



The allocation of the funds invested is the most important decision one can make and generally accounts for 91% of the return of the portfolio.

Inside this Issue:

Investment Allocation Efficiency

The Federal Reserve System

Mutual Fund Trading Policy Update

Pastors Corner: Insurance

Year-End Tax Planning and

and more...

Achieving Investment Allocation Efficiency

The Common Goal of Investing

As participants in the PCA Retirement Plan we are of different ages, contribute varying levels of monthly savings and save toward different time horizons, but we share one common investing characteristic – we seek to optimize our investment returns while limiting the risk associated with investing.

The world of investing includes a myriad of quantitative and statistical terms interwoven among an array of investment and economic theories and concepts. Achieving an objective of maximizing return and minimizing risk is most often viewed by the average investor as a daunting task complicated by the esoteric language of the financial world. So where does the average investor turn to achieve the common goal of investing?

The Importance of Investment Allocation

The allocation of the funds invested is the most important decision one can make and generally accounts for 91% of the return of the portfolio. To put this in sharper focus, the actual selection of securities by the fund portfolio manager accounts for only 5% of the participant's total investment return.

The Investment Allocation pie chart (*adjacent*) illustrates all contributors to a portfolio's total return.

Investment Allocation –

Determinants of Portfolio Performance

The importance of investment allocation was discussed in a recent issue of the *Benefit Bulletin*. Changes in investment allocation were recommended as one goes through the seasons of life. Eleven PCA Retirement Plan funds are available among which to allocate one's contribution within the three main asset classes of funds in the Retirement Plan. (below)

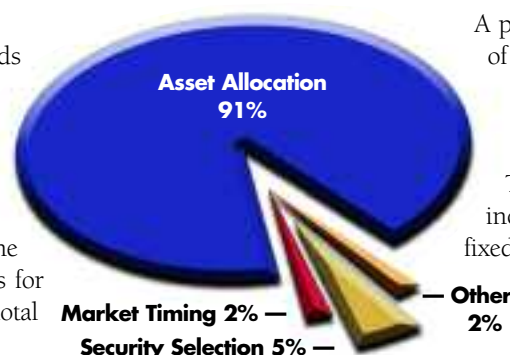
Cash Equivalent - Money Market

Equity Securities - Stocks

Fixed Income Securities – Bonds

The investment allocation is made based on one's time horizon (season of life) and one's risk tolerance. The article concluded with a table of the twelve Life Planning options for asset class allocation (equity and fixed income) by risk tolerance and season of life.

Building a Portfolio in the PCA Retirement Plan



A portfolio is the sum of all of one's different investment funds in the PCA Retirement Plan. These funds will include equity and fixed income securities, and possibly cash equivalents. Building an

efficient portfolio is dependent on a number of factors, but important to remember that one's portfolio should be

PCA RETIREMENT
& BENEFITS, INC.**Benefit BULLETIN****Albert C. Christman**
*Chairman***Gary D. Campbell**
*President***William G. Kuh**
*Advisor to the President***Teresa D. Aiello**
*Accountant***Deborah B. Brown**
*Relief Representative***Harry S. Cooksey**
*Sr. Field Coordinator***Myra J. Davis**
*Service Representative***Sally Kaplan**
*Executive Assistant***Chester R. Lilly, III**
*Business Manager***Mark S. Melendez**
*Marketing Manager***Sybil P. Pullen**
*Service Representative***Christopher C. Stevens**
*Retirement Plan Coordinator***PCA Retirement Plan**
VOICE RESPONSE UNIT (VRU)
1-800-991-9196 (TOLL FREE)BENEFIT BULLETIN is a publication of
PCA Retirement & Benefits, Inc.
1700 North Brown Road, Suite 106
Lawrenceville, Georgia 30043;
800.789.8765; 678.825.1260;
Fax: 678.825.1261.
www.pcarbi.org**Gary Campbell**, editor/writer,
Bill Kuh, writer, **Chet Lilly**, writer,
Chris Stevens, writer, **Mark Melendez**, writer,
Harry Cooksey, writer.PCA Retirement & Benefits, Inc. is a non-profit
agency of the Presbyterian Church in America.**RBI Office Hours Schedule**The business hours of PCA Retirement &
Benefits, Inc. (RBI) are Monday through
Friday 8am to 5pm ET, following a
devotional on Monday mornings at 8am.
The RBI office will be closed the following
holidays:

