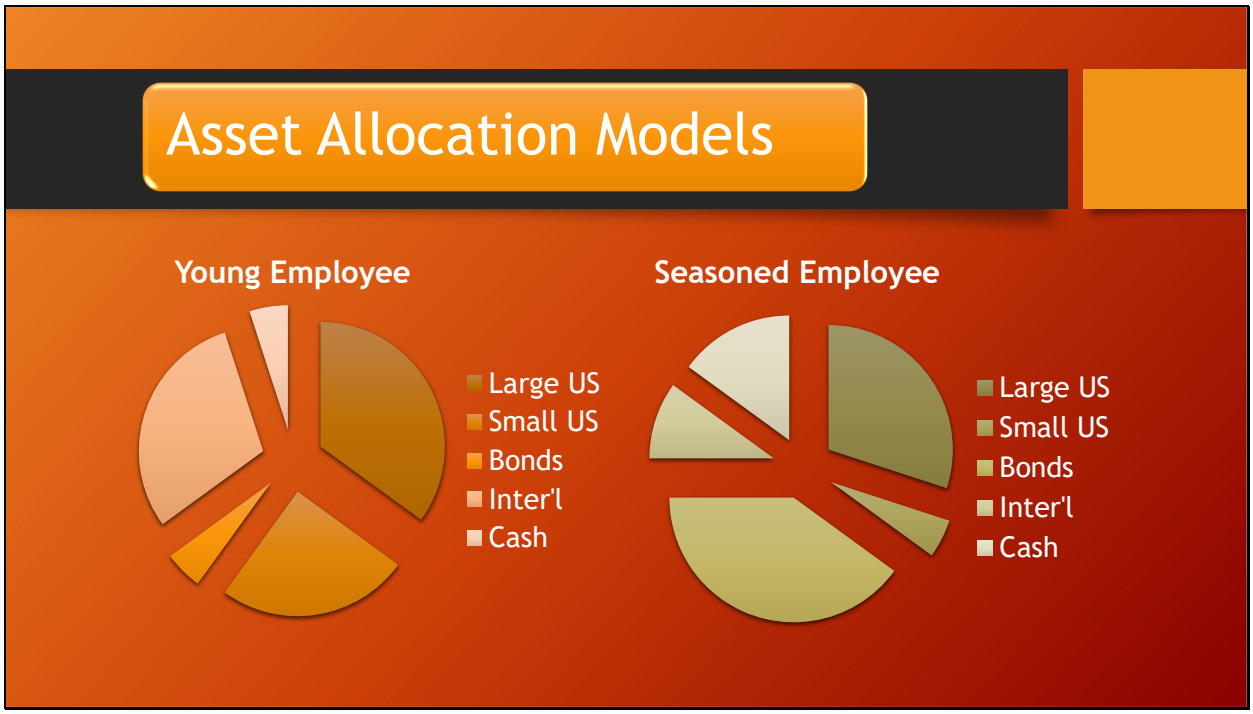
As a result of risk associated with narrow investments, retirement plans generally require participants to invest using mutual funds or similar vehicles, thus spreading their investment risk across hundreds of companies. The Adventist Retirement Plan follows that plan and encourages employees to spread investments broadly.



Unfortunately, occasional Market Downturns can result in discouragement, and some employees have chosen to cease making contributions to their Retirement Plan. Continuing to contribute the same amount, whether markets are up or down results in positive benefits. If markets are up, the cost per share is higher, and fewer shares of the mutual funds are obtained. If markets are down, the same contribution buys more shares. The result is the average cost per share is pushed down over time. Average cost becomes important when in Retirement, withdrawals require the sale of the investments.

Studies have repeatedly confirmed that an asset allocation model which makes sense for the age and risk tolerance of the participant is better by far than market timing or investment selection. The reality is that few can consistently predict the direction investments will go. An asset allocation model is an investment strategy which distributes assets across various classes of equities and fixed income options. Asset allocations will drift as markets operate

unevenly over time and will require re-balancing. As a person ages, most advisors suggest a more conservative allocation. The link takes you to a short article on Asset Allocation vs. Market Timing.

