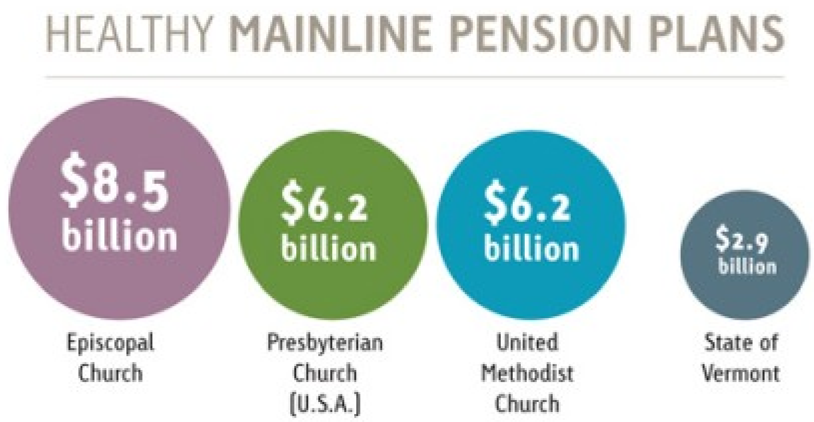
Shaky economy imperils church pensions

by G. Jeffrey MacDonald in the January 11, 2011 issue



The defined benefit plans of the Episcopal Church, the Presbyterian Church (U.S.A.) and the United Methodist Church are all regarded as sufficiently funded to meet future obligations—even ranking among the nation's largest (and considerably larger than the pension fund for the state of Vermont).

Religious denominations have long provided retired clergy and staff with secure pension payments--more secure, in some cases, than corporate retirement plans. But some recent developments have drawn attention to the vulnerabilities of so-called church plans, which are exempt from federal regulations aimed at safeguarding retirement funds for private-sector retirees.

As cash-strapped states and private companies revamp, freeze or end their pension programs altogether, participants in church plans are now realizing that such plans can be riskier than they appear, observers say.

"As a group, employees in so-called church plans are far more at risk than other private sector employees," said Karen Ferguson, director of the Pension Rights Center, a Washington-based watchdog group.

Unlike other private-sector workers whose pensions are insured by the federal Pension Benefit Guaranty Corporation, church employees have no federal agency poised to rescue their employer-provided pensions in the event of a devastating market crash. Yet "because there hasn't been a collapse of a [church] pension board plan, everybody, I think, is comfortable leaving them alone," Ferguson said. In several recent cases, however, churches have failed to keep their plans fully funded to be able to meet obligations to retirees:

- In October, the Roman Catholic Diocese of Wilmington (Delaware) said it had only $8.5 million available to pay $52 million in pension liabilities. The diocese, which is under Chapter 11 bankruptcy protection because of the clergy sexual abuse scandal, is assuring pensioners that it will meet its obligations.
- In August, the Archdiocese of Boston informed employees that their pension plan--funded at just 79 percent--is "unsustainable." The archdiocese will keep paying its obligations, according to spokesman Terrence Donilon, but a new market-based plan involving 401(k) or 403b accounts will take effect January 1, 2012, funded through individual and employer contributions.
- About 12,000 Lutherans are seeing their pension payments shrink by 6 to 9 percent annually from 2010 through 2012. The defined benefit program of the Evangelical Lutheran Church in America was only 61 percent funded in February 2009 and has been closed to new participants since January 1, 2010.

Other major denominations are reporting no such problems with their benefit plans. Several mainline denominations still offer defined benefit programs--increasingly rare in the private sector--which promise to pay retirees a fixed monthly sum based on a formula.

Defined benefit plans of the Episcopal Church ($8.5 billion), the Presbyterian Church (U.S.A.) ($6.2 billion) and the United Methodist Church ($6.2 billion) are all sufficiently funded to meet future obligations, according to church spokespeople. Those three denominational pension funds rank among the nation's largest, each of them more than twice the size of Vermont's $2.9 billion state pension fund, for example.

Unconvinced that they should follow the lead of corporate America and offer more plans like a 401(k), the organizations overseeing these assets remain committed to offering defined benefits.

"We maintain a prudent, long-term, disciplined and measured investment strategy, and remain convinced that this approach is the most prudent for achieving positive long-term investment results," said Colette Nies, spokeswoman for the United Methodist Church's General Board of Pension and Health Benefits, in an e-mail.

Observers cautioned church pensioners not to get lulled into a false sense of security.
"The church world tended to be a place that wanted, in the case of clergy, to protect those people from ordination to grave," said David Powell, a Washington attorney and church pension expert who's written the only book on the subject. "They wanted to make those sorts of pension promises. It's the affordability of them that has got many of them concerned now."

Powell said some denominations are considering switching from defined benefits to less-expensive defined contribution plans, such as those used by the ELCA and the American Baptist Churches USA. In the meantime, however, their assurances of sufficient funding don't necessarily mean much in Powell's view.

"A lot of this is rather fuzzy accounting," Powell said. "You're really trying to guess: how much money do I need now in order to pay Joe Blow $110 per month, commencing in 2030? . . . Actuaries will give you different assumptions, and it can vary very widely."

Pension concerns have been brewing in some denominations since before stock markets crashed in 2008. The

ELCA, for instance, is battling a lawsuit from retirees of its publishing arm, Augsburg Fortress. At a December 8 federal court hearing in Minneapolis, lawyers sparred over whether the ELCA owes a debt to Augsburg Fortress pensioners, whose plan was dissolved a year ago after years of underfunding. A ruling on preliminary questions is expected in early 2011.

Church plans could qualify for federal insurance if they were to comply voluntarily with associated federal regulations, according to Pension Rights Center spokeswoman Nancy Hwa. But few if any have taken that step.

The PRC's Ferguson said pension funds of major denominations are managed professionally, and she has no reason to think they might be in trouble. But because church plans don't have to disclose their funding levels to the public, a funding crisis could potentially go undetected.
"Most people don't realize there's a problem" until they discover that their pensions are in jeopardy, Ferguson said. "They don't know their plans are not protected by the law. . . . You assume everything is going to be all right, especially if you're in a religious organization. You assume that the church is going to look out for you."

Denominational pension boards send out annual reports to the likes of Les Pettit, a disabled 67-year-old United Methodist minister who retired in Berwick, Maine, two years ago after 25 years in parish ministry. To him, the annual report isn't very illuminating.

"You'd have to be an accountant to understand it," Pettit said, adding that he has "great confidence" in those overseeing his pension funds but admits he's taking their word for it. "It's fine as far as I know now, but who knows?" Pettit said. "You put your trust in [managers and administrators]. Then you hope and pray they're as honest as they claim to be." -RNS