



# Courts Continue To Expand ERISA Church Plan Exemption

Insights

2.01.16

Most employers know that there is a federal law – the Employee Retirement Income Security Act, or ERISA – that governs employer-sponsored employee benefit plans. There are a few notable exceptions that could apply to healthcare employers, however. One, in particular, has received a fair amount of attention by courts in recent years: the church plan exemption. This exemption excuses certain church-related plans both from ERISA obligations and also from certain requirements of the Internal Revenue Code.

Does this exemption apply to your business? A recent court decision may be helpful in making this determination.

## Several Years Of Litigation End With Employer Victory

In the case of *Medina v. Catholic Health Initiatives*, a faith-based health system operating in 19 states and comprising 102 hospitals (CHI) offered retirement benefits to its employees through a defined benefit plan. The plan stated by its own terms that it was a “church plan,” and thus exempt from ERISA requirements. In fact, the Internal Revenue Service reviewed the plan and recognized it as such in 2002. That didn’t stop a group of former employees from bringing a class action lawsuit against the organization challenging the designation.

After several years of costly litigation, a federal court judge in Colorado denied the plaintiffs’ claim and dismissed the case on December 8, 2015, finding that CHI’s plan was, indeed, a church plan. The key to the decision was the court determining that the employer was a church-related organization.

While the parties agreed that CHI is not a “church” according to the traditional “place-of-worship” definition, the plaintiffs argued that CHI is not controlled by or sufficiently associated with a church to qualify for the exemption. The court disagreed.

In its decision, the court reviewed the history of CHI and its organization within the worldwide Catholic Church. It noted that CHI was the civil law identity of the Catholic Healthcare Federation, which was created by decree of the Holy See and was ultimately accountable to the Vatican.

The court then found that CHI’s mission and its many activities supported religious programs and services. Finally, the court analyzed the committees that had authority over the defined benefit plan,

concluding that CHI and its pension plan subcommittee “plainly share common religious bonds and convictions with the Catholic Church.”

### **What Does This Mean For You?**

This decision is a victory not only for churches, but also for church-controlled organizations. It expands the scope of the church plan exemption and provides a framework for such organizations to better comply with the law.

There are concrete benefits to falling under this exception. If the church plan exemption applies to your business, your employee benefit plan can be operated without following many ERISA requirements. These include funding requirements, notice and disclosure rules, and in the case of defined benefit pension plans, the requirement to pay Pension Benefit Guaranty Corporation (PBGC) premiums. You will want to review your status to see if you qualify under this expanding definition.

This is not the last word on this case, however, as an appeal was filed on January 8, 2016. We will report on the final decision, which might not be issued until late this year or sometime in 2017.

---

*For more information, contact the author at [JDSmith@fisherphillips.com](mailto:JDSmith@fisherphillips.com) or 440.838.8800.*

### ***Related People***



**Jeffrey D. Smith**  
Partner  
440.838.8800  
Email

### ***Service Focus***

Employee Benefits and Tax

### ***Industry Focus***

