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Special Thank You

GRS extends its thanks and appreciation for the support provided by LSRP in efforts to inform Catholic dioceses on retirement issues impacting priests.

LAITY IN SUPPORT OF RETIRED PRIESTS, INC.
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Best Practices for Priests Pension Plans

By Robert Nordin, FSA, EA, MAA and Bonita Wurst, ASA, EA, MAAA

Best Practices Provide a Sound Framework

Each diocese in the country has its own unique set of circumstances which drives how it views the retirement needs of its priests. There is no "one size fits all" approach, but there are best practices that every diocese should consider as it wrestles with the issues surrounding the retirement of its priests.

Listed below are four "Best Practices" that will enhance the operation of a Priest Pension Plan. Also, at the end of this paper we will share some well thought out features/approaches that we have seen over the past 35 years working with diocesan retirement programs.

Best Practice #1: Create Formal Written Policies

Creating (and maintaining) a pension plan is a lot like building a house. It all starts with a vision, followed by choices, leading to a detailed plan or blueprint. Formal policies are the blueprint utilized by retirement programs to determine (and document) the operation of the plan. Specifically–What benefits are to be provided? How should these benefits be funded? And, how should plan assets be invested?

Let's take a brief look at each:

Benefit Policy–Most Priest Pension Plans have operated for 40+ years and many have not changed significantly over that period (other than periodic inflationary increases). While a formal policy statement may or may not exist, we believe periodically stepping back and taking a "fresh look" approach, that's not constrained by current practices, is a great idea. We encourage you to explore every facet of your program, such as:

- Normal Retirement–What is the appropriate age?
- Early Retirement–Should it be allowed and if so at what age?
- Late Retirement–Should benefits begin at Normal Retirement or be deferred? If immediate, what should the benefit level be?
- Benefit Level – Should a 40 year priest receive the same benefit as a 20 year priest?
- What is an "adequate" benefit level? Please refer to the January 2014 White Paper titled *"Preparing Priests for Retirement, What Every Diocese Needs to Know….and Do"*
- Resigned Priests
- Late Ordination
- International Priests
- Disabled Priests
- Incardination/Excardination
- Responsibility for financing retirement (i.e., what are the expectations for priests?)
- Etc.

The resulting document will clearly articulate the desires of the diocese in providing retirement benefits to its priests and can be used to help communicate the plan.

About the Authors

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Bob is a retirement consultant and actuary who has worked with many Catholic dioceses over the past 35 years.

Bob's consulting experience covers:

- Priest and layperson pension plans
- Benefit adequacy studies for priests
- Benefit policy development
- Plan design studies
- Special studies on late ordinations, international priests, and resigned priests

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Bonnie's consulting experience covers:

- Annual actuarial valuation services
- Benefit adequacy studies for priests
- Plan design studies
- Experience studies
- Benefit administration activities

GRS Can Help!

A great starting point is an audit of your Priest Retirement Program to match your current plan against "best practices" across the country. We typically look at the plan document, actuarial report and all priest communications in order to provide a holistic review.

For additional information, questions or advice, please contact:

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Funding Policy–Most Priest Plans are currently underfunded and are facing ever increasing "per priest" contributions. Capital campaigns are being discussed, but this is an issue that needs a thoughtful review and strategy. We believe a "best practice" approach would be to start with a formal funding study which includes the following:

- Multiple economic scenarios
- Impact of capital campaign
- Expected future decline in active priests
- Definition of full funding
- Target date for full funding
- Method of collecting contributions (i.e., per priest is most common, but other methods may be appropriate)

The results will help articulate a formal funding policy that can be communicated to your parishes. A key outcome will be a 3-5 year schedule of contributions "per active priest" that can be counted on during the parish budgeting process. This approach should be repeated every 5 years or so.

Investment Policy–Once funding has occurred, a written investment policy needs to be created. This is the one policy that most dioceses have in place and it covers many topics including investment objectives, risk tolerance, asset allocation, diversification, the role of social investing, rebalancing directives, etc.

Best Practice #2: Make the Plan Legal

Church plans have a lot of flexibility with regard to design, funding, and administration because of exemptions from many federal laws that affect corporate retirement plans. Church plans are not required to pay Pension Benefit Guaranty Corporation (PBGC) premiums, and are exempt from ERISA funding and disclosure requirements.

Taking the extra steps to make sure the plan meets legal requirements can be beneficial to both the sponsoring diocese and the priests who participate in the plan.

