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# **Philosophy of Benefits**



**Evangelical Lutheran Church in America**  
God's work. Our hands.

**Effective August 11, 2013 (ELCA Church Council)**

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# ELCA PHILOSOPHY OF BENEFITS

August 2013

## INTRODUCTION

Since the inception of the Evangelical Lutheran Church in America (ELCA), the health and well-being of ordained ministers, rostered lay leaders, and other lay employees have been underlying priorities of this whole church and a principal focus of the work of Portico Benefit Services, a ministry of the ELCA, (Portico) (formerly known as the Board of Pensions of the ELCA). These priorities carry with them a foundation in the theology of this church, a legacy from predecessor church bodies, and a history involving the evolution of benefit programs. In an effort to identify foundational principles undergirding its benefit programs and to recognize changes in this church and in society, the Board of Pensions in 2004 approved an ELCA Philosophy of Benefits Report. Since then even more dramatic changes have occurred, and Portico has revisited and revised the ELCA Philosophy of Benefits to reflect these new realities.

The ELCA Philosophy of Benefits consists of four interrelated parts:

- Introduction
- Statement of Purpose
- Guiding Principles
- History and Context

The ELCA Philosophy of Benefits is intended to inform and assist all expressions of this church and related institutions and agencies (including social ministry organizations, seminaries, colleges, universities, and separately incorporated ministries) as they evaluate and implement benefit programs – both those provided by Portico and others – from the perspective of the sponsoring organization and the plan participant. The Guiding Principles are intended as just that – they are *not* mandated requirements, but principles that recognize the importance of benefits to the health and wellness of this whole church and its leaders.

## STATEMENT OF PURPOSE

“The Church is a people created by God in Christ, empowered by the Holy Spirit, called and sent to bear witness to God’s creative, redeeming, and sanctifying activity in the world.”<sup>1</sup> To participate in God’s mission, the ELCA engages in ministry that includes calling forth, equipping, and supporting rostered leaders and others for service in this church and related institutions. As part of its ministry, the ELCA is committed to seek a sufficient, sustainable livelihood for all and believes that employers have a responsibility to treat employees with dignity and respect. These basic principles should be reflected in employees’ remuneration, including benefits.<sup>2</sup> This church also believes that “health is central to our well-being, vital to relationships, and helps us live out our vocations in family, work, and community.”<sup>3</sup> Thus, this church is committed to the principle that “healthy leaders enhance lives” and the recognition that

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<sup>1</sup> ELCA constitutional provision 4.01.

<sup>2</sup> ELCA Social Statement, “Sufficient, Sustainable Livelihood for All” p.9.

<sup>3</sup> ELCA Social Statement, “Caring for Health: Our Shared Endeavor”, p.1.

benefits are an investment in the ministry of this church.<sup>4</sup> Therefore, ELCA congregations, synods, the churchwide organization, and related institutions and agencies are called upon to provide rostered church leaders (both clergy and lay) and lay employees with health, retirement, disability, death, and other benefits that will enhance health and well-being and protect employees and their families against significant financial loss.

In implementing this Philosophy of Benefits, the design and administration of benefit programs should respond to changing societal and economic realities affecting the ministry of this church, as well as national trends in financial markets, the cost and delivery of medical care and other benefits, and the regulatory landscape. Benefits also should be administered efficiently in order to both enhance the well-being of rostered leaders and lay employees and capture value and savings where possible. At the same time, rostered leaders and lay employees are stewards of benefits provided to them and are called upon to use them wisely to improve their health and well-being for the sake of ministry.

Portico, a separately incorporated ministry of the ELCA, has the responsibility “to provide church retirement and other benefit plans.”<sup>5</sup> These plans and all benefits provided to rostered leaders and lay employees should reflect the ELCA Philosophy of Benefits.

