

Christian Brothers Employee Retirement Plan (CBERP):

## **The New Path Forward**

Contribution/Design Changes for 2026



#### The New Path Forward

Mr. Brian Schroeder, Chair of Pension Board and Chief Financial Officer, Diocese of Joliet



## **Protecting Our Member Organizations and Employees**

Dear CBERP Employers,

In January, we communicated that the Christian Brothers Employee Retirement Plan (CBERP) Board had engaged outside actuarial and consulting teams

to review the Plan's current and future needs to build and communicate a predictable, stable contribution strategy for the foreseeable future. This brochure outlines the recommendations the Board adopted from that study. We encourage you to read it carefully and view the panel discussion to learn more about the new CBERP journey ahead and the options available to you. The panel discussion is recorded and available here.

Protecting our member organizations and their employees continues to be our top priority. CBS stands ready to help members understand and navigate the new options moving forward. The CBERP Board's guiding principles for this initiative include:

- Protect retiree benefits and employee accrued benefits
- Improve long-term funded status
- Expand employer choices for managing costs
- Provide long-term cost and budget predictability
- Ensure equity to all employers regardless of individual employer decisions

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The CBERP is a defined benefit pension plan offered by Christian Brothers Services to lay employees of Catholic organizations and dioceses. It is a robust, lifetime income pension plan that leverages scale, professional management, flexibility of regulation, and administrative simplicity to offer secure retirement benefits efficiently.



#### Mr. Brian Schroeder, Chair

Chief Financial Officer, Diocese of Joliet

#### Mr. Benjamin Murray

Former Chief Financial Officer, Saint Mary's University of Minnesota

### Mr. Raymond Purk

Chief Financial Officer, Diocese of Owensboro

#### Ms. Pamela Mott

Former Human Resources Director, Lewis University and Christian Brothers Services

#### Mr. David Enenbach

Senior Vice President, CAPTRUST

The CBERP is governed by a Board that is elected by member organizations. The Pension Board's job is to act in the best interests of the Plan's beneficiaries and to help shape policies that protect and meet members' needs. It works closely with its outside partners and CBS, which provides administrative services for the Plan.

In 2022, the CBS Board appointed top investment executive Pat Lynch to lead CBS and prioritize the development of a new investment strategy. He is supported by Chief Investment Officer Steve Sliwinski, who joined in 2017. Together, their team is uniquely equipped to implement a proactive approach aimed at restoring the pension fund to full funding and securing the future for the Plan's beneficiaries.

## **CBERP Background**

- The Plan commenced July 1, 1964
- A multiple-employer church plan with benefits based on a percentage of compensation
- Each employer annually selects an accrual rate with a corresponding Contribution Rate
- The Plan was over 100% funded in many of the years before 2008
- The current funded status (assets as a percentage of liabilities) is 66%\*
- Current contributions cover the cost of benefits accruing in the upcoming year (normal cost) and only 20% of the amount needed to amortize the Unfunded Liability over the next 25 years
- A new contribution strategy is needed to close the funding gap and ensure the long-term viability of the Plan

<sup>\*</sup> Your individual plan funded percentage may be different



#### Strength and Stability that Matters

Through every challenge, the CBERP Board has maintained a steady, strategic approach—adapting to short-term market fluctuations while continually reinforcing our commitment to long-term stability.

## Trusted Oversight for a Strong and Secure Future

Our CBERP Board provides expert oversight. These mission-driven, volunteer board members—who bring deep expertise in investments, pensions, accounting, and auditing, along with their experience with Catholic organizations—provide valuable perspective to Plan decisions.

#### Independent Oversight for Transparency and Accountability

We partner with industry-leading third-party experts to ensure the highest standards of oversight. An external auditor, actuary, and investment consultant review the Plan's financial statements and assess key controls, compliance with investment industry standards, and risk management. These rigorous evaluations reinforce our commitment to financial integrity, security, and long-term stability.

