



Ministers and Social Security - Approach with Caution

Opting out of Social Security today could mean applying for Welfare tomorrow.

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I never like to present these kinds of articles. There is little good news here, but the truth for ministers is that the news can go from not so good to absolutely miserable if they don't understand the real ramifications of opting out of the Social Security system. Many have done so and some have done so successfully into retirement. However, the vast majority have fallen victim to the immediate economic benefit of not having to pay into the Social Security system, thus freeing up money for survival, only to sacrifice their own and their family's wellbeing later.

The sacrifice? No disability support in case of a catastrophic event, no retirement income unless other provisions have been made.....and or course the big one.....no Medicare benefit for hospital and medical expenses in retirement.

So, the question is can a minister still get hospital and medical coverage from the government if he has opted out of Social Security? Well, the answer is yes, if he really wants it. It's called Welfare.

Sarcastic? Yes, I admit it. But if a minister doesn't really understand the full ramifications of his actions related to Social Security, he can face the reality of the welfare system later as a complete surprise to himself and his family.

Interested? OK, here goes, some facts, a few personal opinions and your choices.

One of, if not the most major financial decision a minister must make, with regard to his financial security, must be made early in his career. Actually, this decision must be made within the first two years for which he has net income for performing ministerial services. This is the decision regarding whether or not to elect out of the Social Security system. This decision may be made on the spur of the moment, often by the urging of an elder pastor, promising to help the young minister save money, but not explaining the ramifications of the decision. Usually, the elder minister himself is not aware of the ramifications of the decision he is advocating for the young minister.

Electing out of the Social Security program is done under penalties of perjury and can affect the minister's life style throughout his career and his subsequent retirement lifestyle. Many ministers have opted out of the Social Security program using Form 4361. There are only two valid options out of the Social Security system, and neither are for economic reasons, however, most elections, even those properly made, assume economic overtones and aspects.

Election out of the Social Security system is accomplished as follows: The Internal Revenue Code considers ministers to be self-employed for purposes of paying Social Security taxes, and they must pay self employment tax. However, ministers who meet certain criteria have the ability to become exempt from the self employment tax on their ministerial wages by filing Form 4361, Application for Exemption from Self Employment Tax.

A minister requesting exemption from self employment tax must meet one of the following tests: A religious principles test, which refers to the institutional principles and discipline of a particular religious denomination to which he belongs; or A conscientious opposition test, which refers to the opposition of the individual clergy man because of religious considerations (rather than an opposition based upon either the general conscience of the minister or on economic considerations by the minister). By filing Form 4361 the minister is stating that because he meets one of the tests, he is opposed to the acceptance (with respect to services performed by a minister) of public insurance which makes payments in the event of death, disability, old age, or retirement; makes payments toward the cost of, or provides services for medical care (including benefits of any insurance system established by the Social Security System).

A minister wishing to obtain exemption must file Form 4361 in triplicate by the due date of his Form 1040 (including extensions) for the second year in which he has performed services as a minister and has four hundred dollars of net earnings from self employment, any part of which was from the ministry. Although the ploy of becoming reordained to restart the filing time limits is not normally a valid position for filing Form 4361, as was confirmed by the courts in 1978, it was successfully achieved by a minister who left his ministry and denomination for five years to work in the secular world. After five years of secular work, he reentered the ministry and was reordained by a different denomination.

The courts ruled that the set of circumstances surrounding this minister was sufficient to show a change of religious beliefs significant enough to justify a restarting of the filing period. However, a minister attempting to file Form 4361 based on his second license or ordination should receive competent counsel to determine if his situation is comparable to the situation ruled on by the courts.

Form 4361 is signed under penalties of perjury so it is very important that careful consideration be given to filing for the exemption. In addition to filing Form 4361, the minister must also notify his ordaining body that he is filing the exemption. After receiving the initial filing the IRS sends a letter to the minister confirming that he understands his exemption is based on a religious conviction against public insurance. The letter requests the minister sign one more time (under penalties of perjury) that he understands and still wishes to opt out of the system. This is the last chance for a minister to change his mind and withdraw his application for exemption from self employment tax.

Once approved by the IRS a minister may not revoke his exemption. After returning this additional confirmation, the IRS will normally approve the exemption. The IRS will return a copy of the approved exemption to the minister. This copy is not replaceable and should be safely stored with other permanent records. The election out of self employment should only be made after careful consideration of one's religious belief, since under IRS audit a minister may be called on to prove beliefs, justifying the exemption.

Once the decision is made to file the election, a minister should gain full knowledge of the criteria for filing and the time limits in order to secure his exemption properly. Based on the above information, a minister may decide that he cannot in good faith opt out of the Social Security system, because generally his elections are based on economics. However, for those who elect out, economics comes into play. Even if a minister has an objection to social insurance, he needs to recognize the need for retirement income. Accordingly, he should select alternative options for retirement, if there is to be no Social Security payments.

It has been my experience that ministers who opt out of Social Security make no other provision for their retirement years, even though their intentions are good.

Usually, the option to elect out of the Social Security program is made by a young minister when his income is low, and he does not believe he has the extra funds to under write a retirement plan. Often the minister skips provision in the early low income years, and believes he will be able to catch up in later years. Usually later years' contributions never happen because it seems there is always some financial emergency or requirement which prohibits putting money away for retirement.

Providing for retirement in later years, in many cases does not allow enough time for the money and compound in amounts necessary for retirement. Often the amount of money necessary to provide retirement in later career years may be overwhelming, and the minister succumbs to despair at worst or at least has limited options upon reaching retirement age. Even if one does not intend to retire at age 65, he should have the option of retiring. Often an elder minister is forced to continue "working" after age 65, because provision for retirement was not made and he has elected out of the Social Security program. If

there are health problems at retirement age and there is no Social Security or Medicare, etc., the minister may become dependent on federal and state welfare.

What a sad situation when a minister reaches retirement age, and has not provided for alternative retirement programs, and he has elected out of a Social Security program, which may be further compounded by the fact that he lived in a church provided parsonage. I have seen situations where a 65-year-old minister has been asked to vacate the church parsonage as the new minister is moving in. The church had historically paid lower compensation because the use of the house was provided so he has not been able to set aside funds out of his salary to purchase a home at retirement.

Accordingly, upon reaching retirement age he has no home, no Social Security, and no retirement income.

Again, this may force a minister to have to continue working whether he wants to or not.

Be sure you understand completely the effect of opting out of the Self Employed Contributions Act (SECA).

If you still elect to opt out of the program, be sure to make alternative plans for retirement sources, early in your ministerial career.

Actually, it is a good idea to have multiple alternative retirement plans even if you stay in the system as Social Security is likely to be inadequate to sustain a minister's current lifestyle during his retirement years. In fact, that is good advice for all of us.

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