



Clergy Finance Letter

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November 2009



financial planning

WHY WOULD I WANT RENTERS INSURANCE?

A parsonage dwelling clergy recently asked me this question. Her thought was that the building was owned by the church and she had been told that the policy they had also covered her contents should there be a fire or other disaster. She is quite typical of many clergy that presume that this is an unnecessary expense. So, let's consider some of the reasons that it is not only a good idea, but really essential that such a policy is in place.



1. **Liability is a primary factor.** Should you as the "tenant" cause a potentially dangerous situation you could have personal responsibility for your action or inaction. More specifically, should you not clear the sidewalk and someone falls on ice coming to the parsonage, you could have liability. Or perhaps there is a loose step on the porch or some faulty wiring or other condition you fail to report to the trustees, these could lead to some adverse consequences for you in the event of an accident.
2. **Damage to or theft of personal property is another issue.** Should your college student's computer be stolen from the dorm most renters insurance policies would cover this (less a deductible) as it was personal property in transit outside the home. Likewise there are various types of riders that can be attached to a renter's policy to cover electrical surges and other potentially damaging events to your personal items.
3. **A basis for an umbrella policy is also to be considered.** As more and more litigation arises from professional liability, an umbrella policy is often recommended as a means to cover such exposure. This is a policy that picks up where automobile insurance and renters or homeowners insurance leaves off. It is reasonably cheap, but it requires that there be some basic coverage in place - such as a renter's policy.

For all of these reasons we have stated and for probably some that we have forgotten, this type of insurance is essential for parsonage dwelling clergy.

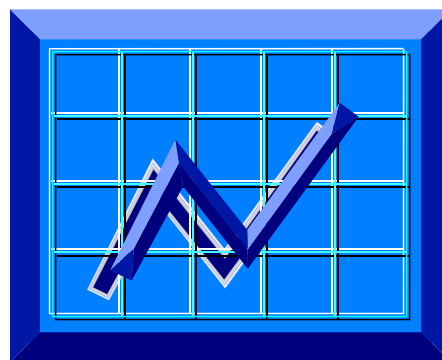


investing

IS THERE A SAFE PLACE TO INVEST WITHOUT GIVING UP?

Long-term readers will remember our mantra about investing: "Risk and Return are Related." For those clergy who cannot stomach the volatility of the stock market the available options look pretty grim. Money market yields today are all but non-existent. (A popular joke in broker circles is speculation about the date that the Department of Treasury begins to charge rent on deposits for T-Bills.) Certificates of Deposit have often been the parking lot of choice when equity markets roil. Today, however, yields of less than 1.5% are common for all but the longest term C.D.s.

A possible solution to this dilemma may be the burgeoning number of "Stable Value" mutual funds now available. These funds have the goal of maintaining your asset base while seeking to earn at least a nominal return greater than simple money market mechanisms.



How do these "Stable Value" funds work? The core holdings of the fund usually are medium maturity bonds, commonly those with maturities of less than four years. In addition to the interest-yielding bonds, the fund purchases a type of portfolio insurance

to protect against an individual security's default or bankruptcy. The whole portfolio provides stability and protection none of the individual assets could offer.

Do these funds work? In the right environment they can be stellar. Case in point is the past 24 months. From the stock market peak on October 9, 2007 to the nadir on March 9, 2009 the Standard & Poor 500 plummeted 55%. During the same period, however, the average stable value fund was up a respectable 7%.

Are stable value funds right for you? Only as a "parking place" for funds you can't afford to lose but not as a long-term investment. The key word in this strategy is *stable*. Accordingly, these make losing growth instruments. Since the vast majority of clergy, both during active ministry and in retirement, need significant growth in their portfolios, limit your exposure to these funds to no more than 20% of total investment assets.



money watch

ADDRESS CHANGES YOU MAY HAVE FORGOTTEN

If you moved this year chances are you have had your mail forwarded, sent notices to your magazine subscriptions, changed banks and all your friends. However, have you changed all the addresses you need to change? Some that are often overlooked are: Driver's Licenses, Vehicle Registration and most importantly, tax addresses. For your federal taxes the form is 8822. You can get this form at www.irs.gov and fill it out on line. However you will have to print it and mail it in, as it can't be submitted on line. Most states have a similar form that often can be found on line as well. Don't forget the local taxing body as well. Be sure to do this for your spouse and any dependents that also use your address for tax purposes.

