



## Report of Portico Benefit Services



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### Advisors

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### Leadership Staff

The Rev. Jeffrey D. Thiemann, *president and chief executive officer*

### Statement of Purpose

The mission of Portico Benefit Services is to provide retirement, health, and related benefits and services to enhance the well-being of those who serve through the Evangelical Lutheran Church in America (ELCA) and other faith-based organizations.

The governing description of this separately incorporated ministry appears in continuing resolution 17.20.A11. presented in Section XII of the e-binder and *Pre-Assembly Report*.

### Report of Work for 2011–2013

To fulfill its mission as a separately incorporated ministry of the ELCA, Portico has acted in service to those who serve.

### Portico on the Move

Between 2011 and 2013, Portico has taken action to play a leadership role in the ELCA, helping rostered leaders and lay employees throughout this church to live well.

- In August 2011, a **new president was elected with a term effective Oct. 1, 2011**. Effective Jan. 1, 2012, the **ELCA Board of Pensions changed its name to Portico Benefit Services**. The ancient portico was an entry point to worship and to the world. As a ministry, Portico offers rostered leaders and lay employees an entry point from which to shape whole, healthy lives.

- In 2011, **Portico invested in a dramatic technology upgrade** to pave the way for the introduction of its new website in 2012, featuring destinations unique to the needs of employers and plan members. *EmployerLink* invites employers to interact with Portico online, reporting salaries, paying bills electronically, and the like. By year-end 2012, 99 percent of employers were signing in to access information and 35 percent were making payments online. For plan members, *myPortico* provides a secure, convenient way to access benefit details, update information, and complete transactions, along with tools to help them strengthen their financial, physical, and emotional well-being. As of May 10, 2013, 62 percent of the active sponsored members were registered on *myPortico*.
- Created in 2011, Portico's **2012–2014 strategic plan is guiding the ministry's current activity**. It directs Portico to provide products and services that can help members strengthen their whole-person well-being and build stronger relationships with Portico members and employers.
- **Portico continues to steward benefit dollars wisely**. Regarding investments, Portico has taken great care in selecting managers and investments while seeking to minimize associated costs. Fees for ELCA Retirement Plan investment funds average 0.74 percent, compared to more than 21,000 mutual funds with an average expense ratio of 1.29 percent (Wilshire Associates Inc. [Wilshire Compass] as of Dec. 31, 2012). As for the ELCA Health Benefits Plan, Portico continues to be among the most efficient stewards of health care dollars in the nation according to external benchmarks. While U.S. employers as a group raised premiums 35 percent over the past five years, according to a recent Kaiser study, Portico held contribution increases to 15 percent. By securing health benefits through Portico, ELCA ministries saved approximately \$20 million in 2012 alone. This annual savings was confirmed by Portico's participation in a recent Towers Watson benchmark survey of employer health costs.

## Strengthening Financial Well-Being

Portico continues to take steps to strengthen the long-term financial well-being of all its members. Portico recognizes that actions it took in the past few years to restore the funded status of the ELCA Participating Annuity Investment Fund (Fund) have had an impact on its annuitants. While difficult, Portico took these steps to provide its annuitants with an income for life and the potential for income growth over the long term.

- In 2011, **Portico reopened the ELCA Participating Annuity**. Portico also determined that second and third downward annuity adjustments were necessary in order to preserve the ability of the Fund to provide an income stream for life, and it was pleased that the adjustments were smaller reductions than were estimated under Portico's proposed 2009 three-year plan. In 2012, the Fund reached fully funded status, enabling Portico to increase 2013 annuity payments 1.1 percent. The funded ratio of the Fund at the end of 2012 was 1.040.
- On Dec. 3, 2010, a **proposed class action** was filed against the Board of Pensions, the ELCA, and two individual defendants. Since then, the ELCA and the individual defendants have been dismissed from the action. On March 26, 2013, the court denied the plaintiff's motion to certify the proposed class. The judge found that most of the proposed class members "were helped, not harmed, by Portico's challenged actions." At this stage, a favorable outcome to the litigation is anticipated.
- In 2012, **Portico introduced new benefits** to help members take an active role in planning their retirement, and the response has been positive. Within nine months of offering the financial planning resources of Ernst & Young, 1,520 members had spoken with a planner. Also in 2012, Portico mailed a Retirement Readiness Report to more than 11,000 members. This first-ever report provided a projection of how much income a member's ELCA Retirement Plan account might provide at retirement and, perhaps more importantly, steps to close a gap.
- In 2013, **Portico is transitioning record-keeping services for ELCA retirement plans to Fidelity**. As an industry leader, Fidelity will provide members with more tools and resources to strengthen their retirement planning.

