

# YMCA RETIREMENT FUND



## 2003 Mid-Year Report



Security  
Integrity  
Enduring Value

### YMCA RETIREMENT FUND



140 Broadway  
New York, NY 10005 1197

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S Hackensack NJ

“...we believe the worst of the painful investment market is finally playing out...”



Welcome to the YMCA Retirement Fund's 2003 mid-year report, designed to provide you with an update on the Fund's activities.

In the investment markets, the past six months found all investors continuing to struggle under the crushing weight of the sustained ugly environment with the September quarter delivering the steepest quarterly decline since 1937.

**Uninterrupted Benefit Payments**

While the media abounds with stories about the ravaged condition of workers' retirement savings and even the failure of some pension funds, your YMCA Retirement Fund remains strong. You should breathe easy—if you are a retiree or beneficiary, your monthly annuity payments will continue uninterrupted. If you are a participant, you will continue to receive 5% monthly interest credits on your account balance.

However, as you will note from the chart, three years of brutal markets have eliminated the contingency reserve, and the required actuarial reserve continues to exceed the market value of the Fund's assets. While we believe the worst of the painful investment market is finally playing out, we also expect the market recovery to be fragile in 2003 and only gradual in the years ahead.

Accordingly, it will very likely take many years for market recovery to restore the Fund's contingency reserve, necessary to once again share excess returns in the form of extra interest credits and experience dividends.

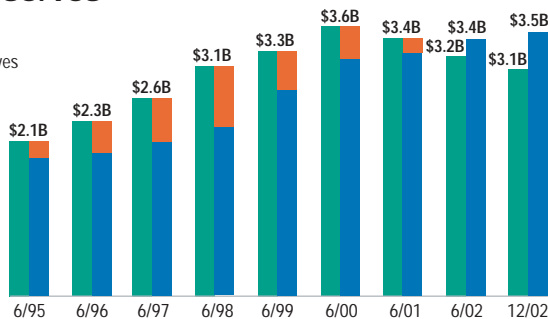
**Increased Savings Opportunities**

On the positive side, the government continues to encourage workers to save more for retirement. Effective January 1, 2003, tax-advantaged savings limits have again been increased. I strongly encourage every participant to open a Tax-deferred Account today! (see how to maximize your benefit, p. 7)

The Fund continues to have a positive net inflow—each year, more money comes into the Fund from dividends, interest and account contributions than goes out for benefits and refunds. As a result, benefit payments are unaffected by the current imbalance of assets and reserves. Because of the advantageous net inflow condition, the Fund can remain focused on its long-term objectives to pay benefits for life.

**Assets and Reserves**

- Asset Market Value
- Required Actuarial Reserves
- Contingency Reserves



**Participants**

Interest credits to account balances: 5.0% (1995), 8.1% (1996), 10.7% (1997), 10.7% (1998), 12.4% (1999), 10.0% (2000), 10.0% (2001), 5.0% (2002), 5.0% (2003)

**Retirees & Beneficiaries**

Annual guaranteed annuity: 100% (1995-2002), 100% (2003)  
 Experience dividends as a % of guaranteed annuity: — (1995), 8.3% (1996), 25.0% (1997), 25.0% (1998), 41.7% (1999), 20.0% (2000), 16.7% (2001), — (2002), — (2003)

Need more information on assets and reserves? Go to [www.yretirement.org](http://www.yretirement.org) and click on *Mid-Year Report*.



### Initiative Update

Organizationally, I am pleased to report strong progress on important Retirement Fund initiatives:

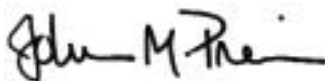
- We received bipartisan support in both houses of Congress with respect to our efforts to get legislation passed that will clarify the church plan status of the Fund.
- We provided an alternative enrollment and vesting option to better serve YMCA needs.
- We are implementing comprehensive new technology that will support all aspects of Fund business, including the capability to import contribution information from YMCA payroll systems for electronic posting and processing.
- We continue to improve the effectiveness of our communications and education media through the Fund's website and printed materials.
- We continue to explore additional services that will add value to the benefits your Retirement Fund provides.