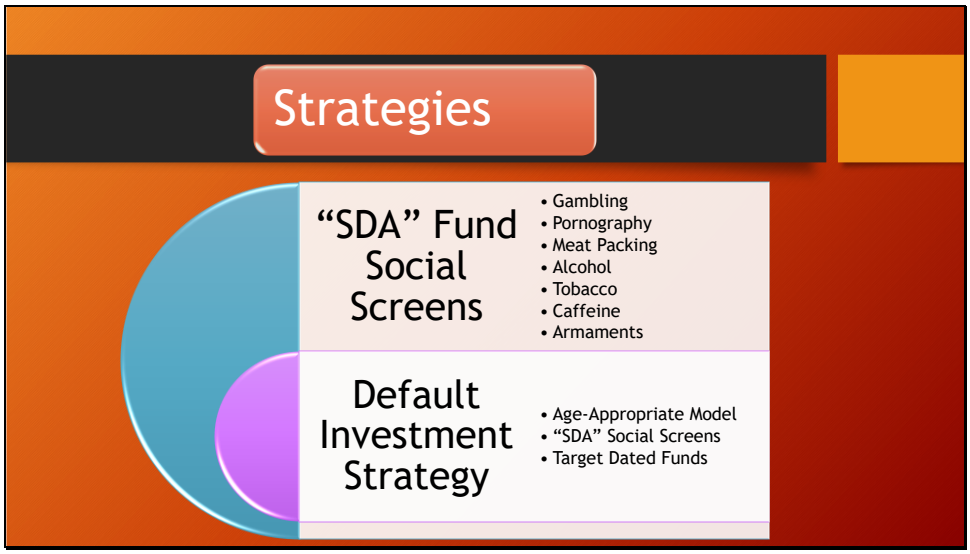


This is an example of two different asset allocation models. A young employee would be more into equities, while the older employee would have more money in bonds and fixed income. Employees may wish to get help in setting up an asset allocation model or use the default models available in the Adventist Retirement Plan Empower Retirement website.

This graph is merely to demonstrate asset allocation and is not a recommended ideal model for either young or seasoned employees. An advisor from Empower Retirement can assist with the selection of a prudent age-based model.

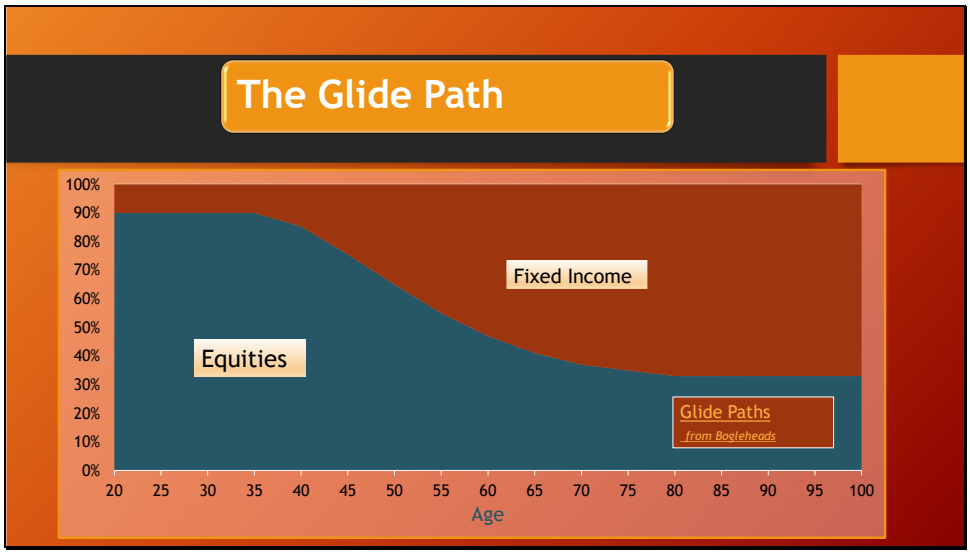
The investments offered by ARP include twenty plus funds. Several are quite aggressive, and several are very conservative. These options change from time to time. The pyramid shows the risk curve of investments.

