



OFFICE OF THE VICAR GENERAL
ARCHDIOCESE OF NEW YORK

MEMORANDUM

To: Priests of the Archdiocese of New York

From: Msgr. Gregory Mustaciuolo *gm*
Mr. William Whiston *Bill Whiston*

Re: Archdiocesan Priests' Pension – Program Overview

Date: May 8, 2015

The cardinal, having heard from the presbyteral council, has approved a new pension program for the incardinated priests of the archdiocese.

The existing "Defined Benefit Pension Program" is significantly underfunded. Rather than do all that it will take to fund the trust, we will replace our present "Defined Benefit Pension Annuity Program" with a new portable "Defined Contribution 403(b) Plan" for priests under the age of 65 as of September 1, 2014. For those 65 years of age or older, including retired priests, the "Defined Benefit Plan" will continue.

It is important to note that the "Defined Benefit Plan" for priests 65 years of age and older (as of September 1, 2014) and current retirees will provide a guaranteed annual payment. Participants in the "Defined Contribution 403(b) Plan" will have their contributions invested in "target retirement date" funds that are designed to mitigate market risk through professional asset allocation (the mix of stocks, bonds, and money market funds), reducing the risk profile in the years leading up to retirement.

The existing parsonages (housing supplements) will continue. These amounts, which currently are \$24,752 for a retired priest living on his own, \$12,376 for a retired priest living in a rectory or school, and \$2,080 for a retired priest living at one of the retirement residences, will be adjusted annually by 2%, or the rate of inflation as measured by the Consumer Price Index, whichever is higher.

There is much work to be done requiring a number of steps by all parties that will need to be completed by August 31, 2015. All of our priests must be involved to make this transition successful.

The purpose of this letter is to inform and prepare you for the correspondence that you will receive and the actions that will be required. The archdiocesan pension office, priests' personnel, Mutual of America representatives, and associate directors of parish finance will all be prepared to assist you. Please be patient with the process – when completed, it will be a worthwhile effort.

Key Steps:

1. Memorandum to archdiocesan priests providing an overview of key action items to be completed in the coming months (this correspondence).
2. Each parish/employer will receive a letter from the pension office enclosing a check in the amount of all priest pension payments which have been made to date for fiscal year 2015 (i.e. September 1, 2014 – August 21, 2015).

The reason for this refund is to simplify the unique funding to be completed for each priest based on age, years of service, incardination date, and location of employment as of September 1, 2014. Therefore, each priest will receive correspondence specific to his own personal situation.

Actions: Parishes/employers anticipate receiving a check refunding the current year's priest pension payments.

3. Priests 65 years of age and over (as of September 1, 2014) will remain in the "Defined Benefit Program," and will receive their archdiocesan pension and, based on their living situations, parsonages (housing supplements) at the retirement age of 75.

For priests in this category, their parishes/employers will be billed a \$6,000 payment to the "Defined Benefit Program," plus a \$2,000 payment to the parsonages (housing supplements) fund, totaling \$8,000 for each year until retirement. The archdiocese will contribute an additional \$6,000+ per year for each priest. (Payments applicable to the 2015 fiscal year must be made on or before August 31, 2015).

Our pension consultants have confirmed that this action is expected to fully fund the commitments to our current retirees and all future retirees who remain in the plan. In ten years, when those priests who are presently 65 years of age reach the retirement age of 75, the "Defined Benefit Plan" will be frozen and the trust will have sufficient funds to cover future retirement benefits.

Action: Ensure that payments for priests 65 years of age and older are made on or before August 31, 2015. \$8,000 will be included in your parish's/employer's monthly consolidated bill, with \$6,000 allocated to the "Defined Benefit Plan, and \$2,000 to the parsonages (housing supplements).

