Report of the Board of Pensions

Members of the Board of Trustees

Statement of Purpose

The mission of the Board of Pensions of the Evangelical Lutheran Church in America 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 and other faith-based organizations. The governing description of this unit appears in continuing resolution 17.61.A05. printed in Section X of this volume.

Report of Work for 2005-2007

Significant Achievements

- Implemented a new disease management program, Health at Work, Care Support, to improve the health of plan members (and their dependents) living with chronic diabetes, heart disease, certain cancers and extended programs such as low back pain, fibromyalgia, etc.)
- Added a work and life program to the employee assistance program benefits.
- Decreased contribution rate for disability benefits coverage to two percent of defined compensation (down from 2.5 percent). This reduction recognizes the recent stability of ELCA disability benefits claims and the number of members who have benefitted from our disability return-to-work program.
- Secured a $5.4 million subsidy from the federal government for retaining retiree prescription drug coverage in 2006 (we expect to receive a $5.5 million federal subsidy in 2007). The ELCA's prescription drug coverage is generally better than the new Medicare Part D, therefore most members were encouraged to keep their ELCA coverage. This subsidy allowed us to lower contribution rates for retirees with Medicare primary coverage and helped the ELCA reduce the amount it budgets for retiree health benefits.
- Provided a lower minimum retirement plan contribution option of 6 percent for non-rostered lay employees serving congregations to promote program participation through the ELCA's bundled benefits program, which includes health, disability and survivor benefits coverage.
- Responded to the ELCA Church Council's November 2006 request for a report and possible recommendations related to pension equalization. Drawing heavily from the more comprehensive report on this subject prepared in 2003, the Board of Pensions said the issue of pension equity (i.e., retirement income) can be best addressed by providing compensation for rostered leaders that is at or above synodical minimum compensation guidelines. Additional efforts should be spent on growing the Special Needs Retirement Fund, both to meet the needs of those who served with low compensation in the past and now have low retirement income and those currently serving with low salaries. Accordingly, we recommended the ELCA Church Council not initiate a proposal to restructure the ELCA Retirement Plan as a means to address disparities in retirement income.
- Considered, but advised against, extending benefits coverage for costs associated with methods of artificially assisted fertilization, generally referred to as "Advanced Reproductive Technology" in November 2006. Reasons cited include the current ELCA health plan coverage is consistent with other providers, treatment success rates are relatively low, treatment is associated with increased risks, and the coverage would increase total claim costs up to four percent.
- Considered, but advised against, expanding benefits coverage for the ELCA Supplement to Medicare Benefits in November 2006 because the Centers for Medicare and Medicaid Services is taking steps to expand preventive services, Medicare already includes mental health coverage, and we are also expanding health and wellness resources for all members.

- Began new three-year strategic plan for 2006-2008 to help people lead healthy lives and achieve financial security. The objectives are: 1) *Strengthen the health plan* to support the ELCA's strategic direction to "assist this church to bring forth and support faithful, wise, and courageous leaders whose vocations serve God's mission in a pluralistic world"; 2) *Expand the business* by growing grow assets under management for the benefit of the ELCA; and 3) *Enhance our operational excellence* to enhance and add capabilities to meet the needs and desires of our existing and future plan members and sponsoring employers.
- Received the Minnesota Business Ethics Award in 2006.
- Introduced new billing and receipting system for sponsoring employers to improve their administrative processes.
- Continued our work with the ELCA Foundation to grow the Special Needs Retirement Fund for those who have the greatest financial need. In 2006, 60 retired plan members and spouses received $155,025 in total financial assistance, which ranged from $20 to $850 per month per recipient. We seek to grow the fund to $8 million so we can lower eligibility requirements and serve more retirees. This church is blessed to have people who demonstrate care and concern through their generous contributions to support those who served.

Members Served

Total members served as of December 31, 2006:

- In active service: 14,652
- Not in active service: 8,954
- On leave: 579
- Disabled: 332
- Retired: 9,470
- Surviving spouses: 3,349
- Serving related institutions: 13,963

Benefit Plan Assets

Total net assets available for plan benefits for the year ended Dec. 31, 2006: $6.8 billion.

- ELCA retirement plans: $6.3 billion
- All other plans (health, disability, survivor, retiree medical obligation, other): $450.8 million

For more information and details, download our 2006 annual report (at *www.elcabop.org*), or contact us by e-mail (*mail@elcabop.org*) or by telephone ((800) 352-2876).

Investments

- We believe our ability to earn attractive investment returns for plan members over the years is due in large part to having a disciplined investment strategy, experienced investment managers and competitive fees (without the sales commissions that all too often erode real returns in the competitive marketplace). We are assisting plan members in achieving financial security through an excellent investment program—one of our core competencies that supports this church.
- For the most recent ELCA retirement fund performance, please visit our Web site (*www.elcabop.org*).

Total ELCA Retirement Plan fund returns[1] are net of fees and for periods greater than one year are annualized as of Dec. 31, 2006:

Fund	10 years (%)	5 years (%)	1 year (%)
Select Series			
ELCA 80e Balanced Fund[2]	N/A	N/A	18.0
ELCA Social Purpose 80e Balanced Fund[2]	N/A	N/A	17.8
ELCA 60e Balanced Fund	9.6	10.4	16.3
ELCA Social Purpose 60e Balanced Fund	8.8	10.2	16.3
ELCA 40e Balanced Fund[2]	N/A	N/A	12.4
ELCA Social Purpose 40e Balanced Fund[2]	N/A	N/A	12.3
Build-Your-Own Series			
ELCA Global Stock Fund	9.8	10.4	18.7
ELCA Social Purpose Global Stock Fund	8.8	9.9	18.4
ELCA Non-U.S. Stock Fund	7.4	17.7	28.5
ELCA Social Purpose Non-U.S. Stock Fund	6.0	17.6	28.2
ELCA U.S. Stock Fund	9.3	7.3	14.0
ELCA Social Purpose U.S. Stock Fund	8.9	6.6	13.7
ELCA S&P 500 Stock Index Fund[3]	8.1	5.8	15.4
ELCA Social Purpose Stock Index Fund	8.3	6.5	15.3
ELCA Small- and Mid-Cap Stock Index Fund	10.1	11.6	15.5
ELCA Real Estate Securities Fund	15.5	25.1	37.3
ELCA High-Yield Bond Fund	5.3	7.4	8.8
ELCA Bond Fund	5.8	4.6	4.1
ELCA Social Purpose Bond Fund	5.8	4.7	4.1
ELCA Money Market Fund	3.7	2.1	4.7

