CREATING A BRIGHTER FUTURE FOR THOSE WHO SERVED – (Workshop #503)

April 1, 2014

Speakers: Thomas W. Hoban, LSRP
Robert D. Nordin, GRS
Agenda for Today

- Introductions
- Retirement Adequacy for Priests
- Study Findings
- A Call to Action
- White Paper on Priest Pension Adequacy
- Our Contact Information
Introductions

- Laity in Support of Retired Priests (LSRP)
  - Mission is to support Diocesan Priests in retirement
  - Seek to enhance the ability of retired Priests to continue to serve

- Gabriel Roeder Smith (GRS)
  - National actuarial and benefits consulting firm with a 75-year history
  - Six US locations and a staff of 120 employees
  - We serve over 800 clients, including several Catholic dioceses

- Robert Nordin, FSA
  - Retirement consultant with 35 years of experience with church plans
  - Partnership with LSRP since 2011
  - National speaker on the issue of retirement adequacy for Priests
    - 2012 NACPA Convocation (and again this year)
    - 2014 DFMC conference in September
Retirement Adequacy for Priests

- Background and History
- LSRP and GRS Partnership
- Gauging Adequacy – A New Model
Retirement – The Three Legged Stool

Historic Perspective

For Priests??
The Evolution of Priests Pensions in Many Catholic Dioceses

- Priests’ Pension Plan established
- Benefit level was selected (i.e. $500 per month after 25 years)
- Funding begins

- Periodic pension increases (cost of living)
- Added medical and dental benefits
- Impact of medical inflation starting to be recognized
- Declining active priest population
- Funding rising slowly (per Priest basis)

1965 - 1975

- Periodic increases (cost of living)
- Significant medical and dental increases
- Poor asset performance
- Continued active Priest decline
- Funding needs rising sharply

1975 - 2000

- 2000 – 2014+

...but, never a question about adequacy around the Pension Benefit.
Questions

Q. Is the history slide an accurate portrayal of your Diocese?
   – If not, how does your Diocese differ?

Q. Have you ever measured “Retirement Adequacy”?
   – If yes, how?
## Retirement Adequacy for Priests

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
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</thead>
<tbody>
<tr>
<td>What is “Retirement Adequacy”?</td>
<td>Being able to maintain your standard of living in retirement</td>
</tr>
<tr>
<td>Is this a new concept?</td>
<td>No, for years retirement consultants have used a “spendable income” model to help answer this question for Corporate America</td>
</tr>
<tr>
<td>What is a “Spendable Income” Model?</td>
<td>Simply put, it looks at your spendable income during your last year of work (income – taxes – savings) vs. your spendable income in retirement (income – taxes)</td>
</tr>
<tr>
<td>Why wasn’t this approach used for Catholic Dioceses?</td>
<td>Lack of knowledge about the unique status of Priests within the Social Security system was the primary reason</td>
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</table>
Social Security History for Priests

- Social Security Instituted for "Employees"
- Opened up to Self-Employed (Priests allowed to "opt" in)
- Approach toward clergy changed ("irrevocable" election to "opt" out)
- Opportunity to revoke election and "opt" in

- Self-Employment Status Evolved
- Self-Employed Contribution Act (SECA) Provisions Used to Accommodate Clergy
Reporting Wages to Social Security

Salaries (Base Pay & Seniority Increment)

Auto & Expense Allowance

Net Profit from Profession

Fair Market Value of Room & Board

+ - +

Car & Other Ministry - Related Expenses

Unreimbursed Business Expenses

Reportable Wages
Questions

Q. How much do you know about your Priests and Social Security?

– Average Social Security Benefit for Retired Priests? (When did they begin collecting?)

– Current Reportable Wages for Active Priests? (How accurate are they?)

– Any “opt outs”?

