LAITY IN SUPPORT OF RETIRED PRIESTS, INC.

# Pension and other Retirement Programs for Diocesan Priests:

*BEST PRACTICES*

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# PENSION AND OTHER RETIREMENT PROGRAMS FOR DIOCESAN PRIESTS:

## *BEST PRACTICES AND SOLUTIONS SHARED WITH BISHOPS AND DIOCESES*

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Prepared by Laity in Support of Retired Priests, Inc.
www.lsrpinc.org

*Laity in Support of Retired Priests, Inc. (LSRP), is a non-profit organization, whose work since 2007 has focused both on understanding how pension plans and other retirement programs to serve Catholic diocesan priests are structured; and developing best practices to guide dioceses in developing or improving such programs.*

*LSRP was blessed by a major start-up gift from an individual donor. During the past seven years, much of our work has also been supported by grants from the Retirement Research Foundation (RRF), based in Chicago, Illinois. We would not have gotten to where we are today without this incredible help.*

# PENSION AND OTHER RETIREMENT PROGRAMS FOR DIOCESAN PRIESTS: *BEST PRACTICES SHARED WITH BISHOPS AND DIOCESES*

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*NOTE …*

The information and recommendations throughout this report were originally issued at various dates from 2007/2008 through the summer of 2014. While some financial data from earlier years was updated – and usually noted in the report – some was not.

# Introduction

Laity in Support of Retired Priests, Inc. (LSRP) is a non-profit organization consisting mostly of retired lay business and professional leaders as well as active and retired priests and bishops. LSRP's mission is to support diocesan priests in their retirement, in gratitude for their years of service to the Catholic Church. Our organization seeks to enhance the ability of retired priests to continue in health and vitality to serve the Church, her people, and the broader community – a commitment to which priests have dedicated their lives – in creative and meaningful ministry.

This document outlines what LSRP has learned from studies of current pension plans and certain other retirement-related programs in place at archdioceses and dioceses across the country, as well as what we feel are *best practices* for dioceses to follow in: (1) developing and improving these programs, and (2) guiding priests in their understanding of, and preparation for, retirement.

# Understanding Current Retirement-Related Programs Available to Diocesan Priests

*How can we create a brighter future for those who served?*

## Background

During our initial years of operation, LSRP focused its work on both primary research and the review of research efforts conducted by other qualified organizations to evaluate the systems used within the U.S. Catholic Church to support its priests in their retirement.

Unlike a number of other large religious denominations in the United States, the Catholic Church has not established a church-wide retirement program for its parish priests or uniform standards that would guide its 176 dioceses in providing retirement benefits for them. Rather, each of the diocesan bishops in the country must determine how these programs will be structured and handled within their own regions.

## The Laborer is Worthy of His Hire Study

LSRP began it background work by carefully reviewing a 2008 study, called "*The Laborer is Worthy of His Hire*", undertaken by the National Association of Church Personnel Administrators and then published by The National Federation of Priests' Councils (NFPC), to analyze compensation, pension and benefit plans available to retired diocesan priests. A more recent version of this study was completed in 2013 by Mary Jo Moran, Ph.D., SPHR, NACPA and Toru

Sakaguchi, Ph.D., Northern Kentucky University, College of Informatics, and also published by NFPC.

There currently are about 30,000 diocesan priests affiliated with Catholic parishes and other religious associations and institutes in the United States. Of these, about 20,000 are currently in active (fulltime) ministry, and about 10,000 are retired. Only about a third as many new priests are being ordained each year compared to the number needed to make up for those who are retiring, dying or otherwise leaving active ministry. The magnitude of these changes will affect every diocese in the United States over the next few years:

- On average, dioceses now have one retired priest for every two active priests.
- Half of all priests currently in active ministry are over age 60.
- A significant number of priests in active ministry expect to retire by 2019 or earlier.

The average retirement age for priests is now 70 years, with many continuing to work fulltime until they reach age 75—and some even later. Aging diocesan priests in retirement face many of the same concerns as do lay people, such as financial security, declining health, loneliness, and often loss of community.

## Survey of Active and Retired Priests Regarding Retirement

In order to better understand the retirement needs of parish priests, LSRP also engaged the services of the Center for Applied Research in the Apostolate (CARA), based at Georgetown University, to conduct a comprehensive study in 2008 of the attitudes and opinions of both active and retired diocesan priests about retirement.

