

PASTORS OPTING OUT OF SOCIAL SECURITY

Opting out of Social Security is not something that should be automatic or taken lightly. PCA Retirement and Benefits has an excellent interview online regarding what a pastor should consider before opting out of social security, and it is reprinted below:

Q&A: Should pastors opt out of Social Security?

Under U.S. tax code, ordained ministers can opt out of Social Security. Form 4361 declares that ministers who are theologically opposed to receiving benefits from the government can excuse themselves from Social Security.

While keeping 15.3 percent each paycheck instead of giving it to the government might seem like the way to go, opting out of social security is not a decision to make lightly. There are irrevocable repercussions. Once a pastor chooses to opt out, they are out for good in most cases.

The government recognizes the monumental cost of this choice. Generally, they give a minister two years to decide once they come ordained.

To illuminate the significance of this decision, we sat down with Rev. Ed Dunnington, Chartered Retirement Planning Counselor (CRPC) and Financial Planning Advisor with the PCA Retirement & Benefits, Inc., to learn more.

Ed, what is your background?

Currently, I'm a CRPC and Financial Planning Advisor* with PCA RBI. I joined RBI in March 2015. Before this, I planted and pastored Christ the King Presbyterian Church in Roanoke, Virginia, for nine years. (*Editor note: Ed Dunnington is now the President of PCA RBI.)

And before ministry in Virginia, I served as a campus minister for Reformed University Fellowship at the University of Washington for eight years.

So you've been on both sides of the table—pastoring and finance. Have you met pastors who have chosen to opt out of Social Security?

Unfortunately, yes I have. I have even been working with pastors nearing retirement who regret their decision to opt out. Since once you opt out, you're out for good in most cases, many pastors nearing retirement are worrying that they did not save as much as they should have.

The allure to save 15.3 percent in annual taxes is strong, especially since ministry wages are generally modest. However, the repercussions years down the road are staggering. Though imperfect, Social Security offers competitive advantages during the retirement years. Social Security guarantees half your income and gives you access to medical coverage that otherwise might be more difficult to come by.

Why do people typically choose to opt out?

I sometimes run across two reasons: 1) the pastor is afraid that Social Security will be insolvent by the time they hit retirement age; or 2) the pastor thinks he can invest his money better than the government can.

However, it is important to note that the only legal reason to opt out of Social Security is if a pastor believes that receiving benefits from the government is theologically wrong. A pastor can only opt out if he can truthfully state:

“I am consciously opposed to, or because of my religious principles I am opposed to, the acceptance of any public insurance that makes payments in the event of death, disability, old age, or retirement; or that makes payments towards the cost of, or provides services for, medical care” (Form 4361).

What do you tell pastors when they state, “Social Security is going to dissolve by the time I hit retirement age”?

Social Security began in 1935, and we will be speaking Mandarin before it goes away. Let’s be honest, there is one golden rule or purpose, as I observe it, of every elected official and that’s to remain in office. The most surefire way to get voted out is to remove Social Security. Look at what’s happening now: We’re unable to dismantle the Affordable Care Act, and it’s far less comprehensive and has far less history than Social Security.

It is important to note that many bills to stabilize Social Security have been introduced and failed. With that said, there is a bill making its way through the legislative branch will equalize Social Security to match mortality tables. This bill means that Social Security will mirror contemporary life expectancy. This will stabilize Social Security for upcoming generations.

How about when pastors say, “I can invest my money better than the government can”?

Again, if financial wisdom was the grounds which pastors were given as an option to opt out then maybe, but that is not the grounds given to ministers to exempt themselves from the law.

But for the sake of curiosity, let’s explore that statement. If you kept the 15.3 percent of income instead of paying the tax, then to outperform Social Security you must:

- Invest sufficiently to cover the hole left by Social Security payments for both you and the spousal benefit, which is 50 percent of the FRA for the working spouse (to have integrity with your signed statement opting out of Social Security, I believe you would be hard-pressed to receive any spousal benefit from your wife’s work history, nor should you allow your spouse to receive any Social Security benefits);
- Disability insurance to make up for what Social Security would provide;
- Life Insurance to provide a death benefit to make up for what Social Security would provide;
- Invest sufficiently to cover Part A Medicare benefit, which costs \$413 per month per person in 2017. Assuming that medical costs only rise with inflation, which has not happened in decades, that would cost \$19,823 in 35 years (assuming a pastor is 30 today and opts out. He has 35 years until age 65 when he would be eligible for Medicare).

So their personal investments would have to perform well then, right?

All investments in the market are subject to gains and losses. However, the market generally produces solid returns over the long haul (30+ years). With Social Security, you have the closest thing to guaranteed income to complement your market-based investments. By remaining in Social

Security and contributing to a retirement plan, you have both a fixed income source for retirement as well as enjoying potential market gains.

Do you really want to bet entirely on the stock market and your own personal investments to take care of you and your family for 20 years? I wouldn't.

At PCA Retirement & Benefits, Inc., our mission is to make sure PCA pastors and their families are well-prepared and cared for in their retirement years. Navigating retirement savings can seem daunting and complex. Start early. Contact our office today to learn what it takes to prepare well for retirement.

If a pastor in your presbytery is opting out of social security, they will need the following information:

1. For pastors wanting to opt out of Social Security, they need to obtain the EIN of the presbytery in which they were ordained. (They were ordained by the presbytery, not the denomination or local church.)
2. If a pastor was ordained by the RPCES, use his current presbytery's EIN.
3. Use SS Form 2031 to Revoke Exemption from SS. This form can now be found on the IRS web site at <http://www.irs.gov>.