# How Clergy Can Improve Their Financial Wealth:
# A Simple Affordable Tool for Retirement Planning

by Taft Quincey Heatley

Taft Quincey Heatley is the Executive Pastor of the Ray of Hope Christian Church in Decatur, GA. He is a former investment banker with Citigroup in New York, NY.

It is crucial for clergy and their churches to initiate and investigate planning for the future, especially for the financial future of the clergy and other selected church employees. There are numerous ways, some complex and others simple, to plan for retirement. Listed below is an introductory overview of one simple and popular investment tool that clergy and churches can utilize in their retirement planning.

Given the minimal requirements, reasonable costs, and the contributions limits for these investment tools, most churches should be willing to provide this service to their pastors. It is a practical measure to help provide a reasonable financial future upon retirement for their clergy.

## Investment Retirement Account (IRA)

An investment retirement account, mostly known by its acronym IRA, is an easy and often times safe way to commence retirement planning. The IRA is comprised of a mutual fund or funds chosen by the investor, you. A mutual fund is a pool of investments (stocks, bonds, etc…) under the supervision of a money manager of a financial institution. All mutual funds trade in a securities exchange (New York Stock Exchange, NASDAQ) as common stock.

According to your  (risk tolerance) you can choose from a variety of funds to meet your needs (please remember, that you ALWAYS possess the choice to invest however you see fit relative to your circumstances).

The IRA is an investment vehicle for individuals under the age of 70 ½. Contributions to an IRA must be earned income, that is normal wages, salaries, etc. (mainly compensation that appears in Box 1 of a W-2 statement). What makes the IRA a good “retirement” investment idea for clergy is the annual contributions limit imposed by federal law. The contribution limits, according to age, are listed below:

Age 49 and below – $5,000 per year
Age 50 and above – $6,000 per year

*Please note that as of 2012 the contribution limit is set to increase each year in increments of $500; however, this is dependent upon the level of inflation.*

I believe that many churches possess the financial ability to contribute $5,000 or $6,000 per year to an IRA for their beloved pastor and/or other clergy. Many financial and investment entities are willing to establish this kind of retirement plan for clergy and other employees of a church.

Moreover, contributions do not have to be made in a one-time lump sum. For instance, those ages 50 and over may chose to invest $500 per month for the year, meeting the $6,000 annual contribution limit. Likewise, those age 49 and under may deposit $416.67 per month in their IRA in a fiscal year, meeting the $5,000 annual contribution limit for their age group.

If clergy chose to invest in an IRA independently of a congregation or church, they certainly have the option and right to do so. The minimum age requirement to invest is 18 years of age. What is more, many financial institutions will allow you to open an IRA with a minimum amount of $50. The key ingredient and component is the discipline to set aside a specific amount each month and to start as early as possible.

Another reason clergy should consider the IRA to be a sound "retirement" investment is its stipulations regarding distribution of funds. You, the investor or owner of an IRA, may not seek distribution of funds until the age of 59 ½. If you choose to withdraw funds before you reach this requisite age, there may be tax implications and you will pay a penalty of 10% of the withdrawal amount (there are exceptions for penalty-free withdrawals, which we will explore later). The aim is to encourage you, the investor, to regard this as **an investment used for retirement purposes only.**

The two main forms of an IRA are Traditional and Roth. Both have different advantages regarding taxes and distributions as well as penalties for early withdrawals.

***The Traditional IRA***

The Traditional IRA is the more common choice, given its stipulations and requirements. Contributions to the traditional IRA grow tax deferred. You will not pay any taxes on your contributions until you withdraw funds. At withdrawal, your contributions and earnings are taxable.

What makes the Traditional IRA popular is the fact that contributions may be tax deductible. Of course you, the investor, must meet certain requirements regarding your Modified Adjustable Gross Income (MAGI) reported on your Federal Income tax report.[1] You may withdraw funds from your IRA without penalty if they are used for the following purposes:

- Qualified higher education expenses
- Qualified first home purchase (lifetime limit of $10,000)
- Certain major medical expenses or
- Certain long-term unemployment expenses; disability; or substantially equal periodic payments.

Of course you must provide written documentation to your investment company before the funds are released without penalty.

There are no income limits or discrimination as to who can contribute to a traditional IRA. For instance, if your household income is $25,000 or $25 million, you can still contribute to a Traditional IRA. The limits to your annual contribution remain the same by law. Remember, the contribution limit per year is $5,000 for investors ages 49 and under; $6,000 for those age 50 and over.