– Any fail to qualify? (i.e. 40 quarters of coverage?)
Our Unique History and Experience with Priests Plan

Archdiocese of St. Paul and Minneapolis

<table>
<thead>
<tr>
<th>Timeline</th>
<th>Social Security Studies</th>
<th>Retirement Adequacy</th>
<th>Formal Communication</th>
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<tr>
<td>Timeline</td>
<td>Social Security Studies</td>
<td>Retirement Adequacy</td>
<td>Formal Communication</td>
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<tr>
<td>1977</td>
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<tr>
<td>1990</td>
<td>The Early Years</td>
<td>New Ideas/Priest Communication</td>
<td>Plan Design/Funding</td>
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<tr>
<td></td>
<td>– Annual Valuations</td>
<td>New Ideas:</td>
<td>Retirement Policy Development</td>
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<tr>
<td></td>
<td></td>
<td>2.) Retirement Adequacy for Priests – A Spendable Income Analysis (1993)</td>
<td>Funding Studies</td>
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<tr>
<td></td>
<td></td>
<td>3.) Impact of reporting higher Social Security wages – A formal study (1994)</td>
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<tr>
<td></td>
<td>Communications: (Partial List)</td>
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Statistics

* On average, Dioceses have 1 retired Priest for every 2 active Priests
* Half of all active Priests are over age 60
* Half of all active Priests (in 2007) expect to retire by 2019

Survey Findings

* Many Priests are not knowledgeable about Diocesan retirement policies
* Eligibility for “full” retirement benefits:
  - Age 71 was average response (Age 70-72)
  - 29% reported a higher age (usually 75)
  - 15% reported a lower age (usually 65)
* In retirement, 51% of Priests would prefer independent living
Unlocking the Mystery Around Adequacy

Vision

- Mission is to address the critical issues facing Catholic Diocesan Priests in their retirement years
- Wanted to go beyond “Model Plan” work completed in 2009
- Selected GRS to help analyze adequacy

Knowledge

- Bob Nordin and Bonnie Wurst have significant history of working with Catholic Dioceses
- Unique experience in understanding Social Security for Priests, building an adequacy model and communication platform

2011 Partnership

Bob Nordin
2013 RETIREMENT ADEQUACY FOR PRIESTS

November 18, 2013
Building a Sound Retirement Program - Priests

Part-Time Work

Savings

Priest Pension*

Social Security

Spendable Income

Auto

Food/Clothing/Insurance

Housing

* Include 403(b) if available

Retirement Income vs. Retirement Needs

What we know (or can easily attain) =

**Priests**
Project Plan (July – November 2013)

Data Collection
- Plan document
- Actuarial valuation
- Priest compensation (history)

Survey 2013
- Build online survey
- Solicit Priest participation
- Analyze results

Retirement Income Adequacy
- Fr. Expected vs. Fr. Average
- Determine spendable income

Report Results
- Formal report
- In person meeting
- Results
- Next Steps
Survey of Active Priests / What We Learned

Survey 2013 had the following four sections:

- Background and Perceptions
- Social Security Reporting
- Personal Savings
- Planning for Retirement

While our primary goal was to capture data on Social Security and personal savings, it is also important to understand the context around issues Priests may have as they approach retirement.

Each of the above sections is covered in more detail on the following pages.
91 Priests responded to questions on Social Security. GRS eliminated 6 responses due to questionable data (such as reportable wages being less than the taxes paid)

Summary data is shown below for 2012 self-employment income:

<table>
<thead>
<tr>
<th>Survey 2013</th>
<th>Background + Perceptions</th>
<th>Social Security Reporting</th>
<th>Personal Savings</th>
<th>Planning for Retirement</th>
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<tr>
<td>2013</td>
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<table>
<thead>
<tr>
<th></th>
<th>Count</th>
<th>Low</th>
<th>Median</th>
<th>High</th>
<th>Average</th>
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<tr>
<td>Priests under age 45</td>
<td>10</td>
<td>$1,000</td>
<td>$20,000</td>
<td>$30,000</td>
<td>$15,000</td>
</tr>
<tr>
<td>Priests age 45 – 59</td>
<td>24</td>
<td>10,000</td>
<td>22,000</td>
<td>35,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Priests age 60+</td>
<td>51</td>
<td>8,000</td>
<td>24,000</td>
<td>40,000</td>
<td>25,000</td>
</tr>
<tr>
<td>All Groups</td>
<td>85</td>
<td>$1,000</td>
<td>$22,000</td>
<td>$40,000</td>
<td>$20,000</td>
</tr>
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</table>

* This chart is representative, but we have modified the numbers to maintain confidentiality.
Almost 90% of Priests are saving / investing money on their own.

