
Supreme Court Unanimously Extends the "Church Plan" ERISA Exemption to Plans Originally Established by Non-Church Affiliates

By Douglas J. Ellis / Jun 08, 2017

On June 5, 2017, the U.S. Supreme Court issued an 8-0 decision (with new Justice Gorsuch not participating as this case was argued and decided prior to his joining the Court) holding that qualified retirement plans maintained by church-affiliated organizations are considered "church plans," even if the plan was originally established by a non-church entity. The decision in *Advocate Health Care Network v. Stapleton* reversed the decisions of several lower courts, including the appellate courts of the Third, Seventh and Ninth Circuits.

The Employee Retirement Income Security Act of 1974, as amended (ERISA), generally regulates all tax-qualified retirement plans of private employers, and imposes relatively stringent minimum requirements relating to eligibility, vesting and funding of plan benefits. However, "church plans" are generally exempt from ERISA's regulations. In the case before the Court, which consisted of three consolidated cases from separate appellate courts, the retirement plans in question were established and maintained by certain hospitals for the employees of the hospitals. The hospitals were not churches, but were affiliated with churches, and the opinion referred to them as "principal purpose organizations."

The question before the Court was whether a plan that was originally established by a church-affiliated principal purpose organization rather than the church itself could avail itself of the "church plan" exemption from ERISA.

In arriving at its decision, the Court focused on ERISA's definition of a "church plan." In its original form, that definition essentially stated that a "church plan" meant a plan established and maintained by a church. The definition was subsequently amended to provide that a plan established and maintained by a church "includes a plan maintained by [a principal purpose] organization." The Court stated that the "most natural reading" of the amended language was to substitute the phrase "maintained by a [principal purpose] organization" for the entire phrase in the original definition referring to a plan that was "established and maintained by a church."

Accordingly, the Court determined that a plan maintained by a church-affiliated entity could still constitute a "church plan" exempt from ERISA, regardless of whether it was originally established by a church or a non-church affiliate. The opinion further observed that, while the decision reverses the holdings of the various appellate courts, it is consistent with the long-standing interpretations of the Internal Revenue Service, the Department of Labor and the Pension Benefit Guaranty Corporation, each of which regulate various aspects of ERISA.

If you have any questions about this decision, or the scope and requirements of the "church plan" exemption under ERISA, please contact Doug Ellis at dellis@clarkhill.com | (412) 394-2367; Nancy Farnam at nfarnam@clarkhill.com | (248) 530-6222; Ed Hammond at ehammond@clarkhill.com | (248) 988-1821; or another member of Clark Hill's Labor and Employment Practice Group.