Few people begin planning for retirement early enough and in this respect diocesan priests are not an exception. CARA found that only a little more than one-third of priests reported that their diocese held or sponsored retirement planning programs to help priests prepare for this phase of their lives. Less than half of surveyed retired and semi-retired priests reported that before retiring they received some good advice about the issues they would be facing.

## Analysis of Current Pension and Benefit Plans for Parish Priests

Gallagher Benefit Services, a subsidiary of Arthur J. Gallagher & Co., prepared a 2009 report for LSRP entitled “Analysis and Compilation of Pension and Benefits of Diocesan Priests”, based on data published in the 2008 edition of “A Laborer is Worthy of His Hire.” This report summarized the significant financial and related challenges that many diocesan priests will face as they approach retirement.

Gallagher’s analysis found that while all dioceses provide some form of retirement or pension plan for parish priests, serious concerns exist about many of these programs. For example:

- Projected income vs. expenses- Average annual pre-tax income for retired diocesan priests from all sources, including pension income and social security benefits, was projected to be lower than the average cost of annual living expenses for a retired priest (living independently).

- Vesting of pension plans- Priest vesting in diocesan pension plans averaged about 14 years, and for 28 dioceses ranged from 20 to as high as 40 years.

- Portability- 121 of the 176 dioceses in the U.S. did not provide pension portability for eligible priests (the ability to transfer a priest's pension benefits from one diocese pension fund to another), creating a serious restriction for priests who might, from time to time, desire to move to a new diocese. 22 dioceses provided limited portability, while only 7 reported general portability.

- Social Security issues- Priests work for dioceses as independent contractors and, in many dioceses, are personally responsible for *all* required funding of Social Security taxes. Priests are allowed to opt out of Social Security altogether, which would then also result in the loss of Medicare coverage. 70 dioceses were *not* helping to fund Social Security benefits for their parish priests; 53 dioceses were providing a Social Security allowance.

- Other funds for retirement- Relatively few priests reported having other types of retirement savings plans in their diocese. 17 percent did report having some type of IRA through their diocese, with 9 percent indicating that an annuity program was available.

## Preparing for the Third Age of Life

### Best Practice #1- Importance of Having a Human Resource Function Within Each Diocese

It is critically important that, to the extent possible, each Catholic diocese have trained staff in place to oversee and manage the diocesan pension plan and any other retirement-related programs for priests, payroll-related systems and matters, and all other benefit programs for priests and other staff. A qualified professional designated by the bishop, should be delegated with overall responsibility for day-to-day management of the retirement and retirement-related programs of the diocese.

Particularly in smaller dioceses, there likely would also be merit to reaching out to the archdiocese and/or other nearby dioceses to establish programs through which ideas about best ways for structuring pension and other retirement/benefit programs can be shared.

Cooperative efforts such as this might also lead to cost-effective sharing of staff between dioceses.

## Best Practice #2- Diocesan Staff Involvement in National Catholic Associations

Dioceses are strongly encouraged to urge or even require its professional staff involved with human resource and personnel matters, payroll systems, pension and other benefit programs, etc. to be active participants in Catholic associations such as the National Leadership Roundtable on Church Management, the National Association of Church Personnel Administrators, the Association of Diocesan Fiscal Directors, and the National Federation of Priests' Councils.

## Best Practice #3- Creating and Maintaining a Retirement Preparation Manual for Catholic Priests

With inspiration from a long-standing, effective program created by the national Episcopalian Church, called the CREDO Institute, LSRP has developed a model plan for offering retirement planning, guidance and advice to diocesan priests beginning at least five years prior to their actual retirement, and possibly earlier. This document, labeled "*Preparing for the Third Age of Life: a Retirement Preparation Manual for Catholic Priests*," was distributed in 2012 to dioceses across the country

LSRP strongly encourages all dioceses to initiate a process to create or update its own transition plan, suggesting they form an internal taskforce, consisting of staff responsible for matters related to priest retirement and benefit programs and possibly even priests who are interested in this topic. Ideally, this taskforce would have an external resource or resources available to help guide them as needed (e.g., pension or employee benefits advisors to the diocese).

