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## RETIREMENT PLANNING

# Opting Out of Social Security Can Be Costly

You have an option as a clergy person that most U.S. workers do not have: to apply for an exemption from Social Security taxes. At first it may sound tempting, but opting out can be a costly decision down the line—and one that is irrevocable. If you have already opted out, make sure that you take the steps to protect yourself and your family.

### GUIDELINES FOR OPTING OUT

Few ministers meet the strict IRS guidelines required to apply for an exemption. Clergy must certify:

*"I am conscientiously opposed to, or because of my religious principles I am opposed to the acceptance (for services I perform as a minister...) of any public insurance that makes payments toward the cost of, or provides services for, medical care."*

The clergy person must also inform the ordaining, commissioning or licensing body of The United Methodist Church that he or she takes the aforementioned stance. If approval is granted by the IRS, the exemption is irrevocable.

Unlike certain other denominations, The United Methodist Church does not oppose Social Security or public insurance. The Church's retirement and health plans operate under the assumption that clergy will receive Social Security and Medicare benefits.

### HOW OPTING OUT CAN HURT

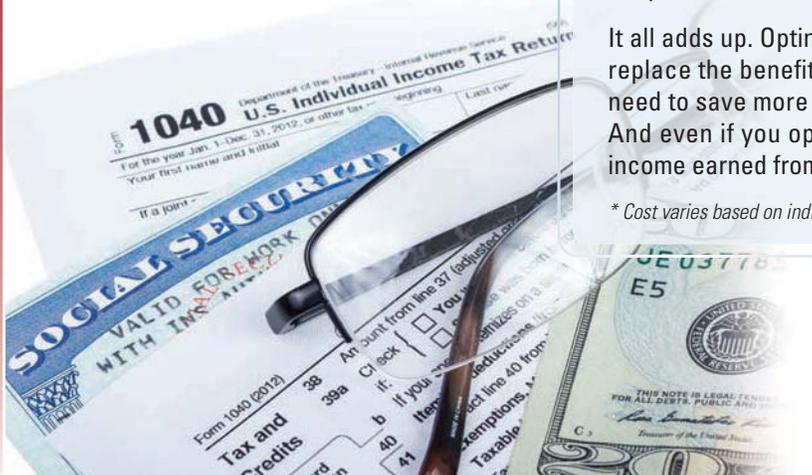
While many believe the Social Security taxes are costly now, opting out could cost you much more later—at a time when you can least afford it. When you opt out of the Social Security system, you may lose the following benefits:

- 1 Medicare**—At age 65, most individuals become eligible to apply. Part A, which covers hospital costs, ordinarily has no premium. If you opt out and are ineligible, you may purchase Part A for approximately \$426 monthly.\*
- 2 Disability**—Social Security offers monthly disability income if you qualify due to catastrophic illness or injury. If you opt out, consider purchasing a comparable disability income insurance policy. The cost will depend on your age, health status and other factors.
- 3 Retirement benefits**—Monthly retirement benefits are provided from as early as age 62 if you are eligible. The average Social Security benefit is \$15,228 annually. To provide this same level of benefit for 20 years of retirement, you would need more than \$300,000 in retirement savings. If you lived longer, you would need significantly more—and that doesn't even take into account the fact that Social Security benefits increase with inflation.
- 4 Survivor benefits**—After you die, Social Security may provide benefits to some surviving family members. If you opt out, you may need to purchase a comparable life insurance policy to provide for survivors.

It all adds up. Opting out would mean you need to pay out of pocket to replace the benefits offered by Social Security. And, you would likely need to save more to have adequate funds to support your retirement. And even if you opt out, you still must pay Social Security taxes on income earned from secular employment.

\* Cost varies based on individual factors and increases annually.

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General Board

**Pension and Health Benefits**

Caring For Those Who Serve

## HELP US HELP THEM

# UMPIP for Lay Employees

Most United Methodist clergy enjoy generous retirement benefits. Help the lay workers at your church contribute to their retirement security through the United Methodist Personal Investment Plan (UMPIP).

UMPIP allows participants to save through convenient payroll deduction. Even small amounts saved over time can add up to a substantial amount for support in retirement. While most churches offer this savings opportunity to lay employees, some do not.

The main reasons for denying UMPIP to lay workers include:

- **Perceived lack of interest**—While some churches report that their lay staff has not shown interest in participating, it could be that the benefits of UMPIP have not been communicated.
- **Low income**—Many lay employees receive low pay, sometimes for part-time work. Even small amounts contributed over time can add up. Also, married employees may be able to contribute a large portion of pay if their spouse's income covers most of the household expenses.

- **Insufficient church budget**—Some churches may not think contributions for lay staff can be supported in the budget. However, at a minimum, they could sponsor UMPIP for personal contributions at no added cost to the church.

In addition to the financial benefits, UMPIP enables lay employees to access customized fund management services at no charge through the LifeStage Investment Management Service and objective financial advice at no charge\* from Ernst & Young Financial Planning Services. These value-added services may not be available from other retirement plan providers:

### HOW YOU CAN HELP

If your church does not offer UMPIP or another retirement plan to lay employees, there are ways you can help promote this plan:

- Urge the Staff Parish Relations Committee (SPRC) to sponsor UMPIP for lay employees.
- Take it a step further, and urge the SPRC to provide church contributions in addition to allowing lay employees the ability to make personal contributions.
- Share promotional and informational materials about UMPIP with your lay staff so that they understand the benefits of participation.

At the General Board, our mission is "caring for those who serve," whether as a minister or as a lay employee. Help us fulfill our mission and further opportunities for others in our connection to prepare for retirement through UMPIP.

\* Available to active participants and surviving spouses with an account balance, and retired and terminated participants with an account balance of at least \$10,000.

## Opting Out of Social Security (continued)

### GUIDANCE

If you are contemplating opting out, or if you have already opted out, consider discussing the decision with a certified financial planner. The General Board offers confidential consultations with financial planners\* at no charge who can help explain this choice and help you decide or, if you've already opted out, help you determine how much additional insurance and savings you need. To take advantage of this service, contact Ernst & Young Financial Planning Services at **1-800-360-2539**. Financial planners are available Monday through Friday from 8:00 a.m. to 7:00 p.m., Central time.



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