

RETIREMENT PLANNING FOR RABBIS AND CANTORS: SOME INTRODUCTORY QUESTIONS

Developed in response to the February 2017 survey of
Reconstructionist Rabbinical Association members on retirement issues.

Note: This document provides general educational information. Consult your tax professional for specific questions.

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1. Why save for retirement?

Pshat

Social Security (a government benefit) will only pay a portion of your retirement expenses, even if it remains essentially unchanged in future years. This is what the Social Security Administration says: “Most financial advisors say you’ll need about **70 percent** of your pre-retirement earnings to comfortably maintain your pre-retirement standard of living. If you have average earnings, your Social Security retirement benefits will replace only about **40 percent**.”¹

For many with a middle class living standard, Social Security will pay significantly less than half of what they need in retirement.

Drash

From Midrash Eliyahu Zuta via Sefaria (translation adapted), “A king of flesh and blood had two servants whom he loved completely. He gave each of them a measure of wheat and a bundle of flax. What did the wise one do? He wove the flax into a cloth and made flour from the wheat, sifted it, ground it, kneaded it, and baked it and arranged it on the table, spread upon it the cloth and left it until the king returned. The foolish one did not do anything. After a time, the king returned to his house and said to them:

‘My sons, bring me what I gave you.’ One brought out the table set with the bread and the cloths spread upon it, and the other brought the wheat in a basket and the bundle of flax with it....! Which do you think was most beloved? The one who brought the table with the bread upon it... (Similarly) when God gave the Torah to Israel, God gave it as wheat from which to make flour and flax from which to make clothing through the rules of interpretation.”²

While this midrash is about the value of “growing” Torah through interpretation, it also applies in some ways to our financial resources. No one can guarantee future “harvests.” But putting our coins in a basket under the mattress means that they will never grow.

¹ <https://www.ssa.gov/planners/retire/r&m6.html>

² Tanna debei Eliyahu Zuta, Seder Eliyahu Zuta 2:1 as quoted in <https://www.sefaria.org/sheets/20446> with a slightly different translation by [Avidan Freedman](#)

Remez

Q. Rabbi Aleph and Rabbi Bet are the exact same age. By their 60s, each has saved \$900,000 in tax deferred retirement plans. Both retire on the same date. Who has more money?

A: What is this, a trick question? You said they both had the same amount of money!

B. True, but Rabbi Aleph has his funds in regular 403(b) and IRA retirement accounts. All his retirement withdrawals will be taxable for federal income taxes.

Rabbi Bet has her funds invested in 403(b) accounts through the Rabbis and Cantors Retirement Plan (RCRP.) When she retires, she can have some funds designated as housing allowance (parsonage.) These funds, if used for housing, will be exempt from federal income taxes. Her tax bill will be hundreds of dollars less a year than Rabbi Aleph's. So Rabbi Bet's retirement savings are worth more.

Sod

Retirement planning may seem complicated, but we are trying to avoid secrets.

2. **How do I save for retirement?** In the past, many people relied on a combination of Social Security, savings, and employer paid pensions. The latter have largely vanished except for some government employees.

People save through a variety of legal entities. (These are the legal frameworks. Under each you can make investments in various mutual funds.) Here are some basic differences:

a. 401(k) Plan

A plan that may be established by a company for retirement. Often both employers and employees contribute.³

b. 403(b) plan

A plan for retirement, similar to a 401 (k), that is established by a non-profit such as a congregation, school, or hospital. Often both employers and employees contribute.⁴

³ “Employees may allocate a portion of their salaries into this plan, and contributions are excluded from their income for tax purposes (with limitations). Contributions and earnings will compound tax deferred. Withdrawals from a 401(k) plan are taxed as ordinary income...”http://www.newcaje.net/learning_center/glossary/ The RCRP is a 403 (b) plan.

⁴ “ “ A defined contribution plan that may be established by a nonprofit organization or school for retirement. Employees may allocate a portion of their salaries into this plan, and contributions are excluded from their income for tax purposes (with limitations). Contributions and earnings will compound tax deferred...”http://www.newcaje.net/learning_center/glossary/

c. IRA: Individual Retirement Account (IRA). These are paid by you out of your income.⁵

d. Simplified Employee Pension Plan (SEP)

This is a way to set up a retirement fund for self-employment income (such as life cycle events, teaching, or leading services). You, the rabbi, may be listed both as the “employer” and sole “employee.” You do not need to incorporate or take other complex steps.

3. How much should I save for retirement?

There is no single answer, but as much as possible. You may want to consult a financial planner. A number of financial advisors use an estimate of withdrawing 4% a year in retirement to not run out of funds. Thus a fund of \$1,000,000 might yield \$40,000 a year (adjusted annually for inflation) when you retire.

a) The RRA model congregational contract has a recommendation of saving 15% of salary plus parsonage, shared by rabbi and congregation.

b) There are useful calculators where you can put in different annual figures and see estimates of how they would likely grow over time. See the links at <http://www.rabbiretirementplan.org/links/>

c) Because of the growth of funds through compounding, funds invested earlier have greater potential to grow. Here is an example of one of the calculators, <https://personal.vanguard.com/us/insights/retirement/saving/set-retirement-goals> which uses conservative estimates (your investments growing an average of 4% a year) showing how much you would accumulate by retirement based on the amount you save per month. It then shows how much you could withdraw monthly if you take out 4% a year. Other calculators may have different results.

4. What is parsonage (housing allowance)?

Congregations (and some other institutions) that employ clergy can designate in writing in advance a portion of clergy salary as housing allowance for ordained clergy. (This is a brief summary of complex rules.) You, the rabbi or cantor, can't do this yourself. This portion of income is generally **exempt from federal income taxes**, but not self-employment taxes.⁶

⁵ “Contributions to a traditional IRA are deductible from earned income in the calculation of federal and http://www.newcaje.net/learning_center/glossary/ Contributions to a Roth IRA are made from post-tax income.

