



About Laity in Support of Retired Priests (LSRP)

LSRP is a non-profit organization of mostly retired lay business and professional leaders as well as active and retired priests and bishops. The mission of LSRP is to support diocesan priests in their retirement, in gratitude for their service to the Church. The 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.

Special thanks to LSRP for sponsoring the development of the priest pension adequacy model.

About Gabriel, Roeder, Smith & Company (GRS)

GRS is a nationally recognized leader for actuarial and benefits consulting services. We are dedicated to continuous investments in innovation and enhancement of human capital and technology in our core service areas.

With seven U.S. locations and a staff of 120 employees, we provide actuarial and benefits consulting services to more than 800 clients each year, including Catholic dioceses. The work we do serves over 3 million employees and retirees.

Preparing Priests for Retirement

What Every Diocese Needs to Know...and Do

January 2014

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

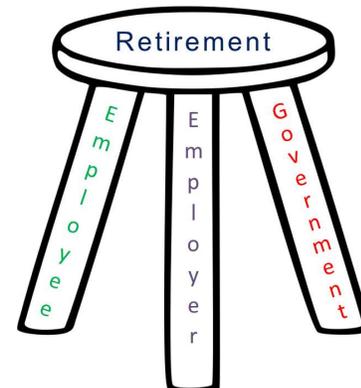
Will Your Priests be Able to Afford to Retire?

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.

GRS Consultants

Two of our employees who work with Church Plans are highlighted below for the work they have done with LSRP.

Robert Nordin, FSA, EA, MAAA

Bob is a retirement consultant and actuary who has worked with many Catholic dioceses over the past 35 years. His groundbreaking work with the Archdiocese of St. Paul and Minneapolis on priest adequacy issues in the 1990's helped to build the knowledge which led to the partnership with LSRP. In 2012, Tom Hoban (CEO of LSRP) and Bob Nordin presented a workshop entitled "Creating a Brighter Future for Those Who Served" at the NACPA Convocation in Tampa, Florida on the subject of pension adequacy for priests. Since then three studies have been performed – Pittsburgh, Indianapolis and Brooklyn.



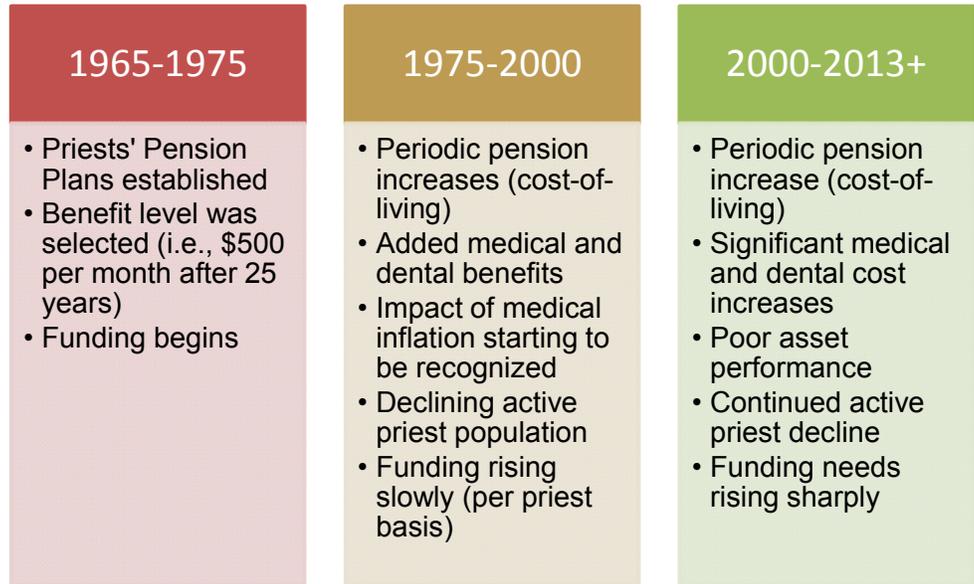
Bonita Wurst, ASA, EA, MAAA

Bonnie is a retirement consultant and actuary who has worked with many Catholic dioceses over the past 25 years. Bonnie worked closely with Bob during the early 1990s as they worked with the Archdiocese of St. Paul and Minneapolis on priest adequacy issues.