Major Directions for 2007-2009

Helping people lead healthy lives and achieve financial security are real-life outcomes of fulfilling our mission in the Evangelical Lutheran Church in America. Therefore, we believe a church with healthy leaders is a vibrant church that has significant influence on people's lives. To remain a vibrant church, which inspires people to live well in Christ, ELCA leaders must act to improve the wellness of those who serve now and in the future. Thus, our focus in the next three years will be to:

- Hold ELCA health plan contribution rate increases to an average of seven percent for the new plan year starting in 2007, which is comparable to rate increases for other large U.S. employers. If we focus only on the expense side and not on the underlying drivers of health care costs, we will not be successful in supporting healthy leaders in the long run.

[1]Figures rounded to the nearest 10th.

[2]The specific asset allocation and structure of this fund did not exist until February 2003.

[3]"S&P 500®" is a trademark of the McGraw-Hill Companies Inc., and has been licensed for use by the ELCA Board of Pensions. The ELCA S&P 500 Stock Index Fund is not sponsored, endorsed, sold or promoted by Standard & Poor's, and Standard & Poor's makes no representation regarding the advisability of investing in the fund.

- Accept the challenge of a new role to help this church develop and support healthy leaders who enhance lives. We believe the results of our research and the action we take will have a significant strategic impact on the life of this church for years to come.
- Transition the ELCA health plan from a "disease" model to a "wellness" model beginning in 2008. The potential rewards of improved health for this church are enormous. Our analysis of ELCA health claims experience indicated that an estimated 43 percent of all medical and prescription drug claims in 2005 ($41 million) were potentially avoidable as they were linked to lifestyle and other health-related behaviors. Our goal for the 2008 plan design is to begin to reduce this percentage and thereby lighten the health care burden on the ELCA.
- Set a new standard for health and wellness in this church. "Live well . . . Healthy leaders enhance lives" is a message the whole ELCA can embrace to live a balanced life in every dimension of the Wholeness Wheel: spiritually, emotionally, physically, socially and interpersonally, intellectually, and vocationally (even in the midst of disease and chronic conditions).
- Reduce the demand for health care and lessen the effects of rapidly rising health care costs on our members and sponsors in this church. If left unchecked, we estimate health care costs will grow to nearly 37 percent of average defined compensation—from an average cost per member of $9,100 in 2005 to $26,000 in 2015. If we reduce demand for health care services so costs are two percent lower than expected, that effort could translate into $4,300 in savings per member or a combined potential savings of $150 million for ELCA congregations and other sponsor employers by 2015.
- Help the ELCA to expand its asset management for the benefit of this church and its people.
- Extend disability benefits coverage in 2008 for "intentional" interim pastors who are between assignments.

Looking back and ahead, enhancing the well-being of those who serve through the ELCA and other faith-based organizations is at the heart of our mission. We welcome your comments and questions as we seek to strengthen our service through this church in the years ahead.

Mary S. Ranum, *chair*
John G. Kapanke, *president and chief executive officer*

Exhibit A:
Financial Statements: 2005-2006

Statement of Net Assets Available for Plan Benefits and Benefit Obligations for the Year Ended Dec. 31, 2006

(Dollars in thousands)	ELCA Retirement Plans ($)	ALC/LCA Continuation Pension Plans ($)	ELCA Institutional Retirement Plans ($)	ELCA Disability Benefits Plan ($)	ELCA Survivor Benefits Plan ($)	ELCA Health Benefits Plan ($)	ELCA Post-Retirement Medical Obligation ($)	All Other Funds & Eliminations($)	Total Funds ($)
ASSETS									
Investments, at fair value									
Bonds, U.S.	1,317,318	1,006	42,527	27,517	24,706	22,081	38,055	—	1,473,210
Bonds, non-U.S.	105,106	77	3,229	2,141	1,933	1,659	2,883	—	117,028
Stocks, U.S.	2,267,354	971	94,842	35,261	31,442	19,098	32,733	—	2,481,701
Stocks, non-U.S.	1,153,074	606	44,554	20,737	18,451	11,803	20,148	—	1,269,373
Securities loaned to broker (see Note 6)	572,161	579	13,279	11,917	10,718	11,530	19,824	—	640,008
Short-term investments	122,740	921	4,050	1,790	1,608	12,241	3,332	10,433	157,115
Mutual funds	69,787	3	14,005	391	260	5,547	11	—	90,004
Other, primarily real asset investments	541,113	1,138	22,121	13,404	11,901	8,837	15,261	—	613,775
Total investments	**6,148,653**	**5,301**	**238,607**	**113,158**	**101,019**	**92,796**	**132,247**	**10,433**	**6,842,214**
Cash	59	—	2	—	—	6,886	3	144	7,094
Cash and other collateral under securities lending program	588,188	593	13,717	12,238	11,007	11,812	20,312	—	657,867
Foreign currency contracts (see Note 5)	204,647	93	7,472	3,178	2,827	1,813	3,177	—	223,207
Accrued interest and dividends receivable	25,936	55	806	522	470	491	720	1,337	30,337
Other receivables	739	—	—	247	—	3,682	1,000	3,447	9,115
Due from brokers for security sales	69,211	54	2,606	1,496	1,326	1,219	2,084	—	77,996
Furniture, equipment and computer software, net	—	—	—	—	—	—	—	5,721	5,721
Total assets	**7,037,433**	**6,096**	**263,210**	**130,839**	**116,649**	**118,699**	**159,543**	**21,082**	**7,853,551**
LIABILITIES									
Foreign currency contracts (see Note 5)	204,052	93	7,446	3,166	2,816	1,806	3,167	—	222,546
Cash overdraft	3,298	54	4	645	133	1	946	3,426	8,507
Payables for securities purchased	135,439	106	4,991	2,946	2,613	2,444	4,123	—	152,662
Payables under securities lending program	588,188	593	13,717	12,238	11,007	11,812	20,312	—	657,867
Deferred revenue	—	—	—	344	—	3,317	—	2,194	5,855
Accounts payable	8,044	4	235	117	104	78	131	6,164	14,877
Total liabilities	**939,021**	**850**	**26,393**	**19,456**	**16,673**	**19,458**	**28,679**	**11,784**	**1,062,314**
Net assets available for plan benefits	**6,098,412**	**5,246**	**236,817**	**111,383**	**99,976**	**99,241**	**130,864**	**9,298**	**6,791,237**
BENEFIT OBLIGATIONS									
Retirement Plan benefits obligation for active accounts	4,005,098	—	236,817	—	—	—	—	—	4,241,915
Retirement Plan benefits obligation for annuities	2,226,256	3,725	—	—	—	—	—	—	2,229,981
Other obligations	—	—	—	73,321	51,770	17,202	224,235	190	366,718
Total benefit obligations	**6,231,354**	**3,725**	**236,817**	**73,321**	**51,770**	**17,202**	**224,235**	**190**	**6,838,614**
Excess (shortage) of net assets over benefit obligations	**(132,942)**	**1,521**	**—**	**38,062**	**48,206**	**82,039**	**(93,371)**	**9,108**	**(47,377)**