### Welcome Peter

Effective January 1, 2003, Peter Ziegler became our new Chairman, succeeding Bill Marsh who served for nine years as Chairman. Like Bill, Peter brings enormous talent and energy to this leadership role.

Looking forward, you can count on the expertise of a highly committed staff of professionals and dedicated Board of Trustees here at your YMCA Retirement Fund. As we enter the second half of the fiscal year, the Fund will continue to represent the security, integrity and enduring value that you have come to expect as the reward for a career with the YMCA.

Sincerely,



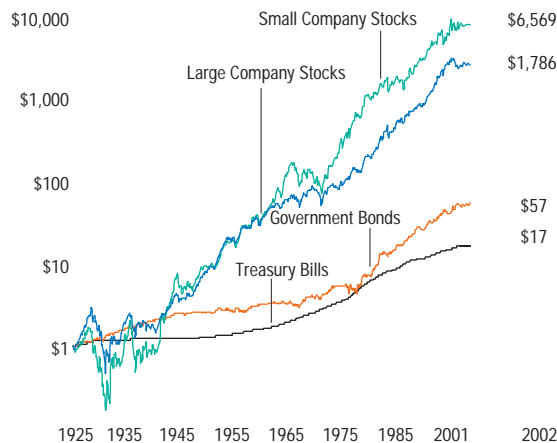
John M. Preis  
*President and CEO*

### Staying the Course

Although equities have suffered badly these past three years, we remain steadfast in the disciplined commitment to a long-term strategy of 60% diverse equity.

The chart below shows returns for asset classes over the long-term horizon with equities (stocks) significantly outperforming over time.

#### Value of \$1 Invested at Year End 1925

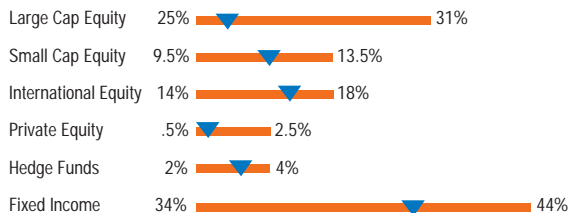


Source: Ibbotson Associates (through 2001), YMCA Retirement Fund (estimated for 2002)

### Policy Portfolio

The chart below highlights the diversity and risk control inherent in the Fund's Board-approved investment guidelines. Investments are positioned within the allowable ranges for each asset class based on market and economic conditions. The blue triangle denotes the position in the range on December 31, 2002. The policy asset allocation strategy is 60% equity and 40% fixed income.

#### Asset Class Ranges



“There was virtually no place to hide as all types of stocks declined sharply.”



## Six Month Review

by Victor J. Raskin, Chief Investment Officer

The six-month period ending December 31, 2002 extended the “bear market” for stocks and continued the stop and go economic environment. During the summer, the news front was dominated by stories of corporate fraud and executive arrests as well as the required CEO certification of financial results. All of these factors evoked growing uncertainties in the equity market. The economic slowdown, or “soft patch” in late August and September added to the angst, creating further downside momentum. There was virtually no place to hide as all types of stocks declined sharply. Only U.S. Treasuries showed a positive return as investors sought the safety of government bonds.

Stocks, however, recovered sharply in October and November only to sell off once again in December. The rally was a result of the Federal Reserve’s effort to insure against the market’s twin fears of a “double-dip recession” and “deflation,” as they lowered interest rates by another one-half of one percent, to the lowest level in 40 years. This, coupled with the Republican congressional victory, increased confidence that both monetary and fiscal stimulus would redirect the economy upward and the stock market as well. However, the December decline stemmed

from very weak Christmas retail sales that stoked fears that consumer spending was finally running out of steam.

The effect was a decline of 4.7% for the Fund for the six-month period. This was slightly behind our custom benchmark, although we compared well against our peer universe.

### Opportunities Ahead

Looking forward, we believe that fiscal and monetary stimulus will allow the economy to recover at a moderate pace as the year progresses. Capital spending by corporations should carry more of the

load as profit margins improve. While pricing power has been non-existent, there are early signs that this is also improving. After three straight down years for the equity market, we do believe that relief is near, despite geopolitical concerns (Iraq, North Korea) and valuations that are average at best.

