National Religious Retirement Office

Retirement Needs Analysis Guide to Interpretation

May 2023

Photo: Standing, from left: Fr. William Graham, OFM Cap; Sr. Mary Lucille Stelly, SSF; Sr. Angele Marie Sadlier, O Carm; Fr. Bertrand Ebben, OP.

Seated, from left: Sr. Joan Flores, SSF; Sr. Denis Rodrigue, O Carm; Sr. Ann Martinez, MSC.

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Mission of NRRO

To support, educate and assist religious institutes in the U.S. to embrace their current retirement reality and to plan for the future.

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www.usccb.org/nrro
www.retiredreligious.org

“The elderly are those who carry history, that carry doctrine, that carry the faith and give it to us as an inheritance.”

Pope Francis
From homily,
November 19, 2013

Photography by Jim Judkis

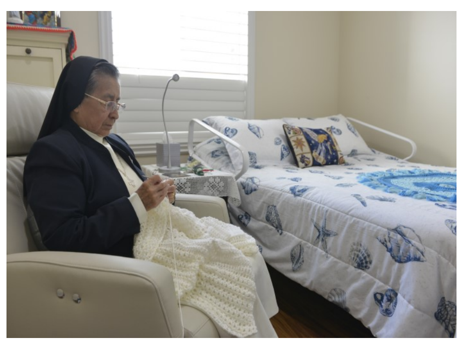
Understanding the Retirement Needs Analysis

From left: Father Justin Kauchak, OP and Father Victor Laroche, OP

Efforts to address the retirement needs of religious institutes date back to the early 1970's. As the concern grew about the dearth of funding, it became evident that an objective measurement of the level of need was essential. Thus was born the Retirement Needs Analysis (RNA).

The results of the first Retirement Needs Analysis eventually led to the establishment of a national office and a nation-wide collection to help address the retirement funding needs of religious institutes. Today the RNA still is used by the National Religious Retirement Office (NRRO) to measure the retirement funding needed by religious institutes.

While the RNA is a very helpful tool, it is not a perfect tool. It establishes an **estimate** of the funding that a religious institute **may** require for caring adequately for its elder members. For its own planning purposes, a religious institute should develop financial projections that are tailored more closely to its own circumstances. Tools such as the TRENDS program, available through the Resource Center for Religious Institutes, can assist institutes with these projections.



Sister Beatriz Cortés, MGSpS

The RNA does serve the purposes of the NRRO by providing an objective measure of the relative level of need among religious institutes. This enables the NRRO to distribute funds in a way that acknowledges each institute's level of need.

In order to understand the RNA, one needs to be aware of the assumptions upon which it is built. The RNA is based on a defined benefit pension plan model, a model that many companies use to provide retirement benefits for their employees.

While religious are not employees of the institute nor do individual religious have "vested rights" to any savings of the institute, the model does provide an actuarially sound method for calculating the level of need.

A defined benefit pension plan assumes that the employer starts to set aside funds for the employee's eventual retirement soon after the employee begins work. In the RNA, an assumption is made that the religious institute begins to set aside funds for the member's elder years soon after that religious professes vows. By setting aside a small amount each year during the member's "working" years, these funds will grow through investment earnings and be sufficient to provide for the member when the member is no longer able to continue in compensated ministry. If sufficient funds are not set aside during the member's working years, the institute then has an **unfunded past service liability**, i.e., inadequate funds based upon the number of years worked and projected elder care costs.

In a defined benefit plan, the amount set aside for current employees is known as the **future normal cost.** This is the normal amount that should be invested each year so that it will grow through investment earnings to provide the necessary benefit when the employee retires. In the case of a religious institute, the **future normal cost** is the amount the institute should set aside each year for those members of "working age" in order for these funds to grow sufficiently to support the member when the member is no longer able to be involved in compensated ministry. The RNA presumes that investments will earn 7% per year and that these earnings will be reinvested in the fund.