In recent years, Bonnie has worked on the three adequacy studies mentioned above.

History of Priests' Retirement Benefits



Employee (or Priest) Portion

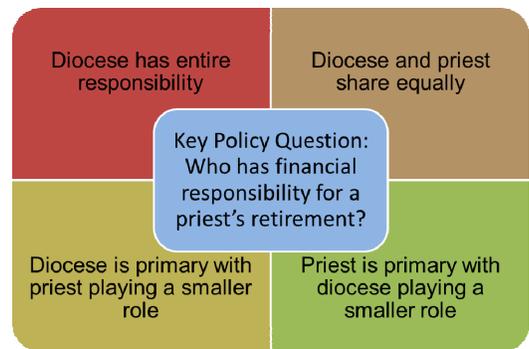
Personal savings for retirement has become an important "leg" in the three-legged stool over the past 40 years. With the advent of 401(k)s, IRAs and 403(b)s, coupled with employers pulling away from the level of their pension commitment, employees now recognize the need to contribute to their own retirement plans. Most corporate employees have been given clear communication that they need to share the responsibility of providing for their own retirement. On top of this, most employers have created retirement savings vehicles that include matching contributions as an incentive for their employees to begin the journey to saving for retirement.

What role does your diocese take as it relates to a priest saving for retirement? Is there a clear retirement policy that spells out the role a priest must play in helping to create a secure retirement? Has this policy been proactively communicated? Are priests actively engaged in saving for their own retirement?

While priests might be saving for retirement via an IRA or 403(b) arrangement, is it enough? Are all priests saving about the same amount

each year? What level of retirement contributions are your priests making annually? How much have your priests accumulated in their retirement accounts?

Unlike the employer portion, most dioceses do not currently know the level (either annually or total) that their priests are saving for retirement. This brings us to the following key retirement policy question shown in the graphic below.



Government Portion: Social Security

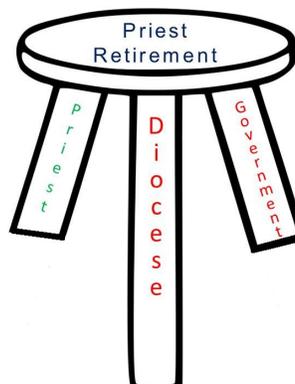
It gets really tricky here for priests! Priests are dual income taxpayers, which means they are considered to be employees for federal (and state) income tax purposes, but when it comes to Social Security they are treated as self-employed.

The history of this status goes all the way back to 1955, when priests were allowed to “opt in” to the Social Security system as self-employed. Over the past 58 years, the self-employed status has never changed, but the “opt-in” approach was changed in 1968 to one that brought all priests into the system, unless they made an irrevocable election to “opt-out.” Since that time, there have been three times when priests who opted out of the system could opt back in. Suffice it to say, in 2013 almost all priests are now in the Social Security System.

So what is the problem here? Being self-employed means that you have to report your own income to Social Security annually when you file your federal income tax form. In the case of priests, this is not always straight forward. Not only do they need to report their salaries, stipends, stole fees and any other cash compensation elements, but they should also report the fair market value of room and board.

Since room and board are not W-2 reporting items, the dioceses cannot know what priests are actually reporting to Social Security. As a result, dioceses have limited insight into what priests may ultimately receive as a monthly benefit in retirement.

To summarize, we are dealing with a three-legged stool with a lot of unknowns that is likely very wobbly. Both personal savings and Social Security are typically ignored (or anecdotally assumed), which makes it impossible to measure the adequacy of the Priest Pension Plan.



Measuring the Adequacy of Priests’ Pension Plans

Lots of Questions

In order to gauge the adequacy of the Priest Pension Plan, many things must be reviewed, such as priest compensation, diocesan policies for providing benefits, expectations and behavior of active priests and also retirement communications.

