



## Ministerial Retirement Planning

### *Ways Church Boards Can Help*

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A pastor's salary is unique compared to other professions. Most boards, even if they are business people with their own employees, do not understand the complexity surrounding a minister's remuneration. Some of these unique factors include:

- **Nonprofit status.** Many religious organizations, including churches, operate as a nonprofit entity. Pastors usually receive salaries from these organizations, and their compensation is structured differently with unique tax impacts compared to for-profit jobs.
- **Social Security contributions.** In the United States, employers pay a portion of the employee's wages into Social Security and Medicare programs. These contributions are typically split equally between employers and employees. However, even though a minister is an employee of the church, the IRS considers them self-employed and as a result, most churches do not pay the employer portion of payroll taxes. In this case, pastors are expected to absorb all these expenses which reduces their take-home pay and potential for retirement savings.
- **Unemployment insurance.** Secular employers may be required to pay unemployment insurance taxes which provide financial assistance to employees who lose their jobs. However, churches are exempt from the requirement which means that employees are ineligible to collect unemployment benefits. This requires pastors to build a more significant financial reserve than those employed by secular businesses. It also limits their ability to contribute to a retirement savings plan that compounds interest over time.
- **Retirement contribution.** According to the Bureau of Labor Statistics (March 2021), 67 percent of private employers provide retirement benefits. However, most churches do not offer retirement benefits such as matching plans or monthly employer contributions. In these cases, pastors are expected to provide 100 percent of their own retirement contributions.

We believe it is in the church's best interest to compensate for these realities by providing retirement benefits for the pastor. Most boards that understand the uniqueness of a pastor's remuneration want to assist but do not always know how. Following are some options the church board can take to assist in providing retirement benefits for the pastor, hopefully long before they retire.

- 1. Adopt a 403(b) retirement plan for the pastor and staff.** Establishing a 403(b) retirement plan can be done without cost to the church. Doing so provides a mechanism for the pastor (and any other church staff) to contribute to their own retirement on a pretax basis. Additionally, the availability of a retirement plan can be beneficial when recruiting new staff. A retirement plan option should be provided when the church creates its very first salary policy. The team at Church Extension Plan can meet with the church board to facilitate the plan adoption.
- 2. Ensure the pastor takes advantage of the District/Network's retirement contribution offer.** The Network we are associated with is the Rocky Mountain Ministry Network, and it currently contributes 10 percent of the minister's tithes to their retirement account. If your District or Network provides a retirement contribution to their ministers, make sure the pastor is taking advantage of that offer. This does not require the pastor to establish a second account if they already have a retirement account. It is a simple process of completing the necessary form and notifying the Network office.
- 3. Make an annual fixed contribution to a retirement account.** If there is uncertainty about the consistency of income for the church, consider an annual contribution to the pastor's retirement fund at year-end. This can be structured as part of the retirement plan and allows for flexibility in the future. As the church grows and develops a consistent record of financial stability, the contribution can be changed to a percentage of the pastor's salary.
- 4. Establish a pastoral retirement gift option for the congregation.** The church could create a contribution account as part of the giving options for the congregation. This would allow members to give directly to the pastor's future retirement and can be forwarded to their retirement account each year.
- 5. Add a matching contribution to the pastor's retirement account.** Consider encouraging the pastor by offering a matching program. For example, the plan can be designed with a matching contribution up to a stated percentage of salary such as 3 percent or 5 percent. In this example, if the pastor took a 3 percent employee deduction from their payroll, the church would match that 3 percent which would result in a monthly total contribution of 6 percent. This allows the contribution to grow as the pastor's compensation grows. Even a small amount, consistently invested over time, can make a significant difference to the financial retirement of a pastor.
- 6. Cover the employer portion of Social Security payroll tax.** By assuming the employer portion of payroll taxes, the pastor can take the amount they were having to pay and contribute it to a retirement account. This can have a significant impact over time. Assuming that the pastor is being paid a very modest \$1,700 per month in salary, the employer portion of the payroll tax would be approximately \$105 each month. Contributing just \$105 per month for 25 years, earning an average of 7 percent, results in a nest egg in the future of \$86,000. If the pastor already contributes \$100 per month, the nest egg will grow to \$167,000.

- 7. Convert a portion of the housing allowance to salary.** Retirement plan contribution calculations are based on taxable income. If the pastor currently receives all their income as housing allowance, discuss converting a portion of it to a regular salary. This allows the pastor to contribute that portion to their retirement account; and because the contribution is made pretax, there will still be no income tax due.
- 8. Consider gifting towards a financial consultation with a financial planner of the pastor's choice.** While a full financial plan prepared by a Certified Financial Planner can be expensive, some may be willing to do a limited consultation on retirement preparedness. This consultation can provide the pastor with a snapshot of their current situation and a plan with options to meet their future retirement goals. Church Extension Plan has provided this service and helped many pastors remain focused on their retirement plans throughout their ministerial careers.
- 9. Consider budgeting for an employer retirement contribution rather than a raise.** One way to quickly onboard a retirement benefit is to budget for a monthly retirement contribution rather than giving the pastor a raise. Not only will this help the church launch a retirement benefit, but it will also bless the pastor with a pretax benefit, lower their taxable income, and multiply its impact by being compounded over the years. For example, a \$50-a-month raise given as an employer retirement contribution will add up to \$6,000 over ten years. However, as a retirement contribution compounded at 7 percent interest, it will increase the pastor's retirement contribution by \$8,704 in that same amount of time.
- 10. Consider a deferred compensation plan.** If the church experiences a windfall gift or perhaps receives a large settlement from the sale of property, consider establishing an account for the benefit of the pastor at retirement. This type of account, often called a Rabbi Trust, remains an asset of the church and has certain restrictions built into the plan. The church can bless the pastor with this account when the pastor retires. The pastor can then use the proceeds to fund their retirement future. A deferred compensation plan should be considered with the advice of the church's tax and legal advisors.

In the long run, a pastor with healthy finances (even if not a large income) will have less stress and be able to minister more effectively; and the church is healthier if the pastor is not put in a position of needing to continue to minister well past their effectiveness because they cannot afford to retire.

For more information on RMMN's Empowerment Initiative go to [www.rmdc.org/empower](http://www.rmdc.org/empower). To learn how to set up a retirement program with Church Extension Plan see [www.cepnet.com/retirement](http://www.cepnet.com/retirement).