

Opting Out of Social Security

New Adventist ministers are sometimes urged, often by well-meaning clergy colleagues, to opt out of participation in Social Security. This paper discusses this very important decision which ministers may face. It may be the most important personal financial decision a young minister makes.

Basis for Opting Out

IRS Form 4361 is the document used by clergy to opt out of Social Security. Section 7 of this Form requires the minister to certify:

“that I am conscientiously opposed to, or, because of my religious principles I am opposed to, the acceptance (for services I performed as a minister . . .) of any public insurance that makes payments in the event of death, disability, old age, or retirement; or that makes payments toward the cost of, or provides services for, medical care.”¹

One of the key terms in this statement is the term "religious principles." This means that the personal decision to opt out must be based upon religious convictions which are an integral part of the individual's theology.

It is not enough to have the personal belief that the Social Security system is financially insecure. The court decisions and tax regulations on this issue are quite clear that economic grounds are not an adequate basis for opting out of Social Security.

Seventh-day Adventist Church Position

In Publication 517 the IRS has interpreted the conscientious objection based on “religious principles” to include a conscientious opposition based on “of the principles of your religious denomination.”² The Seventh-day Adventist Church has not taken a position supporting non-participation in Social Security “because of the principles of your religious denomination.” To the contrary, at the North American Division Year-end Meetings, October 14, 1987, there was a discussion of the history of Social Security and clergy, in part because, at that time, there was a narrow window permitting ministers who had opted out of Social Security to opt back in. (The window to opt back then available, and a subsequent window, have both been closed, and no additional re-entry window is anticipated at this time.) During the NAD Year-end Meetings in 1987, an action was taken to urge that “New ministers should . . . be strongly admonished not to opt out of Social Security.”³ The same action also urged administrators to “advise ministers who come under the US tax code who are not presently in the Social Security program to join by filing IRS Form 2031.”

Method of Opting Out

¹ IRS Form 4361, Section 7.

² IRS Publication 517, page 5.

³ NAD Action 296-87, pages 87-136 through 87-138.

In Publication 517, the IRS spells out the procedure for seeking exemption from Self-Employment Tax in order to opt out of Social Security. As described above, the minister must file Form 4361. This form must be approved by the IRS before the exemption can be effective. The instructions to Form 4361 describes when and where to file the application for exemption.

Form 4361 requires a signature, declaring under penalty of perjury, that:

- The minister is conscientiously opposed to participation in Social Security because of religious principles;
- The minister has informed the organization issuing his credentials of such conscientious objection;
- The minister has never revoked a previous exemption; and
- The minister seeks exemption, but acknowledges that such exemption, if granted, only applies to income from ministry.

Considerations in Opting Out

Many reasons have been given to opt out of Social Security. These include:

- “Social Security is a bad investment. Take your SECA payments and purchase an annuity, or merely invest the money and you’ll be way ahead.”
- “Social Security is economically unsustainable. It is unlikely I’ll ever receive benefits from this government ‘Ponzi’ scheme.”
- “I object from a stewardship principle to paying money into a questionable program.”
- “Social Security is unconstitutional and breaks down the wall between church and state.”
- “I don’t want the government to ever be able to influence my ministry by threatening my retirement income.”

However strongly a minister may feel about any of these reasons, the only legal motive for opting out requires certifying a conscientious objection (based on religious principles) to participation in a national insurance plan. This is a very personal decision, and the North American Division does not dictate what a minister’s decision should be in this matter.

Ministers considering opting out should remember that Social Security includes several features including:

- Income Replacement in retirement
- Survivor’s Insurance in the case of death of minister
- Disability Insurance in the case of disability of the minister
- Medicare which provides Medical Insurance in retirement and/or at disability

North American Division policies do not make any provision to replace these lost benefits if a person opts out of Social Security and thus becomes ineligible for needed benefits. A minister considering opting out must carefully consider replacement of all of the features listed above, possibly through private insurance.

Reasons to Participate in Social Security

Over the years, various anecdotes have been shared with the NAD from ministers who have chosen to opt out.

- One minister opted out without informing his wife, a stay-at-home mom. The minister became disabled prior to retirement. If he had not opted out of Social Security, he would have been eligible for disability insurance. He realized, too late, how financially destructive his decision had been. His wife asked us to “Use my family as an example to any who are considering opting out.”
- Upon becoming disabled, one minister in his 50’s exhausted the denomination’s disability insurance and disability healthcare plan, and realized he had several years before eligibility for Medicare. He had thought that disability benefits from Medicare and Social Security would be available because he had paid into Social Security for a number of years prior to opting out. The minister thought he had enough years prior to opting out to qualify for Social Security disability benefits and Medicare. However he was informed that because he had opted out, he was not eligible for Social Security disability benefits and also would not be eligible for Medicare until he turned age eligible.
- Some ministers have opted out after qualifying for Social Security. These ministers are eligible for Social Security benefits based on this prior qualifying service. However, several of these ministers have been surprised to discover that opting out of Social Security can reduce the Social Security benefits to which they were entitled based on prior service. The Social Security benefits of otherwise qualifying ministers who have opted out are reduced because of the application of the Windfall Elimination Provision (WEP) in the Social Security rules. While the rules are complex, essentially WEP has the impact of decreasing the Social Security benefits as a result of receiving a pension for employment that was not covered by Social Security – which would be the case if a minister opted out of Social Security coverage.
- One minister told us that he had opted out because of his conscientious objection to a national insurance plan. He said that he felt secure because he believed that he would be treated as a dependent of his working wife, and thus would be eligible for Medicare and survivor benefits. Our legal counsel has advised us that this minister may have perjured himself when he filed Form 4361 because he obviously had no conscientious objection to participating in the national plan if he was willing to receive benefits under his wife’s coverage.
- Several ministers have told us that they are tired and burned out but simply can’t afford to retire because of having opted out of Social Security.
- One financial consultant wrote that some young ministers opt out of Social Security because they need additional income to pay off their educational debt. These ministers fully intend to apply the amount they would have to pay in SECA taxes to retirement savings once they pay off this debt, but somehow the retirement savings never happen because there is always some financial emergency or need which prevents these ministers from saving adequately for retirement.

Ministers Still Wishing to Opt Out:

If, after careful review of all the considerations for participating in Social Security, a minister still decides to opt out, we recommend that he/she:

- Work with a financial counselor who understands clergy issues to assist you in setting up a disciplined savings and investment program in which to place a rough equivalent of estimated SECA payments. Start immediately.
- Make sure the minister's spouse understands his/her intention, the reason for the intention and the possible implications for spouse and family should he/she die or become disabled prior to retirement.
- Carefully consider the replacement coverage to purchase in order to protect from possible loss of those often forgotten SS provisions. These would include:
 - Life insurance significantly in excess of the amount the church carries on you
 - Disability insurance (income and medical) to carry you to normal retirement age
 - Healthcare Assistance in Retirement. The denomination's Retirement Healthcare Plan assumes that the minister and spouse are Medicare participants. The Plan has no provision to replace Hospital and Outpatient provisions of Medicare Parts A and B.
- Work through the opt-out process described in Publication 517, and do not exempt himself from participation until receiving the approval of the Internal Revenue Service as required.
- Search his/her conscience carefully to make sure motives are not economical, but truly meet the criteria of Form 4361.