Retirement Strategies

Retirement information is one of the most important resources for any minister. While many denominations may endorse or provide retirement, most provide inadequate information regarding individual options or retirement planning. Our goal is to bring the awareness and importance of planning retirement especially at different stages of one's life. Please feel free to share this with others, including your church board.

Planning your retirement is extremely important!!! **People who do not plan---plan to fail.** Who is there for a minister who does not plan for retirement? Denominations, churches, and parishioners will not "bail out" a minister when there are no adequate funds set aside for retirement income. Many ministers get to the age of retirement only to realize they must continue preaching for the sake of "needing the income" instead of "desiring to preach". Some have lived in parsonages. Where do they go after they have stopped pastoring? Who provides housing? The church? The denomination? Family?

According to experts, there are three stages of retirement planning each one faces in a lifetime. Before getting to these stages, lets look at the most asked questions about retirement.

1. When should I start planning for my retirement?
    a. Age 25
    b. Age 35
    c. Age 45
    d. Age 55

    Answer: The answer is now! Most Americans are very poor about savings and will usually put off planning for retirement to meet immediate needs. If one does not start now, there will be little or no funds when it is needed the most.

2. How much should I save for retirement?
    a. 1%
    b. 5%
    c. 10%
    d. 20%

    Answer: Any amount! The important thing is to get started and let your money work for you and for you to have a plan of action. Starting out small is better than none. You can always increase later but often cannot erase the time lost.

3. Where should I look for retirement plans?
    a. Your Denomination
    b. Stock Investors
    c. Insurance Companies
    d. Your bank

Answer: There are pluses and minuses with each of these. Many denominations may endorse a plan that invests in companies with the same moral values as Christian and may provide a matching amount when one also contributes. This is a big plus and usually cannot be offset by a higher interest elsewhere. Another area of concern is the monthly income at retirement. (Please see question 5).

Stock Investors offer expertise in stocks, but they often do not advise an investor when they feel the stock should be sold or traded. Usually, people will try discounted investors to save on fees, but they lose the advice on trading. Be sure to ask if the investors will keep “an eye out” on any investments made and suggest times when it is best to sell.

Insurance companies usually offer a several different investment options and usually pay higher interest on fixed accounts. Some pay a bonus if investments are left alone for a few set of years and some pay out higher monthly income at retirement than others. (Please see question 5). Insurance companies have different payment options available for convenience and is far enough away to discourage withdrawals for something that may be more impulsive than for necessity. These companies usually offer withdrawals or loan options that no other investment vehicle or banks offer. Withdrawals or loans are generally available for distribution within 2 weeks or sooner. Be sure to look towards a nationally known insurance company with A+ ratings. This provides safety as well as service. If ministers move to another state, they need assurance they can receive local service from a nationally known company.

Banks and savings and loans are convenient but usually incur lower interests and are usually set up for short-term savings. Most ministers must be disciplined enough to make systematical deposits into a savings account. Some banks will have automatic deposits available. (Please look at question 4).

4. How long does the average savings account last in America?
   a. 2 months
   b. 6 months
   c. 12 months
   d. 5 years

   Answer: Most savings accounts in America only last approximately 2 months! Why? Most Americans spend more than they bring in and are often tempted to purchase items they desire rather than need. Retirement savings should never be set up as temporary. Most advisors suggest or recommend denominational sponsored retirement or insurance companies as a permanent option. They are usually financially stronger than banks and are far enough away to resist immediate withdrawals. Banks and savings and loans have their purpose for savings, usually for immediate emergencies and other short-term savings goals.

5. When I retire, should I continue with my present carrier for my distribution of monthly income or should I look around?

Answer: It is strongly suggested to compare the monthly payouts with different companies for the same amount of retirement savings. Some companies provide great earnings while contributions are being made but taper off when there is a distribution at retirement. We have seen as much as $300 a month difference on the same amount of retirement savings. A "rollover" is required to ensure the funds remain as tax deferred. It might pay to shop around!

6. Why should I start my savings now?
   a. Most will put off saving for the future
   b. More time to build up a retirement
   c. The principal of compound interest
   d. All the above

   Answer: All the above. People who realize the principal of compound interest let their money work for them instead of them working for their money! One can actually put less money into a retirement plan over a long period of time compared to others and may have more!!! Please refer to the diagram below:

John: A 35 year-old minister putting $100 per month into a retirement plan for the next 30 years. Look at how his investment has grown.

