



THE FEAR FACTOR AND PORTFOLIO PROTECTION

Consumer confidence was at an all-time low at the end of last year. This is not surprising, given the dramatic decline of the stock market and the doom-and-gloom reporting of economic events. Gerald Celente, a trend forecaster who has been on multiple network programs, predicted that in 2009 the U.S. would “experience an economic collapse, the likes of which the world has never seen before”. This sensational sentiment was repeated by

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MARKET REPORT: 2nd Quarter 2009

The second quarter surge within the stock market has created plenty of optimism concerning the economy. At the end of the quarter, all sectors of the market were in positive territory!

Overall, the S&P500, a broad market index, returned 15.9% for the quarter. Small caps, as measured by the Russell 2000, returned 20.8% for the quarter and outperformed large caps. International gains proved to be even higher, as reflected in the MSCI EAFE return of 25.8%. Most bond markets, with the exception of government debt, followed the rally of the stock market. The Barclays Aggregate, a broad-based bond index, closed the quarter with a respectable 1.79% return.

Given the 2nd quarter market activity and inflows into the market, it would seem that many investors believe we will see an economic recovery sometime in the near future. A number of economists cautiously concur with this assessment, and are hopeful that the “green shoots” (i.e., economic indicators suggesting better days ahead) will take root in the broad economy. While we believe the recession that officially began in the 4th quarter of 2007 may soon come to an end, strong questions remain about the strength of a continuing economic recovery.

Admittedly, there are several indicators pointing to

continued growth. Inventories are very lean at this time. Analysts are hopeful that even a modest increase in demand will trigger an increase in manufacturing production after the severity of the economic downturn caused manufacturers to slash production and greatly reduce inventories. Artificially low interest rates also are benefiting the economy. The Fed has mentioned several times that it plans to keep interest rates near zero for the time being, boding well for those looking to borrow. The financial sector, hammered in the market downturn, is beginning to show signs of a slow recovery. For example, earnings of many large banks rebounded sharply in the 2nd quarter. Goldman Sachs, Morgan Stanley and JP Morgan have been able to raise capital without government assistance and all have repaid funding received through the Troubled Asset Relief Program (TARP), providing further evidence of stability. Restoration of the financial sector is key because it is the pump that propels capital to businesses and consumers. In addition, the \$787 billion made available through the Economic Recovery Act will serve to stimulate growth over the next several years.

However a number of economic anxieties, most notably concerning the labor markets, are mounting. The U.S. has seen a large decline in company payrolls, and wage growth has almost vanished amid widespread job losses. Early this year, the Obama administration predicted unemployment would

peak at 8% but at the end of the quarter, unemployment was at almost 9.5%. High levels of unemployment have caused U.S. consumers to spend less, creating further problems for the economy since approximately 70% of GDP growth is determined by consumer spending. If a lack of confidence in the long-term economic outlook continues, we can expect spending rates to decrease even further. Lastly, the growing budget deficit has many concerned about our financial stability. Federal Reserve Chairman Ben Bernanke recently admonished Congress to reduce its nearly \$2 trillion dollar budget and decrease spending as it is approaching the end of its borrowing limit.

In the short term, the recovery so far suggests there are opportunities for investors; however, gains realized in the near future will likely be more modest than the ones experienced in the second quarter. In the long run, investors need to carefully consider three economic risks: inflation, rising interest rates and a falling dollar. The Federal Reserve has done a good job of managing the risks so far. But as time marches forward, the Fed will have to make some difficult decisions that require grappling with inflation and a possible erosion of our currency's value.

— Mark Melendez, Client Services Manager

The Fear Factor and Portfolio Protection

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countless other pundits throughout the U.S. It is of little surprise, then, that an October 6, 2008 CNN/ Opinion Research Corp poll found that six out of ten Americans believed a depression was somewhat or very likely.

Clearly, concerns about the state of world financial markets have weighed heavily on anyone who follows the market on a regular basis. Day after day of lower share prices, together with continual reports of alarming economic conditions, led investors to sell securities across the board and purchase money market funds.

At the point of maximum pain, should investors protect their nest egg by pulling assets out of the market and purchasing money market funds? This question is important to examine, especially at the end of the second quarter.

During the second quarter, the U.S. stock markets have significantly recovered about 40% of their value from previous lows. Unfortunately, those who abandoned the market at its lowest have not benefitted from this notable appreciation in values. Without question, the opportunity for continued gains remains unclear, but no stock market rally of any significance is ever easily predicted. Bull markets always climb the proverbial “wall of worry”, meaning that investors are nervous about the future.

Is there a better way to reach retirement goals that doesn't require hair-raising moves in and out of the markets? We believe so, and our view was recently confirmed through a study conducted by one of our investment managers, AllianceBernstein. Essentially, the study compared the retirement results of a diversified portfolio of stocks and bonds (similar to the PCA Target Retirement Funds) with a risk-averse portfolio invested in money market funds. Over a series of 30-year market periods the portfolio invested in a diversified mix of stocks and bonds outperformed the money market portfolio under every market condition. Without a doubt, there are short-term periods that create concerns, but for those who persist with the right longer-term strategy, the benefits are enormous.