- Christmas – December 22
through December 25
- New Year's – December 29
through January 1


RBI reminds participants that the following
resources are available year-round :
www.onlineretirement.org
RBI website: www.pcarbi.org
RBI e-mail: rbi@pcanet.org**A word FROM THE editor**

As I write this letter, it has been almost exactly three months since I joined PCA Retirement & Benefits, Inc. (RBI) as the new President. What a tremendous joy it is for me to serve you and our denomination in this capacity. Six years ago I would never have expected to be in this position, yet God has worked through a number of circumstances to bring me to this place and I am so glad He has given me this opportunity to lead the RBI staff and to assist the PCA's pastors, lay workers and missionaries in their personal financial and retirement goals.

**Gary D. Campbell,**
President

Having now about 30 years experience in the management of personal and institutional investment portfolios, I am all too aware of the range of emotions corresponding with watching one's retirement savings grow or on occasion flounder. Over the years, God has placed me in the position of advising a wide variety of investors who have approached their life savings from various points of view and with a wide range of success. I will never forget the experience I had as a young portfolio manager for a South Florida financial institution. On this particular day, an older man who was afflicted with a serious lung disease, accompanied by his daughter, came to my office. His health was quite precarious and I think he knew his remaining days were numbered. With great difficulty and through tears, he expressed deep concern about his financial affairs and the impact this would have on his wife. His daughter told me his story. Her father was an engineer by training and a very successful inventor. His crowning achievement as an inventor was a patent on a machine that automatically placed the clear plastic garment bag over freshly dry-cleaned clothing. He sold this patent for \$3 million and

determined to live out his remaining days in Ft. Lauderdale, Florida, enjoying the warm breezes and the beach. After his move to Florida, he met a neighbor who seemed knowledgeable about investments and who promised to help him safely invest his nest egg at a high return. My unwitting inventor friend turned his \$3 million over to his neighbor, who, as it turned out, was employed by a high-pressure investment organization selling illiquid and low quality securities. The family turned over all their files to me and I later determined to my shock that this gentleman's \$3 million was now only valued at \$300,000.

Later, I couldn't help but think, "What kind of industry am I in where someone could literally steal \$2.7 million from another person and not be prosecuted?" Thankfully, God spoke to my heart and convicted me of my own sin in the midst of my personal condemnation of my chosen profession. The problem was not with the investment profession, but instead with sinners (like me) captured by selfishness and greed. I believe the responsibility the Christian investment advisor assumes is that of a "sacred trust." Certainly, all investment advisors, whether Christians or not, are legally responsible to their clients as fiduciaries, but God's word takes us to a higher standard. My sins of greed and selfishness have fallen on Christ alone and He strengthens and enables the staff of RBI and me to do our work for you as unto the Lord. The apostle Paul encourages us at RBI to "Consider others more important than ourselves" and to "build up one another for his good." For the sake of Christ, we will make every effort to serve you in this way. 

The RBI Board of DIRECTORS**Mr. Albert C. Christman (Chairman)**
Louisiana Presbytery • 318.878.3703**Rev. Robert T. Clarke, III**
Covenant Presbytery • 662.332.6074**Mr. Mark A. Jaudes**
North Texas Presbytery • 214-696-9756**Mr. Mark H. Miller**
Evangel Presbytery • 205.967.0586**Rev. Craig L. Branson**
S. Florida Presbytery • 305-238-8121**Mr. Edwin C. (Cliff) Eckles, Jr.**
Savannah River Presbytery
706-821-0724**Mr. John M. Mardirosian (Secretary)**
New Jersey Presbytery • 856.795-0430**Mr. C. Frederick Muhl (Treasurer)**
Chesapeake Presbytery
410.837.8800, ext: 5615**Mr. William H. Brockman**
Potomac Presbytery • 301.948.5800,
ext.115**Mr. Glenn Fogel, CFA**
Heartland Presbytery • 816.340.439**Mr. Carl A. Margenau, CPA**
(Vice Chairman)
Western NC Presbytery • 828.890.5038

Investment Efficiency *(continued from page 1)*

designed according to one's needs and goals. For that reason, the ideal portfolio for one participant may not be the same as another participant's. One must carefully study one's finances and available options in order to be successful. There are few shortcuts in the world of investing.