The Retirement Fund operates on a fiscal year ending June 30. Twelve month results are shown for comparative purposes.

### Performance Results

(Net of Fees, Periods Ending 12/31/02)

Asset Class	Six Month Return		Twelve Month Return		Benchmark Name
	Fund	Benchmark	Fund	Benchmark	
Large Cap Equity	(11.16%)	(10.19%)	(21.48%)	(21.77%)	Russell 1000 Index
Small Cap Equity	(12.16%)	(16.64%)	(17.13%)	(20.63%)	Russell 2000 Index
International Equity	(15.69%)	(13.87%)	(17.97%)	(14.87%)	MSCI ACWI Free ex US
Hedge Funds*	0.67%	3.25%	0.67%	3.25%	90-Day T-Bill + 5%
Venture Cap/Private Equity	(9.57%)	(10.91%)	(16.43%)	(12.70%)	CA Vintage Year Index
Fixed Income	6.06%	6.17%	9.27%	10.14%	Lehman Bros Aggregate
Cash	0.87%	0.75%	1.73%	1.62%	90-Day T-Bill
<b>Total Fund</b>	<b>(4.72%)</b>	<b>(4.57%)</b>	<b>(7.83%)</b>	<b>(7.69%)</b>	<b>Composite Benchmark</b>

\*Hedge Fund investments were initiated on 7/1/02

Given this outlook, we are repositioning the portfolio to be more aggressive, i.e. increase our equity exposure at the expense of bonds, as stocks have underperformed U.S. Treasuries by 90% in the past three years creating significant relative value.

Need details on 2nd Quarter results?  
Go to [www.yretirement.org](http://www.yretirement.org)  
and click on *Mid-Year Report*.



## New Chairman



As Chairman of the Board of Trustees, Peter Ziegler is leading the Board in 2003 and beyond. His financial experience as the chairman of North Track Funds, Inc. and as the former Chairman, President and

CEO of The Ziegler Companies, Inc. makes him singularly prepared to lead the Board in support of the Fund's mission. He is the former Board Chairman of the Kettle Moraine YMCA in West Bend, Wisconsin, and also serves on a number of civic boards. He has a BA in Economics from Ripon College, and an MBA from the Kellogg Graduate School of Management at Northwestern University.

## New Trustee



The Board welcomes its newest trustee, Carlos Gonzalez. His experience as Portfolio Manager and Research Analyst for Tanaka Capital and his current position as Director of Client Asset Management for the Oriental Group, showcase the investment strength he brings to work for the Fund. Mr. Gonzalez is a Certified Financial Analyst with an MBA from Harvard Business School and a BA from Harvard College.

Need details on Board members?

Go to [www.yretirement.org](http://www.yretirement.org) and click on *Mid-Year Report*.



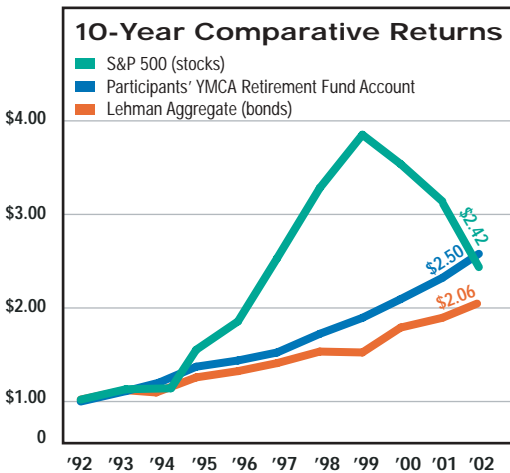
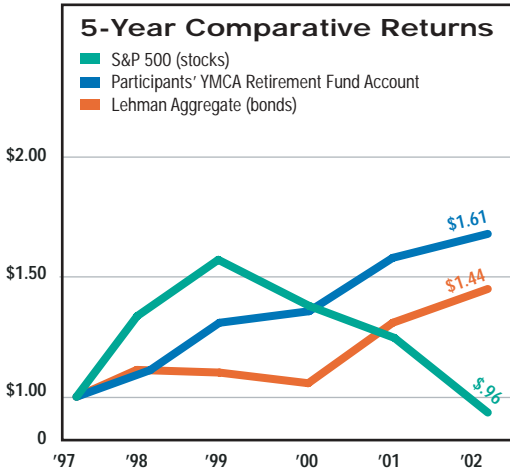
The members of the Board of Trustees partner with Fund management to provide superior retirement benefits to YMCA employees. The Board is independent and does not include any member of Fund management.



