

Purpose: This FAQ provides information and context regarding the **Retirement Plan for Churches of Christ Ministers and Staff** (aka “Church of Christ 403(b)(9) plan”) for:

- Elders, Deacons, Treasurers, and finance decision-makers,
- Paid Ministers who participate (or are considering participating) in this plan, and
- Paid staff who participate (or are considering participating) in this plan.

Important Note: “Clergy” or “ministers of the gospel” enjoy unusual benefits under the United States Internal Revenue Code. However, there are reporting requirements for these unique guidelines. Please consult a qualified tax preparer, tax attorney, financial advisor, and/or other experts to ensure compliance with applicable rules and reporting requirements. “B.J. Worth’s Tax Guide for Ministers” can be purchased online and is an excellent resource for Ministers and church leaders. Specific to 403(b)(9) plans, proper documentation and approval of housing allowance is critical to ensure withdrawals for housing are free from Federal tax liability once a minister has retired.

Frequently Asked Questions

GENERAL

1. What is a 403(b)(9) plan?

- 403(b)(9) plans are retirement plans specific for churches and church related non-profits.
- The IRS limits the amount that employees can contribute to their 403(b)(9) plans. Annual limits are generally on par with limits for 401(k) plans.
- The advantages of a 403(b)(9):
 - Higher contribution limits than IRAs and other types of retirement plans,
 - The ability to make additional catch-up contributions, and
 - Tax free withdrawals for qualified housing expenses (for retired ministers).
- Contributions to 403(b)(9) plans are made through payroll deductions.

2. Why would churches consider offering a 403(b)(9) plan?

- Genuine concern for the employees and their long-term retirement readiness who are under the purview of elders or church leaders.
- Attract and retain talented staff.
- Inexpensive and easy to operate.

3. Why would ministers and employees of churches consider participating in a 403(b)(9) plan?

- Potential for matching or other contributions from employer.
- Ease of investment / savings / deferrals via payroll contributions.
- Compounding of interest due to dollar cost averaging over months and years of investment.
- For ministers who retire, tax free withdrawals for qualified housing expenses.

In summary, a minister in a 403(b)(9) plan can reduce their taxable income each year by the amount of their retirement savings, those savings can grow tax free, then withdrawals for housing allowances in retirement are also tax free! It's the rare triple tax benefit.

4. Where is my money held?

- The Church of Christ 403(b)(9) Plan is 'recordkept' by PenServ Plan Services. PenServ is able to manage the complexities of church retirement plans. After a church signs up to be a part of the plan and each participant enrolls and starts saving, participant account balances can be viewed online or by calling PenServ.

5. Who oversees the 403(b)(9) plan & what are their responsibilities?

- A group of trustees called the Benefits Committee has fiduciary responsibility for the plan. This includes:
 - Review of the recordkeeper, fee reasonableness, and administrative compliance.
 - Review of the investment advisor including fee reasonableness and investment oversight.
- The Benefits Committee includes 3 Church of Christ members who have retirement plan experience in their secular jobs. Benefits Committee members are unpaid.

6. What are the costs associated with a 403(b)(9) plan?

Matching contributions or discretionary contributions	Paid by plan sponsor . Amount is TBD based on staff salaries and each church's contributions.
Plan administrative costs	Paid by plan sponsor (each participating Church of Christ)
Per participant costs	Paid by participant (i.e. swept from participant accounts periodically).
Investment advisory costs	Paid by participant . (Swept from participant accounts periodically.)
Investment related costs	Paid through expense ratios of the investment each participant chooses.
Transaction based costs	Paid by participant . Certain transaction based costs (aka \$25 for a withdrawal request).

CHURCH RELATED QUESTIONS

7. What are the responsibilities of each Church that chooses to participate?

- Review, execute, and return all start-up documents.
- Once active, pay the annual administrative fee.
- Submit participating employee deferrals and/or matching contributions to the recordkeeper each payroll period.

