

Archdiocese of Seattle

PRIEST PENSION AND RETIREE MEDICAL PLAN FREQUENTLY ASKED *Questions*

WHY RUN A CAMPAIGN FOR THE PRIEST PENSION AND RETIREE MEDICAL PLANS NOW?

The Archdiocese of Seattle's Priest Pension and Retiree Medical Plans operate on a pay-as-you-go basis. Funds collected from parishes are just enough to pay for the current pension benefits and medical expenses. Presently, the Archdiocese of Seattle bills parishes \$9,400 per assigned priest for pension plan expenses. The Annual Catholic Appeal goal includes an \$800,000 additional allocation to the priests' pension plan and another \$800,000 for medical costs of retired priests. Those funds, individual memorial contributions, and the annual second collection envelope in October roughly equal the payments needed for the current benefits and expenses of the plans.

To date, the amounts have been adequate to pay benefits but not to increase invested assets at the rate needed to provide the same level of support in the future. The Archdiocese of Seattle knows the increasing billing amounts and the Annual Catholic Appeal portion will become ever more burdensome to parishes if we maintain this pay-as-you-go approach. If nothing is done, parish billing amounts will continue to rise as:

- The cost of living increases
- Priests live longer
- The ratio of retirees to active priests increases
- Medical costs increase

For these reasons, Archbishop Etienne has accepted the recommendations of the archdiocesan consultative groups to provide capital to both plans through a major campaign as the best course of action to address future needs. A campaign that achieves or surpasses the established \$100 million goal will result in significantly reduced billings to parishes for the priest pension and retiree medical benefit plans.

Through a successful campaign:

- Annual Catholic Appeal allocations of \$800,000 per year to the priest pension plan and \$800,000 to the priest retirement medical plan will be eliminated – a total of \$1.6 million in savings.
- Annual billings to parishes of \$9,400, per active priest, to the pension plan will be significantly reduced. These annual billings total approximately \$950,000.



**CALLED TO
SERVE *as* CHRIST**

A campaign for our
PRIESTS, SISTERS & FAMILY OF FAITH

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HOW WERE THE CAMPAIGN GOALS FOR THE PRIESTS' PENSION AND MEDICAL PLANS ESTABLISHED?

Key assumptions and data supporting the goals for the priest pension and retired priest medical plan:

1. Number of retirees receiving benefits will be 110.
 - a. As of January 1, 2018, the archdiocese had 111 Priests receiving benefits.
 - b. It is expected that that number will be stable at 110. The archdiocese's actuaries determined this number based on our present census of priests and seminarians.
2. Funding objective is to provide adequate resources to pay benefits for existing and future retirees.
3. Pension benefit is \$1,943 per month, per priest.
4. Retired priest medical costs are \$800 per month, per priest.
5. The archdiocese wishes to significantly reduce the billings to parishes and eliminate the portion of Annual Catholic Appeal goals which are annually earmarked for the pension and post-retirement medical costs. Annual amounts:
 - a. \$1.6 million in additional Annual Catholic Appeal goals.
 - b. \$950,000 (\$9,400 per parish) in additional parish billings. Additionally, absent a successful campaign, these billings will increase by \$600 per parish, per year for the foreseeable future.

Given the background described above, here are the computations for the priest pension and retired priest medical plan:

Catholic Archdiocese of Seattle, Priests' Pension and Medical Benefits Plan Estimates

	<i>Pension</i>	<i>Medical</i>
Monthly benefit per priest	\$1943	\$800
Annual benefit	\$23,316	\$9,600
Number of priests	110	110
Total annual benefit	\$2,564,760	\$1,056,000
Estimated administrative costs	\$250,000	In the rate
Total annual disbursements	\$2,814,760	\$1,056,000
Existing plan assets	\$7,000,000	\$3,000,000
Capital campaign assets	40,000,000	15,000,000
Total projected assets	\$47,000,000	\$18,000,000
Estimated annual distribution rate	6.0%	5.9%

WHAT WERE THE HISTORICAL RETURN RATES FOR THE PENSION AND MEDICAL PLANS?