For many years, most religious institutes received very small stipends for the services of their members. Surplus, if any, often was invested in the education of new members and in ministries. Thus, religious institutes were not able to set aside savings for elder care. In other words, the institutes were not able to contribute the **future normal cost** to their savings, and this resulted in an **unfunded**

past service liability, i.e. funds were not set aside in recognition of service already performed**.** An employer's defined benefit plan pays a previously "defined" amount to an employee when the employee retires. This amount is known as the retirement **benefit.** In many cases, this benefit will increase yearly to account for inflation. Religious institutes are responsible for the full cost of living of each member. Therefore, the **benefit** the institute provides for the elder member is the full cost of support, less the member's Social Security and Supplemental Security income, if any.

The RNA assumes that the cost of living will increase by 5% each year. Therefore, if the annual support cost is $20,000 per year when a member reaches "**retirement age,**" the RNA assumes that the cost will increase to $21,000 the following year. ($20,000 multiplied by 1.05 equals $21,000.) In each subsequent year, the model calculates an additional 5% increase.

If the RNA shows an **unfunded past service liability** this indicates that the institute needs to build up its savings for the care of elder members. NRRO recommends that the institute try to build these savings over a period of years. The sooner funds can be added, the more the institute will be able to benefit from the compounding of investment earnings.

From left: Father Gervase Degenhardt, OFM Cap, and Brother James Mungovan, OFM Cap

It may not be necessary for an institute to be 100% funded per the RNA model, since the RNA is a one-size-fits-all calculation. It reflects the actual amount that the institute needs only in so far as the assumptions of the calculation fit the circumstances of the institute. NRRO encourages institutes to work toward adequate funding based upon projections that are tailored to the institute's unique circumstances.

Key Assumptions of the Retirement Needs Analysis

- Members retire on the average at age 70. (For active institutes, retirement is defined as leaving full-time, compensated ministry. For contemplative institutes, retirement is defined as no longer being able to participate fully in the schedule of the community.)
- All support for members age 70 and above are paid from the institute's investments for elder care and the Social Security and/or Supplemental Security benefits of the members.
- The cost of care increases at an inflation rate of 5% per year and withdrawals from savings for the living expenses of members age 70 and above also increase at 5% per year.

From left: Sister Ernestina Hernández, MSpS, and Sister Marta L. Tobón, MSpS

- The investments earn 7% yearly. These investment earnings are reinvested in the fund and are not considered part of the annual contribution to the fund.
- Investment income is earned and costs are paid evenly through the year.
- The funds will be adequate to care for the member from age 70 until the time of death and will be fully spent by the time of death.

Retirement Needs Analysis, Page 1

National Religious Retirement Office
Retirement Needs Analysis - 2023

ID# 2000 F A 5/8/2023

Sample Institute
Main Street
Any City,

SECTION ONE: Data submitted by the congregation

A. Census Data*	
Number of members below age 70	50
Number of members age 70 and above	+ 50
Total number of members	100
Median Age	70
B. Annual cost of supporting a member age 70 and above*	$35,000.00
Less: Social Security Benefit*	- $3,888.89
Current annual support cost to be financed by the congregation	$31,111.11
Monthly support cost (line above divided by 12)	$2,592.59
C. Assets currently designated for retirement*	$7,000,000.00

SECTION TWO: Retirement Funding Need

A. Past Service Liability	$32,296,567.74
B. Annual Future Normal Cost for Current Year	$127,120.00
C. Annual Benefits for members age 70 and above	$1,555,555.50

SECTION THREE: Unfunded Past Service Liability (UPSL)

This calculation is based on your cost of care and designated assets. This is the most relevant number for your institute's planning purposes if your cost of care is calculated accurately and is reflective of your usual cost patterns.

A. Based on currently designated retirement assets and reported cost of care:

1. Total Past Service Liability (Section Two A)	$32,296,567.74
2. Less currently designated retirement assets (Section One C)	- $7,000,000.00
3. Unfunded Past Service Liability	$25,296,567.74
4. Percent of Retirement Fund Unfunded	78.33%

*Data taken from current Direct Care Assistance Application
Refer to the *Guide to Interpretation* for calculation assumptions and definitions.

Explanation of the Retirement Needs Analysis, Page 1

ID # : NRRO identification number. **F** or **M:** Female or Male **A** or **C**: Active or Contemplative

SECTION ONE: Data submitted by the congregation

A. **Census data**: Census of the institute as of December 31; data submitted by institute

B. B. The **cost of care** shown here for members age 70 and above is that reported by the institute. The cost of care is calculated using the components included in the NRRO cost of care worksheets. The average annual **Social Security Benefit** (SSB) also is that reported by the institute. The total annual SSB is divided by the number of members age 65 and above to determine the average annual SSB. Social Security is a source of income for support of elder members. Therefore, the average benefit is deducted from the average cost of care to determine the amount that the institute will need to cover from savings. NRRO assumes that SSI receipts already are deducted from the cost of care in the calculations made by the institute.