## Strengthening Physical and Emotional Well-Being

Health care reform is bringing change to the ELCA Health Benefits Plan, and Portico engaged it early to lead the ELCA through the evolving health care landscape.

- **Portico has prepared for health care reform on several fronts**. In addition to years of research with Towers Watson and collaboration with other denominational colleagues, Portico has worked closely with ELCA church leadership to revise the ELCA Philosophy of Benefits and with seminaries to shape a pilot project featuring multiple plan options. As a result of this careful planning and leadership, Portico is well-positioned to offer health plan options in 2014 that preserve the unique qualities of a church-sponsored health plan—supportive of the call process, wellness-focused, cost-effective, and community-oriented.

- **This church’s collective commitment to wellness in the ELCA continues to grow.** In 2012, 30 percent more synods earned the “2 percent discount” on their health contributions than in 2011, for a total of 43 synods, eight seminaries, and three churchwide ministries, with a savings of \$1.5 million. In 2013, participation increased again; 50 synods, 7 seminaries, and 3 churchwide ministries achieved the discount, saving nearly \$1.7 million on health benefits.
- During 2011 and 2012, **Portico created a number of new options for health plan members.** Through participation in a new federal program, Portico was able to save approximately \$5 million each year on ELCA Medicare-Primary health coverage and pass that savings back to retired plan members as lower contribution rates. Portico also offered these members a choice of Supplement to Medicare Part A & Part B plan design options. In addition, Portico created and successfully implemented an online health enrollment process for Luther Seminary, the single participant in the seminary pilot project.

## Members Served as of December 31, 2012

Total members served: 35,903

- 12,705 in active service
- 7,693 not in active service
  - 676 on leave
  - 377 disabled
- 10,215 retired
- 4,237 survivors
- 13,689 serving affiliated social ministry organizations

Dependents: 16,533

Total lives served: 52,436

## Benefit Plan Assets\*

Net assets available for plan benefits as of Dec. 31, 2012: \$6.539 billion

- ELCA retirement plans: \$3.814 billion
- ELCA Participating Annuity Investment Fund: \$2.028 billion
- All other plans (health, disability, survivor, retiree medical obligation, other): \$697 million

\* Benefit plan assets are rounded to the nearest million. For more information and details, download Portico’s 2012 annual report at [PorticoBenefits.org](http://PorticoBenefits.org).

## Investments

- In 2012, **Portico continued diligent investment management, oversight, and enhancements.** It added specialist investment managers within the non-U.S. stock program for diversification and focused market coverage, applied enhanced environmental screening approaches to social purpose investment funds, reviewed high-yield bonds and real estate to align the investment program with future strategies, and continued its investor advocacy strategy, including shareholder resolution filings.
- **In 2013, Portico updated its retirement plan investment fund performance reporting.** Members now see ELCA retirement plan investment fund performance as well as the median return of retail mutual funds included in comparable external classification groups. This information provides members with additional visibility on the relative performance of the retirement plan investment funds, which have produced very competitive results overall and over time.
- The chart on the next page presents total ELCA Retirement Plan investment fund returns net of fees and, for periods greater than one year, annualized as of Dec. 31, 2012. Plan members can view most recent ELCA retirement plan investment fund performance by signing in on *myPortico* at [PorticoBenefits.org](http://PorticoBenefits.org).