Statement of Net Assets Available for Plan Benefits and Benefit Obligations for the Year Ended Dec. 31, 2005

(Dollars in thousands)	ELCA Retirement Plans ($)	ALC/LCA Continuation Pension Plans ($)	ELCA Institutional Retirement Plans ($)	ELCA Disability Benefits Plan ($)	ELCA Survivor Benefits Plan ($)	ELCA Health Benefits Plan ($)	ELCA Post-Retirement Medical Obligation ($)	All Other Funds & Eliminations ($)	Total Funds ($)
ASSETS									
Investments, at fair value									
Bonds, U.S.	1,167,775	1,218	36,810	22,996	22,095	19,325	34,540	—	1,304,759
Bonds, non-U.S.	73,295	72	2,197	1,426	1,370	1,140	2,048	—	81,548
Stocks, U.S.	1,944,145	1,013	79,305	27,782	26,220	16,748	28,350	—	2,123,563
Stocks, non-U.S.	1,033,882	669	37,181	18,270	17,701	10,159	18,779	—	1,136,641
Securities loaned to broker (see Note 6)	562,992	703	13,044	11,228	10,650	11,181	20,047	—	629,845
Short-term investments	172,538	958	6,134	2,702	2,591	15,560	4,735	9,340	214,558
Mutual funds	56,817	3	12,447	395	260	4,762	72	—	74,756
Other, primarily real asset investments	481,934	1,246	18,950	11,666	11,168	7,885	14,840	—	547,689
Total investments	**5,493,378**	**5,882**	**206,068**	**96,465**	**92,055**	**86,760**	**123,411**	**9,340**	**6,113,359**
Cash	319	—	4	—	—	7,047	4	76	7,450
Cash and other collateral under securities lending program	576,541	716	13,425	11,482	10,892	11,397	20,439	—	644,892
Foreign currency contracts (see Note 5)	201,245	104	6,785	2,802	2,719	1,568	3,007	—	218,230
Accrued interest and dividends receivable	23,972	62	706	468	447	446	698	1,259	28,058
Other receivables	—	—	—	118	—	2,709	1,000	2,506	6,333
Due from brokers for security sales	69,190	70	2,526	1,277	1,228	1,114	2,144	—	77,549
Furniture, equipment and computer software, net	—	—	—	—	—	—	—	6,885	6,885
Total assets	**6,364,645**	**6,834**	**229,514**	**112,612**	**107,341**	**111,041**	**150,703**	**20,066**	**7,102,756**
LIABILITIES									
Foreign currency contracts (see Note 5)	200,691	104	6,775	2,805	2,722	1,569	3,007	—	217,673
Cash overdraft	1,853	536	5	637	16	2	963	3,963	7,975
Payables for securities purchased	134,358	146	4,916	2,662	2,562	2,322	4,103	—	151,069
Payables under securities lending program	576,541	716	13,425	11,482	10,892	11,397	20,439	—	644,892
Deferred revenue	—	—	—	441	—	3,230	—	2,235	5,906
Accounts payable	7,155	4	184	100	96	650	120	4,701	13,010
Total liabilities	**920,598**	**1,506**	**25,305**	**18,127**	**16,288**	**19,170**	**28,632**	**10,899**	**1,040,525**
Net assets available for plan benefits	**5,444,047**	**5,328**	**204,209**	**94,485**	**91,053**	**91,871**	**122,071**	**9,167**	**6,062,231**
BENEFIT OBLIGATIONS									
Retirement Plan benefits obligation for active accounts	3,568,031	—	204,209	—	—	—	—	—	3,772,240
Retirement Plan benefits obligation for annuities	1,978,692	4,090	—	—	—	—	—	—	1,982,782
Other obligations	—	—	—	65,845	57,011	16,580	256,145	125	395,706
Total benefit obligations	**5,546,723**	**4,090**	**204,209**	**65,845**	**57,011**	**16,580**	**256,145**	**125**	**6,150,728**
Excess (shortage) of net assets over benefit obligations	**(102,676)**	**1,238**	**—**	**28,640**	**34,042**	**75,291**	**(134,074)**	**9,042**	**(88,497)**