We hope that the *Preparing for the Third Age of* Life document can be used and, as needed, adapted by a diocese as it creates its own transition plan. A copy of the *Preparing for the Third Age of* Life document can be accessed by visiting the LSRP website- www.lsrpinc.org.

A diocese or archdiocese going through the process of creating or updating a transition plan for its priests might also want to step back and start a comprehensive process to evaluate the adequacy of its existing pension and retirement-related benefit programs. This should include an actuarial review to determine whether the diocese's pension plan is adequately structured and funded. Structuring and evaluating a pension plan is discussed later in this document.

### Best Practice #4- Providing Diocesan-Sponsored Seminars for Priests Focused on Retirement and Retirement Planning

It should be noted that under the work done by the Credo Institute, Episcopalian priests have many opportunities to enroll from time to time in seminars and courses that address the complexities of retirement planning. There is merit in trying to do this as well within the Catholic Church, understanding that diocesan differences in the structure of pension and related retirement programs might require courses of this type to be held at each dioceses or archdiocese.

Finally, LSRP strongly believes that the U.S. Catholic Church and its dioceses need to find effective, ongoing ways to listen carefully to both active and retired priests, and to use information gathered from them to strengthen the programs it offers to those who work so hard for the Church.

### Best Practice #5- Open Communications are Best

Open communications are best. Your priests should be openly encouraged to ask questions and give feedback regarding the diocesan retirement programs, without feeling uncomfortable.

## Creating a Just, Equitable Pension and Benefit Plan For Retired Diocesan Catholic Priests

### Protecting Pension and Benefit Assets: A Critical Concern

LSRP's inquiries into the adequacy of priest pensions included working with various consultants on recommendations to dioceses on prudent pension funding arrangements. Perhaps of greatest current concern is protecting pension funds set aside in dioceses' financial accounts, so that they are available for intended use—as needed.

Recent financial difficulties experienced by certain dioceses, including bankruptcy, highlight the need for all dioceses to consider the applicability (in their state) of the legal protection that a number of dioceses now have in place. Very basic steps include establishing a trust arrangement that would transfer pension fund assets, including right of claim for any amounts due (unfunded balances and payments from the fund for other purposes) to an independent trust.

Financial accounting standards for future medical benefits due active and retired priests and diocesan employees requires employers—including church organizations-- to recognize in their current financial statements such estimated costs. The current funding of such obligations is recognized as a preferred best practice for businesses of all types. Similar to pension funds, LSRP has noted that some dioceses have set aside funds and administer benefits through an independent "Medical Care Trust." We encourage dioceses to also have a legal review conducted to determine if a Medical Care Trust is the best form of risk protection for these funds under the laws in their particular state.

## A Model Benefits Retirement Plan

LSRP has been deeply involved in surveying, compiling and analyzing pension and benefits information provided by dioceses to their retired priests since our founding. In particular, we have made significant use of the compensation and benefit data compiled for the National Federation of Priests' Councils (NFPC) published most recently in 2008 and 2013---"The Laborer is Worthy of His Hire."

In 2008 LSRP decided to develop a Model Retirement Plan. We consulted with Gallagher Benefit Services. The outcome of our work is displayed in the Gallagher Report (See LSRP website under Resources-- also discussed there in LSRP Fall 2010 Newsletter). This model is summarized in LSRP's Best Practices compendium, with respect to the adequacy of retired Priests compensation, as follows: " Annual pension payments from the diocese, combined with Social Security payments, should meet or exceed the cost of living in that area of the country (Refer to US Dept. of Labor Cost of Living Index -- Retiree living alone) ."

Latest information on a national basis indicates that independent living costs for single retired males (US DOL COL for 2013), adjusted for certain costs paid by most dioceses approximates $34,000.

Social Security benefits received by retired priests vary significantly—reflecting priests' optional inclusion in the program and relatively low compensation while in active ministry. LSRP and our compensation consultants estimate that older retired priests (say 80 +) SS benefits, derived from ministry, would range from $0 to about $8,000 in 2013. Overall, the median SS benefit for all retired priests (receiving benefits from ministry) is estimated at $11,000 annually.