#### **Plan Timeline**

If we look back at the last decade, the Board has taken a series of actions to promote the Plan's health while remaining thoughtful about the financial impact on employers:

- 2014 20% increase in contributions
- **2018** Future asset return expectations decreased
- 2019 Series of Plan design changes implemented to eliminate certain subsidies and reduce future costs
- 2020 COVID constrained budgets; the Plan maintained level contributions
- 2021 20% increase in contributions
- **2022** Historic asset decline among both stocks and bonds
- 2023 7.65% increase in contributions
- 2024 7.65% increase in contributions, strong asset returns; hired new outside actuaries and consultants to help develop long-term strategy
- **2025** 5% increase in contributions



## **Understanding the Plan's Funding Challenge**

Over past decades, the CBERP has navigated a number of unforeseen events. The Great Recession of 2008, the COVID-19 pandemic, and demographic shifts have had a lasting impact on the financial situation of the Plan.

## **Economic Shocks and Demographic Shifts Have** Impacted the Plan

- Asset losses: During the Great Recession, many plans nationwide saw asset losses of 30% or more. Rebounding from this level of loss is extremely difficult without a dramatic increase in contributions.
- Increased life expectancy: People are living longer, and benefits are being paid out over more years than initially expected.
- Aging participant population: The number of inactive members (retirees and vested former employees) has increased more than fourfold over the last 25 years, while the number of active members has remained relatively stable.

## The Pension Board's Response

The Pension Board has worked extensively over the past 18 months to review the Plan's funding levels and explore long-term approaches.

The message is clear: while the Plan has weathered many challenges, current contribution levels are no longer sufficient to ensure long-term fiscal well-being or to protect promised benefits.

## Contribution Strategy to Ensure the Plan's Long-Term Fiscal Well-Being

In response to the structural imbalance pressuring the Plan, the Board has created a new contribution strategy designed to maintain existing benefits for both active and inactive members and ensure the long-term viability of the Plan.

This brochure outlines the background of the events that have brought us here, the Board's analysis, and the measures being taken to secure the Plan's future for its members and beneficiaries.



#### **Funded Status**

The current financial position of the CBERP reflects both its long history of service and the challenges that have shaped its recent trajectory.

The Funded Status chart provides a clear overview of the Plan's Funded Status:

- Accrued Liability: The total value of all benefits earned to date amounts to \$2.35 billion.
- Market Value of Assets: The assets in the Plan have an actual value of \$1.55 billion.
- Unfunded Liability: Subtracting liabilities from assets leaves an Unfunded Liability of \$800 million.

This places the Plan at 66%\* funded—for each dollar owed on future benefits, approximately 66 cents is funded. Closing this gap is vital to ensuring long-term sustainability.

## **Contribution Requirements vs. Current Contributions**

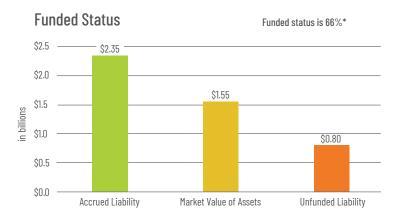
To reach 100% funding of these benefits over the next 25 years, employer contributions would need to meet both:

- The cost of benefits earned during plan year beginning July 1, 2024 (normal cost): \$48.6 million, plus
- The amortization of the Unfunded Liability over the next 25 years: \$71.6 million.

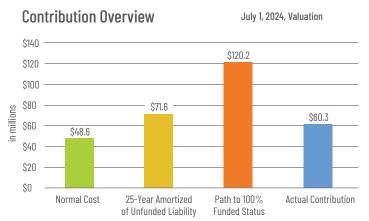
Together, these add up to \$120.2 million per year.

Employers are presently paying roughly \$60 million per year. This fully pays for the cost of new accruals, but only covers a fraction of the extra funding needed to cover the Unfunded Liability. To reduce this projected shortfall, contributions will need to increase.

<sup>\*</sup> Your individual plan funded percentage may be different



<sup>\*</sup> Your individual plan funded percentage may be different





## A Closer Look at the Plan's Funded Status: 25 Years of Change

The Plan's funded status has seen significant change over the past 25 years. In 1999, the Plan was over-funded at 142%, with more than enough assets to meet future liabilities. As with many church-affiliated retirement plans during this time, this surplus was used to enhance benefits for active and retired participants.

But soon the economic climate shifted. The Great Recession of 2008 brought severe market losses, and the Plan's funded status fell to 76%. It has not fully recovered since.

## Managing Volatility: A Plan Tested by Time

Since 2008, the Plan's funded status has fluctuated, including a brief rise to 83% in 2011, but generally it has remained fairly steady.

Over this period, underlying assumptions about the long-term investment returns of the Plan have become more conservative. The assumed rate of investment return has been gradually reduced from 8% in 2002 to 6.75% in 2022, in line with general economic trends.