## **GUIDING PRINCIPLES**

1. Benefits are an investment in God’s ministry as carried out through the lives of rostered leaders and lay employees.
  - Healthy pastors, diaconal ministers, associates in ministry, deaconesses, and other lay employees contribute constructively to healthy congregational life and ministry in this church. Healthy leaders with adequate benefits are an asset to this whole church.
  - This church is in partnership with those who carry out its work and is committed to “compensate all people we call or employ at an amount sufficient for them to live in dignity”<sup>6</sup> during their working lifetime. This commitment to dignity continues into retirement.
2. Benefits should support and enhance the unique needs of this church.
  - It is important that rostered leaders are able to respond to the call of God in their lives wherever they are located. As a result, to the extent reasonably possible, benefits should be designed and administered to facilitate the call process.
  - Mobility is facilitated when the person responding to a call knows what his/her benefits will be and how they will be provided.
  - By providing benefit plans that operate consistently on a national scope, the ELCA, through Portico, helps those responding to a call from a different geographical area and provides consistency in the design and administration of plan characteristics.

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<sup>4</sup> In this context, “health” includes not only physical well-being, but also social/interpersonal well-being, emotional well-being, intellectual well-being, spiritual well-being, and financial well-being. The ELCA Philosophy of Benefits recognizes that appropriately designed and administered benefits programs facilitate health and wellness of the whole person.

<sup>5</sup> ELCA constitutional provision 17.20.

<sup>6</sup> ELCA Social Statement, “Sufficient, Sustainable Livelihood for All”, p.10.

3. Benefits should include retirement, health, disability, death, and other benefits, and be available to rostered leaders and lay employees.
  - Benefit plans should seek to guard against significant loss, recognizing that no benefit program can provide complete protection against all risks and negative financial outcomes.
  - Other benefits may be provided by employers, consistent with the letters of call, terms of employment, and these guiding principles.
  - Part-time employment is a reality in many contexts and poses challenges in the provision of benefits. If full benefits cannot be provided, benefit options should be negotiated and adjusted fairly to recognize the needs of both the employer and the rostered leader or lay employee.
4. Benefits should include coverage for the immediate family members of rostered leaders and lay employees.
  - Healthy leaders – both rostered and lay – presuppose healthy families.
5. Retirement, health, disability, death, and other benefit plans should be bundled.
  - A “bundled” approach involves providing a program of benefits, including retirement, health, disability, death, and other benefits, as an integrated package; a bundled approach helps to ensure that rostered leaders and lay employees are protected against significant financial loss from a variety of risks.
  - A bundled approach provided by Portico enhances mobility by providing consistency across this church.
  - This approach also protects the financial integrity and viability of the health and other benefit plans.
  - In some circumstances, health coverage may be waived. Such waivers should occur based upon informed choice and consistent with the other guiding principles, particularly principles 3 and 4.
6. Employers and plan members should share the cost of retirement, health, and other benefits.
  - Although employers are expected to pay the majority of benefit costs through plan contributions, plan members are expected to participate in the benefit costs through plan design and features.
  - Plan members are encouraged to take an active stewardship role in managing their financial well-being by contributing their own funds, in addition to those contributed by the employer, toward accumulating retirement income.
  - Both employers and plan members should take into consideration and balance their respective needs with regard to the ministry and health and wellness of covered individuals and this church.
7. Plan design and features should provide flexibility and options which recognize both the needs of the employer and plan members.

- The overall goal of this church’s benefits program “is to provide adequate coverage for all employees within a cost structure that is manageable by congregations and other employers.”<sup>7</sup>
  - Although plan design and features should provide flexibility, they should be consistent with these guiding principles and not be used to achieve savings by simply shifting benefit costs to employees.
  - A call to rostered leaders and terms of employment for lay employees should include other benefits (such as vacation and continuing education) consistent with synod or other applicable guidelines.
8. Pricing for health, disability, death, and other benefits should reflect both the community nature of the plans as well as risk variation among plan members.
- Pricing for health, disability, death, and other benefits should directly reflect the benefit costs (claims and administration) incurred by plan members. By pooling these costs, Portico enables both large and small employers to benefit from the more stable experience of a large group.
  - Pricing should be sufficient to pay plan benefits and expenses and to maintain an appropriate level of plan surplus.
  - Benefit costs generally vary by the risk characteristics of plan members, such as age, family size, and geographic location. It may be necessary to reflect these variations in the plan pricing schedules.
9. Benefits should be communicated to employers and plan members in an understandable and timely manner.
- An understanding regarding coverages and options is important for both employers and plan members to make informed choices and to evaluate how benefits contribute to furthering member health and well-being.
  - Benefit changes should be clearly communicated so that plan members have an opportunity to acknowledge, ask questions, and adapt to the changes.
  - Employers and plan members should avail themselves of opportunities to obtain information about benefits in order to understand and utilize them in a manner that practices good stewardship and enhances health and well-being.
10. Benefit plans should be administered efficiently in order to achieve savings where possible.
- Professional skills should be employed to design and implement efficient benefit plans consistent with legal requirements and competitive with the marketplace.
  - Professional skills should be employed in contracting with qualified external administrative partners and providers who deliver services efficiently and consistent with the values of the ELCA.
  - The ELCA should explore partnering with other churches when beneficial, forming purchasing coalitions to obtain best market administrative pricing. When mutually beneficial to all parties, the ELCA should offer benefits to other faith based organizations, thereby helping to manage its administrative effectiveness.