The net difference of $23,000 would represent the derived pension amount that LSRP's Best Practice-- Model Plan calls for dioceses' priests' pension plans to cover or exceed. The NFPC 2013 Laborer is Worthy of His Hire survey of dioceses indicates that the average pension payment was $19,957 in 2012---up 10% since the 2008 survey. Say a $3,000 shortfall that would need to be funded from personal savings, other income, etc. in that year.

## Gallagher Benefit Services Report

Recognizing the need for the development of a just, minimum, equitable and uniform pension and benefit plan for retired diocesan priests, LSRP contracted with the Gallagher Religious/Nonprofit Practice Group, a division of Gallagher Benefit Services, Inc., to help guide us in the development of a "Model Plan."

The detailed Gallagher Report can be accessed by visiting the LSRP website- www.lsrpinc.org – and provides representative costs associated with health care expenses, long-term care facility expenses, and income needed to support daily living activities of diocesan priests who have retired. Their report also suggests ways as to how a model program might be funded, as well as what impact federal legislation may have on future needs.

## Study Conclusions

1. A comprehensive Medigap and Medicare Prescription Drug Plan should be provided to retired diocesan priests that would pay for most of the medical and drug costs not covered by Medicare. Dioceses that have other or similar plans in place should compare recommended benefits and costs.

   *Approximate Annual Cost per Covered Priest = $4,200*

2. A comprehensive long-term care insurance program should be provided to retired diocesan priests to pay for most of the costs associated with nursing home care, assisted living care, and home healthcare. Dioceses that have other or similar plans in place should compare existing programs with recommended benefits and costs.

   *Approximate Annual Cost per Covered Priest = $1,680 - $3,120*

3. A minimum monthly pension benefit should be provided to retired diocesan priests as needed to cover the full range of basic living expenses, including housing and food during retirement. The ideal plan would also include consistent vesting and portability provisions across dioceses.

   *Approximate Annual Cost per Covered Priest = the present actuarial value of an average future benefit of $22,000, to be adjusted for the geographical cost of living differences*

# A Model Plan

(Developed by LSRP and Gallagher Benefit Services, Inc.)

Working collaboratively, Gallagher Benefit Services, Inc. and LSRP then went on to propose best practices for structuring retirement benefits for diocesan priests:

## Best Practice #1- Core Pension Plan

The recommended retirement age for diocesan priests is 70 unless the diocese has a lesser age. The model plan would provide benefits to a retired priest who has served for 35 years as follows:

- Annual benefit. An annual pre-tax retirement benefit, when coupled with Social Security benefits, should provide the annual income ($34,000) needed to cover basic living costs in retirement, to be adjusted for costs applicable to each geographic area.
- Vesting. Diocesan priests should be 100% vested in the accrued value of their pension plan after 5 years of service.
- Portability. In the event a diocesan priest moves from one diocese to another, his prior credited years of service should be applicable to his pension benefit at the new diocese.

## Best Practice #2- Medigap and Medicare Prescription Drug Coverage

In addition to the monthly stipend, it is recommended that retired diocesan priests be provided with comprehensive Medigap and Medicare Prescription Drug Coverage that would pay for most of the medical and drug costs not covered by Medicare. The suggested plan designs for these benefits are the “Medicare Supplement Plan J” and the “Enhanced Medicare Rx Plan”, both described in the Gallagher Report.

## Best Practice #3- Long-term Care Insurance

It is further recommended that retired diocesan priests be provided with a long-term care insurance program to provide for the costs associated with home health care, assisted living care, and nursing home or extended care facilities. Again, the Gallagher Report suggests a plan design for this benefit:

1. **Independent Living Options**. It is recommended that another key consideration in the benefit package available to retired diocesan priests should be arrangements for

appropriate room/housing and board opportunities. The model plan should include sufficient retirement income for a qualifying priest to live independently.

2. **Funeral and burial costs**. Suitable funeral and burial costs should be covered through an employer life insurance plan.

It is generally suggested that the dioceses of a given region should take upon themselves the responsibility to interpret and implement these model guidelines, taking into account the local economy. Only in this way can the differing living costs in the various regions of the country be factored into the consideration of retirement benefits.

Finally, the model benefits should be considered minimum benefits. If a diocese has greater benefits than outlined in the recommendations, their benefits should prevail.