Lower expected returns on investments creates a gap that must be filled with additional contributions. With each reduction in the assumed return, the Plan requires additional funding to meet future obligations.

#### Looking to the Future

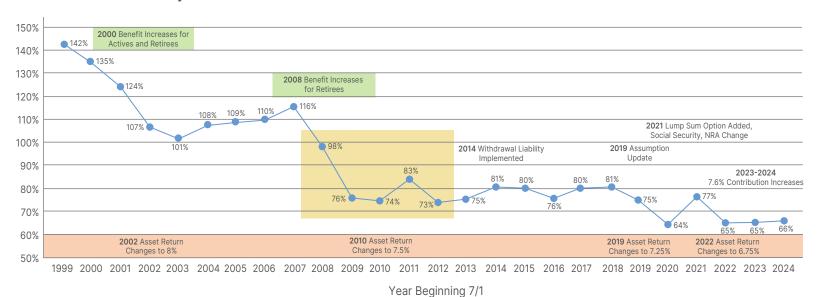
The Plan was 66%\* funded as of 2024. This percentage has been fairly steady recently, even after increased contributions, which illustrates the need for continued focus and active planning.

These trends are reflective of a Plan that has survived economic shocks, adapted to evolving financial and demographic trends, and responded with carefully deliberated design changes and contribution increases.

\* Your individual plan funded percentage may be different



## **Funded Status History**



It was common practice for church plans to "spend" surpluses in the form of benefit improvements.

 $Reduced\ asset\ return\ expectations\ led\ to\ a\ reduction\ in\ the\ discount\ rate\ from\ 8.0\%\ to\ 6.75\%,\ resulting\ in\ increased\ liabilities.$ 

The Financial Crisis of 2007-2009 had a significant and lasting impact on the Plan.

Please watch the Panel Discussion for a much more detailed discussion of this timeline.



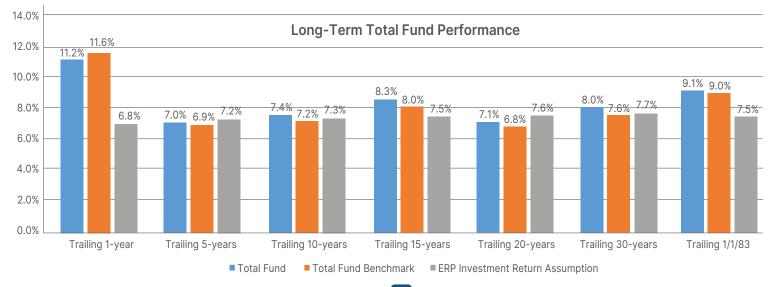
The investment objective of the CBREP is to align with its contribution strategy to help ensure sufficient assets are available to meet pension obligations as they come due, while managing risk responsibly and providing strong governance for the Plan's members and beneficiaries.

The Pension Board retains an independent third party, Marquette Associates, as its fiduciary investment consultant. Marquette Associates advises and assists on all investment-related matters, such as long-term investment strategy, external investment manager selection/oversight, fee competitiveness, reporting, benchmarking, and other administrative items.

The Long-Term Total Fund Performance chart depicts the Plan's trailing investment performance (net of all investment management fees) in comparison to both its benchmark and its historical actuarial investment return assumption through the end of 2024. As depicted, the Plan's trailing investment performance has met or exceeded expectations, particularly over the long-term, which is the Board's focal point from an investment perspective.

## **Key Takeaway**

The reduction in funded status is not a function of poor long-term investment performance. Rather, it points to the need for diligent focus on other forward-looking areas, such as benefit levels, actuarial assumptions, and contribution strategy, as we work to ensure the long-term sustainability of the Plan.





## **Demographic Trends and Their Impact on the Plan**

Pension plans across the country, including the CBREP, are facing significant demographic shifts that affect their long-term sustainability.

## **An Aging Participant Population**

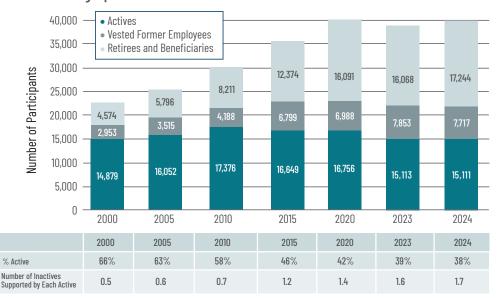
Perhaps the most dramatic change is in the divergence between active and inactive participants. Over the last two decades, the number of active employees contributing to the Plan has been decreasing gradually, whereas the number of inactive members (retirees and vested former employees) is increasing.