Similar to the Social Security question, GRS eliminated several “outlier” responses in preparing the charts below: (numbers are not actual – for illustration only)

<table>
<thead>
<tr>
<th>Survey 2013</th>
<th>Background + Perceptions</th>
<th>Social Security Reporting</th>
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<td></td>
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</table>

**Savings Dedicated to Retirement – Annual**

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Low</th>
<th>Median</th>
<th>High</th>
<th>Average</th>
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</thead>
<tbody>
<tr>
<td>Priests under age 45</td>
<td>14</td>
<td>$0</td>
<td>$2,000</td>
<td>$8,000</td>
</tr>
<tr>
<td>Priests age 45 – 59</td>
<td>26</td>
<td>$500</td>
<td>$4,500</td>
<td>$15,000</td>
</tr>
<tr>
<td>Priests age 60+</td>
<td>52</td>
<td>$1,500</td>
<td>$5,500</td>
<td>$18,000</td>
</tr>
<tr>
<td>All Groups</td>
<td>92</td>
<td>$0</td>
<td>$3,500</td>
<td>$18,000</td>
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</table>

**Savings Dedicated to Retirement – Today’s Total**

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Low</th>
<th>Median</th>
<th>High</th>
<th>Average</th>
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</thead>
<tbody>
<tr>
<td>Priests under age 45</td>
<td>13</td>
<td>$10,000</td>
<td>$30,000</td>
<td>$70,000</td>
</tr>
<tr>
<td>Priests age 45 – 59</td>
<td>24</td>
<td>$15,000</td>
<td>$40,000</td>
<td>$80,000</td>
</tr>
<tr>
<td>Priests age 60+</td>
<td>55</td>
<td>$20,000</td>
<td>$50,000</td>
<td>$90,000</td>
</tr>
<tr>
<td>All Groups</td>
<td>92</td>
<td>$10,000</td>
<td>$40,000</td>
<td>$90,000</td>
</tr>
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</table>
Retirement Income Adequacy – Overview

Step 1
- Part-Time Work
- Savings
- Priest Pension
- Social Security

Step 2
- Spendable Income
  - Auto
  - Insurance
  - Housing / Food

Retirement Income

Step 3

VS.

Retirement Needs

Step 2
Retirement Income Adequacy – Spendable Income as an Active Priest

Step 1

Fr. Expected
Total Compensation - 2012

Base Pay $______
Stipends $______
Total $______

Determine each component

Fr. Average
Total Compensation - 2012

Base Pay $______
Stipends $______
Total $______
Retirement Income Adequacy – Overview

Part-Time Work

- Savings
- Priest Pension
- Social Security

Step 1

Spendable Income

- Auto
- Insurance
- Housing / Food

Step 2

Retirement Needs

Step 3

Retirement Income

Priests

VS.

VS.

Priests

VS.

VS.

VS.