## Best Practice #4- Funding the Model Plan

**Reallocation of existing expenditures**. The Gallagher Report notes that most of the costs associated with the non-pension benefits outlined in the Model Plan are already being incurred by dioceses on a "pay-as-you-go basis." It is entirely possible that in some cases a diocese will find that implementing the Model Plan will cost less than their current pay-as-you-go plan due to the cost and process management being brought into the equation. For example, if a priest is admitted to a diocesan owned or operated long-term care facility at diocesan expense, an insured long-term care insurance policy would provide reimbursement to the facility or to the diocese on a more managed and cost-effective basis.

**Special collections or offerings**. While already in place in some dioceses, a special annual or semi-annual offering by parishioners for the support of retired diocesan priests could go a long way toward funding the minimum needs and more.

**Economies of scale**. Although it is the bishop's responsibility to provide for his diocesan priests, consideration should be given to the possibility of developing the Model Plan on a regional or national level. A regional or national plan would take advantage of the "laws of large numbers" enabling post employment benefits to be priced in a much more efficient and competitive fashion and then implemented on a diocese by diocese basis.

A regional or national plan could be made available to the dioceses through an organization such as the U.S. Conference of Catholic Bishops, the National Federation of Priests' Councils, or a yet to be established organization.

# Best Practices for Priest Pension Plans

(Developed by Gabriel Roeder Smith & Company)

Based on several work efforts commissioned by LSRP to evaluate pension and related retirement programs for parish priests at several larger dioceses in the country, we asked our consultants and advisors, Robert Nordin and Bonnie Wurst from Gabriel Roeder Smith & Company (GRS), Minneapolis, to prepare a *Best Practices for Priest Pension Plans* document that could be shared with dioceses and archdioceses. This document was published in 2014.

Each diocese in the country has its own unique set of circumstances which drive 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. Below are four "*best practices*" that will enhance the operation of a Priest Retirement Plan.

## Best Practice #1- Create Formal Written Policies

Creating (and maintaining) a pension plan is a lot like building a house. It 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. Such programs must be in writing. For example:

- **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). Dioceses are strongly advised to step back and take a "fresh look" approach that's not constrained by current practices. Every facet of your program should be explored, such as:
  - Normal Retirement – What is the appropriate age?
  - Early retirement – Should it be allowed and at what age?
  - Late retirement – Should benefits begin at Normal Retirement or can they 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?
  - Resigned Priests
  - Late Ordination
  - International Priests
  - Disabled Priests
  - Incardination / Excardination
  - Responsibility for financing retirement (i.e., what are the expectations for priests?)

- **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 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 campaigns
- 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 parish or parishes. A key outcome would 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 fund 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 addressing 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 over the past few years indicate that there is a significant opportunity for dioceses to improve upon their retirement-focused communications. Specifically:

- The Center for Applied Research in the Apostolate Special Report titled "When we can no longer do, Issues in Retirement for Diocesan Priests" (Spring 2009) indicates:
  - Only 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.

- Several Priest Adequacy Studies performed over the past three years found that:
  - About 60% of priests surveyed indicated that they spend little time planning for retirement; and
  - Over half of responding priests also indicated that their diocese does not do a good job of providing them with retirement information.

Responding to the need to better educate their priests, some dioceses have now become more proactive in communicating to them about the importance of planning for retirement. Examples of proactive communication with priests include:

- A plan for keeping priests reasonably informed about diocesan retirement-related programs should be: (1) in writing; (2) communicated with them on at least an annual basis; and (3) reviewed and updated as needed on at least an annual basis.

- Providing them with a written Summary Plan Description which includes a policy statement and detail on all aspects of the pension plan.

- Providing them with an Annual Benefit Statement which shows detail on benefits available at early, normal and late retirement.

- Retirement Seminars about Social Security, the Priest Pension Plan, and options for personal savings.

*LSRP FINDING …*

Procedures should be in Place to Properly Advise Retired Priests about Tax Information Essential to Claiming An Exclusion for Housing Expenses from Taxable Income

LSRP has reviewed IRS Codes pertaining to clergy being able to exclude housing costs from their taxable income. IRS Code Section 107 provides that clergy can exclude from taxable income the cost of housing.

Procedures and elections (options) in place in dioceses vary as to how retired priests that live on their own should report the housing cost exclusion on their personal income tax return. To some extent the complexity of applying differing options is an issue as well. Regardless, LSRP has found that some retired priests and even some dioceses, are not fully aware of the options available, or steps that needed to be taken to properly communicate and comply with the tax regulation.