# Active participants comprised 66% of the Plan population in 2000. By 2024, this figure fell to 38%.

Contributions have historically been collected based on active payroll. In 2000, the ratio of inactive to active participants was 1 inactive per 2 active participants (or 0.5), so the Plan was able to collect more dollars than it was paying in benefits. Today, that ratio has flipped and is heading toward the opposite—almost 2 inactives per active participant (currently 1.7 as outlined in the Demographic Trends chart).

This population trend puts increasing financial stress on the Plan, as fewer active contributors are available to support an increasing number of benefit recipients.

## **Demographic Trends**





Defined benefit plans are long-term commitments, and understanding their trajectory means looking beyond year-to-year fluctuations. The Proactive Changes to Protect CBERP Members chart offers a high-level view of how the Plan has evolved over the past two decades and the actions taken to protect its long-term strength.

#### **Important Plan Milestones**

The blue dots indicate a timeline of noteworthy Plan milestones and changes in Funded Status. In the early years, through 2007, the Plan had surplus funds. It was common practice in the 1990s and 2000s to grant benefit increases when pension plans were overfunded.

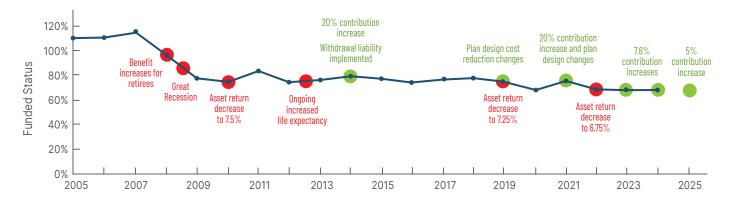
## **Stress Points and Proactive Steps**

But as the chart shows, red highlights indicate stress points that followed: the 2008 financial crisis, volatility in the markets, and demographics like rising life expectancy, each of which puts heavy pressure on the Plan's funding levels.

Consequently, the green markers highlight the Board's proactive steps, such as increasing employer contributions and adjusting benefit provisions. These were not easy decisions, but they were necessary, and they've helped to keep the Plan stable during uncertain times.

The message is clear: the Plan has not remained static. Through changing circumstances and unanticipated headwinds, the Board has consistently responded with thoughtful modifications, taking responsible action with both employers and participants in mind.

## **Proactive Changes to Protect CBERP Members**



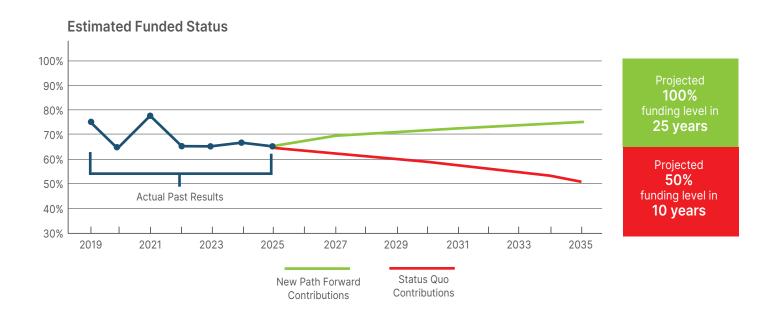


## **Future Trajectory**

With the proactive changes the CBERP Board has implemented, the Funded Status has held steady in the past few years, but as demographic headwinds increased it has not been possible to *gain* ground. Without additional changes, the funded status is projected to follow the red line over the next decade as a result of these headwinds.

The CBERP Board recognizes the need to improve this trajectory to continue to protect member benefits for future years.

The green line represents the Plan's projected trajectory with the new approved changes for contributions in 2026 and beyond. The green line is projected to reach 100% funding in approximately 25 years if all assumptions are met.





## What Is Changing?

The Plan will begin collecting contributions in a new way. It is also introducing more choice with several new options for employers to tailor their contributions based on their specific needs.

#### **Contribution Collection Changes**

In previous years, Contribution Rates were only based on a percentage of ongoing payroll. The Board, with guidance from outside experts, has identified the most effective strategy to fund the existing Unfunded Liability, ensuring the responsibility is shared fairly and not placed disproportionately on current or future Plan members.