Back Row from left to right: G. Rainey Williams, Jr., Marta L. Bolsinger, Peter D. Ziegler, William B. Marsh, Carlos Gonzalez, Eric D. Mullins, Elizabeth T. Frank, Reid S. Thebault. Front Row from left to right: Richard A. Collato, John A. Clymer, Harold Davis, Dale A. Vonderau, Robert B. Gilbertson, Jr., Theodore H. Ashford, Zera Mackie.

## Unique Structure Delivers

The structure of the Fund differs from many traditional 401(k) or defined benefit plans. The Fund does all the investing and participants receive interest credits on their account balances (participant account balances do not fluctuate with the markets). The charts below show the current value of \$1 invested in stocks, bonds and the YMCA Retirement Fund over the past five and ten year periods.



Dates as of December 31

## Progress on Legislative Efforts

The IRS questioned the Fund's tax status again last year, and both Trustees and Management have chosen to pursue a legislative solution by asking Congress to clarify its tax status as a church plan.

In July 2002, Representative Phil English of Pennsylvania, along with co-sponsor Representatives Dave Camp of Michigan, Earl Pomeroy of North Dakota, and Nancy Johnson of Connecticut, introduced a bill to clarify the Fund's tax status.

The legislation makes clear that the YMCA Retirement Fund is a church plan and can continue to credit interest on retirement accounts, provide retirement annuities and experience dividends when possible, for the benefit of YMCA employees, as it has for the past 80 years.

We are grateful for the assistance from YMCA of the USA staff and YMCA leaders in key districts in Iowa, Michigan, New Mexico, North Dakota and Pennsylvania.

The next step is to get our legislation included in a package that will ultimately be signed into law by President Bush.



Congressman Phil English (R-PA) and Fund CEO John Preis at the press conference announcing HR 5277-A bill to clarify the tax status of the Young Men's Christian Association Retirement Fund

Want to help support our efforts?  
Go to [www.yretirement.org](http://www.yretirement.org)  
and click on *Mid-Year Report*.



## Are You Maximizing Your Retirement Fund Benefit?

As part of the 2001 Pension Reform, the limits on plan contributions and tax-deferred savings were increased as the chart below shows. New savings opportunities for people age 50 and over were introduced in 2002. Some of these limits have been scheduled to increase over the next several years.

	2002	2003
<b>Total Contributions</b>	Lesser of 100% of compensation or \$40,000	Lesser of 100% of compensation or \$40,000
<b>Tax-deferred Contributions</b>	\$11,000 →	\$12,000
<b>Additional Tax-deferred Contributions (Catch-up Rule*)</b> Participants enrolled in the Fund for at least 15 years	\$3,000 over and above \$11,000	\$3,000 over and above \$12,000
<b>Age 50 &amp; Over</b>	\$1,000 →	\$2,000
<b>Compensation Limit</b>	\$200,000	\$200,000

\*Check with the Retirement Fund for details

### Open a Tax-deferred Account Today!

Opening a Tax-deferred Account in these times of uncertain investment returns will help you increase your monthly savings to have the retirement you want.

You can tax-defer up to \$12,000 this year and up to \$14,000 if you are age 50 & over. This means that if you are in the 15% tax bracket, for every \$100 you contribute to a Tax-deferred Account, you save \$15 on taxes—allowing you to put away more for your future!

You don't have to pay federal income taxes on your contributions, or on the accounts' earnings, until you withdraw them from the Fund. In most cases, you can defer state and local taxes as well.

Remember, the sooner you start a tax-deferred account, the closer you'll be to the retirement of your dreams.