**ELCA RETIREMENT PLAN PERFORMANCE (AS OF DEC. 31, 2012) (Unaudited)**

<b>Select Series<sup>1</sup></b>	<b>1 Year (%)</b>	<b>3 Years (%)</b>	<b>5 Years (%)</b>	<b>10 Years (%)</b>
ELCA 80e Balanced Fund <sup>2</sup>	15.30	8.09	1.08	N/A
ELCA Social Purpose 80e Balanced Fund <sup>2</sup>	14.88	7.68	0.86	N/A
Median: Lipper Peer Group Mixed-Asset Target Allocation Growth Funds	12.66	7.75	1.74	6.47
ELCA 60e Balanced Fund <sup>3</sup>	13.46	8.12	2.42	8.22
ELCA Social Purpose 60e Balanced Fund <sup>3</sup>	13.48	7.94	2.52	8.14
Median: Lipper Peer Group Mixed-Asset Target Allocation Growth Funds	12.66	7.75	1.74	6.47
Median: Lipper Peer Group Mixed-Asset Target Allocation Moderate Funds	11.51	7.37	2.66	6.18
ELCA 40e Balanced Fund <sup>2,3</sup>	11.61	8.41	4.16	N/A
ELCA Social Purpose 40e Balanced Fund <sup>2,3</sup>	11.78	8.34	4.22	N/A
Median: Lipper Peer Group Mixed-Asset Target Allocation Moderate Funds	11.51	7.37	2.66	6.18
Median: Lipper Peer Group Mixed-Asset Target Allocation Conservative Funds	9.44	6.93	3.90	5.57
<b>Build-Your-Own Series<sup>1</sup></b>	<b>1 Year (%)</b>	<b>3 Years (%)</b>	<b>5 Years (%)</b>	<b>10 Years (%)</b>
ELCA Global Stock Fund	15.95	7.72	-0.69	7.77
ELCA Social Purpose Global Stock Fund	15.91	7.35	-0.64	7.51
Median: Lipper Peer Group Global Multi-Cap Core Funds	15.25	6.78	-0.65	7.34
ELCA Non-U.S. Stock Fund <sup>4</sup>	17.03	3.27	-3.72	9.53
ELCA Social Purpose Non-U.S. Stock Fund <sup>4</sup>	16.62	3.01	-3.88	9.40
Median: Lipper Peer Group International Multi-Cap Core Funds	17.03	3.79	-4.11	6.76
ELCA U.S. Stock Fund <sup>4</sup>	16.79	10.46	1.00	7.12
ELCA Social Purpose U.S. Stock Fund <sup>4</sup>	16.91	10.00	1.18	6.91
Median: Lipper Peer Group Multi-Cap Core Funds	14.87	8.86	0.91	7.26
ELCA S&P 500 Stock Index Fund <sup>4,5</sup>	15.40	10.37	1.26	6.68
Median: Lipper Peer Group S&P 500 Index Objective Funds	15.35	10.24	1.14	6.58
ELCA Social Purpose Stock Index Fund <sup>4,6</sup>	15.88	10.84	2.08	7.37
Russell 3000 Stock Index	16.42	11.20	2.04	7.68
ELCA Small- and Mid-Cap Stock Index Fund <sup>4,6</sup>	17.58	13.18	3.48	10.23
Dow Jones U.S. Completion Total Stock Market Index	17.89	13.43	4.10	10.74
ELCA Global Real Estate Securities Fund <sup>4,7</sup>	24.16	14.94	5.17	11.89
Median: Lipper Peer Group Global Real Estate Funds	27.77	11.97	0.70	10.95
ELCA High-Yield Bond Fund <sup>4</sup>	12.42	9.93	8.64	8.51
Median: Lipper Peer Group High Yield Funds	14.56	10.46	8.05	8.80
ELCA Bond Fund	5.14	6.16	5.93	5.09
ELCA Social Purpose Bond Fund	4.99	5.95	5.75	5.00
Median: Lipper Peer Group Intermediate Investment-Grade Debt Funds	6.69	6.85	5.93	4.92
ELCA Money Market Fund <sup>8</sup>	-0.40	-0.26	0.45	1.59
Median: Lipper Peer Group Money Market Instrument Funds	0.00	0.00	0.47	1.49