CHRISTMAS SHOPPING

As holiday time approaches, there is that dreaded task of getting the right gift for all the special people on your list. With high gasoline prices, potentially foul weather and the usual crowded stores and parking lots, there is a great motivation to seek more convenience in providing the appropriate attitude when it comes to gift giving.



With our older children we have adopted the "e list" as a way of knowing what they would appreciate receiving from the jolly old man. They visit various web sites and email us the link to the particular item they like. Though we may look for other suppliers at a lower cost, at least we know

exactly what they want including size and color. By combining several items at one on line site it is often the case that free shipping is also available. As most teens and young adults live their world in cyber space a great deal of their waking hours, this is not an unusual or difficult request for them to fulfill.

Many of us are now in the habit of using a credit card that offers many reward options. Some cards have a cash back option while others have the option of converting points earned to gift cards. These gift cards can be given without the recipient knowing the source of the funds that procured it. If this seems too impersonal to you, then you may want to get the gift card and use it to purchase the item to be gifted to that special someone.

On the subject of gift cards there are now many retailers that are offering gift cards for other stores and in exchange for their purchase they provide benefits at that retailer. In particular, there is now a grocery chain that offers cents off their gasoline based on the amount spent (including gift cards) at their grocery stores. This is a way to reduce the cost of the gift by the discount received at the pump.

For the difficult to shop for (the one who has everything and needs nothing) why not consider a homemade item with a gift to their favorite charity in their honor. This is also a way that your congregation can promote both gift giving and a way to enhance a particular ministry as well.

Make your holiday more relaxed, less expensive and more meaningful by planning now to consider a new way of shopping.

"BAD" CHECKS IN THE MAILBOX



One of my favorite experiences is to find an unexpected check waiting for me in the mailbox. Sometimes this is refund, a reimbursement or, rarely, a windfall. Along with the good stuff, however, are bogus checks or check facsimiles that can be a real liability.

Today we received a page of checks from my credit card company for me to use to pay expenses. Convenient, yes, but the downside was that each check would be a cash-advance from my Visa account and would carry an interest rate of 22% on all purchases. No thanks.

Other imitation checks come with other strings attached. Common is the check that, when signed, contractually obligates you to a subscription or service of some kind. Tempted to endorse that "thanks for your business" check for \$10? Be careful. Doing so may put you on the hook for more "business" from the same company.

An auto dealer sent out checks in an envelope marked "Stimulus Headquarters." The checks were filled for \$1,000 but under the signature were the words: "Non-negotiable. Not a check. Has no cash value." These were, in reality, preauthorized vouchers for use in purchasing a new car. When opening that envelope, think. How many people really are likely to send you money?



housing

INVESTING FOR RETIREMENT HOUSING

A reader recently wrote for advice about investing funds to be used for his retirement home. "I had always planned to buy a house about ten years ahead of retirement," he wrote. Now, with housing prices collapsed, he wondered if there was another way to invest with real estate in mind other than buying an actual property. In fact there is.

Real Estate Investment Trusts (REITs) are a type of pooled investment where you buy a portion of a "basket" of real estate assets along with other investors in that company. While not a true mutual fund, REITs have many of the same properties: broad diversification among assets, professional management, opportunity to invest relatively small amounts of money and yet participate in large scale investing. In addition to these benefits, REITs have a unique tax advantage in that there is no "double taxation" as long as the company passes through at least 90% of corporate profits to shareholders. This means that the dividend paid to you is taxed only by you, not the corporation.