LSRP has examples also, where internal diocesan records and notifications were incorrect and affected retired priest(s) were never notified of the exclusion and, where applicable, the amount of the exclusion limit in that diocese. In some cases significant (missed) tax savings over a number of years were involved. We recommend that dioceses review the elections/options that many put in place some years ago, to assure that retired priests are able to optimize the amount of this benefit.

Refer to the LSRP's Spring 2011 Newsletter—which can be viewed on our website under "Resources" —for more information.

Other unique features and approaches that also warrant consideration are as follows:

- **Make Sure there is a Clear Written Description of the *Scope and Purpose of the Pension Plan*** in the Plan Document. For example:

  *The scope and purpose of the Plan is to assist the Bishop in fulfilling his canonical obligations to provide retirement income for eligible diocesan priests. It is not the purpose of this Plan to be a tool 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 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 Consideration**:
    - Many dioceses 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.

- **Possible 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 a 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 are aware of 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 then reimburses the priest for 50% of the tax paid on wages and 100% of the tax paid on Room and Board.

- **Matching Funds for a 403(b) Plan**:
    - 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.

# Addressing Special Healthcare and Related Support Services Needed by Priests: Analysis of Long-term Care Programs

## Background - More Needs To Be Done

LSRP engaged CARA in 2007 to survey retired priests as well as priests in active ministry, who would likely retire in the next 10 years or so, regarding their views on a full range of retirement matters. The number 1 concern of responding priests was “not becoming a burden to their families or their bishop” in their retirement years---in the context of their possible need for long-term care (LTC).

While some dioceses have their own LTC facilities, many do not. In any event, priests responding to the survey had concern that they might be “assigned” to a long-term care facility far from family and friends. Many “wished” they could afford, or that the diocese would provide, LTC insurance---- so they could choose where they would be cared for.

LSRP has been studying and dialoging on the LTC issue since 2007. This has included discussions with bishops----particularly in dioceses that do not have such insurance for their priests-- who also agree that the need for insured LTC is the major request they hear from their priests. Cost of coverage in turn seems to be the big issue for the bishops. Note: Dioceses often rely on Medicaid for LTC for priests who do not have personal insurance or sufficient funds.

In some dioceses, particularly those who operate their own care facility or share such facilities with religious orders, we have been impressed with the apparent high level of care, in such settings. However, we understand that this solution cannot be replicated in many dioceses.

LSRP is continuing to search for answers. This includes engaging CARA to carry out specific surveys and follow-up interviews with the dioceses who indicated that they have insured LTC. It appears that only about 10% of the dioceses in the country have LTC insurance in place for their priests. In those dioceses where insured LTC is in place, because of insurers’ setting age limitations and priests with uninsurable pre-conditions, some priests out of necessity would need to be covered (directly) by the diocese --- through actuarially developed self-insurance reserves or even pay-as you-go expenses .

At this time (July 2014) LSRP is in the final stages of a formal Request for Information (RFI) process--a solicitation process where we have invited nine well-respected, national LTC insurance carriers to provide us with stipulated coverage information and cost estimates. Once this vetting effort is complete we will provide a report to the bishops in each of the 176 dioceses in the country that will describe our process, summarize the information gathered and make recommendations regarding possible courses of action that dioceses should consider. (LSRP will *not* be involved in contract negotiations on behalf of dioceses and will not accept fees or commissions from insurers related to such an effort).

LSRP has been fortunate to have the services of a highly qualified LTC Advisory Council as we moved into the RFI process. The membership is composed of experienced executive level people who know the health care/ LTC and insurance market place, as well as diocesan finance and human resource/benefits issues from direct involvement.

## Best Practice #1- There is no One-Size-Fits-All Solution for Addressing the Long-term Care Needs of Diocesan Priests

Dioceses need to undertake careful thinking and planning as to how diocesan-sponsored or assisted programs that address the special housing and healthcare needs of its priests should be structured and handled. Understanding that there is no one-size-fits-all solution, dioceses should seek the advice and guidance of skilled experts in developing appropriate plans for their various settings. These plans should be in writing, updated as may be needed, and shared openly with their priests.