Specific questions include:

What is the diocesan policy towards financial responsibility for a priest’s retirement?

- Is the church entirely responsible?
- Is it a shared responsibility? And if so, how?

How much money is needed for a priest to maintain a reasonable standard of living in retirement?

- What is their current level of “spendable” income (i.e., the income that is left after taxes and savings)? Note: This income will need to be replaced in retirement.
- What additional expenses occur in retirement that a priest will need to pay for, such as housing, medical, travel, or auto to name a few?
- Finally, what resources will be needed for long-term care and final expenses?

How much retirement income will the priest receive from:

- Social Security
- Personal savings
- Part-time ministry
- Priest Pension Plan

How knowledgeable are the priests on key retirement issues, such as:

- Social Security
- Inflation
- Investments
- Long-term care
- Health insurance
- Housing

How proactive has the diocese been in communicating retirement issues, such as:

- Priest’s role
- Social Security eligible compensation
- Personal savings
- Priest Pension Plan
- Housing

LSRP & GRS

Laity in Support of Retired Priests (LSRP), a non-profit organization, has teamed up with Robert Nordin, FSA of Gabriel, Roeder, Smith & Company (GRS) to develop an adequacy model that is designed to shed light on the previously unknown elements of retirement income for priests and use them to gauge the adequacy of the Priest Pension Plan.

Over the past two years, this study has been completed for the Diocese of Pittsburgh, the Archdiocese of Indianapolis and the Diocese of Brooklyn.

Speaking Engagements

Mr. Nordin will discuss the adequacy model studies at the following conferences in 2014.

National Association of Church Personnel Administrators (NACPA) Convocation:

March 30 – April 1, 2014
Phoenix Marriott Mesa, AZ

Diocesan Fiscal Management Conference (DFMC):

September 21 – 24, 2014
Hyatt Regency Chicago, IL

Few Answers...Until Now!

LSRP and Robert Nordin, FSA teamed up to develop an adequacy model.

The graphic below shows a clear picture of retirement income vs. retirement needs, with an idea of those elements we can easily obtain (in yellow) and those that need to be clarified (in blue).



Gauging Adequacy: A New Model

First we must understand what level of income priests will need in retirement in order to maintain their standard of living. Cash compensation is a good place to start and typically is readily available. Key elements to cash compensation include salary, seniority increment, stipends, stole fees, and SECA allowance. Beyond cash compensation, you will need to factor in room and board, auto, health insurance and any other expenditure that Father will be required to pay (that he is currently not paying as an active priest). Once collected, you can calculate the level of taxes and savings to come up with a net value that will need to be replaced in retirement.

The next step is to understand all sources of retirement income that are available to your priests.

How can this information be obtained? It must come from the individual priests, who generally do not mind sharing this information, but they want it done on a confidential basis. We first learned this in focus groups we conducted with active priests in the early 1990's when we were just beginning our studies.

In response to their desire for confidentiality, we have developed an online survey tool which is designed to be easy-to-access, brief (taking around 15 minutes to complete), and completely confidential.

Notable Quotes on the Adequacy Studies

"We are very grateful to Bob Nordin and LSRP for the excellent information they provided to us regarding the retirement needs of our priests. We particularly appreciated the strategic, broad-based approach they took in identifying and estimating the multiple sources of income our priests will have in retirement as well as the expenses they are likely to incur."

—Ed Isakson, PHR, Archdiocese of Indianapolis

"We found the Priest Retirement Adequacy Survey to be an invaluable asset to us in our objective to systematically analyze our Senior Priest Benefit Package. Among the insights we gained was the perceived lack of knowledge among priests in all age ranges regarding the pension plan and benefit package we offer. We also became more acutely aware of the wide differences among our priests and their reporting of income for Social Security purposes."

—Deacon Edward Gaine, Diocese of Brooklyn

"The priest adequacy study, sponsored by LSRP, was an important first step for the Diocese of Pittsburgh in understanding the retirement needs of our priests and the income sources that will be there to support them. In addition, the online survey highlighted the attitude and needs of our priests as they themselves are preparing for retirement."