VS.
Studies have been Performed for the Following:

- Archdiocese of Indianapolis
  - Ed Isakson, PHR
- Diocese of Brooklyn
  - Deacon Ed Gaine
- Diocese of Pittsburgh
  - Fred O’Brien

Feedback from each study has been very positive and all three have volunteered to discuss the study and serve as a reference.
Study Findings

- Survey response was very positive – ranging from 33% to 70%. Interesting findings, include:
  - Retirement is viewed as a shared responsibility by most priests
  - Expectations for retirement were widely dispersed as it relates to financial comfort
  - The view of the Priests Pension Plan was also widely dispersed (from inadequate to generous) – with 10-24% reporting that they know nothing about the Priests Pension Plan
  - Reporting of Self-Employment Income was widely disbursed (from a low of 0 to a high exceeding $50,000), but less than we would have expected
  - Personal savings also showed a wide range (from $0 to $20,000 annually) and as expected increased with older age
  - The median savings dedicated for retirement for those priests over age 60 was between $100,000 and $150,000

- Planning for retirement showed areas of concern
  - Most priests spend little time thinking about their financial situation in retirement
  - When asked if the diocese is doing a good job providing retirement planning information, most answered “No”

- Fr. Expected does not exist in any diocese
  - Reported wages to Social Security were always less than we assumed

- Need to look at Fr. Below Average and Fr. Never Save to understand full picture

The surveys clearly point out a need to better inform priests on all issues surrounding retirement. In an open ended question asking for what type of help was needed, we received many responses ranging from a clear explanation of benefits to a personal advisor that would assist with retirement planning.
CALL TO ACTION

- Survey your priests to obtain information as shown above
- Determine a plan to address needs identified by the survey
- Develop a formal retirement policy
- Communicate, Communicate, Communicate
Key Policy Question: Who has financial responsibility for a priest’s retirement?

- Diocese has entire responsibility
- Diocese and priest share equally
- Diocese is primary with priest playing a smaller role
- Priest is primary with diocese playing a smaller role

Diocese has entire responsibility
Diocese and priest share equally
Diocese is primary with priest playing a smaller role
Priest is primary with diocese playing a smaller role
“White Paper” Preparing Priests for Retirement

Preparing Priests for Retirement
What Every Diocese Needs to Know…and Do

January 2014

By Robert Nordin, FSA, EA, MAAA, Gabriel, Roeder, Smith & Company

Will Your Priests be Able to Afford to Retire?

Retirement readiness has become a difficult undertaking for many people. Today, longer life-spans, financial market volatility, concerns over Social Security, rising health care costs, and a move away from defined benefit plans have put enormous burdens on tomorrow’s retirees. Many of these issues (with the possible exception of the movement away from defined benefit plans) also impact priests. As a result, dioceses are beginning to ask the question: “Are we providing an adequate monthly benefit through our Priest Pension Plan?” While certainly a valid question, the answer requires information and knowledge about many things such as a priest’s Social Security benefit, their personal savings, their desired living arrangements in retirement, and part-time work to name a few. In partnership with Laity in Support of Retired Priests (LSRP), we have built an adequacy model that incorporates each of these elements (and more) to create a holistic look into the retirement of your priests.

Before we get to the adequacy model, we will need to step back and start with the basics of financing retirement. Let’s take a look at the “Three-legged” stool used by many retirement consultants to analyze adequacy issues in retirement. Obviously in the case of a Catholic diocese, the employer is the diocese, the employee is the priest and the government refers to Social Security.

For typical employers each element is known or can easily be obtained, but for Catholic dioceses this information is largely unknown, which makes it difficult, if not impossible, to measure the adequacy of the Priest Pension Plan.

Let’s Take a Closer Look at the “Three-legged” Stool for Priests

Employer (or Diocese) Portion

The employer (or diocese) typically has a pension plan for priests that has been operational for many years. This plan provides a monthly benefit for life once a priest retires. Benefit levels are periodically adjusted for “cost-of-living”, which implies that the initial benefit level was set at an adequate level and nothing else has occurred since inception to warrant anything different. The schematic on the following page provides a history of retirement benefits for priests at many Catholic dioceses across the country.
Distribution of the “White Paper”

“Preparing Priests for Retirement” white paper was mailed to all Diocese in January, 2014:

* Bishops
* Cardinals
* USCCB

(You may get a copy here or at our booth)
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LAITY IN SUPPORT OF RETIRED PRIESTS, INC.
CREATING A BRIGHTER FUTURE FOR THOSE WHO SERVED