The seasons of life investment allocation approach described previously requires the selection of the funds from the Retirement Plan. One must choose the funds which will comprise his investment allocation, between equity and fixed income, based on his seasons of life and his risk tolerance – conservative, moderate, or aggressive.

Achieving Investment Allocation Efficiency in Your PCA Retirement Plan Portfolio


One of the challenges of PCA Retirement & Benefits, Inc. (RBI) is in assisting participants in the best way to invest their retirement assets. In many cases participant portfolios do not have the most efficient investment allocation; as a result, retirement savings may fall short of optimum performance and fail to meet retirement financial goals. Back to the question raised earlier: So where does the average investor turn to achieve the common goal of investing?

The RBI Board of Directors has approved for 2007 implementation a model that would ensure that participants invest in an efficient portfolio whether they tend to be conservative, moderate,

or aggressive investors. This will be accomplished through target funds that select different risk levels for a number of portfolios and manage these risk profiles over time into retirement and beyond.

With the new model the participant only needs to know his approximate date of retirement, then pick the target fund that corresponds most closely. The investments within the fund will be managed to the participants' changing risk levels over time to the retirement target date. This would

relieve the participant of the burden of ongoing fund monitoring. The allocation of assets, rebalancing, and daily monitoring are all contained in the target fund.

RBI understands that participants vary in their financial market and investment knowledge and in the amount of time available to spend on investment research and decisions. RBI will have more information in the near future about these new investing opportunities within the PCA Retirement Plan, providing participants more choices and a powerful tool in managing their investment portfolio. 



RBI would manage the fund with low cost indexed and active strategies... This would relieve the participant of the burden of ongoing fund monitoring. The allocation of assets, rebalancing, and daily monitoring are all contained in the target fund.

Investment Performance:

	3rd Quarter 06	Average Annual Return Through 9/31/06		
		1 Yr.	3 Yr.	5 Yr.
PCA Mid Cap Growth Fund	3.1%	7.7%	12.5%	8.9%
PCA Mid Cap Value Fund	2.3%	9.2%	13.9%	9.5%
PCA Equity Fund	0.4%	4.8%	11.0%	7.4%
PCA Balanced Fund	2.1%	4.6%	6.4%	4.1%
PCA Income Fund	3.1%	2.9%	2.5%	3.5%
Small Cap Fund	-0.4%	4.4%	9.6%	N/A
Int'l Stock Fund	2.9%	10.9%	16.3%	13.1%
Large Cap Growth Fund	-3.0%	4.6%	8.2%	3.7%
Stock Index Fund	5.5%	10.2%	11.7%	6.4%
Bond Fund	1.5%	4.0%	2.8%	3.8%
Money Market Fund	1.1%	3.9%	2.1%	1.6%
BENCHMARK INDICES				
S&P 500	8.53%	10.80%	12.30%	6.98%
NASDAQ Composite	2.41%	4.96%	8.12%	8.55%
Lehman Aggregate	3.74%	5.19%	3.93%	4.51%

SMALL CAP

Lord Abbett Small Cap Blend (LSBYX)

LARGE CAP GROWTH

Waddell & Reed Advisor Vanguard (WAVYX)

STOCK INDEX

Vanguard Institutional Index Fund (VINIX)

INT'L STOCK

Templeton Foreign-A Fund (TEMFX)

BOND

FPA New Income Fund (FPNIX)

MONEY MARKET

Vanguard Prime Money Market Fund (VMRXX)

*Source - Morningstar • Note: Investment returns shown are net of investment manager, custodial and administrative fees. All 2006 figures are unaudited.