Most investment advisors will recognize that the low-risk options at the bottom of the pyramid will certainly reduce the ups and downs of the market, but over the long haul will probably not meet the growth needs of the participants. History says that the most aggressive investments reward the participant, but the roller-coaster ride will be intense. Thus, advisors will usually encourage participants to spread across the range of investments with funds in each of the categories. Younger employees will generally wish to position the 'center of gravity' of their investments towards the top, while those approaching retirement will generally want to move the center of gravity lower. Older employees do not have as much time to ride out a market downturn.

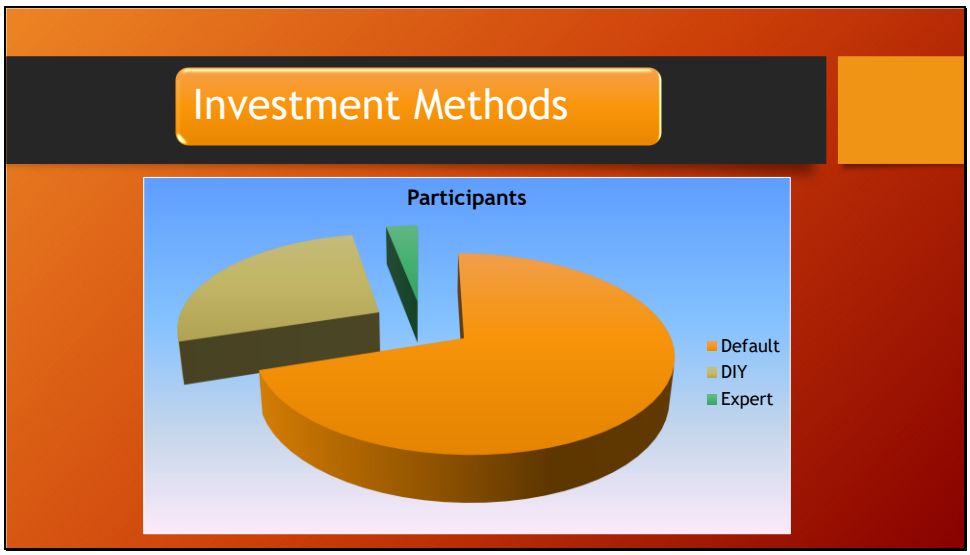


Social Screens: The Adventist Church has determined a list of objectional products categories. Investment options with the "SDA" prefix avoid investing in companies manufacturing or distributing such products. Other investments do not use these screens. The choice whether to screen or not is up to the participant.

Default Investment Strategy: Close to seventy percent of ARP participants are "default employees", meaning that they have not informed either VALIC or Empower Retirement of their investment strategy. The plan has established a default investment strategy which is age appropriate, uses the SDA Social Screens, and makes use of Target Dated strategies. This essentially means that the investments move incrementally quarter by quarter as a participant ages, so that when he or she reaches normal retirement age, the investments strategy is appropriate for a Retiree.



The chart shows a common investment strategy referred to as the Glide Path. A young employee will have perhaps 90% in equities and only 10% in fixed income, such as bonds. The employee has plenty of time to ride out a market downturn. Around age 35, the percentages shift incrementally towards fixed income. At retirement, equities are down to about 40% of the total investment. The link takes you to a more detailed description of this life-time investment strategy.



Plan participants invest in three uneven groups.
Default: The largest group by far is the Default group. These employees have not selected an investment strategy and thus have dropped into the default investment model. Our review of investment success of this group shows that they generally do quite well. Fees are low, and passive investing, not trying to time the market, generally has provided satisfying results.

DIY: The Do-it-yourself group seeks to model their own asset allocation from among the funds offered within the Plan, using on-line tools from Empower including modeling, advisors, and Managed Funds.

Expert: These investors consider themselves to be the most knowledgeable. They ignore the vetted mutual funds offered by the Plan and enter the available Schwab brokerage window. This opens hundreds of available investment options to be researched and selected by the investor.

Protect your Blessings: This last piece of the Prudent Plan is somewhat defensive in nature. In this sinful world, bad stuff happens. No amount of defensive planning can protect you from every potential catastrophe. But some prudent steps can help.