Archdiocesan priests who have not reached the age of 65 by September 1, 2014, will be covered under the "Defined Contribution 403(b) Plan." An account representative of Mutual of America will be assigned as your personal account manager. You will be notified of the amount that your parish/employer will pay directly into your personal 403(b) account

at Mutual of America. This amount is based on your age (as of September 1, 2014) and expected total years of service. This amount will remain the same for every year until you reach the retirement age of 75. While the "Defined Contribution Plan" includes all archdiocesan priests under the age of 65 as of September 1, 2014, those priests between the age of 60 and 64 will receive a capped annual employer's contribution. This is due to the reduced number of years of service remaining prior to retirement, annual cost of funding, and will result in a reduced fund. The fund will vary from priest to priest depending upon age, years of priesthood, etc.

Priests who will have less than 45 years of service at retirement will receive a pro-rated contribution amount.

Each contribution will be deposited into one of several "target date" funds managed by Mutual of America. "Target date" funds are geared to your projected retirement date and have an asset allocation mix among equities (stocks), fixed income (bonds), and short-term investments. The asset allocation mix is designed to be more aggressive for individuals with a long time horizon to retirement and to become more conservative as retirement nears.

The parish/employer of a priest whose annual 403(b) contribution is less than \$8,000 will be required annually to send the 403(b) contribution directly to Mutual of America and will be billed for the

difference between the contribution amount and \$8,000 to be deposited in the parsonages (housing supplements) fund. For those priests whose defined contribution is greater than \$8,000, there will be no requirement for the parish/employer to pay into the parsonages (housing supplements) fund.

Action Item:

When you have enrolled through your Mutual of America representative, have your parish/employer, as of September 1, 2014, make payment into your 403(b) "Defined Contribution Plan" on or before August 31, 2015.

If your annual contribution is less than \$8,000, your parish/employer will be billed for the difference between your 403(b) contribution and \$8,000 for the parsonages (housing supplements) fund through the monthly consolidated bill.

Each year, your parish/employer will, on September 1, be responsible for the full year contribution to your 403(b) account, regardless of whether or not you remain with that parish/employer after September 1. All 403(b) contributions must be made between January 1 and August 31 of the following year.

Priests participating in the "Defined Contribution Plan" may supplement their savings by making their own contributions to the Mutual of America "Tax Deferred Annuity Plan." Priests under the age of 50 may contribute up to \$18,000 per year. Priests 50 years of age and older may contribute up to \$24,000 per year.

It is important to remember that you will have full access to the accumulated value of your own contributions to the "Tax Deferred Annuity," although there may be tax penalties if you withdraw funds before the age of 59½. However, unless specifically approved by the Archbishop of New York, all parish/employer contributions must remain in your "Defined Benefit 403 (b)" account until retirement. In the future, a policy on withdrawals post retirement will be sent to you.

In summary, after a number of years, when all of the above is either concluded and/or institutionalized, we in the Archdiocese of New York will have a self-sustaining retirement program, and all employers (parishes, etc.) will have an annual retirement benefit cost of \$8,000 for each of their archdiocesan priests.

The employer pension contribution for religious order priests will also increase from \$4,000 to \$8,000 per annum effective for FY 2015.

Benefits of the program:

1. The archdiocese and its institutions will not have to pay a large contribution immediately into the priests' pension plan to achieve fully funded status.
2. Existing retirees and our priests 65 years of age and older are guaranteed a fully funded "Defined Benefit Plan" plus a parsonage (housing supplement) depending on their living situations, in their retirement.
3. While the new pension plan involves a significant increase in the annual expense to employers (parishes, etc.) over the short term, implementing this transition to a "Defined Contribution Program" for the majority of our priests will result in the following:
 - A portable retirement savings program owned by the individual priest.
 - Combined with the parsonage (housing supplement), depending on their living situations, priests will enjoy a modest, but comfortable, retirement situation.
 - Priests' retirement benefit will be more in line with the market place and positioned to manage uncertain times that may lie ahead.

Though we have much to do, rest assured of our complete support as we journey through this process.