8. What are the total costs for our church each year?

- Administrative fees of roughly \$300 per year per participating church.
- Churches decide between 1% discretionary contribution or 3% matching contribution each pay period.
 - To determine the annual impact of discretionary and matching contributions for church staff, contact Rick Elam and request the “Contribution and Deferral” spreadsheet.

9. How does my church sign up for this 403(b)(9) plan?

1. Visit the churchofchrist403b9.com website and/or email service@churchofchrist403b9.com for an introductory meeting.
2. Ensure the appropriate leadership team (usually a mix of Elder(s), Deacons(s), Finance/Treasury team) agrees to offer a 403(b)(9) plan to ministers and staff.
3. Determine how contributions will be applied to the Plan. **Employer** Contributions may be made in two forms:
 - **Non-Elective Contributions.** This contribution is made to all Eligible Employees whether or not they participate with Elective Deferrals (payroll deducted Employee contributions).
 - **Matching Contributions.** These contributions are applied to all Eligible Employees who elect to defer a portion of their wages to the Plan. The Match is typically stated in terms of a percentage of salary deferred; for example, 100% of the first 3% of deferred compensation.
4. Complete the required forms and return the material (including the Plan Document) to PenServ.

10. Why would we pay for this service instead of simply giving our money directly to the minister / staff member for retirement savings?

1. Ministers and staff are more likely to stay with a church if a benefits package is offered. A retirement plan is a low cost, high impact benefit for ministers and staff.
2. Specific to ministers, a 403(b)(9) plan is the only vehicle where retired ministers can take tax free housing withdrawals.
3. Recurring payroll contributions and/or employee contributions (match or non-elective contributions) are important behavior-based activities which help ensure covered employees participate in their retirement savings.
4. Participants will have access to education and investment support through the recordkeeper and/or investment advisor as part of a 403(b)(9) plan.

MINISTER AND STAFF RELATED QUESTIONS

11. Who can participate in the Church of Christ 403b9 plan?

- Any full time / salaried minister or staff member is eligible to participate in the plan.
- Any part time staff member who works >= 15 hours per week is eligible to participate in the plan.

12. What are the responsibilities of each employee?

- Ensure your Church has signed up to be a part of the Church of Christ 403(b)(9) plan.
- If you'd like to participate, contact Penserv or Rick Elam for the Enrollment Form Guide.
- See the next question for assistance enrolling in the plan.

13. How does a Minister or staff member participate in the Church of Christ 403(b)(9) plan?

- Follow the simple steps on your enrollment form. Before you begin, you'll need:
 - i. Your church enrollment code. For example, choc1234
 - ii. Your personal information like date of birth, address, social security number, etc.
 - iii. Your spouse's information like date of birth, address, social security number, etc.
 - iv. The amount of money you'd like to save. A good start is 3%.
 - v. An idea of which fund you'd like to invest in. If you're unsure, select a Target Date Fund closest to your 65th birthday. For example, if you were born in 2000, chose the Vanguard Target Date Fund 2065.

Important Note: The savings percent and your investments can be changed in the future. The important thing is to start! You'll select your **user name** and **password**. Jot them down so you won't forget! It may be prudent to have paper and a pen/pencil for notes.

14. Is the match or contribution money mine once it hits my account?

A vesting schedule exists for match and discretionary contributions. The Church of Christ 403(b)(9) plan has a "3-year cliff" vesting schedule. If an employee leaves a church within 3 years of beginning the 403(b)(9), the match and discretionary contributions are forfeited.

Important Note: The employee will ALWAYS be fully vested in their own contributions.

15. What if an employee who participates in the Church of Christ 403(b)(9) plan is no longer employed by the same church?

Similar to 401(k) plans and IRAs, 403(b)(9) accounts are fully portable. If an employee leaves their current church, they can usually:

- Leave their investments in the 403(b)(9) plan.
- Roll-over investments into another tax deferred plan (usually an IRA).
- Cash out retirement savings (penalties usually apply if withdrawals are made prior to 59.5).