Are REITs for you? Maybe. They are not without risk, however. Many REITs today depend upon leverage from financing and may face difficulty in obtaining additional credit if the underlying real estate properties they own lose value. On the other hand, there are few other opportunities to invest in real estate for only a few thousand dollars without assuming huge personal debt. This way you get the benefit of real estate investing, including leverage, without placing more than your initial investment at risk.

Since REITs often perform well when the stock market struggles, this can be a wise diversification move as well.



tax planning

DO YOU HAVE ANY SAVINGS BONDS?

Many of us, and/or our children have been given US Savings Bonds over the years. We put them away and forgot about them. We may even have lost them in all of our moves. The US Treasury reports over \$16 billion worth of matured bonds have not been redeemed. After a certain time the bonds may even stop receiving interest. Dig out your old bonds now and take them to a bank to see what you should do. Can't find them? You can go to www.treasurydirect.gov to see if you have any unclaimed savings bonds.

BE AWARE OF INCREASED TAX AUDITS ON CLERGY!

IRS auditors have been instructed to look more carefully at the tax returns of clergy. In particular they have been instructed to make sure the housing allowance and SECA taxes are reported correctly. They are also looking carefully at the deduction of business expenses. Make sure you have well-documented and receipted records for all housing and unreimbursed business expenses.

NEW RULES FOR ROTH IRA'S

If you have an IRA (or funds in your personal 403(b) (PIP) you have some new options in 2010. Under normal regulations any funds you take out of these funds are taxable when you remove them. Also, you must begin normal distributions from these funds by April 15, following the date you turn 70 1/2. If you find that you are approaching a distribution date, and you do not think you will need those funds, you can transfer them to a Roth IRA. Tax is due in the year you transfer them, but if that transfer is in 2010, you can defer the tax due to 2011 and 2012 tax filing date. The benefit of a Roth is that there is no mandatory distribution; if the funds are invested for at least five years, any distribution is not taxable; and you can have someone inherit the Roth without the heir having to pay taxes. (A regular IRA or 403(b) is taxed upon the person inheriting those funds..

PARENTHOOD AND STUDENT LOANS

OK, your kid graduated from college. Good for them and good for you. Now it is time to examine the damage. The average undergraduate today escapes college with a debt load of \$22,000+ in educational loans. Who should pay for this debt, you or the brand new alum?

Let's consider the tax implications of the payments. Under current law up to \$2,500 in interest payments is tax deductible each year. The deduction, however, is limited to the person who is responsible to make the payments. Accordingly, if the student loan is in your child's name only they are eligible to take the deduction even if you give them the money. If your young adult will be in a much lower tax bracket than you will, the deduction may be worth considerably more to you than them. You could borrow the money yourself, gift it

tax-free to your son/daughter to pay off the student loan, and deduct your interest payments going forward.

Now let's examine the rate. Guaranteed student loans are issued at very low rates, currently about 5%. Taxes aside, you will not be able to get as good a deal. It doesn't make much sense to take on a 10% loan, even with deductible interest, when a loan charging half that rate is available.

Now let's ask the personal question: "Where would you get the money to pay off the loan?" If the answer is by raiding your retirement fund, stop right there. This is financial insanity on stilts. No matter what you feel about assuming your child's college costs, to do so at the expense of your own retirement could be one of the most irresponsible things you'll ever do. While there are lots of ways and incentives for your son/daughter to pay their students loans off, there is nobody but you to finance your own retirement.

Is \$22,000 worth of debt too much for a young person to finance these days? It's hard to see how this is an onerous burden when the kid will probably pay that much for their first new car. You helped them get an education that could pay them as much as \$1 million more over their career. Isn't that enough?

HOW HEALTHY ARE YOU?

A recent analysis by the health insurance carrier of the Western Pennsylvania Conference of the United Methodist Church demonstrated that their clergy had two to three times the incidence of serious chronic conditions than the normal population. Additionally, most of these factors were directly related to obesity. The translation of this finding is the dramatic escalation of health insurance premiums that cover our clergy families.