—Fred O'Brien, Diocese of Pittsburgh

Gauging Adequacy: A New Model, cont'd.

The survey contains the following four sections:

Background and Perceptions

- Question on current age of priest by broad age category (useful in future analysis);
- Questions on retirement perceptions and knowledge; and
- Questions on retirement expectations.

Social Security Reporting

- Questions on most recent year's reportable income.

Note: We have designed the questions with the ability to verify their accuracy. Wage reporting is a critical component in the determination of the monthly Social Security benefit. Too often we have heard that priests receive a certain amount of money per month, but this is often anecdotal and does not tell us when they began collecting Social Security or the range of actual benefits.

Personal Savings

- Questions on current savings rate and accumulated savings for retirement; and
- Questions on vehicles used and importance of saving.

Planning for Retirement

- Questions on approach to planning and time spent;
- Questions on what the diocese is doing in providing retirement planning information; and
- Open ended question on what would be helpful for the diocese to provide.

Actual participation rates for the online survey have been 33%, 50% and 75%. Typically a letter has been sent from the bishop announcing the survey and encouraging participation. A separate communication is sent that provides instructions on the survey, along with the survey website. The higher participation

rates have been the result of periodic reminders of when the survey will close and for the 75% participation rate, they also discussed the study "in-person" at the semi-annual priests business meeting.

Why an Online Survey?

Back in 1992, we did a significant adequacy study for the Archdiocese of St. Paul and Minneapolis, where we explored all of the elements of priest compensation and retirement income. Focus groups, written surveys and an arrangement with the Social Security Administration to obtain reported earnings were time consuming and expensive. When LSRP reached out to us about building an adequacy model, we shared our approach and the frustrations it brought. With their assistance, we came up with the idea of an online survey, which has proven to be cost effective, timely, and a reliable source of information.

"The online survey they conducted was user-friendly for our priests and provided insightful information about their expectations of the archdiocese and about how we can best help them to have sufficient assets in their retirement years. The report we received had clear, understandable findings that were very beneficial for us, and the entire survey process was well received by our presbyterate."

—Ed Isakson, PHR, Archdiocese of Indianapolis

Adequacy of Priest Pension Plans

“You cannot possibly judge the adequacy of your Priest Pension Plan without knowing the compensation of active priests, their level of personal savings, their Social Security benefits and their cost of housing in retirement (to name a few of the elements).”

—Robert Nordin, GRS

Study Results: Great Information and a Call to Action!

Each of the three dioceses we have worked with have gained valuable information, not only about Social Security and personal savings, but also about attitudes, perceptions, and concerns that their priests have about their own retirement. A sample of our “composite” findings from our online surveys is shown below:

Perceptions

- Over 90% of priests indicated that they plan to retire at age 70 or later (i.e., their Normal Retirement Age).
- Almost all priests viewed retirement as a shared responsibility, however, there was a wide range of what that means and who is viewed as primary.
- Approximately 50% of the priests expected their lifestyle to be about the same in retirement.
- Close to 90% of active priests anticipated they would be involved in part-time ministry during their retirement years.

Social Security

There is a wide range in the reporting of wages (and other church income) to Social Security by the active priests.

- \$1,000 - \$53,000 was the range
- Actual reported earnings were less than we expected.

Social Security is typically a good investment for priests, even though it is costly, at 15.3% of total compensation (including room and board). A primary reason is the formula used to calculate benefits provides a higher percentage for lower paid workers.

Personal Savings

- Approximately 90% of active priests are saving for retirement.
- Much like Social Security, there is a wide range of personal savings for priests.