This has led to an important change in the Plan's approach to collecting contributions. Instead of simply a percentage of payroll based on the benefit accrual rate chosen, each employer will have two types of contributions:

- Their own individual **Unfunded Liability Contribution** for past underfunding, plus
- A reduced Contribution Rate reflecting the expected cost of new benefit accruals

## **Unfunded Liability Contribution**

The Plan's actuaries have calculated the amount of Unfunded Liability attributable to each employer on behalf of its own participants (active and inactive) and amortized it over 25 years, much like a mortgage, resulting in the Unfunded Liability Contribution amount payable each year.

The Unfunded Liability Contribution will be separate from the Contribution Rate selected for ongoing benefit accruals in the upcoming year. It is expected to remain relatively stable, though it will be reevaluated from time to time to take into account the Plan's performance and any future unexpected circumstances. This approach is designed to provide employers with greater consistency and predictability for budgeting and cash planning purposes.

#### **Contribution Rate**

Similar to prior years, employers will also select a benefit accrual rate each year and contribute the corresponding percentage of pay to provide these benefits, called the Contribution Rate.

Because the Plan is now collecting for the past Unfunded Liability separately, Contribution Rates will be lower than 2025 levels to reflect only the expected cost of new benefit accruals for active employees. While these rates can change over time, they are expected to remain consistent unless key assumptions or Plan results shift significantly.

This change will help employers separate the cost of their past liability from the cost of future benefit accruals. This new contribution method will improve both sustainability and predictability.

We recognize that this places an additional financial burden on employers. We are ready to help you navigate the various options moving forward and the decisions you will need to make.



#### **Two-Part Contribution Structure**

Understanding how contributions are allocated is at the heart of understanding the Plan's new funding approach. This example illustrates how contributions for a sample employer will be applied to new benefit accruals and prior shortfalls.

## **Contribution Breakdown Example**

The example shows an employer selecting a 1.7% benefit accrual rate and reflects their individual Unfunded Liability. That contribution is divided into two significant components:

#### Part A: Contribution Rate - 5.9% of Payroll

This portion is the cost of benefits earned this year. It is the ongoing cost of new benefits and aligns with the accrual rate selected.

#### Part B: Unfunded Liability – 11.4% of Payroll

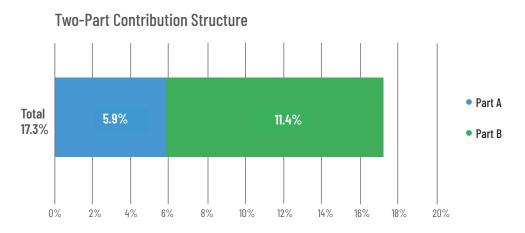
This portion amortizes this employer's current Unfunded Liability over a period of 25 years.

With the intention of smoothing the impact on employers, the Part B portion of the contribution can be phased in:

- 60% in Year One
- 80% in Year Two
- 100% by Year Three

#### A Gradual Path

The phased-in design provides employers with time to adjust to higher funding requirements, keeping the Plan more affordable in the short run. This gives the employer time to adjust to the new total contribution of 17.3% of payroll.



This is an example and not meant to represent other employers with a 1.7% accrual rate.



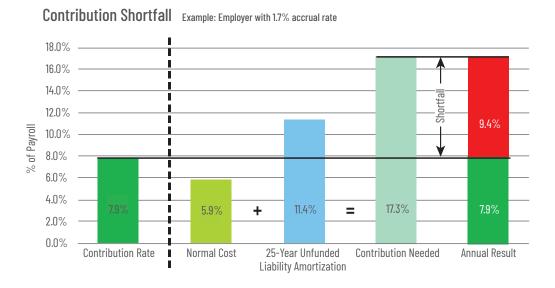
This chart highlights, for this individual employer, their shortfall under the current contribution structure.

Under the 1.7% accrual rate, the employer is contributing at a rate of 7.9% of payroll for the Plan year beginning July 1, 2025 (the current Plan year).

Despite this level of contribution, a funding gap remains due to the growing Unfunded Liability.

- The employer's normal cost (the cost of benefits earned this year) is 5.9% of payroll.
- Only 2% of payroll is left to apply toward this employer's individual Unfunded Liability amortization.
- This results in a contribution shortfall of 9.4% of payroll.

