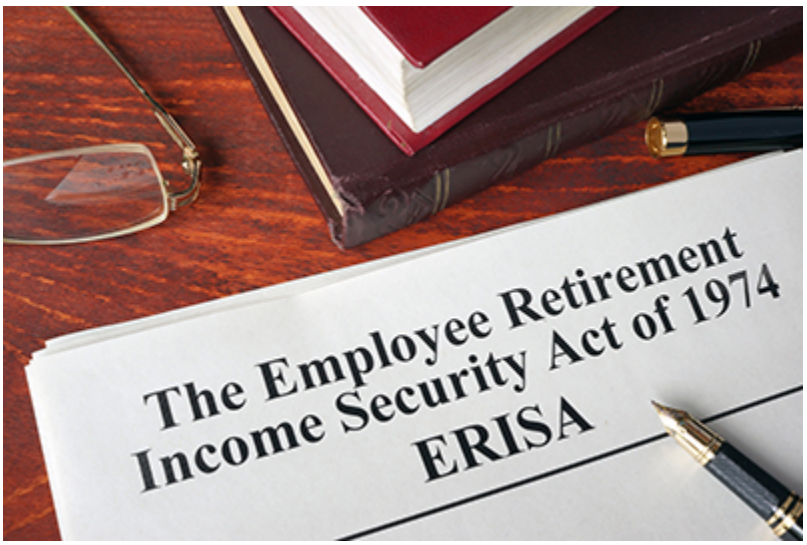
BENEFITS

U.S. Supreme Court: 'Church Plan' Need Not Be Established by a Church to Qualify for ERISA Exemption

By Jennifer Carsen, J.D., Senior Legal Editor Jun 20, 2017 Benefits

The Employee Retirement Income Security Act of 1974 (ERISA) generally requires private employers offering pension plans to adhere to a lengthy list of rules designed to ensure plan solvency and protect plan participants. Church plans, however, are exempt from those requirements.



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But what, exactly, constitutes a "church plan"?

The U.S. Supreme Court has just ruled—unanimously—on this issue.

Church-Affiliated Hospitals Offered Defined-Benefit Pension Plans to Employees

The case involved three church-affiliated nonprofits that run hospitals and other healthcare facilities (collectively, hospitals). These hospitals offer defined-benefit pension plans to their employees. The plans were established by the hospitals themselves—not by a church—and are managed by internal employee-benefits committees.

The three hospitals involved in the case were Advocate Health Care Network, associated with the Evangelical Lutheran Church in America and the United Church of Christ; Saint Peter's Health Care System, which is both owned and controlled by a Roman Catholic diocese; and Dignity Health, which maintains ties to the Catholic religious orders that initially sponsored some of its facilities.

A group of current and former employees filed class actions alleging that the hospitals' pension plans did not fall within ERISA's church-plan exemption because they were not established by a church. The district courts agreed with the employees, ruling that a plan must be established by a church in order to qualify for the exemption; the appeals courts affirmed.

The U.S. Supreme Court, however, ruled 8-0 (Justice Gorsuch did not participate in the case) that a plan maintained by a principal-purpose organization qualifies as a "church plan," regardless of who established it.

Supreme Court's Ruling

Justice Kagan wrote the majority opinion. The definition of "church plan" came in two distinct phases, noted the Court. Initially, ERISA defined it as a "plan established and maintained … for its employees … by a church or by a convention or association of churches." But in 1980, Congress amended the statute to expand the definition. Now, for purposes of the church-plan definition, an "employee of a church" includes an employee of a church-affiliated organization, such as the hospitals in this case.

Congress also added in 1980 a provision providing that the definition of "church plan" includes a plan established *or maintained* [emphasis added] by an entity whose principal purpose is to fund or manage a benefit plan for the employees of churches or church affiliates.

The intent of Congress, the Supreme Court concluded, was to encompass a different type of plan in the definition—one that "should receive the same treatment (*i.e.*, an exemption) as the type described in the old definition." And these "newly favored plans" are described by the Court as those maintained by a "principal-purpose organization," regardless of their origins.

In short, "[b]ecause Congress deemed the category of plans 'established and maintained by a church' to 'include' plans 'maintained by' principal-purpose organizations, those plans—and *all* those plans—are exempt from ERISA's requirements."

Sotomayor: The Right Decision, but a Troubling One

Justice Sotomayor, in a concurring opinion, noted that the majority opinion meant that "scores of employees—who work for organizations that look and operate much like secular businesses—potentially might be denied ERISA's protections. In fact, it was the failure of unregulated 'church plans' that spurred cases such as these."

While Sotomayor joined the majority opinion because she was "persuaded that it correctly interprets the relevant statutory text," she was nonetheless "troubled by the outcome of these cases."

She noted that, while Congress acted in 1980 to exempt plans established by orders of Catholic Sisters, "it is not at all clear that Congress would take the same action today with respect to some of the largest health-care providers in the country … organizations [that] bear little resemblance to those Congress considered when enacting the 1980 amendment …"

Advocate Health Care Network v. Stapleton, U.S. Supreme Court 581 U.S. ____ (June 5, 2017).

Jennifer Carsen, JD, is a Senior Legal Editor for BLR's human resources and employment law publications, focusing on benefits compliance. In the past, she served as the managing editor of California Employer Resources (CER), BLR's California-specific division, overseeing the content of CER's print and online publications and coordinating live events and webinars for both BLR and CER.

Before joining CER in 2005, Ms. Carsen was a Legal Editor at CCH, Inc. and practiced in the Labor & Employment Department at Sidley & Austin, LLP in Chicago. She received her law degree from the New York University School of Law and her B.A. from Williams College. She is a member of the New Hampshire Bar Association.

Questions? Comments? Contact Jen at jcarsen@blr.com for more information on this topic