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<sup>7</sup> Report and Recommendations of the Commission for a New Lutheran Church, June 25, 1986, p. 178

## HISTORY AND CONTEXT

The historic record of Lutherans in the United States reflects a commitment to the compassionate care of clergy and lay employees through the provision of benefit programs. These programs evolved over time. In the earliest days, benefits focused primarily on the financial needs of elderly clergy who were no longer able to serve, as well as widows and orphans of deceased clergy. Subsequently, benefits evolved into a package of health, disability, survivor, retirement, as well as other benefits that are in place today in the ELCA. In order to provide context for the updated ELCA Philosophy of Benefits, it is useful to review the evolution of benefit programs and the current context in this church and society as a whole.

### A. The Legacy

The ELCA Philosophy of Benefits is rooted in the legacy of ELCA predecessor church bodies. This legacy evolved in a number of stages.<sup>8</sup>

The first stage involved developing funded programs of retirement benefits for clergy and their spouses to replace aid to needy pastors. To achieve this goal, predecessor church bodies adopted defined contribution plans. These plans reflected the principle that seeking to meet a pastor's need for income in retirement was not an act of charity, but rather a benefit that had been earned through the pastor's active ministry. During this stage of development, disability coverage and a term-insurance "family protection benefit" also were incorporated into many plans. Plans covering lay church workers also were developed.

The second stage in the evolution of the ELCA Philosophy of Benefits involved health plans. Medical benefits were provided in both The American Lutheran Church plan, beginning in 1961, and the Lutheran Church in America, starting in 1963. The goal in both plans was to provide adequate medical coverage for clergy and lay workers in every setting of service to prevent catastrophic losses.

The third stage in shaping of the ELCA Philosophy of Benefits involved protection of assets for the well-being of plan members. This stage emerged as the result of work accomplished by the Commission for a New Lutheran Church. As a result of its efforts, the new Board of Pensions was incorporated separately from the ELCA in order to provide asset protection of members' plans.

The fourth stage in the evolution of the ELCA Philosophy of Benefits was shaped by the development of a more unified set of plans. This was manifested in several ways. Prior to the merger that formed the ELCA, levels of benefits and contribution methods in the predecessor churches differed for clergy and laity. The ELCA began with a goal of providing the same level of benefits for clergy and lay plan members. In addition, the various plans offered by the Board of Pensions were bundled in order to protect plan members as well as the ELCA Pension and Other Benefits Program itself.

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<sup>8</sup> The history of benefit programs in the ELCA and its predecessor church bodies is described in detail in Lowell G. Almen, *More to the Story: The Legacy and Promise of Lutheran Pension and Benefit Plans* (2010).

The fifth stage in the evolution of the ELCA Philosophy of Benefits involved a conceptual shift in the Board of Pensions from being a transaction based organization to being a relationship-based organization. Increasing emphasis was placed on service responsiveness to the concerns and needs of members. This transition saw the creation of a greater range of investment funds as options for members and the end of mandatory annuitization. This stage also saw an increasing emphasis on health and wellness. Through the leadership of Portico and collaborative efforts in this church, the focus on individual relationships and the health and wellness of plan members has continued to increase.

## **B. The 2004 ELCA Philosophy of Benefits Report**

With this background, the Board of Pensions beginning in 2003 initiated a review of the history and governing documents of this church in order to articulate a foundational philosophy of benefits. In addition to a review of documents, input was obtained from a wide variety of leaders in this church, including the churchwide organization, synod bishops, seminary presidents and finance directors, and others. The result of this effort was a paper entitled “ELCA Philosophy of Benefits Report, 2004”.