This example reinforces the need for a revised contribution strategy.



This is an example and not meant to represent other employers with a 1.7% accrual rate.



#### More Employer Choices with Equity Among Employers

As outlined in the example, the Total Contribution, made up of the Unfunded Liability Contribution plus the Contribution Rate, will be significantly more than the 2025 contribution level. This change is necessary to shift the Plan's funded percentage trajectory to continue to protect the Plan's beneficiaries.

Each employer will receive a personalized Contribution Schedule outlining the impact of the new contribution structure and the options described below. We encourage you to review the materials in detail and reach out with any questions.

Contribution Ramp-Up Option—This option allows a reduced Unfunded Liability Contribution in the first two years of the change. The Unfunded Liability Contribution will be phased in over three years, allowing time for employers to budget these increases. In year one, the phased-in percentage will begin at 60%, rising to 80% in year two.

For example, if your Unfunded Liability Contribution is calculated to be \$100, this minimum amount would be \$60 in 2026, and \$80 in 2027, before reaching the full \$100 in 2028. Employers are not required to use this flexibility and can pay more than the minimum amount at any time. Early payments, much like on a mortgage, decrease the total amount of contributions.

Front-loaded Contributions Option—Some employers may prefer to pay off their Unfunded Liability sooner. Again, much like a mortgage, an early payoff amount would be significantly less today than the sum of all future Unfunded Liability Contributions paid over 25 years. We will track and allocate any early payments to each employer.

**New 0.5% Accrual Rate Option**—This option is a reduced benefit accrual rate below the Plan's current minimum 1.0% accrual rate, to give employers the option of reducing the cost of ongoing benefit accruals.

Suspension Option—The Plan is introducing an option to suspend new benefit accruals for active members for up to four years (2026 through 2029) to assist employers who need additional time to build the Unfunded Liability Contribution into their budgets. This means that active members would receive no additional benefit accruals during suspension, and it would eliminate the Contribution Rate for up to four years.

Employee Contribution Option—Many years ago, the Plan included the option for employee contributions. These are post-tax contributions that are deducted from an employee's pay, go toward funding the Contribution Rate. Beginning in 2026, employers can elect to have active employees share in the cost of their ongoing benefit accruals. This option is limited to no more than 4% of payroll, and to no more than the Contribution Rate. This means that Employee Contributions only go toward the Contribution Rate, not toward the past Unfunded Liability Contribution.



## **More Choices for Employers**

There are two additional options that already exist in the Plan for employers opting to no longer be an active participant in the Plan: Withdrawal and Spinoff.

If an employer chooses to leave the Plan and stop contributing, the employer can elect to withdraw or spin off.

#### Withdrawal—Ending Benefit Accruals

Upon withdrawal, all future benefit accruals cease, and a final contribution is due to the Plan to cover that employer's projected Unfunded Liability. After that contribution, the employer has no ongoing obligation to the Plan, and the Plan will continue to pay all benefits that have been accrued by its members. Fully funding benefits on a withdrawal basis when due is generally more expensive than funding them over time. If an employer is unable to fully fund its benefit obligations upon withdrawal, the Plan will adjust benefits that are not fully funded to account for the shortfall. This withdrawal provision is designed to protect members, other contributing employers, and the overall sustainability of the Plan from the adverse impact of a single employer's withdrawal.

#### Spinoff—Managing the Plan Yourself

In a spinoff, an employer takes their portion of the assets and liabilities to a separate, standalone plan sponsored by that employer. Their members are no longer owed a benefit from the Plan, and the employer owes no future contributions to the Plan. The employer takes full responsibility for all accrued benefits and future benefit payments in the new Plan to members and is responsible for hiring all necessary parties to manage their individual plan (actuaries, administrators, investment consultants/managers, auditors, legal counsel, etc.). The individual employer, with its outside advisors, is solely responsible for contributing to fund benefits over time and managing all aspects of their plan.



#### What's Next?

To help navigate the new CBERP journey, please:

Review this brochure and submit any questions to relationshipmanagement@cbservices.org or call (888) 470.4636.

Review your Personalized Contribution Schedule.

Consider your budget implications and potential options moving forward.

Prepare to submit your elections for 2026 by May 1, 2026.



Contact us at <u>relationshipmanagement@cbservices.org</u> or call (888) 470.4636