During volatile markets, people perceive themselves to be “safe” by putting everything in money market funds. History suggests they are not. In the short run, trying to “time the market” by moving assets into the money market fund is not a wise move. Unsophisticated investors typically do not have the knowledge and information required to consistently profit from these types of maneuvers. Furthermore, money market funds are particularly poor investments over the long haul. They produce minimal returns and frequently under perform inflation. A superior investment approach involves the consistent discipline of maintaining a balanced portfolio including both stocks and bonds. In rising and falling markets, a diversified portfolio (like the PCA Target Retirement Funds) can provide far better protection than a money market fund.

— Mark Melendez, Client Services Manager

MINISTER'S GUIDE FOR TAX REPORTING

The term “audit” can cause discomfort for many, but combine that with “IRS” and the anxiety level can go over the top! An IRS audit of our individual tax returns is a frightening event, and we all hope that it never happens. For most ministers, the risk of being audited is very small. However self-employed ministers, especially those who receive only one or two 1099-MISC forms, are a higher audit risk. All ministers need to understand the ramifications of their dual tax status and take special care to file properly. Knowing your proper status and filing accordingly will help avoid mistakes in tax reporting and the dreaded audit.

What does a minister, employed by a church, need to know to be compliant in tax reporting? An ordained minister should understand that he has *dual tax status*. This means that ministers are considered employees of the church for income tax purposes, but are also considered self-employed with regard to Social Security and Medicare taxation. For the most part, ministers are treated the same way as other employees with regard to federal income tax. However, the similarity stops there. Since ministers are considered self-employed for Social Security and Medicare purposes, they are required to pay the Self-Employment Contribution Act (SECA) tax, which is currently 15.3%. Quarterly prepayments of both estimated income and estimated SECA taxes are required of ministers, unless an exemption has been granted by the IRS.

Another important item to remember when reporting is your qualification as a minister for federal tax purposes. Although ministerial status may seem to be a given, not all ministers of the gospel are eligible for the special tax treatment afforded by the IRS. Confirming your qualification as a minister for federal tax purposes can be done by affirming the first factor (listed below) and applying a balancing test with respect to the rest:

- Are you ordained or licensed?
- Do you administer sacerdotal functions?
- Do you conduct religious services?
- Do you control, conduct, or maintain religious organizations (i.e. church, denominational ministries, etc.)
- Are you considered a religious leader by a denomination or church?

Once you have confirmed your status as a minister for federal tax purposes, you are afforded the special tax treatment described below:

▪ **Housing Allowance** — Ministers can reduce their tax liability significantly by declaring a housing allowance approved by the Session. All expenses related to the primary residence can be considered for this allowance. The actual amount of housing allowance is the lowest of the following amounts: actual expenses, fair rental value of the home (including furnishings) or the Session's approved amount. Since no past expenses can be used, be sure the Session records the housing allowance before December 31 for the following year.

▪ **Business (Ministry) Expenses** — Pastors can treat reimbursement income for ministry expenses related to church activities as non-taxable. To do this, he must be reimbursed by the church for the expense approved by the church (included in the budget). All receipts need to be recorded and filed as proof of actual expenses. These expenditures and the reimbursements, under this arrangement, are excluded from taxable income. The reimbursed expense is not reported as income by the minister, nor counted as a expense deduction on the minister's tax reporting.

▪ **Self-Employment Tax Exemption** — A minister must pay federal income tax on his compensation (less housing expenses) but can be exempt from paying the SECA tax for conscientiously opposing public assistance or government insurance. To qualify for this exemption, the minister must file Form 4361 with the IRS and inform his church and Presbytery of his decision. The exemption applies only to paid ministry service.

▪ **Compensation for Reporting** — Payment for ministerial work from the church or ministry organization, is, of course, taxable income to the pastor. In addition, moneys given to the pastor by individuals for weddings, funerals or speaking engagements are considered by the IRS to be reportable income, as are gifts at Christmas or other holidays, etc., from church members. If the church pays additional money to the pastor to cover his SECA tax, this, too, is taxable income.

It may seem unfair that ministers who labor and sacrifice much in service to the Christ and His Church should have to pay tax on this extra income. As a personal note, I was recently taxed on a gift for ministerial service related to my work at RBI. However, we are commanded to submit to the government (Romans 13:1-2) regardless of our personal feelings.

Compliance with tax laws is a part of being a good

servant of Christ and a worthy witness of a redeemed life in Christ. Proper tax reporting can help avoid problems with the IRS that could potentially bring unnecessary scandal to the church.