Get a Tax-deferred form at [www.yretirement.org](http://www.yretirement.org). Click on *Find a Form*.



## Vesting Schedule Choice

Changes in federal pension law required retirement plans to change their vesting policies by July 1, 2002. At that time, the Fund changed its Plan so that all active participants with three or more years of service were fully vested.

Last year, we tested an alternative enrollment and vesting option and found strong interest among YMCAs.

### Current Schedule 1-Year Wait to Enroll; 3-Year Full Vesting

- An eligible YMCA employee will wait one year before becoming a participant in the Fund.
- A participant will become fully vested after three years of YMCA employment.

### Optional Schedule 2-Year Wait to Enroll; Immediate Full Vesting

- An eligible YMCA employee will wait two years before becoming a participant in the Fund.
- A participant will become fully vested immediately.

With our new technology, the Fund now has the ability to allow individual YMCAs to choose which of these two schedules best fits their needs. Nearly ninety YMCAs have chosen the new option with many more indicating an intent to switch to the new option next year.

If a YMCA chooses to keep their current 1-year wait to enroll, 3-year vesting schedule, no action is necessary. The Fund will only change the vesting schedules of the YMCAs that contact us and specifically request the new schedule.

We are pleased to make this option available and hope the savings will enable some YMCAs to move toward a higher contribution level.

Need more information on vesting and enrollment?

Go to [www.yretirement.org](http://www.yretirement.org) and click on *Mid-Year Report*.



## Technology Overhaul

As we enter 2003, the YMCA Retirement Fund nears completion of new technology initiatives. The Fund has recently improved its data communications with YMCAs by replacing the outdated paper process with electronic file transmissions. In early 2003, the Fund is taking these improvements even further by implementing YERDI (YMCA Electronic Retirement Data Interchange), a web-based application that will allow YMCAs to transmit employee data instantly. It will eliminate the labor-intensive, error-prone process of paper transactions.

The implementation of YERDI is part of a technology overhaul that the Fund will complete as outdated computer systems are replaced with state-of-the-art tools to more effectively manage the growing data needs of YMCAs and the Fund.

### Technology Transition Timeline

#### February/March

- Complete testing of new system
- Parallel operations: all transactions to be processed and closed in old and new systems
- Reconcile participant balances in both systems
- Auditors to complete evaluation of new system
- First 125 YMCAs to use YERDI

#### April

- Close March in old and new systems
- Reconcile participant balances in both systems
- All transactions to be processed in new system
- Shut down old system
- 150 more YMCAs to use YERDI
- Begin converting YMCAs to electronic payment method

#### May

- Transition complete, fully operational in new system
- 150 more YMCAs to use YERDI
- Continue to convert YMCAs to electronic payment method

## Going Forward

The events of September 11 required the Fund to implement its business continuity procedures, or emergency service plan. Many lessons were learned regarding the Fund's capability to provide uninterrupted quality service during events that prohibited the Fund from operating at its current location, or under normal circumstances. Combined with electronic payments, the move towards electronic data sharing enables the Fund to provide virtually uninterrupted service through any crisis that might affect our offices.

Going forward, the Fund will migrate to other technology solutions, such as electronic document imaging, to provide even better service.

## Lost and Found

The YMCA Retirement Fund has nearly 47,000 active participants, 7,700 retired participants and over 27,000 inactive participants in the Plan. Each year, the Fund is legally required to communicate with everyone who benefits from the Plan. These mailings contain updates or new provisions that are often time-sensitive. Many of the mailed communications are returned as undeliverable, and researching the correct addresses is a long, tedious and costly process. Trying to find participants who have changed their name is even more time consuming.

You can greatly help in this process by contacting the Fund directly when you change your address, name, marital status, or beneficiary.

## Who Benefits?

You selected a beneficiary when you were enrolled in the Plan. This may have been the only time you have thought about this choice. When a participant dies, the Fund is left to settle with a beneficiary who may have predeceased the participant, moved, or changed their name. If you are not sure who your currently designated beneficiary is or just want to check in with us, you can contact the Fund by:

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