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Supreme Court Upholds "Church Plan" Sponsorship by "Principal-Purpose Organizations"

On Monday, June 5, 2017, the U.S. Supreme Court rendered a much-awaited decision in *Advocate Health Care Network v. Stapleton* in favor of church plan sponsors that are "principal-purpose organizations."[1] This ruling is significant because it overturns prior contrary rulings affecting church plans sponsored by church-related organizations in the Third, Seventh, and Ninth Circuits.

The Court's ruling officially allows church-related organizations across the U.S. to continue to sponsor and maintain church plans. These plans are beneficial to these organizations because they are exempt from some of the stricter and more expensive requirements of the Employee Retirement Income Security Act (ERISA) and the Internal Revenue Code. Therefore, this was a positive development for many church-related organizations sponsoring these plans across the country.

The case involved three healthcare organizations that established employee benefit plans under the church plan exception to ERISA (collectively referred to by the Court as the "hospitals"). The hospitals were each controlled by or associated with a church for purposes of ERISA and the Internal Revenue Code, and so employees of the hospitals were considered to be employees of a "church" for purposes of the church plan exception. However, the hospitals themselves did not qualify as churches. The issue before the U.S. Supreme Court was whether or not the hospitals could sponsor church plans for their employees, or whether the plans needed to be initially established by a church in order to qualify for the church plan exemption.

A church plan was initially defined by ERISA as an employee benefit plan that is established and maintained by a church for the benefit of its employees. However, in 1980, ERISA was amended to provide that a plan would also meet the definition of church plan if it is maintained by an organization that is "controlled by or associated with a church or a convention or association of churches" if the "principal purpose or function" of the organization is the administration or funding of a plan providing benefits to employees of a church. The Court refers to this additional type of church plan sponsor as a "principal-purpose organization."

In order to take advantage of the 1980 amendment to ERISA, each of the hospitals formed internal administrative committees that would have the principal purpose of administering their employee benefit plans. Due to the fact that their employees were otherwise considered church employees under ERISA, the hospitals took the position that they were eligible to establish church plans by creating these principal-purpose organizations to administer them. Although not all of the hospitals involved in the litigation obtained IRS rulings on this issue, two of them did obtain private letter rulings issued by the IRS approving this organizational design and confirming that the hospitals were eligible for church plan status. Over the past 30 years, the IRS has issued many similar letters to other church-related organizations utilizing this method of qualifying for the church plan exemption from ERISA.

In recent years, multiple lawsuits have been filed across the country challenging the church plan status of similarly designed church plans. Several courts have sided with the plans and with the IRS and have held that this structure is an appropriate interpretation of the church plan exemption from ERISA. However, the courts

[1] Read the complete Supreme Court decision at https://www.supremecourt.gov/opinions/16pdf/16-74_5i36.pdf.

in the Third, Seventh, and Ninth Circuits each held that a plan must actually have been established by a church in order to qualify for the church plan exemption.[2] These courts held that the 1980 amendment to ERISA allowed a plan to continue to qualify as a church plan if it was administered by a principal-purpose organization, but these courts held that the plan must actually have been established initially by a church. It was these rulings in the Third, Seventh, and Ninth Circuits that the U.S. Supreme Court agreed to review in the instant case.

After combining the Third, Seventh, and Ninth Circuit cases into a single case—*Advocate Health Care Network et al. v. Stapleton et al.*–and embarking upon a review of the statutory language and the legislative history, the U.S. Supreme Court held unanimously[3] on June 5 that a plan maintained under the principal-purpose organization design endorsed by the hospitals *does* qualify as a church plan, and that the statute contains no requirement that the plan also be established by a church. This means that plans that are sponsored or maintained by church-related organizations can continue to qualify as church plans under ERISA and the Code, provided that they utilize the principal-purpose organization design described above.

With the *Advocate Health Care Network* decision, the U.S. Supreme Court has resolved a significant amount of uncertainty that surrounded church plans sponsored by church-related entities. Going forward, though, these organizations can now have assurance that they are eligible for the church plan exemption, and they can continue to rely on their existing IRS private letter rulings to the extent that they were previously obtained.

If your organization sponsors a church plan or if you would like to better understand the implications of church plan status, please contact one of the members of our Employee Benefits team. We are happy to answer any questions about this ruling and to help you determine the best approach to protecting your church plan status in the future.

Employee Benefits and Executive Compensation Group Contacts

Bruce G. Gabler
412.297.4805
bgabler@cohenlaw.com

Jennifer M. Gardner
412.297.4619
jgardner@cohenlaw.com

Anne M. Lavelle
412.297.4988
alavelle@cohenlaw.com

Lauren M. Crossett
412.297.4750
lcrossett@cohenlaw.com

[2] The cases were *Kaplan v. Saint Peter's Healthcare System* (3rd Circuit, 2015), *Stapleton v. Advocate Health Care Network* (7th Circuit, 2016), and *Rollins v. Dignity Health* (9th Circuit, 2016).

[3] Justice Gorsuch did not partake in the consideration or the decision, and Justice Sotomayor filed a concurring opinion.