The Federal Reserve System

New “Fed” Chairman (Source: The Federal Reserve)



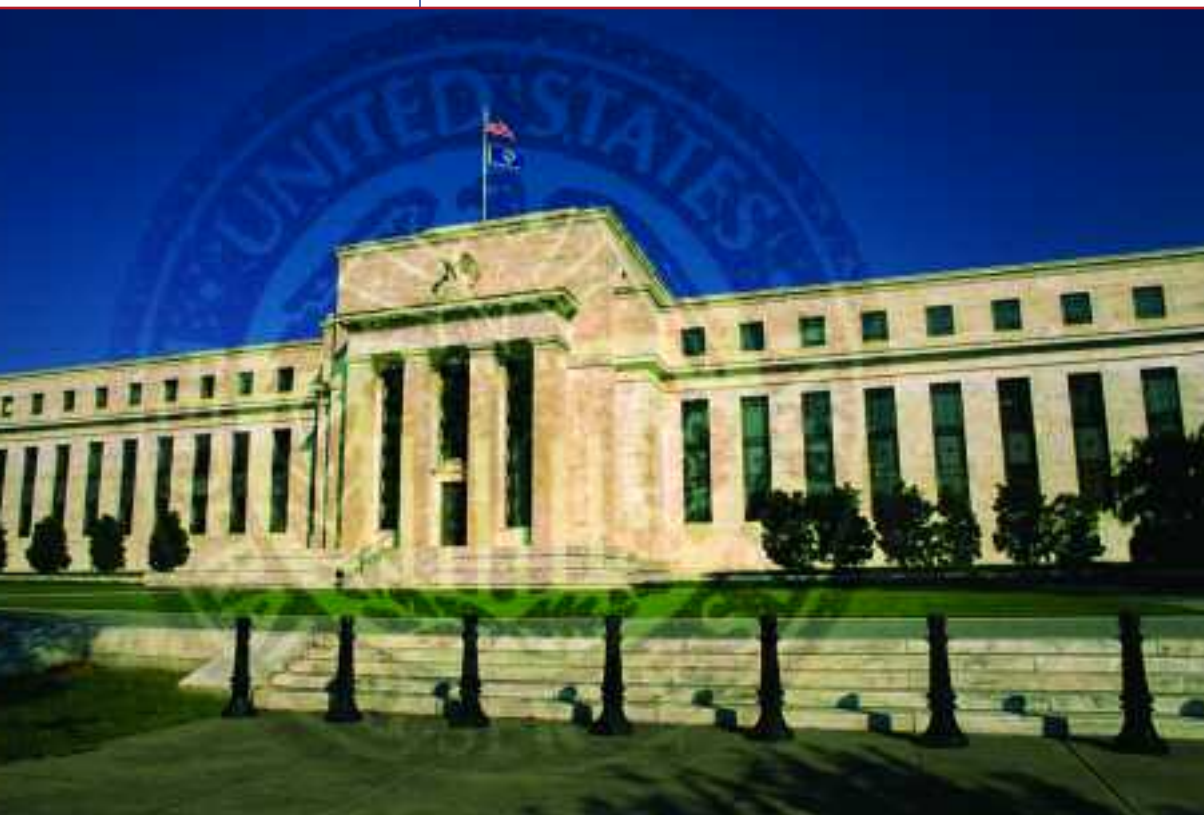
Since the appointment of Ben Bernanke to replace Alan Greenspan as Chairman of the Federal Reserve System in February 2006, there has been a great deal of focus on the actions of the Federal Reserve System. Upon taking office Mr.

system, which, at that time, was mostly unregulated. Over the years, its role in banking and the economy has expanded. The Federal Reserve System is a network of twelve Federal Reserve Banks and a number of branches under the general oversight of the Board of Governors. The Reserve Banks are the operating arms of the Central Bank.

The Board of Governors is composed of seven members appointed by the president of the United States and confirmed by the Senate. Each serves a fourteen-year term. The board is led by a chairman and a vice chairman, each appointed by the president for four-year terms.

Most of the work of the Fed is done by the regional Federal Reserve Banks, which regulate and audit banks and similar institutions, hold reserves for national and state banks, operate as banks for the federal government, distribute currency to banks and similar institutions, clear checks for member banks and administer laws pertaining to consumer credit protection.