Ultimately, the goal is to have all assets in a legal trust that is for the exclusive benefit of priests in retirement. A qualified plan ensures the tax-exempt status of the plan and protects against unwanted tax and other consequences.

Best Practice #3: Establish Oversight and Governance

Many different approaches exist related to oversight and governance, but it is vitally important to have a Pension Board or Committee that oversees all aspects of the Priest Pension Plan. Typically we see quarterly meetings where plan performance is reported and analyzed. Whether it is an actuarial report, audit report, a quarterly investment report or administrative duties, the Pension Board must be responsible for the smooth operation of the pension plan.

Best Practice #4: Communicate With Your Priests

National surveys and the work we have done in combination with Laity in Support of Retired Priests (LSRP) over the past 3 years indicate that there is a significant opportunity for dioceses to improve upon their retirement focused communication.

Specifically:

- Center for Applied Research in the Apostolate (CARA)–Special Report titled "When we can no longer 'do', Issues in Retirement for Diocesan Priests" (Spring, 2009).
    - ◊ About 1/3 of priests say their diocese has a retirement planning seminar to help priests prepare for this phase of their lives.

- ◊ Less than half of retired and semi-retired priests report that before retiring they received some good advice about the issues they would be facing.
- Priest Pension Adequacy Studies performed in partnership with LSRP over the past three years (Pittsburgh, Indianapolis, and Brooklyn).
  - ◊ A key part of our "Adequacy Studies" is an online survey where we gather information from active priests.
  - ◊ Two questions were asked on this subject:
    - ♦ How much time is spent reviewing your financial situation for retirement? Approximately 60% of surveyed priests responded with the answer that they spend little time planning for retirement.
    - ♦ Does the diocese do a good job providing you with retirement information? Over half responded "No" to this question.

Responding to the need to better educate their priests, some dioceses have become proactive in communicating the importance of planning for retirement. Examples of proactive communication we have seen include:

- Summary Plan Description– includes policy statement and detail on all aspects of the pension plan.
- Annual Benefit Statement–shows detail on benefits available at early, normal and late retirement.
- Retirement Seminar–available to any priest interested in learning more about Social Security, the Priest Pension Plan and options for personal savings.

Unique Features and Approaches that Warrant Consideration

- Policy Statement contained in Plan Document

(Page 1) Example:

"The scope and purpose of the Plan is to assist the Bishop in fulfilling his canonical obligation to provide regular retirement income for eligible Diocesan priests. It is not the purpose of this Plan to be the total and sole provider of funds for the retirement of eligible Diocesan priests. The Plan shares this philosophy common to most retirement plans and advises that each eligible Diocesan priest during the active years of his ministry should anticipate a need to supplement the retirement benefits provided under this plan with some form of personal savings or income systematically planned and funded during his active ministry."

- Late Retirement Payout
  - ◊ Many diocese pay the full pension benefit to priests who continue active service past their Normal Retirement Date.
  - ◊ One diocese has determined that the payment from the pension plan should be the "retirement allowance", which excludes the portion of the benefit that is used for housing (in this case called the "rental allowance").

The logic is simple in that active priests are already receiving room and board and would be doubling up on that portion if the whole benefit were paid.

- Special Benefit Provisions
  - ◊ Decline Participation–This allows "well off" priests to decline to receive their benefits and helps solve the funding of the Priest Pension Plan.
  - ◊ Offset Benefits–Typically used for pension earned during diocesan assignment (i.e., military duty). Avoids the "double dipping" that can occur.
- Social Security Offset
  - ◊ Priests are self-employed for purposes of Social Security and as such they are required to pay the full 15.3% of pay into the system.
  - ◊ Some dioceses recognize this payment in the compensation of their priests and "add back" a portion of their tax.
  - ◊ One diocese we have worked with has a formal policy of reimbursing priests for their previous year's Social Security tax.
  - ◊ The priest must file a "Request for SECA Reimbursement" and include a copy of their W-2. The Diocese reimburses the priest for 50% of the tax paid on wages and 100% of the tax paid on room and board.
- Matching Funds for 403(b)
  - ◊ Corporate America frequently encourages retirement savings via a match in the employee's 401(k) plan.
  - ◊ We are starting to see this approach used with priests in 403(b) plans.
  - ◊ As an example, one diocese provides a 50% match up to $200 per month.

The above examples only scratch the surface of all the good ideas that are being used across the country by dioceses, as they provide retirement benefits to their priests. We think it is important to share these ideas and would enjoy hearing about any ideas that you feel are helping you serve priests who are entering retirement.

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