### *The Roth IRA*

The Roth IRA is slightly different from the Traditional IRA. Many investors prefer the Roth IRA because it accumulates tax free. Withdrawal of a Roth IRA is tax free because contributions to the account are with "post- tax" dollars. Since your contributions to the Roth IRA are already taxed before you contribute, it is not taxed upon its withdrawal by law, hence its popularity. Like the Traditional IRA, you may withdraw funds without a penalty provided that the five-year aging requirement has been satisfied and one of the following conditions is met:

- Age 59½
- Suffer a disability or
- Qualified first time home purchase.

There is no age limit as to when you can contribute with your employee compensation nor is there a required minimum distribution for Roth IRAs. For example, you may be above the age of 70 ½ and make contributions to the fund (70 ½ is the maximum age you can contribute with a Traditional IRA). One arguable disadvantage is the fact that contributions to a Roth IRA are not tax deductible (but withdrawal is tax free).

The major distinction of the Roth IRA is its income limitations. In order to contribute to a Roth IRA you must meet certain MAGI requirements as filed on your yearly federal income taxes. Listed below is a chart that lists the income limits for contribution.

**Modified Adjusted Gross Income (MAGI)** [2]

| **2011** | **2012** | **Contribution** |
|---|---|---|
| **Single Filer** | | |
| $107,000 or less | $110,000 or less | Full Contribution |
| $107,001 - $121,999 | $110,001 - $124,999 | Partial contribution |
| $122,000 or more | 125,000 or more | No Contribution |
| **Joint Filer** | | |
| $169,000 or less | $173,000 | Full Contribution |
| $169,001 0 $178,999 | $173,001 - $182,999 | Partial contribution |

| | | |
|---|---|---|
| $179,000 or more | $183, 000 or more | No Contribution |

**Married Filing Separately**

| | | |
|---|---|---|
| $10,000 | $10,000 | Not eligible for a Roth IRA |

The Traditional and Roth IRA are vehicles within retirement planning that most places of employment, whether not-for-profit entities or sole proprietorships, can establish. One may maintain both a Traditional and Roth IRA, but the combined contribution of both cannot exceed $5,000 or $6,000 annually. Churches, especially, should possess the capability and means to establish an IRA for their clergy and other employees.

The key is to establish this plan of retirement through any reputable, licensed registered representative of a financial institution or investment firm. It is imperative that you, the investor, ensure that the institutions and the individual representing the institution hold and maintain the requisite federal and state licensing to establish an IRA or any other investment instrument. In other words, take the necessary means to ensure that you are engaging in business with a legitimate source.

It is your responsibility to read the fine print of ALL solicited material to ensure that you understand your investment. Additionally, it is wise to consult with a tax advisor to review the advantages for the Traditional vs. Roth IRA. Most importantly, ask questions if you do not understand. Listed below are some important questions that you should consider asking:

- What is the rate of return on the fund you recommend, given my suitability, for the IRA in the current year? What have they been over the last 5, 10, 20 and 30 years?

- How often must I contribute to the fund?

- What is the minimum amount required to initiate the IRA?

- What are ALL the fees associated with the fund? Are they upfront fees?

This is merely a brief introduction of one popular and viable tool for retirement planning. I pray that the information presented sparks your interest to begin your own investment investigation and research regarding retirement financial planning. Please remember that the earlier you begin to plan for your financial future, the greater the likelihood that you will be able to enjoy the fruits of your investment.

## Notes

1. For a Traditional IRA, full deductibility of a contribution for 2011 is available to active participants whose 2011 Modified Adjusted Gross Income (MAGI) is $90,000 or less (joint) and $56,000 or less (single); partial deductibility for MAGI up to $110,000 (joint) and $66,000 (single).

In addition, full deductibility of a contribution is available for working or nonworking spouses who are not covered by an employer-sponsored plan whose MAGI is less than $169,000 for 2011; partial deductibility for MAGI up to $179,000. For 2012 full deductibility is available to active participants whose Modified Adjusted Gross Income (MAGI) is $92,000 or less (joint) and $58,000 or less (single); partial deductibility for MAGI up to $112,000 (joint) and $68,000 (single). In addition full deductibility of a contribution is available for working or nonworking spouses who are not covered by an employer sponsored plan whose MAGI is less than $173,000; partial deductibility for MAGI up to $183,000. For more information see www.fidelity.com/ira/ira-comparison.

2. This chart contains information retrieved from *Roth IRA: Meet the Challenge of Saving for Retirement*, *Invesco promotional brochure PFSROTH-BRO-1 2/11* and www.invesco.com/products/retirement center. (accessed 15 July, 2012)