Keep the Covenant: Scripture is clear. God will reward those who keep the covenant relationship with Him, including being faithful with the Tithe. Don't misunderstand. The tithe is an honest result of the covenant relationship, not an umbrella to keep away the locusts of life. But the promise is true. Be grateful to God for your daily blessings, and for family and friends. Take time to enjoy your children and your grandchildren. They grow up way too fast.

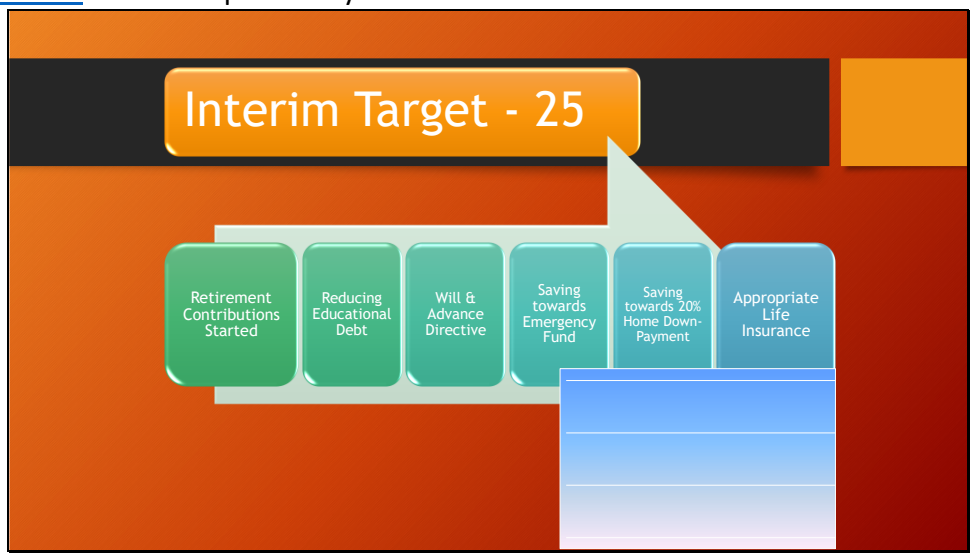
Care for your Health: Little is more valuable. Joyce Mayer wrote, "The greatest gift you can give your family and the world is a healthy you." Eat well, maintain a healthy weight, get moving, protect your skin, floss, get regular checkups, avoid high-risk activities.

Protect your Family: Estate Planning documents should all be in place early in life, not just at Retirement. Wills, advance directives, powers of attorney will lessen the burden on family if the unthinkable happens.

What would happen to the family should the primary wage earner pass away? Would a grieving widow be forced to move from the home? Adequate life insurance is important. Do you need disability or long-term care insurance?

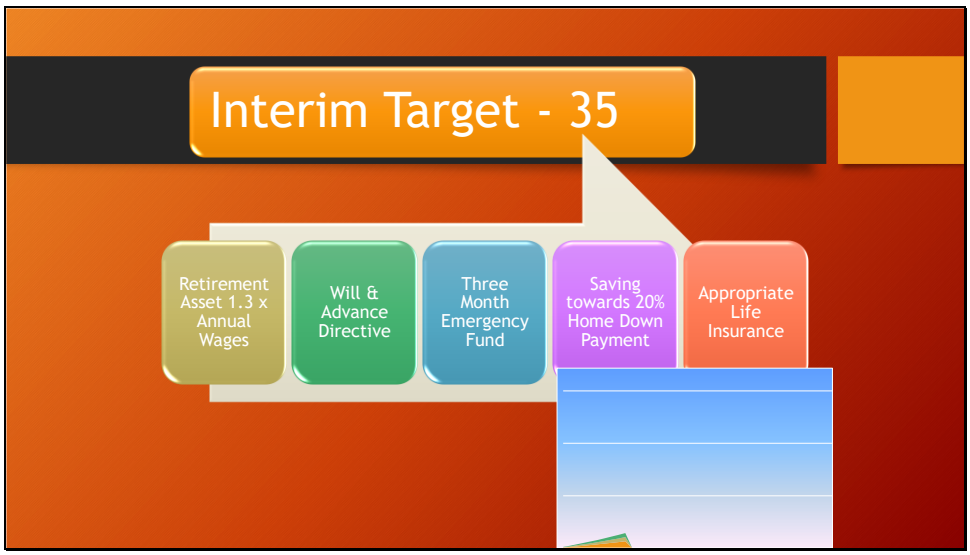
Protect your Assets: Carry reliable homeowners and automobile insurance. You may be able to add a million-dollar liability rider to your homeowner's insurance for a modest annual premium to protect you from lawsuits if your dog bites a postal employee or a child trips on your broken sidewalk.