- Annual retirement savings
 - ◊ Range of \$0 - \$20,000
 - ◊ Average of \$5,000
- Cumulative retirement savings range
 - ◊ Range of \$10,000 - \$1,000,000+
 - ◊ Average (for those over age 60) of \$130,000

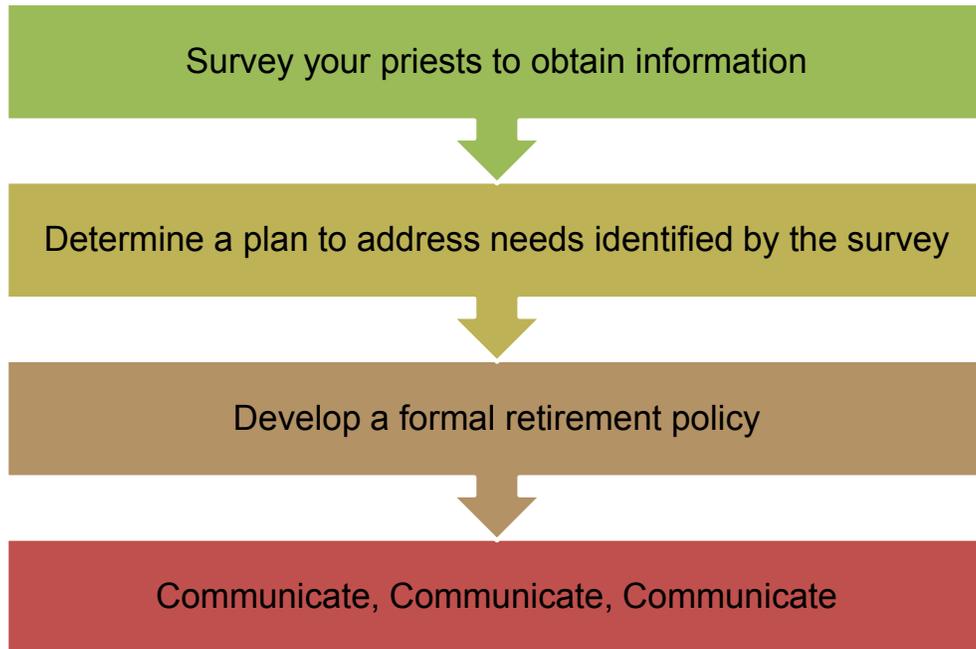
Communications

A resounding call to action was heard on the question of whether the diocese is doing a good job of providing retirement planning information. Well over 60% of the survey respondents answered “No” to this question.

We asked for specific input and heard the following responses from each of the diocese:

- “Seminars for those who are totally new to this.”
- “Some guidelines about how much I need to put away before I retire.”
- “More information on priests retirement benefits.”
- “Easily comprehensible information regarding what the diocese actually does plan for each of us.”
- “Long-term care planning.”
- “The diocese should provide pre-retirement seminars that would include financial planning, Social Security benefits, medical/physical health, and spirituality.”
- “I would like help determining my future financial needs.”
- “How much should I be saving on a monthly basis?”
- “What should I expect it to cost me to live month-to-month?”

Call to Action



Final Thoughts

LSRP and GRS have built a model that will allow you to quickly and cost effectively gain the knowledge you need to judge the adequacy of your Priest Pension Plan and at the same time build insight into what the views of your priests are towards retirement. Armed with this information, you can direct your efforts in meeting the needs of your priests. Please feel free to contact any of the following dioceses who have worked through this approach:

Archdiocese of Indianapolis

Ed Isakson, PHR, Director of Human Resources:
(317) 236-1549

Diocese of Brooklyn

Deacon Ed Gaine, Secretary for Human and Information Resources: (718) 965-7362

Diocese of Pittsburgh

Fred O'Brien, Chief Financial Officer:
(421) 456-3137

For additional information, questions on the study or to take the next step, please contact:

Gabriel Roeder Smith & Company (GRS)

Robert Nordin, FSA, EA, MAAA: (612) 605-6198
Bonita Wurst, ASA, EA, MAAA: (612) 605-6197

Laity in Support of Retired Priests (LSRP)

Thomas Hoban (CEO): (360) 933-4284

Special thanks to Wayne Lenell, C.P.A. (Director for Finance and Administration – Diocese of Rockford) whose book “Income Taxes for Priests Only” has been a great resource that we have used over the past 20 years to gain an understanding into the complex world of priests as dual taxpayers.

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