

## Services

Employee Benefits &  
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## Professionals

ALAN H. KANDEL  
ST. LOUIS:  
314.345.6463  
ALAN.KANDEL@  
HUSCHBLACKWELL.COM

CRAIG A. KOVARIK  
KANSAS CITY:  
816.983.8249  
CRAIG.KOVARIK@  
HUSCHBLACKWELL.COM

# Supreme Court to Decide Trio of Church-Affiliated Pension Disputes

The U.S. Supreme Court agreed on December 2, 2016, to hear consolidated appeals from three nonprofit hospital systems that are affiliated with religious groups concerning the “church plan” status of their respective defined benefit pension plans. The Court’s ruling could affect a multitude of nonprofit church-affiliated employers, including hospitals, educational institutions and homes for the elderly.

Generally, a defined benefit pension plan subject to the Employee Retirement Income Security Act (ERISA) must comply with strict funding and other requirements set forth in both ERISA and the Internal Revenue Code. ERISA and the Code, however, make an exception for plans that are established and maintained by a church or by a tax-exempt convention or association of churches for its employees (or their beneficiaries).

In this case, each of the three nonprofit, Christian-affiliated hospital systems (Advocate Health Care Network in Illinois, Saint Peter's Healthcare System in New Jersey and Dignity Health in California) maintained a pension plan designated as an exempt “church plan.” Importantly, two of the three hospital systems had received favorable determination letters from the Internal Revenue Service (IRS) approving their church plan status based on their religious affiliation. The third pension plan’s application for a similar determination letter was pending when the lawsuit began.

The lawsuits considered by the lower courts involve challenges by plan participants concerning the funding status of their respective employer-sponsored pension plans. In evaluating the merits of the claims, the lower courts gave little weight to the IRS determination letters, holding that to be a “church plan,” a plan must be both **established** and **maintained** by a church. The lower courts pointed out that because each of the plans was established by a church-affiliated organization and not by a church, the

hospital systems could not fall within the ERISA exemption, notwithstanding the IRS determination letters.

These three consolidated cases before the Supreme Court are noteworthy because they call into question previously issued IRS determination letters. Many of these employers have relied on the church plan exemption since the early 1980s, when ERISA was amended to add the exemption.

## **What This Means to You**

The Supreme Court's review may have significant consequences for retirement plans, as well as health and welfare plans, sponsored by religiously affiliated organizations, as suggested by a wave of recent lawsuits seeking retroactive liability. Pending the Court's decision, potentially affected employers should evaluate the "church plan" status of their retirement and welfare plans.

## **Contact Us**

For more information about church plan exemptions and what actions to take now for your particular plan, please contact any member of Husch Blackwell's Employee Benefits & Executive Compensation team.