

Background and Rationale for Recommendation 8:
“A Path for West Ohio Congregations Separating Under Paragraph 2548.2”

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**OUR PURPOSE: FINDING A GRACIOUS AND EQUITABLE PATH OF EXIT FOR WEST OHIO
CONGREGATIONS SEEKING SEPARATION FROM THE UNITED METHODIST CHURCH**

Recommendation #8 in the 2022 West Ohio Conference Book of Reports, entitled *A Path for West Ohio Congregations Separating Under Paragraph 2548.2*, has been put forward by its supporters with the goal of encouraging the Board of Trustees¹ of the West Ohio Conference to find and establish flexible avenues for congregations seeking to separate from The United Methodist Church. This includes the following goals:

1. To offer flexibility to local congregations to use Paragraph 2548.2, in addition to Paragraph 2553 when choosing to separate.
2. To provide flexible and alternative ways for local congregations to fulfill their obligations relating to the unfunded pension withdrawal payment.

SOME BACKGROUND RE: PARAGRAPHS 2553 AND 2548.2

Paragraph 2553 was enacted at the 2019 Special Called Session of the General Conference. The Special Session was called to address the deepening and persistent division in the UMC related to the ordination and marriage of LGBTQAI+ persons in the UMC. Through a bitterly contested Conference the Special Session approved the Traditional Plan which affirmed and retained current Disciplinary language related to LGBTQAI+ persons.

In addition, the Special Session approved a new paragraph, 2553, designed with a narrow and temporary purpose. That purpose is to provide a pathway and set conditions for congregations, whether more progressive or more conservative, to disaffiliate from the UMC when they disagree with the Disciplinary provisions about LGBTQAI+ ordination and marriage, OR when they disagree with the actions of annual conference leaders related to these matters.

Two things about Paragraph 2553 should be noted: 1) Its provisions are temporary, sunseting after December 31, 2023; and 2) It was enacted prior to the offering of the *Protocol for Reconciliation and Grace Through Separation*² which proposed a more flexible approach to separation.

¹ Judicial Council Decision 1420 established that the “terms and conditions for ... disaffiliation shall be established by the board of trustees.” The Annual Conference Session, the Bishop and Cabinet, and others may encourage and suggest, but the Conference Board of Trustees has sole authority to set the terms and conditions.

² Both Bishop Palmer and Rev. David Meredith from the West Ohio Conference participated in the group which offered the *Protocol*, and supported and signed it. In addition, it was endorsed by all major progressive, centrist, or traditional advocacy groups in the UMC.

When the **Protocol for Reconciliation and Grace through Separation** was announced in December 2020, fresh air was breathed to soften the spirit of contentiousness and anger which characterized the 2019 Special Session of General Conference and the months following. It appeared that a creative, gracious, and just way beyond the decades-long contention in the UMC had been found. All grieved that our differences had brought us to separation, yet many rejoiced that a way forward was on the horizon.

Due to COVID and other matters General Conference has been postponed until 2024. Many questions remain open including whether the 2024 General Conference will be a “postponed” or a “new” General Conference; whether previously elected or newly elected delegates will be seated; whether legislation be the same as for the originally scheduled 2020 General Conference or will need to be resubmitted; and whether the Protocol will be passed or even considered.

Paragraph 2548.2 has been a part of the United Methodist Discipline since merger in 1968, and before that time was included in the Discipline of the Methodist Church since 1948. The original purpose was to provide a way for a Methodist congregation to deed church property “to another evangelical congregation under an allocation, exchange of property or comity agreement ...” In the 1980’s this paragraph was broadened to include provision for congregations to deed property to a denomination in the Pan-Methodist Commission. Paragraph 2548.2 offers more flexibility in defining the terms of separation, especially when considering payment of the unfunded pension withdrawal liability.

The Council of Bishops signaled its collective intent that Paragraph 2553 of *The Book of Discipline* would be the primary provision used for congregations seeking to disaffiliate from The United Methodist Church. Following this lead, Bishop Gregory Palmer, in a recent video address, stated his expectation that Paragraph 2553 would be the standard and preferred paragraph to provide the foundation and process for West Ohio congregations seeking separation from the UMC. Bishop Palmer also suggested that Paragraph 2548.2 might be employed in very limited circumstances, but that in those circumstances the terms described in Paragraph 2553 would be applied to exit agreements. The West Ohio Board of Trustees have included provisions and a comity agreement for disaffiliation under Paragraph 2553 in their report to the 2022 West Ohio Annual Conference.

Numerous congregations have shown interest in using ¶ 2548.2 as a path to depart from The United Methodist Church.

WHY NOT JUST USE PARAGRAPH 2553?

While Paragraph 2553 provides clear terms and conditions for disaffiliation, it has two primary drawbacks, one which relates to the adequacy of the rationale for separation, and a second which impacts the financial burden placed on a congregation at the time of separation.