Statement of Changes in Net Assets Available for Plan Benefits and Benefit Obligations for the Year Ended Dec. 31, 2006

(Dollars in thousands)	ELCA Retirement Plans ($)	ALC/LCA Continuation Pension Plans ($)	ELCA Institutional Retirement Plans ($)	ELCA Disability Benefits Plan ($)	ELCA Survivor Benefits Plan ($)	ELCA Health Benefits Plan ($)	ELCA Post-Retirement Medical Obligation ($)	All Other Funds & Eliminations ($)	Total Funds ($)
ADDITIONS TO NET ASSETS									
Investment income gain (loss)									
Interest and other income	104,116	202	3,023	2,109	1,945	2,426	3,124	484	117,429
Dividend income	61,133	32	2,896	1,042	945	799	1,093	—	67,940
Net realized and unrealized gain on investments	672,561	371	27,580	11,973	11,037	6,987	11,987	(3)	742,493
Other investment gain (loss)	12,883	11	411	310	289	207	359	585	15,055
Investment expense	(21,988)	(14)	(691)	(399)	(366)	(345)	(400)	143	(24,060)
Net investment gain	**828,705**	**602**	**33,219**	**15,035**	**13,850**	**10,074**	**16,163**	**1,209**	**918,857**
CONTRIBUTIONS									
Employer contributions	81,082	—	13,088	13,011	—	133,459	4,881	(206)	245,315
Member contributions	27,783	—	8,181	—	41	22,224	—	—	58,229
Church allotments (see Note 4)	—	—	—	—	—	—	4,000	—	4,000
Gifts, bequests and other	2	—	—	—	—	—	—	260	262
Other	—	—	—	—	—	15,762	—	(15,762)	—
Total contributions	108,867	—	21,269	13,011	41	171,445	8,881	(15,708)	307,806
Total additions to net assets	**937,572**	**602**	**54,488**	**28,046**	**13,891**	**181,519**	**25,044**	**(14,499)**	**1,226,663**
DEDUCTIONS FROM NET ASSETS									
Benefits payments	183,884	645	—	9,992	4,526	156,716	489	201	356,453
Withdrawals	83,357	—	16,794	—	—	—	—	—	100,151
Transfers and adjustments	(1,332)	—	3,312	—	—	—	15,762	(15,018)	2,724
Total benefits	**265,909**	**645**	**20,106**	**9,992**	**4,526**	**156,716**	**16,251**	**(14,817)**	**459,328**
General and administrative expenses	17,298	39	1,774	1,156	442	17,433	—	187	38,329
Total deductions from net assets	**283,207**	**684**	**21,880**	**11,148**	**4,968**	**174,149**	**16,251**	**(14,630)**	**497,657**
Net increase (decrease) in net assets available for plan benefits	**654,365**	**(82)**	**32,608**	**16,898**	**8,923**	**7,370**	**8,793**	**131**	**729,006**
Increase (decrease) in benefit obligations	684,631	(365)	32,608	7,476	(5,241)	622	(31,910)	65	687,886
Net change in excess (shortage) of net assets over benefit obligations	**(30,266)**	**283**	**—**	**9,422**	**14,164**	**6,748**	**40,703**	**66**	**41,120**
Excess (shortage) of net assets over benefit obligations at beginning of year	(102,676)	1,238	—	28,640	34,042	75,291	(134,074)	9,042	(88,497)
Excess (shortage) of net assets over benefit obligations at end of year	**(132,942)**	**1,521**	**—**	**38,062**	**48,206**	**82,039**	**(93,371)**	**9,108**	**(47,377)**

Statement of Changes in Net Assets Available for Plan Benefits and Benefit Obligations for the Year Ended Dec. 31, 2005

(Dollars in thousands)	ELCA Retirement Plans ($)	ALC/LCA Continuation Pension Plans ($)	ELCA Institutional Retirement Plans ($)	ELCA Disability Benefits Plan ($)	ELCA Survivor Benefits Plan ($)	ELCA Health Benefits Plan ($)	ELCA Post-Retirement Medical Obligation ($)	All Other Funds & Eliminations($)	Total Funds ($)
ADDITIONS TO NET ASSETS									
Investment income gain (loss)									
Interest and other income	98,367	208	2,600	1,913	1,864	2,263	3,222	296	110,733
Dividend income	51,214	34	2,174	842	842	625	994	—	56,725
Net realized and unrealized gain on investments	336,973	225	13,405	6,127	5,968	3,603	6,511	—	372,812
Other investment gain (loss)	20,468	25	700	557	561	401	746	(199)	23,259
Investment expense	(18,220)	(15)	(513)	(315)	(314)	(295)	(352)	160	(19,864)
Net investment gain	**488,802**	**477**	**18,366**	**9,124**	**8,921**	**6,597**	**11,121**	**257**	**543,665**
CONTRIBUTIONS									
Employer contributions	78,907	—	12,714	12,667	—	121,732	4,717	874	231,611
Member contributions	19,901	—	7,516	—	38	22,521	—	—	49,976
Church allotments (see Note 4)	—	—	—	—	—	—	4,000	—	4,000
Gifts, bequests and other	1	—	—	—	—	—	—	200	201
Other	—	—	—	—	—	17,511	—	(17,511)	—
Total contributions	98,809	—	20,230	12,667	38	161,764	8,717	(16,437)	285,788
Total additions to net assets	**587,611**	**477**	**38,596**	**21,791**	**8,959**	**168,361**	**19,838**	**(16,180)**	**829,453**
DEDUCTIONS FROM NET ASSETS									
Benefits payments	173,059	766	—	9,050	4,497	147,604	500	194	335,670
Withdrawals	71,871	1	13,147	—	—	—	—	—	85,019
Transfers and adjustments	9,194	—	(9,198)	—	—	—	17,511	(17,507)	—
Total benefits	**254,124**	**767**	**3,949**	**9,050**	**4,497**	**147,604**	**18,011**	**(17,313)**	**420,689**
General and administrative expenses	16,965	60	1,528	1,217	347	18,270	—	173	38,560
Total deductions from net assets	**271,089**	**827**	**5,477**	**10,267**	**4,844**	**165,874**	**18,011**	**(17,140)**	**459,249**
Net increase (decrease) in net assets available for plan benefits	**316,522**	**(350)**	**33,119**	**11,524**	**4,115**	**2,487**	**1,827**	**960**	**370,204**
Increase (decrease) in benefit obligations	289,964	(1,035)	33,119	(1,384)	1,914	913	(32,634)	5	290,862
Net change in excess (shortage) of net assets over benefit obligations	**26,558**	**685**	**—**	**12,908**	**2,201**	**1,574**	**34,461**	**955**	**79,342**
Excess (shortage) of net assets over benefit obligations at beginning of year	(129,234)	553	—	15,732	31,841	73,717	(168,535)	8,087	(167,839)
Excess (shortage) of net assets over benefit obligations at end of year	**(102,676)**	**1,238**	**—**	**28,640**	**34,042**	**75,291**	**(134,074)**	**9,042**	**(88,497)**

