CHRISTIAN MANAGEMENT ASSOCIATION

September 1, 2017

Supreme Court Upholds ERISA Exemption for Church-Affiliated Pension Plans

The U.S. Supreme Court, in *Advocate Health Care Network v. Stapleton, SCt., June 5, 2017,* has held the position that a defined benefit plan maintained by a principal-purpose organization, controlled by or associated with a church for the administration or funding of a plan for the church's employees, qualifies as a "church plan," regardless of who established it under ERISA. (Note: The IRS and other federal agencies have long-exempted plans like the plans in this case from ERISA).

In the case before the Supreme Court, several church-affiliated nonprofits operated hospitals and other healthcare facilities and offered defined benefit (DB) pension plans to their employees. The DB plans were established by the hospitals and managed by internal employee benefits committees. Some current and former employees of the hospitals argued that the DB plans were outside of ERISA's church-plan exemption. According to the employees, the DB plans were not established by a church as required by ERISA.

In rendering their opinion, the Supreme Court stated: "…from the beginning, ERISA provided that the term 'church plan' means a plan established and maintained for its employees by a church or by a convention or association of churches. In 1980, Congress amended the statute to expand that definition by deeming additional plans to fall within it. The amendment specified that, for purposes of the church-plan definition, an 'employee of a church' would include an employee of a church-affiliated organization."

Going on, Justice Kagan, who wrote the majority opinion for the Court, continues "…further, a plan established and maintained for its employees by a church or by a convention or association of churches includes a plan maintained by an organization…the principal purpose or function of which is the administration or funding of a plan or program for the provision of retirement benefits or welfare benefits, or both, for the employees of a church or a convention or association of churches, if such organization is controlled by or associated with a church or a convention or association of churches."

Justice Kagan concluded by saying "…Congress added language whose most natural reading is to enable a plan 'maintained' by a principal-purpose organization to substitute for a plan both 'established' and 'maintained' by a church. That drafting decision indicates that Congress did not, in fact, want what the employees claim. Under the best reading of the statute, a plan maintained by a principal-purpose organization therefore qualifies as a 'church plan,' regardless of who established it."

For the local church, denomination, or association that has already has in place an established 403(b) type of retirement plan for its employees this decision has no effect. Your plan remains exempt from ERISA reporting. For plans other than a 403(b) [e.g. 401(k) being the most

common], you remain under the ERISA reporting and compliance requirements. In which case, you may wish to consider replacing your plan with a 403(b)-type plan to eliminate the reporting requirements and give yourselves greater flexibility in how you administer the plan.

DISCLAIMER

This material is presented with the understanding that the author is providing basic information only, and assumes no liability whatsoever in connection with its use. Any tax advice contained in any correspondence or other communication from us is not intended or written by us to be used, and cannot be used by you or anyone else, for the purpose of avoiding penalties imposed by the Internal Revenue Code. Tax laws are constantly changing, are subject to differing interpretations, and the facts and circumstances in any particular situation may not be the same as those presented here. Therefore, we urge you to do additional research and make sure that you are fully informed and knowledgeable before using the information contained herein.