With the national debate raging on health care we should be aware of the personal responsibility that each of us have for our own well-being. Preventive care can play a dramatic role in limiting the out of pocket costs that incur for medical treatment. This can be done without incurring the costs of a health club membership or prepackaged balanced meals.

Perhaps one of the greatest challenges that a local pastor faces is the ability to maintain a healthy diet. Our schedule often keeps us from the luxury of sit down restaurants and puts us in the drive through line at a fast food place. We are expected to be front and center at church dinners and don't want to slight anyone by not sampling their cherry pie. With a rigorous schedule it is easy for us to use the excuse that we simply do not have time to exercise.

Lifestyle change is most easily accomplished when we are forced to become accountable to someone other than ourselves. The success of AA or Weight Watchers can be directly attributed to the group nature of the program and the mutual accountability that it calls for. Why not covenant with a fellow clergy to make significant life style changes? Or, what about challenging your congregation to exercise more and eat healthier? There are many possibilities that could result in better life styles, and ultimately save dollars and lives.

Q A
A Q

questions & answers

Q: With the state of our congregation's finances the church will not be recommending any pay raise for the staff or me next year. They would like to offer a raise some time during 2010 if our circumstances improve. The District Superintendent, however, says that such a mid-year change is inappropriate and perhaps illegal. Didn't you recommend such a strategy recently?

A: Yes, we did and we continue to believe it is a faithful way for congregations to recognize faithful service during difficult times. As far as being "inappropriate" there is nothing wrong with any employer offering a salary adjustment at any time. Perhaps your DS is referring to conference policies regarding the establishment of clergy compensation. It is not uncommon for conferences to require that any compensation change be established by a church or charge conference. Assuming this is what you would do, we can think of no reason why such a tactic could not be implemented if financial circumstances allow. There is no legal problem at all.

Q: As a matter of my person comfort I insist that all my investments be insured. Now I discover that my bank has me in a money market mutual fund that is not insured by FDIC. Can they do this to me?



A: They can, of course, but you may not need to take it. Only money market deposit accounts offered by banks and other financial institutions can carry FDIC insurance. Mutual Funds, even money market mutual funds, are not eligible for this insurance. If you really want to be insured, insist that your bank move your account to an insured one.

Q: I think I remember you mentioning this once a while ago but I forgot your answer. Can I consider my cell phone as a housing expense for tax purposes?

A: This area continues to evolve. In the past we have been skeptical of efforts to make this expense related to the clergy housing allowance exclusion because, by definition, the cell



phone is designed to be used *outside the home*. Now, however, a growing number of families have dropped landlines completely and rely entirely on cellular phone service. In this limited circumstance we think it would appropriate to consider the cell as a housing expense.

Q: Since I am retired do I have to still pay tax on any earned income?



A: We have discovered recently that many retired clergy who have part-time income from church work, or speaking engagements, think that they do not have to pay any taxes on their income because they are retired. The bad news is, taxes may be due on any earned income even if you're retired and receiving Social Security benefits. Just because you are retired, and receiving Social Security benefits does not exclude you from paying your share of the Self-employment tax. Even if you do not owe any income tax, you still need to file a SE for self-employment tax.

Q: If all of my income is declared housing allowance, do I need to report that income?

A: If all of your housing allowance has been spent on housing, furnishing, maintenance, and utilities you do not need to report it for income tax purposes. But you must report the entire amount on Form SE and pay the self-employment tax.

Q: I have not kept up with my records very well this year. Can I just estimate my expenses?



A: To be able to deduct any expenses (household or business deductions) you must have either receipts or a contemporaneous record (i.e. you keep notes of what you have done and the cost) or you may not deduct the expense. IRS has been instructed to look carefully at all clergy tax returns for possible errors. On the other hand, if you have appropriate records do not hesitate to take a well-earned deduction. \$1,000 of deductions can save you up to \$300 in tax.