Actual Deposits over 30 years	$ 36,000.00
Actual Value at Age 65	$97, 926.00
Net Profit	$ 55,926.00

Frank: A 50-year-old minister, who has realized he has done nothing towards his retirement, decides to put 4 times as much as John ($400 per month) because he has some catching up to do (1/2 the time—15 years vs. 30 years). Look at Frank's savings:

Actual Deposits over 15 years	$ 72,000.00
Actual Value at Age 65	$115,323.00
Net Profit	$ 43,323.00

What if John increased his deposits twice as much as before ($200.00 per month), to equal the number of actual deposits like his friend Frank. Look at the difference:

Actual Deposits over 30 years	$ 72,000.00
Actual Value at Age 65	$195,851.00
Net Profit	$123,851.00

These examples point out a particularly important principle. By placing the same number of deposits ($72,000) as Frank but for a longer period, John would have earned $80,528 more than Frank!!! This is the principle of compound interest. Letting the money work for you, instead of you working for your money!!!

**Rates of interest based on 6%. You may incur higher or lower interest during these periods.

7. What types of retirement plans are available for ministers?
    a. IRA
    b. Seph IRA
    c. 403b
    d. 401k

   Answer: All the above and others. Any matching fund like a 401k is preferable but ministers can also contribute to a 403b that is tax-deferred, can be matched with employer contributions, and can be increased regularly. The 403b has loan privileges, which can be loaned out for emergencies without claiming income for the immediate year. Loans for home purchases can have a 30-year payback provision. If you claim a housing allowance, many 403b's can continue allowing you to claim the same housing allowance even after you start receiving your monthly retirement income. Please check with your tax consultant or advisor on this option.

   Tax-deferred savings offer greater benefits than traditional savings accounts at a bank or savings and loan. Please look at question 11.

8. What investment should I choose?
    a. Variable Option—Stocks
    b. Variable Option—Bonds
    c. Mutual Funds
    d. Fixed Interest
    e. Growth Funds

   Answer: Each option may have its benefits. Please consider each option carefully and keep in mind your present retirement stage. These stages will be outlined further in this article. Different investments should be considered for each one of the stages.

9. How will I know what investments to choose, if they are right for me, and how does my investment company invest my money?

   Answer: Each investment company will have a **prospectus** that will show the different types of investment options and a **history** of what they have done in the **past.** Remember no company can guarantee stock returns but they can show how they invested, what companies they invested with, and the rate of return they have received for that period. A track record of investment history is especially important for everyone who plans to invest in a company. Why invest with a company who has a history of not doing well?

10. Are my investments safe?

   Answer: Yes. Banks have FDIC, which is required so that some or all of one's savings would be guaranteed if the bank fails to meet their obligations.

   Insurance companies are not required to carry FDIC because they are financially more solvent. Many state insurance departments require all insurance companies doing business in that state to contribute into a fund to protect investors if an insurance company fails to meet its obligations. Most states carry a $300,000 guarantee for each investor. Please check with your state.

11. Why should I consider Tax deferred retirement options?

Answer: Tax-deferred options offer a way to pay less in taxes for the current year. This may be especially attractive when a minister may be in a higher tax bracket that year. Interest and principal are tax deferred until withdrawn. Most tax-deferred annuities have a penalty if withdrawn before age 59 ½. Most people choose a monthly income option at retirement to be paid to them for over a fixed number of years. Remember, tax is only declared on the amount withdrawn for that year. Most people fall into a lower tax bracket after retirement, thus saving them more of their money.

Some people call tax-deferred annuities as a discounted way to save money because of the tax savings. For example, if a minister can set up a tax-deferred 403b annuity at $100.00 per month and his net income would reduce only $75.00 a month (if he or she is in a 25% tax bracket). Look at the example below:

Non Tax-Deferred Savings—Typical Income Summary	
Normal Monthly Salary	$2,000.00
Normal tax paid (25% bracket)	$ 500.00
Net Income for bills, etc.	$1,500.00
Savings (non tax deferred)	$ 100.00
Other income available for bills	$1,400.00 per month

Tax-deferred Savings—Typical Income Summary	
Normal Monthly Salary	$2,000.00
Savings (Tax deferred)	$ 100.00
Net Taxable Amount	$1,900.00
Normal Tax Paid(25% bracket)	$ 475.00
Net Income for Bills	$1,425.00

As you can see, there is $25.00 more per month by just paying or investing in a tax-deferred annuity or $75.00 net difference between $1,500.00 per month of no savings and $1,425.00 a month with a $100.00 a month savings.