1. Returns are net of fees, and are annualized for periods greater than one year. An investment in these funds could lose money over short or long periods of time. Past performance does not guarantee future results.
2. The specific asset allocation and structure of this fund did not exist until February 2003; therefore, past performance for the ten-year time period is unavailable.
3. Because the target equity allocation for this fund does not fall with the available Lipper fund classifications, two Lipper fund classification comparisons are shown. The target equity allocation of this fund falls at the high end of the equity allocation of one of the Lipper classifications and falls at the low end of the equity allocation of the other Lipper classification.
4. Portico Benefit Services has maintained this asset category for more than 10 years and in 2003 made it available as an investment option within the retirement plan. The underlying asset pool is used to complete a full ten years of historical performance for this fund.
5. "S&P 500®" is a trademark of the McGraw-Hill Companies, Inc., and has been licensed for use by Portico Benefit Services. The ELCA S&P 500 Stock Index Fund is not sponsored, endorsed, sold or promoted by Standard & Poor's, and Standard and Poor's makes no representation regarding the advisability of investing in the fund.
6. The Stock Index benchmark for this fund is gross of fees, unlike Lipper Peer Group information available for other ELCA funds which are net of all fees.
7. This asset class was managed as a 100% U.S. real estate securities pool prior to December 2008 at which time it was expanded to include non-U.S. real estate securities.
8. The Money Market Fund has experienced a negative net return (loss) that is likely to continue in a low interest rate environment. In low interest rate environments, there is a risk that the return on the Money Market Fund, after investment management fees, can be less than the administrative expenses charged by Portico Benefit Services, resulting in a negative net return (or loss) for plan members. Although the fund seeks to preserve value at \$1 per share, as with any investment it is possible to lose money by investing in this fund.

**About the Select Series funds:** The trademarks listed below and contained in this publication are owned, controlled or licensed by or to Portico Benefit Services, and are protected by U.S. trademark and unfair competition laws. All rights are reserved.

- ELCA 40e Balanced Fund (40e Balanced Fund)
- ELCA Social Purpose 40e Balanced Fund (Social Purpose 40e Balanced Fund)
- ELCA 60e Balanced Fund (60e Balanced Fund)
- ELCA Social Purpose 60e Balanced Fund (Social Purpose 60e Balanced Fund)
- ELCA 80e Balanced Fund (80e Balanced Fund)
- ELCA Social Purpose 80e Balanced Fund (Social Purpose 80e Balanced Fund)

**About Lipper comparison funds:** As of Dec. 31, 2012, Portico Benefit Services began using Lipper fund classification comparisons, rather than custom benchmarks. This comparison uses the median (middle) return of mutual funds classified by Lipper and excludes the "I" institutional share class. These comparisons use fund classifications with similar investment mandates to the ELCA funds. Lipper fund classifications are more widely known and provide a more common comparison to other funds with similar investment mandates. In addition, like the ELCA fund performance, the Lipper comparisons are net of all fees. The Lipper Peer Group shown includes mutual funds which owned both U.S. and non-U.S. real estate securities for all time periods shown. The investment objective and performance objective of each ELCA fund remains unchanged.

Lipper Data obtained from Wilshire Associates Inc. (Wilshire Compass) as of Dec. 31, 2012.

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## Major Directions for 2013–2016

Strengthened by critical work taking place in 2013, Portico Benefit Services is well positioned for future growth and sustainability. Major enhancements to web platforms are connecting Portico more closely to its members and employers. Better able to anticipate their needs and preferences, Portico can position itself to help them live well—via new products, services, and educational opportunities.

Over the next three years, Portico intends to:

- Refine Portico's health plan options to ensure that they are priced effectively and offer the right flexibility for employers and members.
- Help members prepare for a satisfying retirement by strengthening online retirement readiness tools and services via partnerships with Fidelity and Ernst & Young.
- Offer a special retirement readiness workshop designed specifically for Portico members more than 10 to 15 years from retirement.
- Continue enhancements to *EmployerLink* and *myPortico* so that Portico is delivering increasingly customized, dynamic content.
- Re-fashion Portico's current survivor benefit into a traditional life insurance benefit, coupled with the opportunity for members to buy additional life insurance at a group rate for themselves, their spouses, and their children.
- Offer members the opportunity to buy discounted individual long-term care insurance.

The enduring focus of Portico's ministry is to be the recognized leader in helping empower whole-person well-being for life, as depicted through the Wholeness Wheel. It is how we best fulfill our mission as a separately incorporated ministry of the Evangelical Lutheran Church in America.

Mr. Michael J. McCoy, *chair*

The Rev. Jeffrey D. Thiemann, *president and chief executive officer*