Notes to Financial Statements (Dec. 31, 2006 and 2005)

Note 1: Organization and Description of Plans Administered by the Board of Pensions

As a service unit of the Evangelical Lutheran Church in America, the Board of Pensions administers the retirement, health and related benefit plans for this church and manages the trusts for the benefit plans as well as the trusts for several predecessor church plans. The Board of Pensions is separately incorporated as a Minnesota non-profit corporation under Chapter 317A (the Minnesota non-profit corporation act), and is governed by an independent 19-member board of trustees that is elected from the churchwide membership of the ELCA.

The financial statements of the Board of Pensions include various plans which are described below. The following plan descriptions provide general information. Summary plan descriptions and other documents provide a more complete description of each plan's provisions.

ELCA Retirement Plan

The ELCA Retirement Plan is a defined contribution plan authorized under the provisions of §403(b)(9) of the Internal Revenue Code (IRC). This plan provides retirement and survivor benefits based on accumulated retirement contributions and investment earnings attributed to the member at the time of retirement or death. Congregations contribute 6 percent to 12 percent of defined compensation on behalf of sponsored members. All contributions are fully and immediately vested. The plan also allows employees to make their own member pretax contributions.

There are 20 investment funds among which members may choose to invest both employer and member contributions. At retirement, members' accumulations may be converted to monthly annuities in a balanced fund and pooled with all other retirees participating in that fund. Initial annuities are calculated on the basis of an assumed interest rate of 4.5 percent, using a gender-neutral mortality table. After retirement, investment earnings in excess of 4.5 percent are used to increase annuities. A crediting rate is declared annually by the board of trustees and substituted for actual returns in order to increase stability of annuity payments. Retired members may also choose to partially annuitize or leave their accumulations in their active accounts (See also Note 2 *Retirement Plan Benefit Obligations*).

ELCA Continuation of The ALC and LCA Minimum and Non-Contributory Pension Plans

The ELCA Continuation of The ALC and LCA Minimum and Non-Contributory Pension Plans provides defined benefit pensions to certain former ALC and LCA pastors and lay workers, surviving spouses, and children.

The legal plan document describes the monthly benefits payable under this plan, which are based on the benefit formulas found in the predecessor plan documents. Effective January 1, 2005, the ELCA Supplemental Retirement Benefits Trust was formed to provide a secure source of funding for these plans. Annual benefits paid from these plans were $635,000 in 2006 and $683,000 in 2005.

ELCA institutional retirement plans

The ELCA institutional retirement plans are defined contribution plans under the provisions of §403(b)(9) of the IRC. ELCA-affiliated social ministry organizations (SMOs) participate in these plans. SMOs can make contributions to retirement accounts for eligible employees based on a specified percentage of compensation as stated in their adoption agreements. The plans may also allow for member pretax contributions and employer-matching contributions. There are 20 investment funds among which members may choose to invest these contributions.

ELCA Disability Benefits Plan

The ELCA Disability Benefits Plan provides three types of benefits after a specified waiting period for plan members who are totally disabled due to injury or physical or mental disorder and for plan members who are partially disabled due to certain neurological diseases. The benefits include:

- a monthly disability income benefit equal to two-thirds of monthly defined compensation (less Social Security and other governmental disability benefits)
- continuation of retirement contributions
- continuation of health and survivor benefits coverage

The ELCA Disability Benefits Plan is funded by employer-paid contributions, calculated as a percentage of members' defined compensation. For 2006 and 2005, employer contributions were 2.5 percent of defined compensation.

ELCA Survivor Benefits Plan

The ELCA Survivor Benefits Plan provides a lump-sum benefit that ranges from $6,000 to $50,000, based on the member's age at death and the defined compensation of the member during the 12 months prior to death or retirement. The plan also supplements surviving spouse income, paying a specified percentage of defined compensation that varies by the member's age and years of plan participation. In addition, the plan provides a monthly benefit for children under age 21. The plan includes an accelerated death benefit feature for plan members who are terminally ill.

The ELCA Survivor Benefits Plan is funded by employer-paid contributions, calculated as a percentage of members' defined compensation. The funded status of the plan has been in excess of the targeted ratio set by the Board of Pensions in recent years, so minimal member contributions were collected for 2006 and 2005.

ELCA Medical and Dental Benefits Plan

The ELCA Medical and Dental Benefits Plan (commonly referred to as the ELCA Health Benefits Plan) reimburses hospital, surgical, and other medical expenses incurred by non-retired and retired plan members and their eligible dependents. Members who reside in designated geographic areas have Preferred Provider Organization (PPO) Benefits administered by Aetna or Blue Cross and Blue Shield of Minnesota. Members who reside in areas where PPO Benefits coverage is not available are covered under Standard Benefits, administered by Aetna. Additional benefits cover dental, prescription drug, and behavioral health care. Members who are eligible for primary coverage under Medicare are covered under ELCA Supplement to Medicare Benefits, which include hospital and medical benefits (administered by Marsh Affinity Group Services), prescription drug and dental benefits.