Many young Employees disregard long-term planning because of the word "Retirement." Each level could be debated but reviewing interim steps may help the long-term plan prove less overwhelming. These targets assume the full career is under the post-1999 Defined Contribution Plan. Employees who have earned a pension with pre-2000 years can use the Target Calculator described previously.



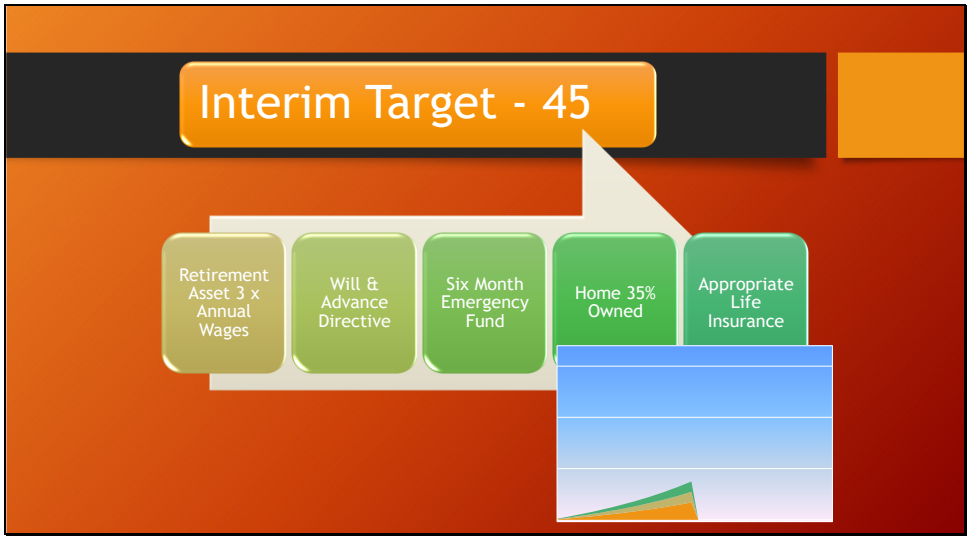
Age twenty-five:

- Voluntary contributions earning the match.
- Educational debt on a five to ten-year plan towards elimination.
- A Will and an Advance Directive in place if there is a family.
- Saving towards a modest emergency fund.
- Saving towards a down-payment on a home.
- Appropriate Life Insurance, particularly if starting a family and there is debt.



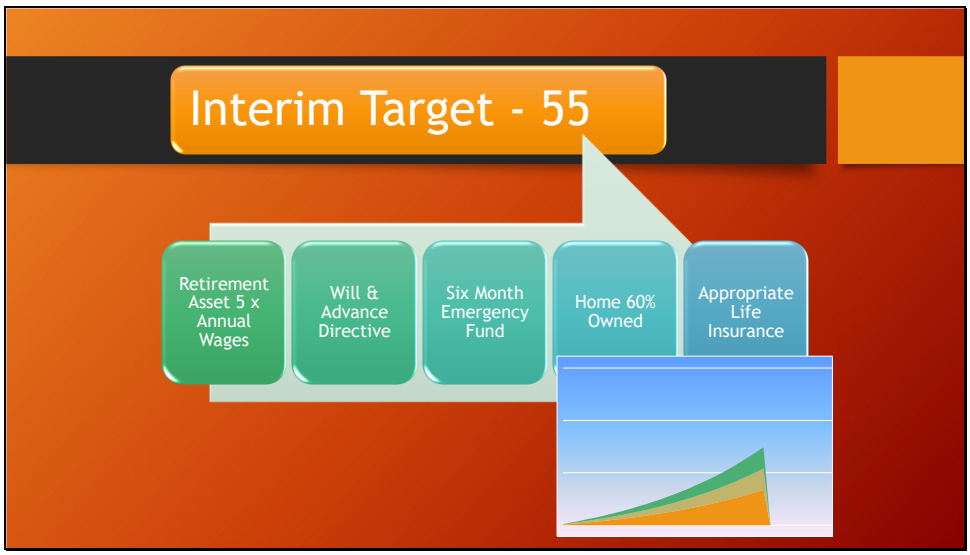
Age thirty-five:

- Defined Contribution Plan asset should be around 1.3 times the annual wages.
- No non-mortgage debt.
- A Will and Advance Directive in place.
- A three-month Emergency Fund in place, savings towards a six-month Emergency Fund.
- Home ownership begun.
- Appropriate Life Insurance in place.



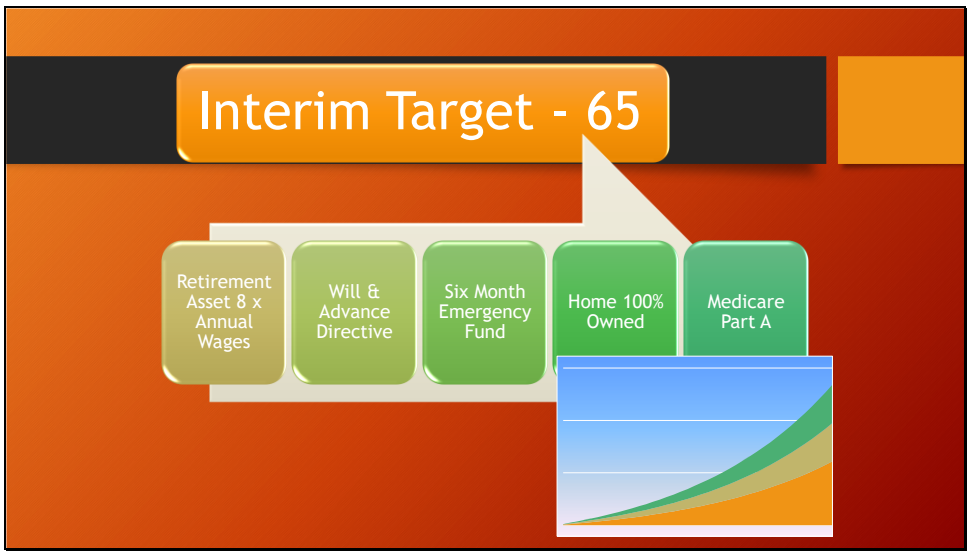
Age forty-five:

- Defined Contribution Plan asset should be around three times the annual wages.
- No non-mortgage debt.
- A Will and Advance Directive in place.
- A six-month Emergency Fund in place.
- Home ownership at 35%.
- Appropriate Life Insurance in place.



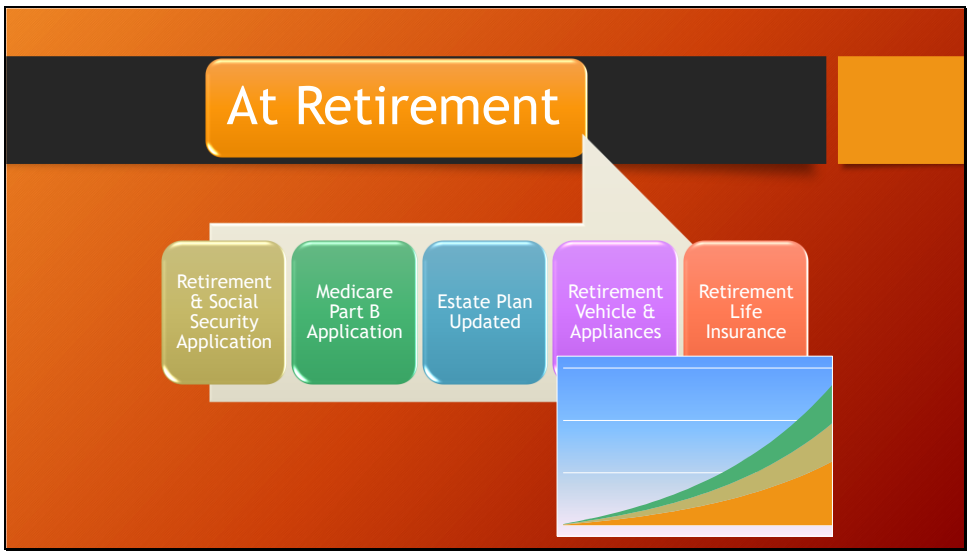
Age fifty-five:

