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District Court Analyzes What a “Principal Purpose” Organization is and Other Church Plan Definitional Issues

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Since the plaintiffs’ loss in 2017 before the Supreme Court in *Advocate Health Care Network et al. v. Stapleton et al.*, the continuing litigation strategy of the class action bar against church-related hospitals has essentially seemed to follow a two-pronged approach – arguing that the defendant hospital did not meet even the traditional definition of church plan, and also making state law claims in the event the plan was held to be a church plan not covered by ERISA preemption. A recent decision in a Kentucky District Court suggests that plaintiffs may have difficulty prevailing on these argument under fairly typical facts, though, and also suggests a number of points that church plans of church-related charities – not just hospitals – might wish to consider to mitigate future litigation risk over all sorts of church plans – whether 401(a) defined benefit or defined contribution, 403(b), 457, or welfare plans.

On July 25, 2019, in the case of *Boden, et al. v. St. Elizabeth Medical Center, Inc., et al.*, Case No. 2:16-cv-00049, Judge David Bunning of the U.S. District Court for the Eastern District of Kentucky has issued a Memorandum Opinion and Order, in which he granted the defendants’ motion for partial summary judgment, denied the plaintiff’s motion for summary judgment, and entered judgment in favor of defendants. Specifically, the court concluded that St. Elizabeth’s defined benefit plan meets the definition of a “church plan,” as that term is defined under ERISA, and therefore that ERISA requirements do not apply to the plan. After dismissing all of the plaintiffs’ claims for alleged violations of ERISA, the court also declined to exercise supplemental jurisdiction over the plaintiffs’ two state law claims and dismissed them without prejudice.

In reaching its conclusions, the court addressed at length the question of whether the plan is maintained by a principal-purpose organization that is associated with or controlled by a church (*see* 29 U.S.C. § 1002(33)(C)(i)), applying a three-pronged analysis from the Tenth Circuit’s opinion in *Medina v. Catholic Health Initiatives*, 877 F.3d 1213, 1222 (10th Cir. 2017):

1. Is the entity a tax-exempt nonprofit organization associated with a church?

2. If so, is the entity's retirement plan maintained by a principal-purpose organization? (That is, is the plan maintained by an organization whose principal purpose is administering or funding a retirement plan for entity employees? This is an issue that the Supreme Court had expressly not examined in its decision in *Advocate*.)

3. If so, is that principal-purpose organization itself associated with a church?

The court evaluated each prong in turn and answered each question in the affirmative.

“Association” of the Hospital with a Church

With respect to the first prong, after noting that the parties did not seriously dispute that St. Elizabeth is a tax-exempt nonprofit entity, the court observed that

Courts consider a number of factors in determining whether an organization—particularly a healthcare organization—is associated with a church, including: a church's recognition of the organization; the inclusion of language in key documents that evidences a relationship between the organization and a church; denominational requirements for board members, employees, or patients; clear affiliation with a church through denominational chapels; evidence that the organization is guided by a specific church's religious principles; and requirements that certain decisions must be approved by a church's leadership (*e.g.* the Holy See), among other things.

The court then concluded that St. Elizabeth is associated with the Catholic Church because:

- The hospital was founded by the Franciscan Sisters of the Poor, and the hospital acquired property in the name of the Order
- Sponsorship of the hospital was transferred to the Catholic Diocese of Covington, Kentucky
- The hospital is listed in the Official Catholic Directory
- The hospital's governing documents indicate “clear association” with the Church, in several ways:
 - The Bishop of Covington has express control over hospital operations
 - The Bishop has authority to approve or reject Board member candidates
 - The Articles of Incorporation specify that “the corporation is a Roman Catholic health organization” that is subject to Canon Law and the Ethical and Religious Directives for Catholic Health Care Services (“ERDs”)
- The hospital employs priests to visit with and administer sacraments to patients
- Mass is conducted at the hospital's chapels multiple times a week
- Crucifixes are hung in most hospital rooms, including patient rooms
- Prayers are broadcast throughout the hospital

What is an “Organization”, What Does it Mean to “Maintain” a Plan, and What is a “Principal Purpose”?

To answer the second prong, the court addressed whether the hospital's internal benefits committee (1) is an “organization,” (2) “maintains” the plan, and (3) is a “principal-purpose organization.”