**Tax bracket for each individual may vary. Please check with a tax professional.

12. How often should I increase my contributions?
    a. Every year
    b. Once I get a raise
    c. Every time I get
    d. All the above

Answer: All the above. One should look at their retirement plan regularly--at least every year. A goal should include increasing the retirement contributions to help offset inflation. Look at the chart below:

Worth of $1.00 in 1967	In 1977	In 1987	In 1997	In 2007
$1.00				$ .16

If someone planned retirement 40 years ago, as in this example, and never increased their retirement contribution, their retirement dollar would shrink to $.16 on the dollar! Many other factors should also be considered, such as inflation with certain types of industries, like oil. Increased oil prices can affect the price for all goods and services. It is wise to review one's goals and objectives in their retirement plan from time to time to ensure their future.

13. What if I cannot afford to save?

Answer: One may have to encourage the church to start a retirement program or encourage them to place a lump sum contribution in their minister. This may be a contribution given by a member of the church through donated property or estate.

If ministers are paying for health premiums themselves, outside of any benefits, they may choose Section 125 as an option to free up dollars. The revenue act of 78 created a way to allow insurance premiums to be paid on a before tax basis. The church will be paying the premium for the minister as a benefit but will reduce their income by the same amount of premium that is normally paid. There would be no increase in expenditures for the church but will allow to free-up monies for retirement for the minister. Look at the example below:

Before Section 125	
Normal Monthly Income	$2,000.00
Normal Tax Paid (25% Bracket)	$ 500.00
Net Income for Bills	$1,500.00
Health Insurance	$ 200.00
Other Income for bills	$1,300.00 per month

After Section 125	
Normal Income/and or benefits	$2,000.00
Health Insurance (benefit)	$ 200.00
Monthly Annuity	$ 50.00
Net Taxable Income	$1,750.00
Normal Tax Paid (25% Bracket)	$ 437.50
Net Income for bills	$1,312.50

These illustrations show the importance of allowing the church to pay for insurance premiums. This would also allow a contribution of $50.00 a month in a tax-deferred annuity and still bring more take home pay (plus $12.50 a month) for the minister

Church board members should be agreeable to this option because they may be doing the same thing with their employer. This is not asking anything more than they would consider for themselves. If board members do not have this option, they should consider this for the minister to show the value and importance of their pastor. Most churches have a desire to offer benefits and higher salaries for their ministers but are unfortunately unable to financially afford it. This option should bring excitement to any board member who wishes to bless their pastor.

**Please check with a knowledgeable person on Section 125 or ask a tax professional. Amounts may vary with differences in tax brackets.

14. How much can I contribute in a retirement plan?

    Answer: Each plan may vary in the amount of contribution. Some have a provision to "catch up" for the missed years of not contributing.

    Some plans state that the maximum for a minister is $17,500 and the maximum that an employer can contribute per year is $45,000.

    **Please check with your financial or tax advisor. These may vary with plans and options.

Three Retirement Stages

Stage One—Ages 25 to 45

Many experts agree there are at least three retirement stages during a lifetime. This stage offers the most challenges and the most opportunities. During this stage, many will be entering the ministry, getting married, having children, and perhaps having the most debt.

Most experts agree that a retirement plan should be started as soon as possible. Listed below are suggestions that most advisors suggest during this first stage:

- Start a retirement plan early with the first job. Most people will spend all the income they receive. That is why it is important to set aside monies for a plan before one gets use to spending it. The future often brings about emergencies, such as marriage, down payments for homes, childbirth, braces, etc.—all of which may prevent a plan from beginning or such a fund could be used to borrow against for such emergencies.
- Be systematic and dedicated for doing the right thing. Most people never regret having monies available when they need it the most.
- Buy necessities, not desires. We have seen a couple, age 35, who have systematically saved, bought necessities, and still have around $350,000 in savings. They do not boast of a large income, but they started with a plan, invested well, and now have the availability to do more things in life. It is important to stay focused and not always keeping up with the Joneses.

- Increase contributions as often as possible, even in $10.00 increments. We have seen examples of a person increasing their retirement amount by $10.00 a month every year and have more money saved than anyone else at work (500 people with people making 7-8 times their income!). This person was a custodian. They really learned the importance of compound interest!
- Look at investments, such as variable stock and bonds, which have greater opportunity for growth. Remember, stocks should be viewed in the long range, not short-term. Stocks have outperformed any other type of investments in the long run. Remember, different stages will have different options.
- Use retirement funds for emergencies and retirement. Use banks and savings and loans for shorter-term emergencies or Christmas funds.
- Ministers never know when they may be voted out and without their normal income. If funds are not saved, where can a minister turn for help—usually nowhere, unless to another family member or friend.
- Use credit wisely. Too many times, young couples have too much credit card debt, robbing them from potential savings and ruining their credit. Pay off the highest interest items first. Plan to be as free from debt as one can.