The ELCA Health Benefits Plan is funded by employer-paid contributions, calculated as a percentage of members' defined compensation and varying by coverage elections and geographic area. Within certain minimum and maximum amounts, the 2006 contribution rates for members sponsored by participating employers ranged from 10.9 percent to 33.2 percent (10.3 percent to 31.3 percent in 2005) of the member's defined compensation. Retired members pay the monthly contributions for the cost of their health coverage. A portion of the cost for retired members who served a predecessor church is paid from trust funds set aside for that purpose.

ELCA Post-Retirement Medical Contribution Subsidies

The ELCA provides medical contribution subsidies ($16,251,000 in 2006 and $18,011,000 in 2005) to certain retired members with predecessor service. These subsidies are funded through trust funds set aside for that purpose and additional contributions by the ELCA and other participating employers. The ELCA contributed $4,000,000 in 2006 and 2005, respectively, toward the funding of these subsidies. See Note 4 *Related-Party Transactions*. Other participating employers contributed $4,881,000 and $4,717,000 in 2006 and 2005 through a charge of 0.70 percent in 2006 and 0.69 percent in 2005 of the defined compensation of sponsored members.

All Other Funds and Eliminations

All other funds are comprised predominantly of operating funds whose purpose is protecting against financial risk of loss (that is not otherwise insured) that may be associated with general business operations.

Benefit payments made from one plan to another are eliminated for purposes of total fund presentation. The amount of the elimination was $15,762,000 and $17,511,000 in 2006 and 2005, respectively.

The ELCA Supplemental Retirement Plan for Government Chaplains provides supplemental income to eligible government chaplains who retire without receiving minimum government-paid retirement income.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

The financial statements are prepared on an accrual basis. Contributions due but unpaid are shown as other receivables on the accompanying statements of net assets available for plan benefits and benefit obligations. Contributions that are paid prior to the due date are shown as deferred revenue on the accompanying statements of net assets available for plan benefits and benefit obligations. General and administrative expenses are charged to the various plans through a combination of direct charges and estimates using time allocations and levels of contributions, benefit payments and net assets within each plan.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Re-Classifications

Certain prior year amounts have been re-classified to conform with the current year presentation. These reclassifications had no impact on previously reported net assets available for plan benefits.

Risk and Uncertainties

The Board of Pensions invests in a combination of bonds, stocks, mutual funds, and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with investment securities, changes in the values of investment securities occur daily.

Investments

Cash and cash equivalents consist of cash and all highly liquid debt instruments purchased with an original maturity of three months or less.

Investments are stated at fair value, as measured by quoted market prices in active and private markets. Security prices are based on quotes that are obtained from an independent pricing service. All other securities for which market values are not readily available are appraised at fair value as determined in good faith under the direction of the Board of Pensions Pricing Policy Team. Security transactions are accounted for on a trade date (the date securities are purchased or sold) basis. Interest income is recorded as it is earned. Dividends are recorded on the ex-dividend date. In accordance with the policy of stating investments at fair value, unrealized appreciation or depreciation is reflected in the statements of changes in net assets available for plan benefits and benefit obligations. The plan's net realized and unrealized gains (losses) on investments by major category for the years ended December 31, 2006 and 2005 are shown below.

	(Dollars in thousands)	
	2006 ($)	2005 ($)
Bonds	(6,420)	(53,782)
Common and preferred stocks	608,238	332,647
Other invested assets	140,675	93,947
Total	**742,493**	**372,812**

Retirement Plan Benefit Obligations

All members, except for those who have fully annuitized their accounts, have individual account balances that represent the accumulation of all earnings and contributions made on their behalf, less any withdrawals. The Retirement Plan benefit obligation for these members is the sum of their account balances. The investment of these funds is member-directed.

For those members who have partially or fully annuitized their accounts, these annuity benefits are valued on the basis of the RP2000 (male) mortality table (for combined healthy lives) projected to 2008 with ages set back three years for members and nine years for spouses. Previously, 98 percent of the 1994 Group Annuity Mortality Table (male rates) with ages set back seven years for females, was used. The actuarial method used to determine the actuarial liability is the accrued benefit method. Under this method, the actuarial liability for retired members and survivors currently receiving benefits is determined as the actuarial present value of benefits expected to be paid, using the actual age of the retirees. To the extent that the benefit obligation under this method may differ from the fair value of the assets, the statement of net assets available for plan benefits and benefit obligations will reflect an excess or shortfall in the plan. Annuities eligible for excess-interest adjustments are valued on the basis of the assumed interest rate of 4.5 percent. Excess-interest adjustments are determined by applying a formula that weighs actual investment returns with long-term expected investment returns, taking the overall funded position into account. Maximum and minimum year-over-year adjustments are considered in determining the final crediting rate. Minimum and non-contributory benefits (which represent ELCA obligations) are valued using an assumed interest rate of six percent at December 31, 2006 (and 5.5 percent at December 31, 2005).

At the end of 2006, the Board of Pensions implemented a simplification of the annuity benefits currently payable. This included (1) moving all bond and stock fund annuities to the Participating Annuity Fund, (2) simplifying the payment pattern of some annuities and (3) simplifying the way excess interest is credited.

To make the transfer from the bond and stock funds to the Balanced Fund equitable for all annuitants, adjustment factors were determined using the funded ratios at September 30, 2006, for each fund and applied to benefit amounts for each fund. The purpose of these adjustment factors was to move every annuity to the same funded level.

