

Not all retirement plans are created equal, especially for clergy. One common misconception is regarding any 403(b) plan as an optimal retirement plan for ministers. The secular 403(b) plans available will not offer housing allowance in retirement and can be one of the costliest mistakes a minister can make over the course of his/her ministry.

Look before you leap. There are important differences that you must know to decide which plan is best for you. Furthermore, your decision should involve the advice of a qualified advisor, preferably one specifically knowledgeable in the area of clergy tax benefits and retirement strategies. Clergy Advantage has a simple chart outlining these plans and their strengths and weaknesses for your comparison: [click here](#)

Normal 403(b) Retirement Plan.

All of the plans below provide tax-deferred growth of your contributions. Beyond that the differences are enormous. Here is a summary of how the options compare.

Traditional IRA

Advantage:

The key benefit of an IRA is that it might (see below) provide an income tax deduction for the year of the contribution.

Disadvantages:

1. *If you have no income tax, or if your income is too high, you don't get a deduction!*
2. The contributions are not deductible for Social Security tax purposes.
3. When you withdraw the money, it is usually fully taxable.
4. Modest contribution limit: \$5,000 - \$6,000.

"Normal" or "Secular" 403(b) Retirement Plan

This is much like an IRA, but with three additional advantages, and fewer disadvantages.

Advantages:

1. You get an income tax deduction no matter how high your income.
2. For clergy in ministry positions, there is a valuable Social Security tax deduction on all contributions.
3. The limit on elective contributions is \$17,000-22,500 per year, in addition to

employer contributions.

***The Huge Disadvantage for Ministers with a secular 403(b) is:

1. When you withdraw the money, it is fully taxable and unnecessarily so.

Roth IRA

Advantages:

1. Distributions are generally not taxable after age 59½.
2. The contributions – but none of the earnings – can be withdrawn before age 59½ without tax or IRS penalty.

Clergy Advantage 403(b) Retirement Plan

Just like a denominational plan, this option actually combines the key advantages of the Traditional IRA, Roth IRA, and Normal 403(b) Retirement Plan while eliminating their disadvantages.

Advantages:

1. You get an income tax deduction no matter how high your income.
2. For clergy in ministry positions, there is a valuable Social Security tax deduction on all contributions.
3. The limit on salary deferral contributions is \$17,000-22,500 per year, in addition to employer contributions. Total contributions can be up to \$50,000 in some cases.
4. Withdrawals can be completely tax-free as clergy housing allowance to the extent of your housing expenses throughout all of your retirement years.
5. Tax-free withdrawals are allowable even prior to retirement.

Denominational Retirement Plan.

Advantages: Much like the Clergy Advantage 403(b) Retirement Plan, these plans offer much better tax benefits than the traditional IRA, Roth IRA, or Normal 403(b) Retirement Plan.

Disadvantages:

1. These plans are generally available only to members of the denomination.
2. Many denominational plans do not allow tax-free pre-retirement distributions.

Tip to Remember: Most ministers should not contribute to a traditional IRA, Roth IRA, or Normal 403(b) Retirement Plan.

Instead most ministers are best served by making contributions to their Denominational Retirement Plan or the Clergy Advantage 403(b) Retirement Plan.

For further information and help deciding what is best for you get customized advice for your situation, call or email us at 970-667-5819 or clergy@clergysupport.com.