⁶ From the IRS: “Parsonage or Housing Allowances : Generally, a minister’s gross income does not include the fair rental value of a home (parsonage) provided, or a housing allowance paid, as part of the minister’s compensation for services performed that are ordinarily the duties of a minister. A minister who is furnished a parsonage may exclude from income the fair rental value of the parsonage, including utilities. However, the amount excluded can’t be more

5. What is a “Church Plan” and why might that be an important consideration for a rabbi?

- a. This is a retirement plan established under IRS rules, usually by an association of congregations, for ordained clergy.⁷
- b. Only a church plan can designate part of your retirement withdrawals as parsonage (housing allowance).⁸
- c. The Rabbis and Cantors Retirement Plan, endorsed by the RRA, is an IRS “church plan.”

6. Can I receive retirement funds as parsonage even if I didn’t receive parsonage while working?

Yes. Effectively, the RCRP becomes your “employer” in retirement, and can designate parsonage (housing allowance) in advance. If used for housing, (within IRS guidelines) this share of income is exempt from federal income tax in retirement. Self-employment (Social Security) taxes are not applied to this retirement income.

7. What is the RCRP and why might I consider it?

- a) RCRP is a pluralistic non-profit 501(c) established in 2012. It is headed by a volunteer board of rabbis, cantors, and lay people. RCRP is now affiliated with the Synagogue Council of Massachusetts. (You do not have to live or work in that state to join.)
- b) RCRP does NOT hold or manage your retirement funds. They are invested in your own account at Fidelity or another major mutual fund company. You make your own investment decisions from multiple funds. Your investments are as safe or as at risk as those of any other investor. All mutual funds have expenses, but these are no more than any other investor pays. For some funds, the management fees may be even lower than when purchased on one’s own.
- c) RCRP covers its modest expenses from organizational contributions (including from the RRA) and from small annual participant fees. These are on a sliding scale depending on the size of your accounts, range from zero to \$700 a year. (RRA members and those of other supporting

than the reasonable pay for the minister’s services. A minister who receives a housing allowance may exclude the allowance from gross income to the extent it’s used to pay expenses in providing a home...”

<https://www.irs.gov/pub/irs-pdf/p1828.pdf> pp.22-23

⁷ “Section 414(e) generally defines a church plan as a plan established and maintained for its employees or their beneficiaries by a church or by a convention or association of churches which is exempt from tax under § 501 (church plan).” <https://www.irs.gov/pub/irs-drop/rp-11-44.pdf>

⁸ “If you are a retired minister, you can exclude from your gross income the rental value of a home (plus utilities) furnished to you by your church as a part of your pay for past services, or the part of your pension that was designated as a rental allowance.” <https://www.irs.gov/pub/irs-pdf/p517.pdf> p.10

organizations pay reduced rates). These fees will, we anticipate, be offset by tax savings when you retire.

More info including FAQs is available. www.rabbiretirementplan.org

8. If I have retirement funds elsewhere, can I roll them over to the RCRP?

Yes, if you earned these funds, usually in 403(b) or IRA accounts, while working as a rabbi or cantor (“in the exercise of your ministry” in IRS language) either employed by an organization or self-employed. If you had a secular career, or worked in a non-rabbinic role even in a Jewish organization, you probably cannot roll those funds over into the RCRP. See <http://www.rabbiretirementplan.org/faq-frequently-asked-questions/> for more on “Transferring funds” and “Exercise of ministry.”

9. How do I join the RCRP?

Go to <http://www.rabbiretirementplan.org/how-to-participate/>. You can fill out a basic information form including an ethics statement.

10. Can I join if my employer does not contribute to my retirement? Can I join if I pay into my retirement directly?

Since “church plans” were based on a congregational model, rules are somewhat different. Employees of a synagogue need a resolution adopting the RCRP from the congregational board, and the congregation needs to submit checks on your behalf. (Those checks might be congregational funds, deductions from your salary, or a combination.) Rabbis employed by other organizations or self-employed can join and submit checks directly. (Non-profits can also submit checks on your behalf.)

11. What is Socially Responsible Investing and why might I want to consider it?

Some people choose mutual funds that use socially responsible investment (SRI) criteria in investing, because these reflect their beliefs. There are dozens of such funds, many of which consider sustainability, weighing such factors as environmental impact, social impact, and governance, including roles of women, minorities, and LGBT people. (ESG). Not all funds use the same criteria. SRI funds include many choices of investments such as US stock (equity); foreign stocks; or bonds. The US Social Investment Forum discusses these issues, without recommending particular funds. <http://www.ussif.org/sribasics>. At this writing, two such funds are available through Fidelity for RCRP participants.

12. Are SRI investments all in new or small companies?

No, many SRI mutual funds invest in large corporations that have good records according to their screening criteria. For example, Fidelity® U.S. Sustainability Index Fund has among its top investments Microsoft, Alphabet (Google), Johnson and Johnson, Verizon, Visa, and Procter and Gamble. (as of 7/18).

13. Who can I talk to with questions about retirement or other financial issues?

For both legal and ethical reasons, the Rabbis and Cantors Retirement Plan cannot provide individual financial or legal advice. (It can provide general educational information, as on its website.) Fidelity Investments can give some personal advice to plan participants. RCRP also has many resources to help planning in the “Links” section of its website.

14. Who can I call with additional questions? You can ask members of the RCRP board for general information. You can also send questions to administrator@rabbiretirementplan.org.

Please note: Opinions are those of the editor, not those of the RRA or RCRP.

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