Additional adjustments for individual annuities were developed for three groups:

1 Stock fund: These adjustments compensated annuitants for any expected future investment shortfall resulting from the move from the Stock Fund (and Bond Fund, where applicable) to the Balanced Fund.
2 LCA Bond Fund annuitants with annual three percent increases: To simplify future benefit payments, each increasing annuity was replaced with an actuarially equivalent (larger) level annuity.
3 ALC Minimum Pension Plan: This benefit had a two percent increase that included an additional two percent of the annuitant's basic benefit. To simplify future benefit payments, each increasing annuity was replaced with an actuarially equivalent (larger) level annuity.

Excess-interest crediting methods were simplified as follows:

- All excess-interest permanent increases are now credited at the beginning of the year earned. Annuities issued after 1996 that were receiving end-of-year increases received an end-of-2006 adjustment and a beginning-of-year 2007 adjustment.
- All excess-interest temporary increases are now paid out as dividends at the beginning of each year. Some annuitants with current annuities, now referred to as dividend-eligible annuities, were receiving their excess interest monthly. They are now receiving an annual dividend. Other annuitants with current annuities were receiving annual dividends at the end of the year. They received an end-of-2006 dividend and a beginning-of-year 2007 dividend.

The investment of the funds supporting the obligation for annuities is determined by the Board of Pensions. The expected long-term rate of return of these funds is approximately eight percent as of December 31, 2006, and seven percent as of December 31, 2005. However, for purposes of calculating the plan obligation, a 4.5 percent return was assumed.

The change in the actuarial present value of the ELCA Retirement Plan benefit obligation for annuities, including the result of the above actuarial changes, for the years ended December 31, 2006 and 2005 is shown in the chart below.

	(Dollars in thousands) 2006 ($)	2005 ($)
Obligation at beginning of year	1,978,692	1,899,591
Increase (decrease) during the year due to:		
• interest	84,895	81,574
• change in actuarial assumptions	128,592	—
• benefits accumulated and experience changes	218,373	171,216
• benefits payments and withdrawals	(184,296)	(173,689)
• net increase	247,564	79,101
Obligation at end of year	**2,226,256**	**1,978,692**

The following chart contains annuity benefits expected to be paid to current annuitants under the ELCA Retirement Plan.

Year	(Dollars in thousands) ELCA Retirement Plan ($)
2007	195,748
2008	188,363
2009	184,403
2010	180,024
2011	175,270
2012 – 2016	797,843

Post-Retirement Medical Benefit Obligation

The ELCA post-retirement medical benefit obligation represents the portion of the actuarial present value of estimated future post-retirement medical benefits (less the present value of retiree contributions) that is attributable to employee service rendered through December 31 for certain categories of members (including their beneficiaries and dependents) as shown in the chart below. The post-retirement medical benefit obligation is actuarially determined as the estimated future annual claims costs less federal subsidies, and less retiree contributions (net of any ELCA subsidy), adjusting such estimates for the time value of money (through discounts for interest) and the probability of payment.

Post-Retirement Medical Benefit Obligation	(Dollars in thousands) Dec. 31, 2006 ($)	Dec. 31, 2005 ($)
Current retirees	185,991	205,999
Other members fully eligible for benefits	37,681	49,428
Members not yet fully eligible for benefits	563	718
Total	**224,235**	**256,145**

The following chart contains ELCA subsidies expected to be paid on behalf of current and future retirees under the ELCA post-retirement medical plan.

Year	(Dollars in thousands) ELCA Post-Retirement with Medicare Part D Subsidy ($)	ELCA Post-Retirement without Medicare Part D Subsidy ($)
2007	17,022	19,537
2008	17,330	19,898
2009	17,616	20,242
2010	17,776	20,436
2011	17,993	20,694
2012 – 2016	89,581	103,239

Health care costs are assumed to increase in future years. The rate at which health care costs increase in future years is expected to gradually decrease from 2007 to 2012, after which time it is expected to remain level. The expected trend rates are derived from ELCA experience, with guidance from public insurance sources. The assumed rates of increase used in 2006 and 2005 are shown in the chart below.

	Pre-age 65 cost (%)	Post-age 65 cost (%)
2006		
Rate of increase in 2007	9.7	7.9
Ultimate rate	6.3	6.5
Year ultimate rate reached	**2012**	**2016**
2005		
Rate of increase in 2006	10.6	10.4
Ultimate rate	6.7	7.9
Year ultimate rate reached	**2012**	**2011**

If the assumed health care cost trend rate increased by one percentage point in each year, the obligation would increase by $21,166,000 and $26,404,000 as of December 31, 2006 and 2005, respectively. If the assumed health care cost trend rate decreased by one percentage point in each year, the obligation would decrease by $18,517,000 and $22,559,000 as of December 31, 2006 and 2005, respectively.

The following were other significant assumptions used in the valuations as of December 31, 2006 and 2005, based on the assumption the plan will continue:

- discount rate: 6.0 percent at December 31, 2006 and 5.5 percent at December 31, 2005
- average retirement age: 65 years as of December 31, 2006 and 2005
- mortality: RP2000 (male) mortality table (for combined healthy lives) projected to 2008 with ages set back three years for members and nine years for spouses at December 31, 2006 and 98 percent of the 1994 Group Annuity Mortality Table (male rates) with ages set back seven years for females at December 31, 2005.

The ELCA post-retirement medical obligation in excess of net assets of $93,371,000 at December 31, 2006, and $134,074,000 at December 31, 2005, will be funded by the ELCA and other sponsoring employers. See Notes 1 and 4.

The change in the actuarial present value of the post-retirement medical benefit plan obligation, including the result of actuarial changes, for the years ended December 31, 2006, and 2005 is shown in the chart below.

	(Dollars in thousands) 2006 ($)	2005 ($)
Obligation at beginning of year	256,145	288,779
Benefits earned during year (service cost)	27	25
Interest	15,369	15,883
Benefits paid during the year	(16,251)	(18,011)
Change in actuarial assumptions and other (gains) and losses during this year	(31,055)	(30,531)
Obligation at end of year	**224,235**	**256,145**

Benefit Obligations — Other

Other plan benefit obligations at December 31 for health claims incurred but not paid at that date are actuarially determined and included in other obligations on the accompanying statements of net assets available for plan benefits and benefit obligations.

