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Publications

Church Plan Litigation – Out of the ERISA Woods Into the State Law Forest

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If you thought that church plan litigation was effectively over after the Supreme Court's decision upholding the traditional interpretation of the ERISA church plan definition in its 2017 decision in *Advocate Health Care Network et al. v. Stapleton et al.*, you would be mistaken. A recent slip opinion in a case involving a church plan maintained by a hospital in upstate New York reminds us that being a non-ERISA plan brings its own set of challenges because state law is not preempted. In particular, the case illustrates that, if a church plan starts to fail to pay benefits, its sponsor – as well as related entities such as the church it is controlled by or associated with – may find themselves subject to various pension-related claims under state law.

Background

This recent decision involves a church pension plan sponsored by St. Clare's Hospital of Schenectady, N.Y (since renamed the St. Clare's Corporation). The hospital had been originally co-founded by the Roman Catholic Diocese of Albany, New York. The plan had received an IRS private letter ruling that it was a church plan in 1992. Apparently, the plan had always been in a financially precarious position – the hospital itself had closed in 2008 – and in 2018, the corporation terminated the plan and advised pension recipients that their benefits would either be reduced or ended as of February 1, 2019. Thereafter, the corporation filed for dissolution indicating that it owed the plan about $50 million.

That resulted in litigation against the Roman Catholic Diocese of Albany, the St. Clare's corporation, and certain former employees of the St. Clare's corporation, based on claims of breach of contract and breach of fiduciary duty. This new decision in *Hartshorne v. Roman Catholic Diocese of Albany*, 2021 NY Slip Op 07329 (Appellate Division of the Supreme Court of New York, Third Department, Dec. 23, 2021) was an appeal from an order of the Supreme Court of New York entered July 16, 2020 in Schenectady County which had earlier denied defendants' motions to dismiss the amended complaint against them. The Appellate Division, which is an intermediate appellate court in New York, affirmed the order.

The Decision

The Appellate Division held that the plaintiffs had viable claims that they sustained damages when the corporation and the plan violated contractual commitments to properly fund the plan and make promised payments following its termination. Interestingly, the court based this in part on fairly typical boilerplate plan language in the plan and summary plan description that "[n]o pension or other benefit granted prior to the time of any amendment or modification of the [p]lan shall be reduced, suspended, or discontinued as a result thereof" unless necessary to comply with legal requirements, that accrued benefits "shall be … nonforfeitable" in the event of the plan's termination, and that "no modification, suspension or termination of the [p]lan may reduce" benefits that they had already accrued.

The court also found that plaintiffs had sufficiently alleged facts that would warrant holding the Diocese itself liable for the behavior of the St. Clare's corporation defendants, pointing to detail on how the Diocese is the original cofounder of the corporation, the corporation operates out of the Diocese's offices, the corporation's listing in the directory of Roman Catholic institutions, and connections suggesting that the Diocese oversaw and controlled the activities of the St. Clare's defendants.

Addressing arguments by the St. Clare's defendants that the claims were time-barred, the court stated that, though the statute of limitations for a breach of contract claim is six years and, although many of the alleged actions that eventually led to the termination of the plan payments occurred beyond that period, each failure to make promised pension payments to plaintiffs was itself a breach actionable for six years from its occurrence.

Observations

Ultimately, the continued course of litigation against church plans shows that merely being exempt from ERISA does not mean that the plan sponsor and related entities – including the church that controlled or was associated with the church plan sponsor – are free from potential claims by plan participants in the event that the plan does not have sufficient assets to pay benefits. It also illustrates the importance of the terms of the plan and corporate documents in determining what duties the parties may have had, and which entities may be liable as a result.