

# The Bulletin:



In Milliman’s introduction to this series, we define three core principles that are often considered in church retirement plans—**benefit adequacy**, **benefit equity**, and **benefit security**. This chapter of the series explores what it means to have church plan status and how minimum standards may or may not play a part in establishing a balance of these core principals.

## What does having church plan status mean?

The Employee Retirement Income Security Act (ERISA) was established in 1974 to provide minimum standards to protect retirement plan participants. Church plans may be exempt from certain requirements under ERISA. In order to be considered a church plan, the plan must be established and maintained by a church, church-affiliated organization, or certain church-associated entities. If this is the case, then a church plan is not subject to minimum standards for reporting and disclosure, participation, vesting, funding and fiduciary responsibility. In addition, a church pension plan is not required to be covered by the Pension Benefit Guaranty Corporation (PBGC), which is the entity created by ERISA to provide protection to corporate pension plans. In many ways, a church plan is structured in the same as a traditional plan, without all of the requirements that govern corporate pension plans.

## How is a “church plan” different from corporate pension plans?

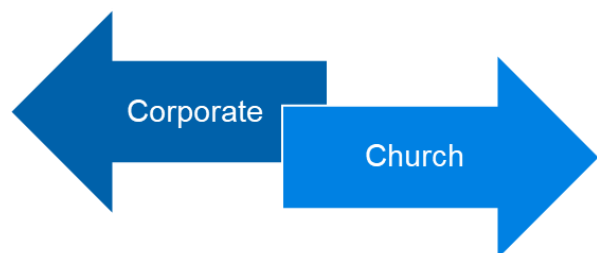
Most corporate pension plans are subject to strict requirements for minimum contributions, minimum funded status to avoid benefit restrictions, minimum participation and vesting, and minimum benefits. They are even subject to annual premiums to be paid to the PBGC as a form of insurance to protect the pension plan in case of insolvency of the plan sponsor. While recent laws have provided some relief, many plan sponsors have struggled with these strict requirements. The inability to maintain the funded status, or health of the plan, has resulted in freezing plan participation and/or benefits and moving to 401(k) and other

defined contribution (DC) type plans. As a result, pension plans are declining in the private-sector with very few plan sponsors providing pension benefits to their employees.

Church plans on the other hand have greater flexibility in plan design and coverage, in developing a funding policy, and in the ability to modify benefits depending on the plan’s funded status. As a result of this flexibility, church plans often look to balance **benefit adequacy**, **benefit equity** and **benefit security**. However, this also means that benefits under a church plan are not protected by ERISA and the PBGC in the same way benefits for a corporate pension plan may be. In order to maintain the plan sponsor’s desired balance of the three core principals of church plans, careful consideration should be made when making changes to meet the needs of the overall retirement program.

Providing a meaningful benefit among the plan’s participants (**benefit adequacy and equity**) while building the plan’s funded status (**benefit security**) involves collaboration among the plan’s actuary, investment advisors, and plan sponsor to achieve the desired outcome. With a thoughtful strategy, the plan sponsor can achieve the desired outcome for the church plan and its participants.

FIGURE 1: DIFFERENT PLANS

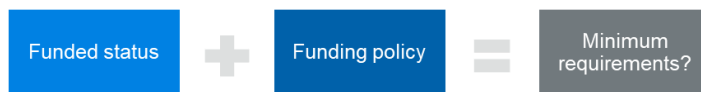


## Should a church plan consider minimum requirements under ERISA?

While not required, many church plans will adopt certain provisions of ERISA, particularly those that may protect plan benefits and/or participants. A church plan may also ask its plan actuary to determine the plan's funded status under multiple scenarios, including minimum funding requirements applicable to corporate pension plans. This allows the church plan sponsor to compare its funding policy and funded status to minimum requirements for corporate pension plans. This might also suggest when a change to the plan or consideration of changes to the funding policy or benefit structure might be necessary.

Even if a church plan does not consider minimum requirements under ERISA, the church plan can look at its funded status on an accounting basis to determine the plan's funded status using current market interest rates developed from yield curves based on AA rated corporate bonds. Accounting measurements for church plans are developed in the same manner as corporate pension plans, so this type of measurement is a valid indicator of the plan's funded status based on a current market basis.

FIGURE 2: MINIMUM REQUIREMENTS



## What about recent court cases?

Recent court cases have raised the issue of whether certain church plans were established by an entity and not by churches, which suggests they failed to satisfy ERISA's church plan exemption. A recent Supreme Court decision reasoned that ERISA does not require an exempt church plan to have been originally established by a church, but rather maintained by principal-purpose organizations. With this decision, plan sponsors should review the establishment as a church plan and operate the plan accordingly.

Other court cases raise concern over the protection of benefits of church plan participants because they may not be protected by ERISA. Since church plans may be exempt from certain requirements under ERISA, there is the ability for a church plan to reduce or remove provisions of a plan that would otherwise be protected under ERISA by a corporate pension plan in order to improve the plan's funded status. While allowed, this can lead to participant class action lawsuits that question the decisions made by the plan sponsor, not only in the changes made to the plan itself, but also in the funding policy or other decisions made that resulted in the need to make changes to the plan.

## What does this mean for church plans?

While church plans may be exempt from minimum requirements, church plan sponsors may look to corporate pension plan restrictions and requirements as a way to measure the viability and benefit of the church plan. At the end of the day, by focusing on the three core principles of *benefit adequacy*, *benefit equity*, and *benefit security*, church plan sponsors can maximize their offering of a beneficial retirement program to participants within their financial ability to do so.

### Your Milliman actuary

This Bulletin chapter brought to you by Mary Leong, Principal and Consulting Actuary.



For more information about The Bulletin series, see prior articles [here](#).

Do you have a question about your defined benefit pension plan? Write to us at [thebulletin@milliman.com](mailto:thebulletin@milliman.com).