The following are the historical returns on the Priest's Pension and Medical Plan investments for periods ended December 31, 2017:

<i>Period</i>	<i>Pension Plan Returns</i>	<i>Medical plan Returns</i>
15 years	7.3%	6.7%
10 years	6.0%	5.9%
5 years	10.1%	7.9%
3 years	8.7%	6.0%
1 year	15.9%	13.3%

- The returns for each plan have performed well when compared to their investment policy benchmarks.
- Because of liquidity needs, 51 percent of the medical plan assets are allocated to short term and intermediate term bond fund which results in lower returns compared to the pension plan.

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HOW LONG WILL CAMPAIGN FUNDS LAST?

The capital base above should fund the plan in perpetuity because earnings from the capital base will replenish distributions for benefits and administrative costs.

The campaign objective for the priest pension goal is to provide assets to endow a pension plan that can provide benefits in perpetuity for a stable population of 110 priests at the present pension benefit level. It could be argued that a higher goal should be established to permit for inflationary increases in the benefits. The archdiocese has not done so because it assumes the endowment will grow enough to cover inflation and bequests as well as other gifts will continue to come in over time.

With medical plans, when considering very long-time horizons, we cannot be sure what medical coverages might be available well into the future – even universal coverage. The archdiocese feels it is best not to have excessive assets committed to the retired priest medical plan. With a successful campaign, the retired priest medical plan will be able to fund benefits at the present level for the foreseeable future.

WILL ANY OF THIS MONEY BE USED TO PAY ABUSE CLAIMS?

No. The money for abuse claims was paid by our insurance program. Money for the campaign is put in a separate bank account overseen by a separately incorporated nonprofit entity – The *Called to Serve as Christ* Campaign Fund.

Both plans are trusts and assets can only be used for priest pension and medical benefits. In other words, they can't be "tapped" to pay for anything other than those benefits.

WILL ANY OF THIS MONEY BE USED TO PAY PENSION AND MEDICAL BENEFITS OF PRIESTS FOUND GUILTY OF ABUSE?

No. The pension and retired priest medical plans do not provide benefits to priests found guilty of abuse.

WHO IS RESPONSIBLE FOR MANAGING THE PRIEST PENSION PLAN? HOW ARE THE INVESTMENTS MANAGED?

The Board of Trustees for the Archdiocese of Seattle Priest Pension and Medical Plans include appointed and elected members who serve for a six-year term. Those board members engage a financial investment adviser to assure the independent, professional advice regarding the plans' investments.

Further, the pension and medical plans are independently audited annually. The approximately \$7 million of assets in the pension plan and the \$3 million of assets in the retired priest medical benefit plan at the start of this campaign are prudently invested and monitored.

WHAT HAPPENS IF WE DO NOTHING TO CHANGE THE WAY THE PLANS ARE FUNDED?

If nothing is done, the plans will never reach a suitable funded percentage. Parishes will continue to face steep, regular increases to their contributions and the plans will need increasingly larger percentage of donations from the Annual Catholic Appeal.

WHO IS COVERED BY THE PLANS?

Priests who have been ordained for or incardinated into the Archdiocese of Seattle are covered by the plans. Those eligible for pension benefits will receive them once they reach eligibility age. Priests who have attained senior status are enrolled in a Medicare Advantage plan.

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WHAT IS THE CURRENT PENSION BENEFIT TO RETIRED PRIESTS?

Effective July 1, 2017, for the first time in 10 years, the pension benefit increased from \$1,700 to \$1,943 per month or \$23,316 per year.

PRIEST RETIREMENT NUMBERS AT A GLANCE

According to 2017 actuarial valuations, the Archdiocese of Seattle has 113 priests in active ministry. Of those in active ministry, 31 priests are 65 years or older. A total of 111 priests are receiving retirement benefits.

WHAT IS THE CURRENT SALARY OF A PRIEST?

Priest salaries are paid according to several scales which consider several factors:

- Years of service.
- Holding the office of pastor.
- Size of parish.
- Parishes with schools.
- Service to the Archdiocese of Seattle (dean, etc.).

In 2017, salaries for priests in the Archdiocese of Seattle ranged from approximately \$16,500 to \$32,000. Priests also receive a food allowance, mileage allowance and parish provided housing.

WHY DO PRIESTS NEED HELP WITH RETIREMENT NEEDS?

The pension benefit helps priests with basic costs of living. The Archdiocese of Seattle encourages and educates priests to save and contribute to the Priest 403(b) defined contribution plan (similar to a 401(k) program) to supplement their retirement savings. The priest pension plan is one leg of a three-legged retirement stool (personal savings, priest pension benefit and social security) which assures those priests who have served the faithful of the Archdiocese of Seattle will be provided for in their retirement.