The 2004 ELCA Philosophy of Benefits Report articulated five guiding principles which the Board of Pensions’ staff had been using in the administration of the ELCA’s comprehensive benefit program. The guiding principles were described as follows:

1. Plan participation – All church workers should be sponsored in the ELCA benefits program. The ELCA churchwide office, ELCA synods, ELCA seminaries and the Board of Pensions set an example for the whole church by sponsoring all employees, lay as well as clergy, in the program. ELCA synods also set a standard for benefits by encouraging congregations to sponsor their rostered leaders. For other ELCA employers, sponsorship is at the discretion of the individual employer.
2. Level of benefits – The benefits program should provide adequate financial protection in the event of illness, injury, disability, retirement or death. The program’s cost-sharing features should recognize the relatively low salaries paid to many church workers. Benefits should compare favorably to those available to professionals in other denominations and in secular employment.
3. Bundled program – The Board of Pensions should bundle four plans – health, retirement, disability and survivor – and offer them as a package.
4. Contribution policy – The monthly cost of the program should be affordable and paid entirely by congregations and other sponsoring employers.
5. Sharing of health costs – The cost of the health benefits program should be shared on a basis that takes into account differences in congregations’ and other employers’ ability to pay, with employers of greater means paying more in order to help employers of lesser means within their synods.

These guiding principles provided a framework for the work of the Board of Pensions in 2004. However, in their application, benefit programs have not remained fixed. Thus, in applying these principles, ELCA congregations, synods, the churchwide organization, other employers,

and plan members have had to grapple with a number of realities involving both the contexts of individual ministries and the ever-evolving marketplace. For example, contribution rates for the retirement plan were adjusted, with different rates authorized for different employers and categories of employees. In the health plan, a multiple-tier structure was developed (for member, member and spouse, and member, spouse, and children), coverages were added and modified, and out-of-pocket limits were adjusted for various types of benefits. As the result of efficient management, contributions for health care have increased over time, but not at the rate of the escalation of health costs in American society as a whole. Contribution rates and benefits in the survivor and disability plans also have evolved over time.

### **C. The Need for Review in 2013**

While considerations in society and in the ELCA have raised questions regarding the need to re-visit the 2004 ELCA Philosophy of Benefits Report, the enactment of the Patient Protection and Affordable Care Act in March 2010 represents a sea change in the environment for providing health care benefits. Key provisions of this legislation take effect on January 1, 2014, and these necessitate revision of that document. Under health care reform, taxpayers will be required to have health coverage; health insurance exchanges will become operational at the state or regional level; and federal subsidies will be available to help qualifying individuals and families purchase coverage in a health insurance exchange. These changes will cause ELCA employers, and employers in related agencies and institutions, to think differently about how health benefits are provided to employees. Furthermore, individual circumstances will vary depending on the size of the employer, employee household income, the local marketplace in the exchanges, and other factors.

Even without health care reform, employer provided health coverage has evolved significantly since 1987—and markedly so in the past decade. Employees of corporations now routinely choose a health plan that meets their family needs from among several options. The marketplace has seen a shift in economic responsibility to employees—either through higher deductibles or higher cost (premium) sharing requirements.

Additionally, economic turmoil in the United States beginning in 2008 and the uneven recovery since then, as well as the changing demographics of the ELCA, have put increasing economic pressure on congregations, synods, the churchwide organization and other institutions and agencies related to this church. Portico frequently receives inquiries about adding more flexibility to plan design and reducing costs. In response to a request from ELCA seminary presidents, Portico developed a pilot program in 2012 involving options for health care coverage in anticipation of the implementation of health care reform. This experience has informed the development of the revised ELCA Philosophy of Benefits.

Neither the vocation of rostered leaders and lay employees nor the mission of congregations and other ministries that they serve has changed. Nor has the mission of Portico. Current realities, however, call for re-visiting and updating the ELCA Philosophy of Benefits. In doing so, this church and Portico are committed to providing benefits that both address the needs of ELCA congregations, synods, the churchwide organization, related institutions and agencies, and rostered leaders, lay employees, and their families and recognize the realities of the contexts of their ministries. The ELCA Philosophy of Benefits provides the framework for that work.