Diocesan long-term care plans, as they do now, will likely vary from diocese to diocese. Traditional LTC insurance plans may be appropriate for some parish priests. Life insurance policies with long-term care riders may be cost-effective for others. And, it may also be very appropriate for priests with modest incomes and small personal savings to spend-down personal assets and qualify for Medicaid coverage.

## Best Practice #2- Seek Independent Professional Advice about Best Ways to Address the Long-term Care Needs of Diocesan Priests

According to The National Association of Insurance Commissioners (NAIC), everyone should seek qualified, independent third-party advice before making a decision to purchase LTC insurance. This advice and guidance would be best provided to dioceses and/or their priests by a licensed insurance broker who specializes in long-term care insurance products and, perhaps, a skilled financial counselor who is familiar with both the diocese and the unique financial situation of individual priests.

Ideally, dioceses should be prepared to help its priests in identifying insurance brokers and/or financial counselors who could serve as skilled, trusted advisors.

## Best Practice #3- Make Sure that Sufficient Funds are Properly Set-aside and Allocated for the Purpose of Funding Long-term Care Services Needed by Priests.

Recent surveys have found that some dioceses have decided to “self-fund” the prospective long-term care needs of its priests, meaning they set aside a calculated amount of money into a fund or foundation for this specific purpose. Certain other dioceses have indicated they have a simple case-by-case model in place, where the intent is to use current operating funds to pay for LTC care services needed by their priests.

Under both of these approaches, there is a possibility that sufficient funds may not be available when needed by priests requiring long-term care housing and/or healthcare services. Dioceses are strongly advised to avoid funding LTC services needed periodically by its priests by using its operating funds. Rather, dioceses should: (1) seek the advice of a qualified insurance actuary to guide them in making sure that adequate funds will be promptly available when needed; and (2) then put the required amount of money into a dedicated or restricted financial account, such as a foundation. The adequacy of such a fund should be periodically reviewed by an independent actuary.

## Annual Programs that Reach Out To Parish Laity for Support

### Best Practice – Reach Out to Laity to Request Their Support for the Retirement Needs of Parish Priests

LSRP has also developed a model program that can be used by Catholic parishes to raise funds on an annual or periodic basis from parish laity to help support retirement and special healthcare-related needs of their priests. This type of effort already occurs regularly within parishes, with the donations typically being dedicated to the needs of religious orders (primarily nuns). We believe there is widespread confusion among parishioners about the current programs, who assume their special giving extends to priests who have served them so well.

This tool- the *2013 Program Awareness Manual* – has been distributed to all dioceses across the country.  A copy of the Manual can be obtained by visiting the Laity in Support of Retired Priests' website at www.lsrpinc.org .

# Need Help Evaluating Your Priest Retirement Program?

## Best Practice - Seek Professional Help and Guidance

LSRP strongly encourages all dioceses to develop a relationship with a skilled, respected pension and benefits consulting firm – preferably a firm that has solid experience working with Catholic dioceses. They can help guide you in the careful review and periodic updating of your pension and related retirement benefit programs, ideally every five years or so.

In selecting a consulting firm, consider using a process like this:

Contact at least two firms and after an initial discussion with them, ask them to submit a proposal to you. These proposals should:

1. Be in writing.

2. Clearly articulate the work process to be followed: work deliverables; the anticipated date for completing the work; the person or persons who will be carrying out this work, with copies of their resumes; and how the consultant's work effort will be priced.

3. Provide contact information for at least 2 references – preferably other Catholic dioceses – who can be contacted by your diocese.

## Experienced Advisors

Two well-qualified firms that LSRP has used over the years as we have gathered information about pension plans and other retirement-related benefit programs for diocesan priests are:

- **Gabriel Roeder Smith & Company (GRS)**, based in Minneapolis, MN.
  - Robert Nordin, FSA, EA, MAAA: (612) 605-6198
    robert.nordin@gabrielroeder.com

  - Bonnie Wurst, ASA, EA, MAAA: (612) 605-6197
    bonnie.wurst@gabrielroeder.com

- **Gallagher Benefit Services, Inc.**
  12444 Powerscourt Drive, Suite 500
  St. Louis, MO 63131
  - Phil Bushnell
    Managing Director, Religious Practice Group
    Phil_bushnell@ajg.com