1. Under Paragraph 2553 a congregation is required to affirm that they desire disaffiliation due to their disagreement with either the Discipline or the actions of annual conference leaders related to LGBTQAI+ ordination or marriage. This rationale is inadequate for many congregations which might choose to remain in the UMC if LGBTQAI+ disagreement was the only concern. In reality, disagreements about human sexuality are a real concern, but only the presenting issue pointing to deeper disagreements. Congregations seeking separation understand that deep and long-standing differences on the nature, authority and interpretation of Scripture, as well as a deep

theological divide underlie our disagreements on human sexuality. Further, exiting churches believe the UMC has become ungovernable as the accountability systems of the UMC have repeatedly failed to uphold the set position of the General Conference on human sexuality, or bring clear accountability to clergy and episcopal leaders whose teaching is in direct contradiction to the doctrinal standards of the UMC.

Conversely, Paragraph 2548.2 allows space for those desiring exit to more fully and adequately record their rationale for making such a weighty decision.

2. Paragraph 2553 requires full payment of the pension withdrawal liability prior to the date of separation. This represents a significant financial burden on disaffiliating congregations. For some congregations meeting this requirement will either deplete resources for vital ministry, or make disaffiliation a financial impossibility. Either of these circumstances falls short of the widely desirable spirit of gracious exit and “blessing one another on our way” which was embodied in the Protocol.

Conversely, Paragraph 2548.2 does not define how or when the pension withdrawal liability must be paid in full. This opens the possibility of flexible alternatives which provide both security for our pensions system, and financial viability for exiting congregations. Some of these possibilities are explored below.

OUR CURRENT PENSION UNFUNDED LIABILITY IN WEST OHIO

First, let’s define some important terms. **FUNDED STATUS** refers to the balance currently available to support the current pension obligations of the annual conference. **MARKET VALUE** refers to the actuarially determined amount which will be required to support all pensions claims over the full life of the pension fund. This amount is converted to the amount a commercial annuity provider would require to guarantee the financial security of the pension fund for its full life (which extends as long as the last covered person lives).

Currently, the West Ohio Conference is fully funded on a FUNDED VALUE basis. Assuming reasonably favorable market conditions continue we have sufficient income and reserves to cover obligations today and for the foreseeable future.

MARKET VALUE is a more complex calculation. Currently, the WOC has approximately \$348 million in plan assets. Wespath has calculated that the amount required by a commercial annuity provider to be fully funded for the life of the pension plan is currently \$426 million. Consequently, our current “unfunded liability” on a MARKET VALUE basis is \$426 million minus \$348 million or **\$78 million dollars**.³

It is important to note that it is unlikely that the unfunded liability amount of \$78 million will be required all at one time. Only a severe and catastrophic circumstance (“worst case scenario”) would require payment of the full amount immediately for the pension to remain solvent. The \$78 million

³ It must be remembered that unfunded liability is impacted by a number of factors including the number of covered participants, actuarial assumptions, actual lifespan of participants, and very importantly, market conditions. Changes in market conditions cause daily fluctuations. The numbers provided here are based on the market and other values at a particular moment in time.

would likely be required periodically, if and when Wespath determines that funding levels have fallen to the point of needing to insert additional funds. The full amount may never be needed. For example, our West Ohio Conference was close to needing to add additional funds in the 2009 – 2012 time period, but did not need to do so. We have not had to do so since a significant capital campaign in the 1970's and creation of the West Ohio Council on Development to shore up funding for pre-1982 pensions. These are now fully funded on a FUNDED VALUE basis and the excess helps to reduce our market value based liability.

Paragraph 2553 specifies that the “unfunded liability” for the annual conference (calculated by Wespath) is to be allocated to individual local congregations by whatever method and policies determined by the annual conference. This means that the annual conference is free to determine how the unfunded liability is equitably divided and, under 2548.2, how and when that amount is collected.

MINIMIZING FINANCIAL BARRIERS

Given the healthy position of the West Ohio Conference pension accounts, the Conference is well able to use the flexibility of Paragraph 2548.2 to ease the financial stress of meeting the pension withdrawal liability. This possibility seems even more reasonable when the opportunity to safely invest these funds is considered.

The simple Future Value calculations below demonstrate the investment potential for the WOC, assuming investment in a responsible mix of bonds, stocks, and/or other investment instruments.⁴

Assumptions:

1. The unfunded liability calculation for West Ohio is \$78,000,000.
2. 200 congregations exit WOC with an average pension withdrawal liability of \$70,000 for a total of \$14,000,000 paid to WOC. \$14 million is the Present Value for the purpose of the calculation. The periods are the number of years.
3. Interest is compounded quarterly in the calculation.¹

	10 Years	25 Years	35 Years	50 Years	75 Years
3.0 %	\$18,876,881	\$29,555,174	\$39,850,678	\$62,393,450	\$131,717,803
5.0 %	\$23,010,672	\$48,487,660	\$79,695,261	\$167,932,368	\$581,617,683
9.2 % ²	\$34,765,893	\$136,047,764	\$337,844,424	\$1,322,070,997	\$12,847,485,888

¹ Simple Future Value Calculator from Investopedia.com.