Stage Two—Ages 45 to 55

Most people at this stage have looked back on their past and evaluated whether they planned well for their future retirement. Many have their children grown or in college, have reduced mortgages, and may be making more income. Many ministers look for "catching up" with any discrepancies from their original retirement plan. Here are a few suggestions from financial advisors during this stage:

- Review retirement strategies. Has the retirement plan worked or does the retirement plan need revision? Many ministers in this age bracket find themselves doing little or nothing for retirement.
- Start increasing the monthly contribution. To ensure adequate retirement, one may choose to put off many immediate material desires, for the peace of mind that monies will be available for them in the future.
- Set a goal of having the final contribution date at age 55, not 65 or beyond. Too many people believe they will many more years ahead of them, being able to have earning power up to age 65 and beyond, but too often health problems and church financial problems prevent this from happening.
- Look at different investment strategies. While stocks are a good choice for the long term, start looking for a time to sell stock when it at the highest and place more investments into a safer and more secure way, such as bonds, and fixed earnings. The closer to retirement, the safer the investment.
- Pay off any existing credit card debts and other high interest accounts. These can "rob" a [person from placing the same amount money into savings. Why make money for credit card companies, make, and save money for yourself!
- Look into future home arrangements. Many ministers still live in parsonages. What happens when a minister leaves the church or retires? Plan ahead while there is time.

Stage Three—Ages 55 to 65

People in this age group often become frustrated, looking back on "what could have been", and frantically try to put something away, knowing it may not be enough. There are some distinct goals that should be evaluated for people in this age group. Listed below are a few suggestions:

- Evaluate your retirement goals and options.
- Increase contributions if possible.
- Change investment options to **fixed earnings to be safe**. Some have ignored stock sells and was **"stuck"** with a lower stock price, forced to hang onto the stock in hopes of it increasing or just "breaking even". We have seen people wait 7-8 years and finally sell, only to get ½ the value they could have had 10 years earlier. Be smart and safe. Plan for the worst—not earning as much vs. loosing most everything!
- Look and plan for future home arrangements. As mentioned in Stage two, many ministers still live in parsonages. Time is running out if there has been no progress made for future home arrangements.
- Look into different annuity payouts with various companies. Many companies offer high rates of return but low monthly payouts. One can "rollover" their funds without tax penalties into a higher rate of return on their monthly distribution. Be smart and look around. Many have generated more monthly income by just switching companies.
- Enjoy life and be active!!! Too many people suddenly retire, often finding themselves of having poor health or dwindling away because of inactivity. Enjoy the things that God has created! Continue to preach, travel, be with others, enjoy outside interests, go back to college, or do something that has always been desired.
- Eat and exercise properly. Get regular doctor checkups to ensure a long and fulfilling life.

Information for Church Boards

Many denominations and churches are becoming more involved in the planning of retirement options for their pastors. Many feel God has sent a "shepherd" for them for such a time as this. The minister's retirement goals and needs are no different from any other board or church member. There is not a separate set of standards for lay people and then another one just for ministers. Most lay people expect **"reasonable consideration"** from their own personal employers to provide for their needs. How much more should the church provide for **"God's Messengers"**?

- Look for ways to continue to bless your minister. God will bless us as we bless our ministers!
- Look into helping a minister start their retirement plan by matching all or part of their contribution.

- Many ministers give their very all for the church, live in parsonages, and may minister in that one church for 15, 20, 25 years or more, only to find there is nothing for them after retirement. Look into possible endowments and other donated properties by church members to help fund retirement for those who have blessed you.
- Provide special fundraisers or special events to show your minister appreciation and support by helping them with retirement and other benefit needs.

Thank you for considering these options for your minister. God will bless you for your church. *"It's the matter of the heart".*

Dear Pastor:

Our goal is to encourage and support ministers through research, educational interventions, and provide immediate temporary assistance. We hope and pray these suggestions have been helpful to you and your family. Please feel free to share this information with a friend or church board. We also recommend that you consult with a financial and tax advisor when planning for your retirement. May God bless you and your family!

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