The Fed’s “member” banks include all national banks and the state-chartered banks that choose to join the Federal Reserve System.



Responsibilities of the Federal Reserve System

The Federal Reserve’s duties fall into four general areas:

- **Conducting the nation’s monetary policy** by influencing the monetary and credit conditions in the economy in pursuit of maximum employment, stable prices, and moderate long-term interest rates.
- **Supervising and regulating banking institutions** to ensure the safety and soundness of the nation’s banking and financial system and to protect the credit rights of consumers.
- **Maintaining the stability of the financial system** and containing systemic risk that may arise in financial markets.

Bernanke served notice that he was determined to control inflation. He has remained true to his word; the Prime Interest Rate (the interest rate that banks charge their most creditworthy customers) has increased significantly.

The Structure of the Federal Reserve System

Understanding the operation of the Federal Reserve System provides clarification of one of the most important elements of the nation’s economy.

The Federal Reserve System, popularly known as “the Fed,” was created as a federal agency in 1913 to give the government some control over banking in order to provide safety, flexibility, and greater stability to a monetary and financial

Understanding the operation of the Federal Reserve System provides clarification of one of the most important elements of the nation’s economy.

- **Providing financial services to depository institutions, the U.S. government, and foreign official institutions**, including playing a major role in operating the nation's payments system and distributing coin and paper money to the nation's banks and thrifts (credit unions, savings and loan associations, and savings banks).

The real power of the Fed is its influence over monetary policy. **The Federal Open Markets Committee (FOMC)** meets eight times a year to make decisions on short-term interest rates.

How the Fed works

The Fed has three main tools to do its job. The most important is the **federal funds rate**, which is what banks pay each other for overnight loans. The committee sets a target for this rate, but not the actual rate itself. When the news media report that the Fed has changed interest rates they are referring to the federal funds rate.

The second tool is the **discount rate**, which is what banks pay to borrow money from a Federal Reserve Bank. This is usually lower than the federal funds rate, but the two are closely tied.

The third tool is the **reserve requirement**. This is a percentage of deposits that all banks must hold in reserve and cannot loan out. This rate is usually around 10 percent, but it can change from time to time. Changing the reserve requirement is a very powerful tool, but one that is rarely used.

Impact of the Fed on the economy

The federal funds rate might not seem important, but it is powerful. Banks borrow from and lend to each other routinely in order to make sure they meet their reserve requirements. When the Fed changes the federal funds rate, it makes those loans among banks more or less expensive. And over time that can impact just about every interest rate that banks charge their customers.

Mutual funds

Mutual Fund Trading Policy Update

Market timing, often called short-term trading, is an investment strategy that involves the frequent buying and selling of securities to achieve a short-term profit. These short-term profits may negatively impact investors by raising the trading costs of a mutual fund, and by interfering with the efficient management of a mutual fund's portfolio. In addition, market timing may require a mutual fund manager to hold a larger cash portion than desired to accommodate unusually high cash flow in and out of a fund. All these factors may reduce the value and return of the mutual fund shares for every investor.

To protect long-term investors and to discourage market timers, many mutual fund companies have enacted policies that restrict shareholders from certain trading activities. In some cases, managers have instituted financial penalties, called redemption fees, for short-term trading. Currently these fees are being enforced for individual investors, but not for institutional investors such as the PCA Retirement Plan. Within the PCA Retirement Plan, all six publicly traded mutual fund companies have trading restrictions or redemption fees as a policy of their fund, but again, the mutual fund companies are not enforcing these restrictions nor fees within the Plan at this time. None of the PCA-named funds (e.g. Income, Balanced, Equity, Mid Cap Value and Mid Cap Growth) have trading restrictions or redemption fees. However, the PCA funds are closely monitored and reserve the right to institute measures to discourage short-term trading should this become a problem in the future.

Within the next twelve months, the Securities and Exchange Commission (SEC) will require all retirement plans to start enforcing trading restrictions or charging a redemption fee when shares are bought and then sold within a predetermined holding period.