C. The assets currently designated for retirement are those assets the institute reported on the Direct Care Assistance Application as being set aside for the continuing support of elder members. These include designated or restricted retirement assets, charitable trusts, pension plans, generalate retirement funds, and insurance plans. (Direct Care Assistance form, page 6, lines E thru I) minus retirement fund liabilities (Direct Care Assistance form, page 6, line M).

SECTION TWO: Retirement Funding Need

A. **Past Service Liability**: This is the amount that the institute should have in savings today in order to care for the retirement needs of the members currently age 70 and above, as well as the amount that should already be in savings for the members below age 70 in anticipation of their retirement needs. The figure is based on the institute's cost of care minus Social Security. Members ages are grouped in five year increments and weighted using assumptions from the Mercer Actuarial Table and the reported cost of care. The amounts are added together to equal the PSL amount.

B. **Future Normal Cost**: This is the annual amount to be set aside for those below age 70 to anticipate coverage of their retirement costs when they reach age 70. This amount varies annually based on the age, number of members below age 70 and the cost of care. Members ages are grouped in five year increments and weighted using assumptions from the Mercer Actuarial Table and the reported cost of care. The amounts are added together to equal the Future Normal Cost.

C. **Annual Benefits**: This is the amount that the institute will need to withdraw from savings to cover the current year's retirement costs. The amount is based on the reported cost of care and the number of members age 70 and above.

SECTION THREE: Unfunded Past Service Liability (UPSL)

Based on currently designated retirement assets and reported cost of care.
This calculation of **past service liability** is based upon the cost of care reported by the institute minus the average Social Security benefit, if any. **Designated retirement assets** include the cash, investments, and receivables reported by the religious institute as <u>currently designated</u> for retirement, minus any retirement fund liabilities. The institute may have other assets that could be available for retirement needs. The **unfunded past service liability** is the difference between the institute's projected need and the savings currently designated.

If the value of the designated assets is greater than the total past service liability, the institute is considered adequately funded per the RNA funding model. If this is the case, the amounts shown on lines A3 and A4 will be negative numbers, i.e., the institute does not have an unfunded past service liability.

Retirement Needs Analysis, Page 2

SECTION FOUR: Unfunded Past Service Liability (UPSL) for NRRO distribution purposes.

ID# 2000

SECTION FOUR: Unfunded Past Service Liability (UPSL) for NRRO distribution purposes.

FOR DISTRIBUTION PURPOSES NRRO WILL USE THE HIGHER OF THE ASSET VALUES A OR B BELOW.

A. The following section calculates the Past Service Liability based on the national weighted average cost of care of $55,502.32 and the adjusted assets available for retirement:

1. Total Past Service Liability based on the above criteria	$57,617,180.40
2. Less "Adjusted Assets Available for Retirement"	- $7,500,000.00
3. Unfunded Past Service Liability based on above criteria	$50,117,180.40
4. Percent of Unfunded Past Service Liability	86.98%

B. The following section calculates the Past Service Liability based on the national weighted average cost of care of $55,502.32 and the per capita allocation of assets (see below for calculation):

1. Total Past Service Liability based on the above criteria	$57,617,180.40
2. Less per capita allocation of retirement plus unrestricted assets	- $4,500,000.00
3. Unfunded Past Service Liability based on above criteria	$53,117,180.40
4. Percent of Unfunded Past Service Liability	92.19%

CALCULATION OF PER CAPITA ALLOCATION (based on assets as reported by the institute)

Total Retirement and Unrestricted Assets as reported by the institute on the Direct Care Assistance Application.