² Average annualized stock market return over the past ten years is 9.2%. The S & P 500 has returned just over 13% in the same period. (<https://www.businessinsider.com/personal-finance/average-stock-market-return>).

Wespath based their actuarial calculation of the Pension Withdrawal liability on a 3% return, a relatively conservative expectation of return. By comparison the compounded rates of return reported by Wespath for the Diversified Investment Fund and Multiple Asset Fund are as follows: 1 year – 8.75%; 3 years – 15.89%; 5 years – 11.50%; 10 years – 9.0%; 30 years – 9.05%; 40 years – 10.02%; Since

⁴ This exercise is illustrative only. Obviously, values would vary based on the number of congregations exiting, the actual pension withdrawal liability of those congregations, the investment strategies chosen by the Conference Trustees, whether these pension funds are kept strictly for application to unfunded pension liabilities, and the actual results of the market.

inception (1975) – 9.73%. As financial prospectuses commonly state, “Historic returns are not indicative of future performance.” Yet, Wespath over many years has been able to achieve significantly greater returns. If similar future returns were achieved with funds collected from the pension withdrawal liability, the annual conference could secure pensions, and potentially generate funds in excess of what is needed.

Further, some may read this chart and note that only 9.2% gain underwrites the \$426 million needed by Wespath calculations, and that only after over 35 years. HOWEVER, this assumes that separating congregations will or should provide the whole amount required for unfunded liability. HOWEVER, in this example 200 congregations represent only approximately 20% of the congregations in the WOC.⁵ In reality the unfunded pension liability is the responsibility of all congregations of the West Ohio Conference. If funding this liability in the short term is of critical importance, the WOC should be undertaking a program or campaign with ALL congregations of the Conference to insure that adequate funding will be available for the future.

Even if a conservative 3% return rate is used, there appears to be opportunity to ease the burden on exiting congregations using some of the “gracious alternatives” discussed below.

GRACIOUS ALTERNATIVES

While only the General Conference has authority to adjust the method and absolute value surrounding calculation of the pension withdrawal payments, Paragraph 2548.2, provides a more flexible avenue for exiting congregations while, at the same time, protecting the conference and the pension system for the future. Some basic principles should be applied and are reflected in Recommendation #8 to the 2022 WOC Annual Conference Session: *A Path for West Ohio Congregations Separating Under Paragraph 2548.2*.

1. On the date of exit the withdrawal payment should be defined to be an amount certain. No additional withdrawal payments for pension should be required, regardless of how the annual conference uses the received funds, or the impact of their increase/decrease in value over time.
2. A method or methods for payment at the time of exit, or payment over time should be provided as options for congregations to choose. These methods should not include interest charges to the congregation, but might include an amount for reasonable annual administrative fees.
3. Payment should be secured and guaranteed by the congregation by a promissory note and lien⁶ or other legal instrument which includes defined due process for both the conference and the congregation.
4. Congregations fulfilling the payment of the pension withdrawal in full will be immediately released from the lien and further obligations.

⁵ If withdrawal liability funds achieved the compounded rates of return achieved by DIF/MAF since inception (9.73%) over 20 years the initial \$14 million in the example above paid by 200 congregations would grow to \$95,752,434. This amount would provide 22% of the total \$426 million projected need coming from approximately 20% of the West Ohio congregations.

⁶ In these latter alternatives the lien functions as a mortgage against the property and/or assets of the congregation and gives the annual conference legal remedy should the congregation fail to meet payment obligations. Appropriate due process provisions should also be included to protect the congregation if legal remedy is required by the conference. This is more legal recourse than the conference would have for the churches who remain in the UMC.

5. The goal of the withdrawal payment is to provide a reasonable level of insurance to the conference against future risks, not to function as an exit penalty.
6. If the conference reaches fully funded status, all outstanding payments should be cancelled.

FINAL THOUGHTS

Exiting under ¶ 2548.2 provides the most accessible, just and reasonable avenue for an amicable separation. It provides the flexibility to support and free one another to fulfill the ministry to which God is calling us. If reserved for congregations moving to another Wesleyan denomination rather than independent status, it preserves the connectional spirit of Methodism. It minimizes the potential for rancor which could poison relations for generations to come.

We have heard much discussion of the benefit of a truly “amicable separation” in which those who go and those who remain are able to bless and send one another to the mission to which they are called. This was the spirit in which the *Protocol* was negotiated. This is a spirit we may choose because it is simply the right thing to do. Even as we separate because of unreconcilable opinions we pray for reconciled hearts with United Methodist sisters and brothers.