(For the six mutual funds within the PCA Plan this ranges from 5 days to 60 days.) The October 16, 2006 SEC-imposed deadline was extended because most retirement plans were not equipped to administer this new policy. However, by April 16, 2007 retirement plans must adopt the new policy and by October 16, 2007 must begin submitting information to comply with the policy. RBI will comply with the law on these dates. Please keep in mind that each mutual fund company, and not the PCA Retirement Plan, sets the limit, fee, and holding period.

Further information on the rules and restrictions are provided in the mutual fund's prospectus and may be modified periodically by the mutual fund company. As always, participants should read a fund's prospectus or fund fact sheet before investing. For more information on any PCA Retirement Plan mutual fund or for a prospectus, visit www.pcarbi.org or call (800) 789-8765.

The federal funds rate might not seem important, but it is powerful. Banks borrow from and lend to each other routinely in order to make sure they meet their reserve requirements.

If the **FOMC** is concerned about inflation and wants to cool down the economy, it does so by increasing the federal funds rate. This eventually makes it more expensive for businesses and consumers to borrow money and thus slows down economic activity.

If instead the Fed wants to stimulate the economy, it does so by reducing the federal funds rate, making it easier for banks to lend money and for consumers and businesses to borrow.

Changes in the federal funds rate have a ripple effect on other rates. Interest rates influence each other. Long-term rates tend to go up and down together, and short-term rates tend to go up and down together. So when banks suddenly have to pay less for very-short-term money, as in overnight loans, they generally pass the savings on to their customers in the form of lower short-term rates. Conversely, when the federal funds rate goes up, banks quickly pass the added cost on to their customers.

This is why banks' prime rate, which is a benchmark for many loans, usually moves up or down quickly after changes in the federal funds rate. The changes gradually work their way into longer-term rates such as for car loans and fixed-rate mortgages and corporate bonds. Because of the time this takes, many economists believe federal funds rate changes don't work their way through the economy for about six months.

Basis Points: When the Fed changes interest rates, the news is often reported by measuring the change in "basis points." One basis

point equals one-hundredth of one percent. That means that twenty-five basis points equal one quarter of a percent, fifty basis points equal half a percent, etc.

Inflation: Inflation is the general increase of the price of goods and services. When inflation is rapid, the prices of goods and services can increase faster than consumers' income, and that means the amount of goods and services consumers are able to purchase goes down. In other words, the purchasing power of money has declined. With inflation, a dollar buys less and less over time.

The **FOMC** tries to keep inflation low and stable in the long run because that helps the economy to keep growing over long periods of time. When inflation is low and stable, businesses and households can make better spending and investment plans because they do not have to worry about high inflation decreasing the purchasing power of their money.

It is easy to see why the Federal Reserve System led by its Chairman plays a very pivotal role in the nation's economy. 

NEW 2007 TAX LIMITS

PCA RETIREMENT PLAN CONTRIBUTION LIMITS


SALARY REDUCTION Contribution Limit: \$15,500

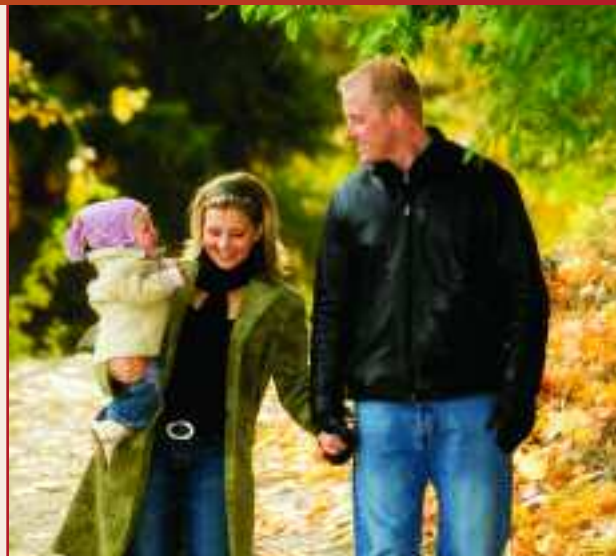
CATCH-UP CONTRIBUTION (for those age 50 or older): \$5,000

OVERALL CONTRIBUTION LIMIT (including employer contributions plus salary reduction contributions): Lesser of \$45,000 or taxable income

Employees and their employers are responsible for complying with contribution limits.