Important Note: Ministers should typically leave their money in the 403(b)(9) plan so they can take advantage of tax-free distributions for qualified housing expenses once they retire from ministry.

Scenario 1

Mark Minister participated in the Church of Christ 403(b)(9) plan through the **Broadway Church of Christ**. Mark contributed \$20,000 and the Broadway Church of Christ contributed \$15,000 as a matching contribution. Mark was employed by the Broadway Church of Christ for **about 5 years** and he has participated in the retirement plan the entire time. Mark leaves the Broadway Church of Christ and begins new employment at the **Northside Church of Christ**.

Notes & Recommendation for Scenario 1

- Mark should leave his money in the Church of Christ 403(b)(9) plan. Mark's contributions are his. Because Mark left the Broadway Church of Christ after 3 years of service, he is FULLY VESTED in the matching contributions. Mark's total balance in his 403(b)(9) account is \$35,000. (Technically, Mark's balance should have grown over the 5 years. We'll keep it at \$35,000 for simplicity.)
- In the process of negotiating salary and benefits with the Northside Church of Christ, Mark would ask the church leaders to sign up for the Church of Christ 403(b)(9) plan. Mark would begin contributing to the Church of Christ 403(b)(9) Plan through the Northside Church of Christ.
- If / when Mark retires from full time ministry, Mark can take distributions from his 403(b)(9) plan TAX FREE as long as distributions go towards his annual housing allowance. Pre-tax source distributions that are greater than his housing allowance each year will be taxed at the Federal ordinary income tax rate.

Scenario 2

Martha Office Manager is 62 years old. She participated in the Church of Christ 403(b)(9) Plan through the **Main Road Church of Christ**. Martha contributed \$5,000 and the Main Road Church of Christ contributed \$2,000 as a matching contribution. Martha was with the Main Road Church of Christ for about 2 years. She recently decided to resign so she could spend more time with her grandchildren.

Notes & Recommendation for Scenario 2

Martha is not a minister so she would not qualify for the tax-free withdrawal for housing allowance in retirement.

Because Martha was in the Church of Christ Retirement Plan for less than 3 years, the \$2,000 matching contribution is "forfeited" and returned to the plan. Martha could:

- Leave the \$5,000 in the Church of Christ 403(b)(9) Plan.
- Work with her Financial Advisor to transfer the \$5,000 into Martha's IRA. There is no tax impact to transfer the money from the 403(b)(9) to Martha's IRA.
- Withdraw the money from the 403(b)(9). Martha is over 59.5 so there is no 10% federal tax penalty. Martha will pay federal income taxes based on her ordinary income rate.

16. Should I consolidate all my accounts by "rolling over" money into the Church of Christ 403(b)(9) Plan?

- The Church of Christ 403(b)(9) Plan allows rollovers of retirement plan assets (IRA and 401k accounts) into the plan.
- Here's why you would leave retirement assets in your current IRA:
 - i. You enjoy working with your current financial advisor.
 - ii. You have specific investments (stocks, bonds, CDs, etc.)
- Here's why you would rollover IRA or 401k assets into the Church of Christ 403(b)(9) Plan:
 - i. You prefer to have your accounts consolidated at one place.
 - ii. You want a small selection of vetted low cost, well diversified investments.

Generally, IRAs offer the most flexibility when selecting investment options.

Scripture references:

- “The plans of the diligent lead to profit” (Proverbs 21:5).
- “Suppose one of you wants to build a tower. Won’t you first sit down and estimate the cost to see if you have enough money to complete it? (Luke 14:28)
- “Do to others as you would have them do to you.” (Matthew 7:12).
If you are covered by a retirement plan at work, wouldn’t you want your co-workers in the LORD to be covered?

Who to contact for more information, additions, or modifications to this FAQ document:

Rick Elam rick.elam@coopereagle.com

Andrew Cooper andrew.cooper@coopereagle.com