- Defined Contribution Plan asset should be around five times the annual wages.
- No non-mortgage debt.
- A Will and Advance Directive in place.
- A six-month Emergency Fund in place.
- Home ownership 60%.
- Appropriate Life Insurance in place.
- Consider Secure Foundation as investment option.
- Realistic Retirement Budget planning begun.
- Retirement Location options narrowed.



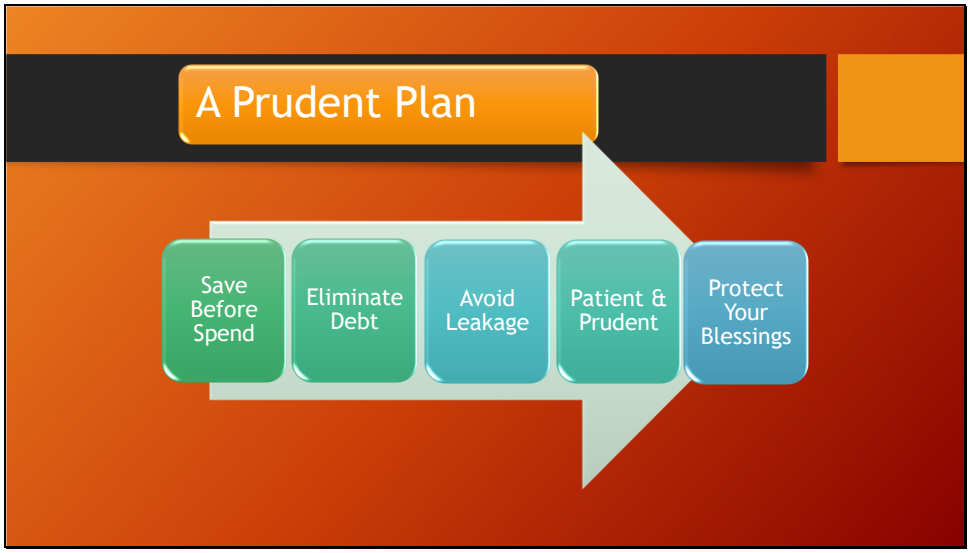
Age sixty-five: The Retirement Asset should exceed eight times annual wages. Estate plan documents should be updated, along with a six-month Emergency fund. Homeowner's equity should be adequate to own a Retirement home without debt. Medicare part A should be in place, even if the employee is still employed. It costs nothing for most and may be of help. Do not apply for Part B until just before actual termination. A conservative Retirement Budget should be in place, and a Retirement date and a low-cost location should be firmly in mind.

- Defined Contribution Plan asset should exceed eight times the annual wages.
- Estate Plan reviewed.
- A six-month Emergency Fund in place.
- Home ownership 100%.
- Insurance needs reviewed.
- Retirement budget in place with life-time income guarantees selected.
- Medicare Part A enrolled (Wait for Part B until actual retirement.)
- Retirement date and location determined.



Retirement:

- At least six months prior to the Retirement Effective date, Retirement Application should be filed with the Employer's human resources office. This will start the process of getting a pension under way if applicable, as well as any Retirement Healthcare Assistance.
- Medicare part B enrolled.
- Final review/renewal of Estate Plan compliant with retirement state.
- Retirees suggest a debt-free low-mileage retirement vehicle and new major appliances under warranty.
- Life/Long-Term-Care insurance considered and in place.



To reiterate, a prudent plan throughout the career will help participants to protect the family from unforeseen obstacles during the career, and to maintain the desired standard of living during retirement. Early, Patient and Prudent steps will help employees reach their goals.

We hope this booklet has been helpful. Thank you for your participation in the Mission of the Seventh-day Adventist Church.

AdventistRetirement

Seventh-day Adventist® Church
NORTH AMERICAN DIVISION

9705 Patuxent Woods Drive | Columbia MD 21046
Telephone (443) 391-7328 | Fax (443) 259-4880