Following these guidelines will help reduce worry about your tax return and will support you if an IRS audit is required. For more information, please read the *2008 PCA Church and Clergy Tax Guide* and the IRS publication *Minister Audit Technique Guide* (Google search this title). These publications give more detail and expand on this topic. Also, please call RBI with any questions you may have. — Rev. Harry Cooksey – Senior Field Coordinator

Investment Performance: Second Quarter 2009

	2nd Qtr 09	1 Yr.	3 Yr.	5 Yr.
	<i>Average Annual Return Through 6/30/09</i>			
PCA Mid Cap Growth Fund	14.69%	-21.70%	-3.82%	0.66%
PCA Mid Cap Value Fund	19.75%	-27.25%	-10.93%	-2.38%
PCA Equity Fund	15.84%	-29.08%	-8.86%	-2.43%
PCA Balanced Fund	11.50%	-16.63%	-3.04%	-0.22%
PCA Income Fund	3.95%	2.98%	4.52%	3.27%
Small Cap Fund	16.73%	-30.61%	-8.00%	-3.01%
Int'l Stock Fund	22.33%	-29.24%	-8.20%	0.69%
Large Cap Growth Fund	11.29%	-26.90%	-6.05%	0.04%
Stock Index Fund	16.64%	-26.51%	-8.65%	-2.72%
Bond Fund	0.49%	3.44%	4.40%	3.31%
Money Market Fund	-0.03%	0.91%	3.14%	2.86%
PCA TR 2050	18.57%	-27.28%	NA	NA
PCA TR 2045	18.57%	-27.28%	NA	NA
PCA TR 2040	18.56%	-27.28%	NA	NA
PCA TR 2035	18.11%	-25.85%	NA	NA
PCA TR 2030	17.66%	-24.42%	NA	NA
PCA TR 2025	16.73%	-21.57%	NA	NA
PCA TR 2020	15.28%	-18.43%	NA	NA
PCA TR 2015	14.42%	-16.79%	NA	NA
PCA TR 2010	13.82%	-15.30%	NA	NA
PCA TR 2005	12.61%	-12.41%	NA	NA
PCA TR 2000	10.17%	-8.73%	NA	NA
PCA TR 1995	8.20%	-6.53%	NA	NA
PCA Harvester	6.41%	-5.88%	NA	NA

*Note: Investment returns shown are net of investment manager, custodial and administrative fees. All 2009 figures are unaudited.

PERSONAL RATES OF RETURN – *Measuring your investment performance*

PCA Retirement & Benefits, Inc. recently added two important performance measurements to your quarterly statements: a personal quarterly rate of return and one-year rolling rate of return. These enhancements allow you to see two customized evaluations of your account investment performance for different periods of time. We hope these new measurements will help you better determine how your investment decisions affect your retirement account balance. Your personal rates of return can be found on the front page of your statement under the heading *Your Account Performance*.

Both personal return rates are calculated by measuring the difference between the beginning and ending values of your portfolio. These values are based upon the market value of investments held in the account, net of cash flows and account level fees. While the flow of cash in and out of your account does affect your balance, it is completely unrelated to your investment performance. By using this approach, we have isolated the investment performance of all holdings in your portfolio and have relieved you of the work involved in determining your account's performance.

We think the personal rate of return reporting is an invaluable tool for you. It is easy to focus only on quarterly investment performance and consequently make the mistake of chasing the "hottest" funds' returns. But this new information enables you to measure and track your investment performance over a longer period of time, thus allowing you to make better-informed investment decisions. We are hopeful that the rolling one-year return, in addition to the quarterly return information, will give investors a better picture of their performance when viewed from a long-term investment perspective.

— Mark Melendez, Client Services Manager

MINIMUM REQUIRED DISTRIBUTIONS – *Not Required for 2009*

Before Congress adjourned in December 2008, it enacted the Worker, Retiree, and Employer Recovery Act of 2008 (WRERA). One of the provisions of this Act is a one-year moratorium on 2009 Minimum Required Distributions (MRDs). Many participants reading this article may be unfamiliar with MRDs but if you are over age 70 ½, it is likely you have heard the term.

Under most retirement plans, participants must begin taking an MRD from their retirement account by December of the year they turn 70½. Every subsequent year, participants must continue taking the MRD until their account is completely depleted. The amount for any given year is calculated by dividing the ending retirement plan balance for the previous year by the applicable life expectancy. If this sounds complicated, don't worry. RBI automatically provides this service for you as a participant of the PCA Retirement Plan.

But this year, because of WRERA, PCA Retirement and Benefits, Inc., will not process MRDs. Participants interested in receiving a withdrawal from their account before year-end may still do so, however, by contacting an RBI service representative at 800.789.8765.

— Mark Melendez, Client Services Manager

IMPORTANT NEWS ALERT **Administrators and Participants**

All PCA Retirement Plan contributions (a/k/a remittances) and loan payments must be mailed to our third-party administrator's new office located in Spartanburg, South Carolina. Please do not mail contributions or loan payments to the old address in Palm Beach Gardens, Florida. Although mail will be forwarded for a limited time, sending mail to Florida will cause contribution delays.

The new address is as follows:

PCA Retirement Plan c/o Omega Recordkeeping Group, LLC. 364 South Pine Street, A209, Spartanburg, SC 29302

Retirement **PLAN REVIEW** is a quarterly publication of PCA Retirements and Benefits, Inc.

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