Line E1:	Funds Designated or restricted for retirement		$7,000,000.00
Line E2:	Charitable Trust		$0.00
Line E3:	Tax Qualified Church Plan		$0.00
Line E4:	Pension Plans		$0.00
Line E5:	Generalate Retirement Funds		$0.00
Line E6:	Insurance Plans (annuities)		$0.00
Line E7:	Donor funds restricted for retirement		$0.00
Line H:	Other unrestricted funds that could be available for retirement		$500,000.00
Line I:	Other unrestricted funds (Cash, receivables, investments and board designated funds).		$2,500,000.00
Line L.1:	Outstanding debt and accounts payable	-	$1,000,000.00
Line L.2:	Loan guarantee	-	$0.00
Line M:	Retirement Fund Liabilities	-	$0.00
Total Asset Base for NRRO Distribution Purposes			$9,000,000.00

Total Asset Base		Census		Over 70		Per Capita Assets
$9,000,000.00	÷	100	x	50	=	$4,500,000.00

For fund distribution purposes, NRRO will use the asset calculation in Section Four A above.

Explanation of Retirement Needs Analysis, Page 2

SECTION FOUR: Unfunded Past Service Liability (UPSL) for NRRO distribution purposes

FOR DISTRIBUTION PURPOSES NRRO WILL USE THE HIGHER OF THE ASSET VALUES OF A OR B BELOW.

A. Based on the national weighted average cost of care and the adjusted assets available for retirement.
This calculation of **past service liability** is based upon the national weighted average cost of care. The adjusted assets available for retirement include the designated cash, investments, and receivables plus any additional assets reported by the institute as potentially available for retirement needs (Direct Care Assistance Application, page 6).

The national weighted average cost of care is used in the NRRO funding calculation in order to provide a more equitable distribution of funds.

B. Based on the national weighted average cost of care and the per capita allocation of assets.
This calculation of **past service liability**, like the one above is based upon the national weighted average cost of care. The assets available are determined by a per capita allocation of assets as shown below.

Calculation of Per Capita Assets (Based on Assets Reported by the Institute)

Assets Available for Retirement *(as in Section Four A)*
\+ Unrestricted Financial Assets *(per Institute's financial statements)* *
\- Operating and Retirement Fund Liabilities

Total Asset Base (for NRRO purposes)

Total Asset Base divided by Total Members of the Institute = Assets per member

Assets per member times Number of Members Age 70 or over =
Per capita Assets Available for Retirement for NRRO distribution purposes

* Patrimony, dowry and donor restricted funds (for purposes other than retirement) are not included.

Since the percentage of total assets reported as available for retirement varies widely among institutes, NRRO uses this calculation to address this subjectivity. The amount on Line B2 is the <u>minimum</u> amount that NRRO will count as available for retirement. If the amount on Line A2 is higher, NRRO will use that amount for distribution purposes.

Disclosure and Assistance History

SECTION FIVE: Disclosure

Information in the following section details the Institute's disclosure permission.

The Sample Institute applied for NRRO Direct Care Assistance and gave NRRO permission to disclose the following information to the local ordinary. The Sample Institute also gave NRRO permission to disclose the * information in the NRRO Annual Report.

*	Number of Members	100	
	Number of Members 70 and above	50	
	Median Age	70	
	Annual amount assets will support per member age 70+	$6,743.06	(designated by institute)
	Average annual cost per member age 70+ (minus Social Security)	$31,111.11	
	Shortfall (-) per member age 70+	-$24,368.05	
	Percent Unfunded based on reported cost of care	78.33%	
*	Percent Unfunded based on Nat'l Weighted Average Cost of Care ($55,502.32)	86.98%	
*	Direct Care Assistance	To be determined	

SECTION FIVE: Disclosure

The information in the section above varies depending on

- whether your institute applied for and received funds from NRRO
- whether your institute gave permission to disclose information to the local ordinary of the (arch)diocese in which the institute headquarters are located
- whether your institute requested that information be shared with other (arch)dioceses where your institute has a presence.

All direct care assistance amounts will be included in the NRRO annual report; other items will be reported only if permission is given.

The formulas used to calculate “Annual amount assets will support per member age 70+” are as follows:

- Total Past Service Liability (PSL) ÷ Current Annual Support Cost to be Financed by the Institute = PSL per member.
- Assets Currently Designated for Retirement ÷ PSL per member = Annual Amount Assets will support.

SECTION SIX: Assistance History

This section lists the assistance received by your institute since 1988.

Please pray for the donors who make this assistance possible.