

Supreme Court Rules in Favor of Church-Affiliated Hospitals in Church Plan Litigation

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Summary

In a major victory for church-affiliated hospitals, the US Supreme Court overturned three appellate court rulings and decided unanimously that church-affiliated hospitals can maintain their pension plans as "church plans" exempt from the Employee Retirement Income Security Act of 1974, as amended (ERISA), regardless of whether a church actually established the plan. Impacted health systems, and especially their management, should evaluate how best to document and demonstrate their common religious bonds and convictions with the church.

In Depth

In a major victory for church-affiliated hospitals, the US Supreme Court overturned three appellate court rulings and decided unanimously (Justice Neil Gorsuch did not participate in the decision) that church-affiliated hospitals can maintain their pension plans as "church plans" exempt from the Employee Retirement Income Security Act of 1974, as amended (ERISA), regardless of whether a church actually established the plan.

Background

The Supreme Court granted *certiorari* to *Advocate Health Care, et al. v. Stapleton, Maria, et al., St. Peter's Healthcare, et al. v. Kaplan, Laurence and Dignity Health, et al. v. Rollins, Starla*. The US Courts of Appeals for the Seventh, Third and Ninth Circuits, respectively, had ruled that while ERISA clearly provides that church-affiliated entities can *maintain* ERISA-exempt church plans, only a church could actually *establish* such plans. The hospitals in those cases, and other similar institutions throughout the country, had relied on decades-old Internal Revenue Service (IRS), US Department of Labor (DOL) and Pension Benefit Guaranty Corporation (PBGC) interpretations that church-affiliated hospitals could both establish and maintain such plans. Relying on those rulings, the hospitals believed themselves exempt from ERISA's funding requirements, which would allow them to fund their pension plans at levels below those permitted under ERISA.

Ruling

Writing for the majority, Justice Elena Kagan applied a textual analysis of ERISA's church plan provisions to find that a pension plan *maintained* by a church-affiliated hospital need not have been *established* by that hospital to qualify as a church plan. Justice Kagan analyzed those statutory provisions as follows:

Premise 1: A plan established and maintained by a church is an exempt church plan.

Premise 2: A plan established and maintained by a church includes a plan maintained by a principal-purpose organization (*i.e.*, an organization whose "principal purpose . . . is the administration or funding of a plan or program for the provision of retirement benefits . . . for the employees of a church . . . if such organization is controlled by or associated with a church or a convention or association of churches") per ERISA § 3(33)(C)(i).

Deduction: A plan maintained by a principal-purpose organization is an exempt church plan.

Premise 2 and the resulting Deduction were the points which formed the basis of the controversy in the three circuit court cases.

The Court specifically did not opine on other church plan requirements, including:

- Whether the hospital system maintaining the plan maintains a sufficient nexus with a church (*i.e.*, shares common religious bonds and convictions with that church); and
- Whether each hospital system's benefits committee is a "principal purpose" organization.

Next Steps

Though the Supreme Court's decision is unquestionably a positive result for health systems, health systems remain vulnerable. Health systems maintaining a church

plan must still demonstrate (1) that they maintain a sufficient nexus with the church and (2) that their benefits committees are "principal purpose organizations." Impacted health systems, and especially their management, should evaluate how best to document and demonstrate their common religious bonds and convictions with the church.

Because church plans are exempt from ERISA, they are also exempt from ERISA's provisions preempting state laws, meaning that plan sponsors may be exposed to claims made under state law. Given the media scrutiny and heightened awareness surrounding this matter, it is possible that some states may evaluate their statutes to determine if specific causes of action might be warranted to address participant concerns in this area.

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