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# Pension Perspective

FROM THE BRETHERN PENSION PLAN

JULY 2006

## PASTORS' HOUSING ALLOWANCE

One of the last remaining income tax advantages for clergy is the exclusion allowed for housing costs. Under current rules, a pastor can exclude from income the smallest of the following three amounts – the home's fair rental value, the amount actually spent to provide a home, and the pastor's official housing allowance amount.

The housing allowance must be declared in writing before the beginning of the calendar year or before a pastor is hired. When the allowance is greater than the lower of fair rental value or actual expenditures, the excess allowance must be included on Form 1040 as "other income." When the smaller of actual expenditures or fair rental value exceeds the allowance, the allowance will be the amount excluded and the difference is simply lost. The pastor in this case will be taxed on more income than was necessary. For this reason, it is always better to overestimate the allowance at the beginning of the year than to underestimate it. Current guidelines do not place a specific upper limit on the amount that can be declared as a housing allowance, but fair rental value and actual expenditures put an upper limit on the amount that can be excluded from taxation.

The expenditures that are allowable include most of what is necessary to provide a home. Rent or mortgage payments, insurance, taxes, improvements, repairs, furnishings, appliances, decorations, linens, utilities, lawn mower, garden hose, and lawn tools are some of the items that can be counted toward the amount actually spent.

Naturally, the tax rules are more complicated than this brief article can describe. It is always best to consult with local professionals who understand the peculiar tax situation of a pastor.

## MARKETS AND ECONOMY

The U.S. financial markets were fairly volatile in the second quarter as investors attempted to understand and interpret the growing tension between the progress of the U.S. economic expansion and the Federal Reserve's efforts to keep inflation in control. Reports on job creation, housing sales, and consumer sentiment all indicated that the rate of growth in the U.S. economy is slowing gradually. This is good news for investors, oddly enough, because moderating growth reduces inflationary pressures while corporate profits continue to grow.

On the other hand, indicators such as manufacturing growth and rising producer prices suggest that inflation is not yet out of the picture. The Federal Reserve is committed to keeping inflation in check, so the possibility of inflation will keep investors wondering whether the Fed will raise short-term interest rates again. This uncertainty will contribute to continuing volatility in the financial markets until there are clear signals on the Federal Reserve's stance.

The Standard & Poor's 500 Index lost 1.4 percent in the second quarter; it is up 2.7 percent year to date. The MSCI Europe/Australia/Far East Index gained 0.7 percent in the period for a six-month gain of 10.2 percent. The Lehman Brothers Government/Credit Index gave up an additional 0.1 percent in the quarter; it is down 1.2 percent since the first of the year.

*A Brethren Pension Plan representative can talk with you about your account. When you have questions, please contact us at the toll-free number below for information and solutions.*

Later this year, retired pastors will receive a mailing that requests housing allowance amounts for both 2006 and 2007. A prompt response will help the Brethren Pension Plan maintain accurate records.



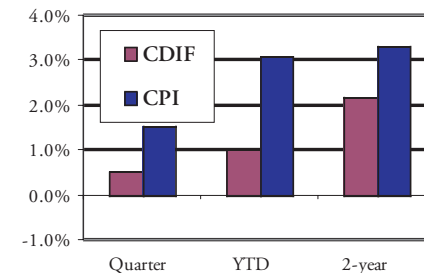
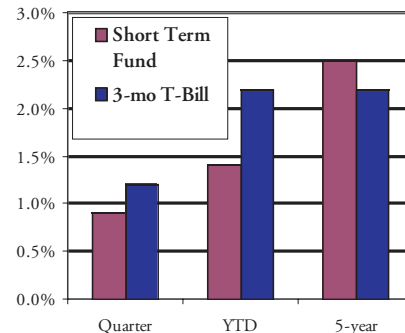
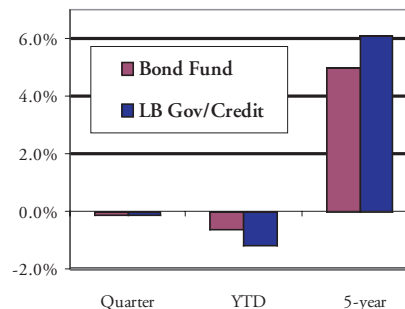
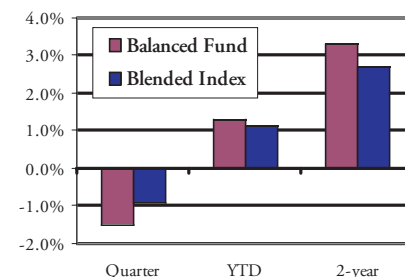
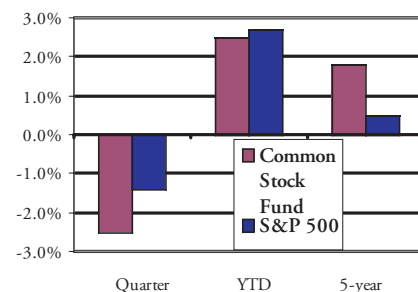
# Quarterly Fund Performance Report

for the period ending June 30, 2006

# Performance Report

All Pension investment funds must meet socially responsible investment guidelines.

FUNDS	BENCHMARKS
<p><b>Common Stock Fund:</b></p> <p><b>Rate of Return</b></p> <p>Current quarter ..... (2.5)%</p> <p>Year to date..... 2.5%</p> <p>Five years ..... 1.8%</p>	<p><b>S&amp;P 500:</b></p> <p><b>Rate of Return</b></p> <p>Current quarter ..... (1.4)%</p> <p>Year to date..... 2.7%</p> <p>Five years ..... 0.5%</p>
<p><b>Balanced Fund:</b></p> <p><b>Rate of Return</b></p> <p>Current quarter ..... (1.5)%</p> <p>Year to date..... 1.3%</p> <p>Five years ..... 3.3%</p>	<p><b>Blended Balanced Index:</b></p> <p><b>Rate of Return</b></p> <p>Current quarter ..... (0.9)%</p> <p>Year to date..... 1.5%</p> <p>Five years ..... 2.7%</p>
<p><b>Bond Fund:</b></p> <p><b>Rate of Return</b></p> <p>Current quarter ..... (0.1)%</p> <p>Year to date ..... (0.6)%</p> <p>Five years ..... 5.0%</p>	<p><b>Lehman Bros Gov/Credit:</b></p> <p><b>Rate of Return</b></p> <p>Current quarter ..... (0.1)%</p> <p>Year to date ..... (1.2)%</p> <p>Five years ..... 6.1%</p>
<p><b>Short Term Fund:</b></p> <p><b>Rate of Return</b></p> <p>Current quarter ..... 0.9%</p> <p>Year to date..... 1.4%</p> <p>Five years ..... 2.5%</p>	<p><b>3 Month T Bill:</b></p> <p><b>Rate of Return</b></p> <p>Current quarter ..... 1.2%</p> <p>Year to date..... 2.2%</p> <p>Five years ..... 2.2%</p>
<p><b>Community Development Investment Fund:</b></p> <p><b>Rate of Return</b></p> <p>Current quarter..... 0.5%*</p> <p>Year to date ..... 1.0%*</p> <p>Two years ..... 2.2%*</p> <p>*Interest accrues on a quarterly basis.</p>	<p><b>Consumer Price Index:</b></p> <p><b>Rate of Return</b></p> <p>Current quarter ..... 1.6%</p> <p>Year to date..... 3.1%</p> <p>Two years ..... 3.3%</p>



Returns for periods longer than one year are annualized.