The survivor benefit obligation and future disability payments to members considered totally disabled at December 31 are also actuarially determined. Estimated amounts for the disability and survivor plans are reported at present value based on the following discount rates:

Furniture, Equipment, and Computer Software, Net

Furniture, equipment, and computer software (fixed assets) are stated at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Depreciation expense was $2,412,000 and $2,421,000 in 2006 and 2005, respectively. Upon sale or retirement of the assets, differences between the sale price and depreciated value of the assets are recorded as gain or loss and credited or charged to operations. Repairs to and maintenance of fixed assets are expensed when incurred. Improvements to fixed assets, if material, are capitalized and depreciated over the remaining useful life of the asset.

Note 3: Income Tax Status

The ELCA Board of Pensions is a §501(c)(3) tax-exempt organization, and therefore, no provision for income taxes is included in the financial statements. To the extent that certain investments in real estate partnerships generate income, the Board of Pensions pays state and federal taxes under the unrelated business taxable income provisions of the IRC. These taxes are reflected as direct investment expenses and included in investment expense in the statements of changes in net assets available for plan benefits and benefit obligations. The amount of income tax expense in 2006 and 2005 was $121,000 and $536,000, respectively.

Note 4: Related-Party Transactions

The Board of Pensions received $4,000,000 in 2006 and in 2005 from the ELCA for retiree medical contribution subsidies, which are included as church allotments on the accompanying statements of changes in net assets available for plan benefits and benefit obligations.

The Board of Pensions also received investment management fees of 0.3 percent of assets, or $791,000 and $768,000 in 2006 and 2005, respectively, for managing certain investments for the ELCA Foundation. These fees, net of related expenses, are included as a reduction of general and administrative expenses on the accompanying statement of changes in net assets available for plan benefits and benefit obligations.

Note 5: Derivative Financial Instruments

The Board of Pensions, in accordance with the ELCA trust documents, has established an investment policy permitting the use of derivative instruments by internal and external investment managers. This investment policy expressly identifies the permissible uses of derivative instruments and contains accounting and management controls designed to ensure conformance with these policies. The Board of Pensions utilizes financial futures, forwards and options to assist in controlling risk and enhance portfolio values in a manner that is prudent and intended to further the purposes of the investment portfolio. Specifically, financial futures and option contracts may be used to help maintain market exposure, targeted duration exposure and targeted currency exposure. The Board of Pensions does not sell uncovered call options or sell put options. The derivative instruments used by the Board of Pensions have not been designated as hedging instruments under the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and accordingly are marked to market with changes in value included in unrealized gains (losses).

The Board of Pensions manages exposure to short-term currency fluctuations in foreign securities by purchasing foreign currency contracts. These contracts are marked to market daily. The gains and losses on these contracts are netted against the gains and losses on the underlying foreign securities. As of December 31, 2006, the foreign currency contracts receivable was $223,207,000 and the foreign currency contracts payable was $222,546,000. These contracts mature throughout January and February 2007. As of December 31, 2005, the foreign currency contracts receivable was $218,230,000 and the foreign currency contracts payable was $217,673,000.

The Board of Pensions' asset allocation rebalancing program mandates the use of financial futures to manage the fixed income and equity portfolio allocations in the balanced funds. These financial futures are exchange-traded and marked to market daily.

As of December 31, 2006, the Board of Pensions had futures positions maturing in March 2007, June 2007 and September 2007 as shown below:

	(Dollars in thousands)		
	Notional Value ($)	Number of Contracts	Position
U.S. treasuries	40,878)	1,268	Long
U.S. stock indexes	32,349	148	Long
Non-U.S. stock indexes	(22,390)	393	Short
Euro dollar	(54,790)	231	Short

The realized and unrealized gains and losses on futures positions were a net gain position of $2,240,000 in 2006 and a net gain position of $2,730,000 in 2005, and are recorded as net realized and unrealized gain on investments on the accompanying statement of changes in net assets available for plan benefits and benefit obligations.

Note 6: Portfolio Securities Lending Program

The Board of Pensions engages in securities lending whereby certain securities in its portfolio are loaned to other institutions, generally for short periods of time. Fees are earned by the Board of Pensions for participating in this program, which is administered by the Board of Pensions' custodial bank, Mellon Trust (the lending agent). By the end of the business day on which securities are delivered to the borrower, collateral equal to 102 percent of the market value of a loaned U.S. security and/or 105 percent of a non-U.S. security, including any accrued interest, is obtained from the borrower. After the initial settlement, collateral greater than 100 percent is maintained.

Total securities lending income received by the Board of Pensions was $1,320,000 and $1,392,000 in 2006 and 2005, respectively, and is recorded as interest and other income on the accompanying statement of changes in net assets available for plan benefits and benefit obligations. In accordance with SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, the Board of Pensions accounts for its securities lending transactions as secured borrowings, in which the collateral received and the related obligation to return the collateral are recorded in the statement of net assets available for plan benefits and benefit obligations at fair value. Additionally, the securities on loan at year end are reflected as securities loaned to broker. The fair value of the securities loaned by investment type is summarized in the following chart:

	(Dollars in thousands)	
	Dec. 31, 2006 ($)	Dec. 31, 2005 ($)
Bonds, U.S.	469,594	460,659
Bonds, non-U.S.	7,448	12,331
Stocks, U.S.	62,590	67,775
Stocks, non-U.S.	100,376	89,080
Total	**640,008**	**629,845**

Although the Board of Pensions' securities lending program involves certain credit risks, the Board of Pensions believes that the high quality of the collateral received (primarily cash and money market instruments), collateral levels greater than 100 percent of securities loaned to broker and the Board of Pensions' monitoring policies and procedures mitigate the likelihood of material losses under these arrangements.