First, the court rejected the plaintiffs' argument that an “organization” needed to be completely separate for any other entity, and the court consulted dictionary definitions to note that an “organization” requires “(1) a group of people with (2) a specific purpose.” Notably, the court drew from the plain language of the plan document—which provided that “[t]he Board shall appoint an Administrative Committee to manage and administer the plan”—to conclude that the benefits committee meets the definition of an “organization.”

Second, to interpret the term “maintain,” the court again consulted dictionary definitions—as courts have in previous decisions. The court noted that the most relevant definition of “maintain,” from *Black's Law Dictionary*, is “[t]o continue (something)” and “to care for (property) for purposes of operational productivity or appearance; to engage in general repair and upkeep.” The court also observed that the language of ERISA “suggests that ‘maintained’ must mean more than either ‘administered’ or ‘funded,’” although

the term does *not* “require the ability to amend or terminate the plan.” In addition, the court interpreted the term “administration” as “the steps taken to actually run the Plan—in other words, for example, the work necessary to evaluate and pay out benefits claims.”

The court emphasized that it was taking a “commonsense approach” to the question of what entity “maintains” the plan. Again, notably, in determining the plan committee’s responsibilities, the court looked solely at the plan document and other governing documents for the plan and disregarded disputed facts offered by the parties about what the committee actually does on a day-to-day basis. Specifically, the court listed the following evidence based on the plan’s governing documents:

- The plan document provides that the committee’s purpose is “to manage and administer the Plan . . . [as] the plan administrator and the named fiduciary”
- The committee has “the power and duty to do all things necessary or convenient to effect the intent and purposes of this Plan”
- The committee is tasked with several duties, including:
 - Claims administration
 - Developing rules and regulations for plan administration
 - Interpreting the plan
 - Correcting the plan (as necessary)
 - Answering participant questions about the plan
 - Establishing the plan’s funding policy

The court recognized that the committee is authorized to delegate duties, which the court found did not preclude the court’s conclusion that the committee “maintains” the plan. Specifically, the fact that the committee delegated claims administration responsibilities to a third party did not undermine the defendants’ argument regarding plan maintenance. In addition, the court rejected the plaintiffs’ argument that only one entity could be considered to “maintain” a plan, finding no such limitation in the plain language of ERISA and no binding case law supporting the plaintiffs’ assertion.

Finally, in analyzing whether the committee’s principal purpose is “administration” or “funding,” the court noted that both the plan document and resolution creating the committee provide that the committee is tasked with administering the plan. Even though the committee has delegated its claim administration function to a third party, the court concluded that the committee is a “principal purpose organization” and thus that the committee satisfies all elements of the second prong.

When is a Plan Committee “Associated with” a Church?

With respect to the third prong, the court favorably cited *Medina* for the proposition that “a subdivision wholly encompassed by a larger entity shares that entity’s affiliations.” As a matter of logic, the court concluded that because St. Elizabeth is associated with the Catholic Church, and the benefits committee is an “internal subset” of St. Elizabeth, the benefits committee is also associated with the Church. The court bolstered its decision with supportive evidence from the plan’s governing documents:

- The plan document requires that committee members be Catholic
- The committee’s founding resolution provides that that the committee shall administer the plan “in a manner consistent with the tenets of the Catholic Church”

In determining that the St. Elizabeth plan is a church plan, the court found that ERISA does not apply to the plan and all of the plaintiffs’ claims for alleged ERISA violations should be dismissed with prejudice. After dismissing all claims for which the federal court had original jurisdiction, the court declined to extend supplemental jurisdiction for the plaintiffs’ remaining two claims under Kentucky state law. The court dismissed the claims without prejudice to the plaintiffs’ potentially raising the claims in state court.

With Judge Bunning’s decision, defendants in church plan cases have prevailed in two cases on motions for summary judgment (*Boden and Medina v. Catholic Health Initiatives*) and in four cases on motions to dismiss (*Overall v. Ascension Health*, *Feather v. SSM Health*, *Smith v. OSF Health*, and *Sanzone v. Mercy Health*)—with the decisions in *Smith* and *Sanzone* currently on appeal.

Final Observations

Now that the plaintiffs in the church plan litigation are generally fighting over the application of the traditional definition of church plan, rather than the novel definition unanimously knocked down by the Supreme Court, they do not seem to be having much success. However, satisfaction of the traditional definition is a largely factual exercise, and this recent case particularly points out the importance of properly drafted plan documents. Church plans of all types would do well to pay attention to these decisions for possible actions they can take to position themselves to defend against claims. If you have any questions concerning steps that can be taken to mitigate litigation risk in this area, please contact David Powell or your regular Groom lawyer.

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