WHAT YOU SHOULD KNOW ABOUT YOUR INSURANCE

 Churches have a great opportunity to express love and concern for pastors through the financial benefits given in the call package. Some of these benefits, provided through PCA Retirement & Benefits, Inc., include retirement, term life insurance, and long term disability insurance. Consider some important features and restrictions of the PCA insurance plans for life and disability insurance.



Re-enrollment required after separation from service

Unlike the retirement plan, the insurance plans require a pastor to re-enroll each time he transitions from one PCA employer to another. Each plan is based on employment at a PCA church or PCA church-related organization (thirty hours per week or more is considered full time), and once that employment ends, the insurance also ends. There are two reasons for this: (1) the church makes the employment decision (not the denomination), and (2) often other changes accompany an employment transition; re-enrollment allows contact information, salary, beneficiaries, etc. to be updated. Re-enrollment at the beginning of the next ministry call to a PCA church or organization is easy: applicants simply fill out the Enrollment Form in the respective insurance brochure (available from the RBI website or by calling RBI), sign it, have the church business administrator or treasurer sign it, and then mail it to the address on the form.

The low cost of term life insurance

Life insurance through the PCA Benefit Plan is low cost compared to some other plans. The Standard Life premium is only \$20 regardless of age. Optional Life is available if additional coverage is desired; Dependent Life is offered for spouses and dependent children.

Policy continuation after separation from service

Coverage may continue beyond termination in one of two ways: (1) conversion coverage (forms available at the RBI website), or (2) an approved severance package offered through the employer, whereby the employer may choose pay for insurance benefits for up to twelve months beyond termination. Please contact RBI for more information.

Re-enrollment must occur within thirty days

Pastors should re-enroll within thirty days of the first day in the new church or PCA church-related ministry. Doing so guarantees full coverage without a medical questionnaire or exam. After the thirty day window passes, one will be required to answer medical questions to determine insurability. RBI offers an Annual Open Enrollment Period each December, so take advantage of this opening for guaranteed coverage.

Disability insurance is important

Disability insurance is one of the most important insurances to have and is also very affordable. For those under the age of fifty, the risk of being disabled because of an injury or illness is three times greater than the risk of dying. If the insured becomes unable to work, the PCA Long Term Disability Plan will pay 66 2/3% of the gross salary, and, for those in the Retirement Plan, the disability insurance carrier will also contribute 9% to the account. An ordained minister can apply the Housing Allowance to the disability income, which is a significant tax savings.

Contact RBI (1-800-789-8765 or rbi@pcanet.org) for additional information on these insurance plans. Visit the RBI website (www.pcarbi.org) to obtain brochures and other helpful information concerning the PCA benefits.



Quick Tips for Year-End Tax Planning

Charitable Giving – For Christians, charitable giving is the fulfillment of a biblical command. As an itemized deduction, charitable giving also reduces taxable income. Consider all the ways to give including donating clothing, vehicles, or even stock to your local church or qualified charity. The Christmas Offering for Ministerial Relief provides a great opportunity for year-end charitable giving.

Should a Minister Receive a W-2 or 1099? – Most ministers should be given a W-2 by their employer, rather than a 1099, for reporting taxable income. In most cases only ministers identified as W-2 employees can receive employer paid benefits, including health insurance premiums, tax-free. Ministers who are not eligible to receive a 1099 but have received one from their employer may face adverse tax consequences.

Pastors with Housing Allowance – Be sure to have your session declare your 2007 housing allowance before the start of the year. The session must make this declaration annually and it is not possible to have a declaration of housing allowance apply retroactively.

Applications for Ministerial Relief

Applications for Ministerial Relief and temporary Health Insurance Assistance for pastors without call can be found at www.pcarbi.org/relief/index.htm or by contacting Debby Brown at 800-789-8765.


PCA
RETIREMENT
& BENEFITS, INC.
Presbyterian Church in America
1700 North Brown Rd., Suite 106
Lawrenceville, Georgia 30043