



THE ARCHDIOCESE OF SAN FRANCISCO

OFFICE OF THE AUXILIARY BISHOP

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REPORT OF THE FIDUCIARY COMMITTEE OF THE PRIESTS' RETIREMENT FUND

Four years ago, the Archbishop, in consultation with the fiduciary committee of the Priests' Retirement Fund, initiated a series of substantive steps to bring the annual funding of the retirement fund to the \$1.4 million dollars level that had been recommended by the plan actuarial advisors. The Central Office increased its annual contribution from \$400,000 to \$595,000. The Archbishop also made a one-time gift of \$2.3 million dollars from the monies raised by the sale of the former Apostleship of the Sea site. Finally, the committee began the planning for a larger development effort designed to generate direct contributions to the fund.

This past summer, the Archbishop and the fiduciary committee received an updated actuarial report which projected that recent developments have raised the necessary annual funding level for the retirement plan from \$1.4 million to \$2.4 million. The fiduciary committee was greatly concerned by this new report and asked the origins of the changes which have necessitated such a large increase in plan funding over such a brief period of time. After an investigation, the following was clarified:

- a. The largest change, not surprisingly, has arisen from the fall in the value of plan assets during the recession, and the corresponding projected lowering of future return on investments in the near term: This investment fall produced an increase of \$357,000 in the annual recommended contribution by the Archdiocese.
- b. Changes in the retirement age of priest (from an average of 72 to 71) have led to a need for a \$277,000 increase in annual contributions to the fund.
- c. Happily, retired priests are living longer, which is a great gift to our Archdiocese, but also requires an additional \$185,000 in yearly funding.
- d. An increase of the rise in medical costs for the plan over projected levels increases the funding burden by \$120,000.
- e. Efforts to provide assistance to priests through the Serp B program, which is intended as a discretionary retirement account overseen by the Archbishop, and has been intended to assist priests who would otherwise not qualify has generated a monetary drain of \$120,000.

The implications for this rise in the needed funding for the Priests' Retirement Plan are enormous. While the added costs pose absolutely no threat to the ability of the Archdiocese to provide promised benefit levels to the existing body of retired priests, major changes have to be initiated in the funding structure of the retirement plan to insure that future generations of priests will receive the same benefit levels enjoyed today.

For that reason, the fiduciary committee has recommended to the Archbishop a comprehensive plan of increased funding in which all sectors of the Archdiocese will participate. Specifically, the following steps should be taken:

1. The Central Office budget should begin in the 2010-2011 fiscal year to carry all costs for priests under the age of sixty five who are permanently unable to continue in active ministry. These priests will receive monthly payments which, in conjunction with other pension, disability or social security benefits, bring to the priest an income stream which constitutes eighty percent of the current salary of an actively assigned priest. This new obligation of the Central Office will cost approximately \$200,000 and will shield the retirement fund from all responsibilities before the age of sixty five.
2. One half of the current tax on investment and rental income now levied on the parishes will be devoted to funding the Priests' Retirement Fund. This will generate approximately \$260,000 per year at current levels.
3. The source of income for each assigned priest will pay a percentage of salary equal to that percentage currently levied on lay salaries (presently approximately nine percent) into the Priests' Retirement Fund. This will create parity with the percentage levied on the source of income for the lay pension program, and will produce approximately \$450,000 per year for the Priests' Retirement Fund.
4. Strategies should be pursued to reduce the rise in medical costs for the Priests' Retirement Plan.
5. The Archdiocese must strategically allocate some bequest income to the retirement fund. In addition, the Archdiocese should contribute any funds obtained from the sale of residual Archdiocesan rights to Alma Via into the Priests' Retirement Fund.
6. The Archdiocese must initiate a penetrating development effort which encourages priests and lay donors in the Archdiocese to form an ongoing support base for the Priests' Retirement Funds.

The effort to find funding sources which are sufficiently ample and secure to meet the new challenges of the Priests' Retirement Fund is a major one. It is the belief of the fiduciary committee that this plan meets those criteria. But it also requires some sacrifice on the part of every element of the Archdiocese. And those sacrifices are justified by the past exemplary service of the priests whom this Fund is designed to care for in a modest but dignified way.

Why We Need Additional Funding:

Investment Fall:	\$	357,000
Average Retirement Age drop from 72 to 71:	\$	277,000
Additional years in retirement:	\$	185,000
Rising Medical Costs:	\$	120,000
Supplemental Fund/Exceptions (SERP B):	\$	120,000
 Total:	\$	 1,059,000

PROPOSED ADJUSTMENTS:

Central Offices responsibility for priests under-65 years of age:	\$200,000 per year
½ of current tax on investment and rental income, approximately:	\$260,000 per year
Source of Income for assigned priests (equal to 9%, which is levied on lay employees)	\$450,000 per year
Reducing Medical Costs:	\$ _____
ALMA VIA one-time gift, from sale of residual Archdiocesan rights:	\$ _____
Development effort to encourage priests/lay donors to form ongoing financial support base for retired priests:	\$ _____