HOW LONG HAS THE PRIEST 403(B) PLAN BEEN IN PLACE?

The Priest 403(b) Plan began in 1995. In May 2017, the Priest 403(b) Plan merged with the Lay Employees 403(b) Plan. At the end of March 2017, the total funds invested by priest participants were \$9,981,321. At the end of June 2016, 82 of the 113 priests in active ministry were participating.

ARE PRIESTS CONTRIBUTIONS TO THE 403(B) PLAN MATCHED?

Yes. Priests receive matching contributions from 20% to 40% of their contributions to the 403b plan, based on each priest's year of birth, up to a maximum of \$2,500 per annum.

ARE PRIESTS CONSIDERED SELF-EMPLOYED?

Yes. According to I.R.S. rules, Catholic priests are considered self-employed and must pay their own self-employment taxes. Self-employment taxes consists of Social Security and Medicare taxes primarily for individuals who work for themselves.

It is similar to the Social Security and Medicare taxes withheld from the pay of most wage earners, except self-employed individuals pay both the employer and employee portion of those taxes.

Social Security and Medicare taxes of most wage earners are figured by their employers. Priests can deduct the employer-equivalent portion of their self-employment tax in figuring their adjusted gross income.

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HOW DOES THE RETIRED PRIEST MEDICAL PLAN WORK?

Once a priest attains senior status, they are enrolled in a Medicare Advantage plan. Medicare pays a capitated fee to the Medicare Advantage plan per enrollee which offsets some of the cost of the Advantage plan. There are also a number of other health plan benefits, with the summary of approximate cost listed below:

- Medicare Advantage (net of the Medicare reimbursement) or Medicare Part A for a few – \$425
- Medicare Part B – \$150
- Dental – \$75
- Vision – \$15
- Other (hearing, excess out-of-pocket related expenses, long-term disability, a wellness program, an employee assistance program, and life insurance for the cost of funeral benefits) – \$135

WHO ARE THE TRUSTEES OF THE PRIEST PENSION AND MEDICAL PLANS?

As of July 1, 2019, the trustees of the priest pension plan and the ending date of their terms are:

- Very Rev. Anthony E. Bawyn, elected, appointed chair (2021)
- Rev. Joseph F. Altenhofen, elected (2022)
- Rev. Oliver F. Duggan, elected (2022)
- Rev. Mark M. Kiszelewski, elected (2021)
- Rev. Jacob M. Maurer, elected (2022)
- Ms. Mary E. Santi, appointed
- Mr. Nick Schoen, representing the Vicar for Clergy, ex officio

Trustees do not require any special qualifications to serve, however, the archbishop must first approve the list of nominees before those nominated are able to run for election. And, as described below, the trustees work with an independent investment adviser and the archdiocesan Chief Financial Officer attends all quarterly trustee meetings.

WHO ADVISES THE BOARD OF TRUSTEES ON THE INVESTMENT OF PLAN ASSETS?

Consulting services and performance evaluation are provided by Highland Capital Advisors.

WHEN DID THE PRIEST PENSION PLAN BEGIN?

Archbishop Thomas A. Connolly established the priest pension plan on June 1, 1972. Contributions to the plan were made voluntarily by individual priests. Pastors contributed \$72 per year and other priests contributed \$54 per year. The benefit eligibility age, under the original plan, was 70.

QUICK TIMELINE OF THE PENSION PLAN PROVISIONS:

- **1985:** The extended service factor was changed from \$12.50 per month, for each additional year of service beyond benefit eligibility age, to two and one-half percent for each additional year of service. The Archdiocese of Seattle became responsible for full funding and no priest contributions were allowed.
- **1995:** The plan was amended to state that priests would receive pension benefits at age 65, regardless of whether they were in active ministry. The two and one-half percent extended service pay was eliminated.
- **2007:** The benefit eligibility age changed to a scale between 65 and 67 years of age, depending on the priest's year of birth.
- **2010:** The benefit accrual schedule changed from 25 to 30 years and the extended service benefit was eliminated for service after Jan. 1, 2010. The benefit eligibility age changed to a scale between 65 and 70 based on date of birth. Language relating to a change in the clerical state regarding postponement of benefits was clarified.
- **2017:** Definitions were updated and benefit terms and conditions were clarified.