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The Mystery of the Crumbling "Church Plan" Exception

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THE MYSTERY OF THE CRUMBLING "CHURCH PLAN" EXCEPTION

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When the Pension Committee first started, we realized that a top priority task was obtaining data on what currently existed in terms of pension plans throughout the dioceses in the United States. We soon realized that we did not need to do our own study because the National Association of Church Personnel Administrators ("NACPA") had just completed an excellent research project on this subject (*Diocesan Lay Retirement Systems: Current Status and Future Direction*).

The NACPA study surveyed all dioceses in the United States and calculated and analyzed statistical data on their pension plans. Out of this data, it formulated recommendations in the context of pension principles derived from what NACPA believed were principles of justice articulated by the United States Bishops in their 1987 pastoral on economic justice. The result makes very interesting reading. You may wish to obtain a copy of this study, which is short and insightful. I think that all too often, we, as attorneys, are so conscientiously focused on the narrow technical issues related to keeping our plans in compliance with ever-changing pension law, that we don't step back and look at these plans in a broader context. The NACPA study does just this. The study would encourage each of us to take a careful look at our own diocesan plan or plans to determine the extent to which they comply with its principles and recommendations. Particularly, NACPA would have us answer some hard questions about whether our plans are achieving, or even designed to achieve, the results we intend.

The NACPA study confirmed that ninety-three percent of the dioceses in the United States sponsor pension plans for their lay employees and that there is a great deal of concern among the dioceses for their proper financial maintenance and administration. That is the good news. The bad news is that many of these plans are designed in such a way that the majority of employees covered actually receives little or no benefit from them. This is so because of (1) the way plans are funded; (2) how employees become vested; and (3) the plans' lack of sensitivity to the demographic characteristics of their employees.

I would like to give you just a few examples of how the data evidence these problems. First, with respect to funding, NACPA recommends that a retirement plan sponsored by an employer should be paid for by the employer. However, in twenty-five percent of the diocesan plans, an employee contribution is also required. In many of these cases, if the employee could not or did not contribute, the employer also did not contribute. This indicates a problem in terms of trying to ensure adequate retirement income.

A second example is in the area of salary. The data evidence that funding for retirement plans is almost always based on a percentage of the employee's gross salary. Unfortunately, the survey data supported the widely-held assumption that salaries paid Church employees are typically low. Specifically, the data indicated that the median annual salary paid is only about $13,600. Given this salary level, even the most generous retirement benefit formula is unlikely to provide significant retirement income. NACPA recommends, therefore, that salaries paid to Church employees be analyzed and adjusted in light of present economic conditions, and not simply in light of historical tradition.

A third example is with respect to vesting. In recommending a vesting schedule for a diocese to implement, the study suggests that an employer ask the crucial question: "What is the purpose of our retirement plan?" Is it merely to reward long-term employees? The study data suggests that if many dioceses were to raise this question, by plan design the answer would be yes. The vesting schedules of almost seventy-five percent of the dioceses require ten years of service or more for full vesting. Fifteen percent of the dioceses require fifteen years or more. And yet, these same dioceses reported that their employees work an average of 8.25 years. It doesn't take much sophisticated calculation to conclude that throughout the country, the great majority of diocesan employees who terminate are leaving with little or no pension benefit.

Another example concerns the average age of plan participants. Many church plans are designed to reward predominantly those who remain until they actually retire at age sixty-five or more. This is a problem, if it is known, for example, that the median age of employees is forty-five and that the average number of years worked is eight. It becomes apparent that such plans are not responding to the demographic realities of their participants.

I have one final comment about demographics, with respect to gender makeup. In the United States, women comprise fifty-one percent of the work force. The NACPA data indicate that women comprise a much higher percentage of the Church work force. Ninety-one percent or all dioceses reported a work force of sixty-five percent or more of women. In some dioceses, it is as high as ninety-five percent. The average is seventy-six percent. This demographic characteristic of a work force should substantially influence pension plan design, especially in terms of provision for breaks in service. However, many diocesan plans make benefits available only for continuous years of service.

If there is one primary and fundamental recommendation of the NACPA study, it is that dioceses and other church-related institutions should undertake the task of developing and maintaining a data base to determine the demographic characteristics of their employees. Once these data are analyzed, they should be used as the most significant factor in determining the design of the pension plan.