

HOW TO BUILD HOME EQUITY WHEN YOU LIVE IN A PARSONAGE

INTRODUCTION

Many pastors living in church-owned parsonages face unique challenges when it comes to building home equity for retirement. This memo outlines the responsibilities of both the church and pastors and suggests practical solutions to alleviate this issue.

SUGGESTIONS FOR HELPING A PASTOR LIVING IN A PARSONAGE BUILD EQUITY FOR A HOME PURCHASE

A growing problem that faces many pastors today when getting close to retirement is how to survive on Social Security and a possible small pension, especially if they have lived in a church provided parsonage. Most pastors stay in ministry past the time they want to retire due to financial constraints, because of having to purchase or rent a home after retirement. Churches that can't afford to pay a full-time pastoral salary, which includes enough for the pastor to make a mortgage payment, offer them a house to live in as part of their compensation. This benefits the church while affecting the pastor's future. Below are some suggestions which can help alleviate this problem.

THE CHURCH'S RESPONSIBILITY:

1. Recognize that while the church may not be able to afford to pay a pastor a full wage, offering them a parsonage is a good thing for the church but can have a long-term effect on the pastor's future when retiring.
2. To admit to the unfairness of how each church member can build equity in a house they are purchasing and living in, but the pastor does not have that option. This will force the pastor, if they can afford it, to seek other methods to build equity or savings.
3. To ensure that the pastor can retire at an age that most members will retire, so the pastor does not have to work past normal retirement age due to financial difficulty in having to make a house payment past retirement age.
4. By helping with a pastoral home equity monthly payment so the pastor can live in retirement knowing that they can make it financially.

CHURCH SOLUTIONS:

1. Budget for a pastoral home equity payment in the annual church budget.
2. Base the home equity payment using the median price of a home in the SMSA (standard metropolitan statistical area). If the median price of a home is \$300,000, you would make an annual payment based on inflation. You would multiply the median price by the percent of inflation. If inflation was 3.8% it would be \$300,000 times 3.8% which would equal an annual equity payment of \$11,400 for that year.
3. If the church can't afford this payment, then set aside an amount the board and pastor can agree on. It could be an annual payment of \$5,000 to \$10,000.
4. The church could rent out the parsonage and allow the pastor to purchase a home and use the rental proceeds to pay the pastor a larger salary to cover their house payment. The church may want to withhold 10-15% of the rental income to cover unexpected repairs and possible taxes.
5. The church could pay for the down payment to help the pastor purchase a home. The loan could be forgiven if the pastor remains at the church for a period of time. IE: 5 years. You could

have statements in the written contract that if the pastor must leave due to a moral failure, gross misconduct, etc., the money paid during the first 5 years for the down payment must be paid back to the church from the sale of the house.

6. Note: These monies (annual equity payment) are to be placed into a restricted fund and held for the pastor when he/she retires or leaves the church. It would be their money. The church cannot use or borrow from this restricted pastoral equity account. The pastor may request to place the fund into a market fund and assume the risks if the market goes down.

PASTOR'S RESPONSIBILITY:

1. The pastor has a responsibility to look into their future to see what their financial needs will be at the time they would like to retire and create a plan to be able to retire at a specific age. IE: 60 to 70 years old.
2. The pastor must lead the church and church board in seeing the need for a pastoral equity account so the pastor can afford housing when they retire.
3. If the church can't afford to make a home equity payment, then the pastor must seek other avenues to ensure their family will have housing when retirement age comes.
4. To be proactive early in their ministry and not wait until they see retirement on the horizon. If it is late in their ministry, at least start so they can have some money towards housing.
5. Seek financial advice from an accountant on how best to do this and keep taxes at a minimum.
6. When taking a church, try to negotiate a home equity payment or the start of one soon.
7. Grow the church. With church growth comes growth in finances. The church will be able to make a home equity payment.

PASTORAL SOLUTIONS:

1. Save money to put towards a house purchase. For a first-time buyer, the bank will require you to make a 3 ½ % of the purchase price payment towards the purchase. IE: A \$200,000 home would require you to make a down payment of \$7000.00 plus some closing costs. If it is not your first home purchase, the amount you may have to put down could be 10% or more.
2. The pastor may have to be co-vocational and have a secular job as well as a pastoral assignment in order for the pastor to purchase a home. Once the church finances are at a level that the church can pay the pastor enough money for a salary to support a house payment, then the pastor can go full time.
3. The pastor may ask the church to rent the parsonage to someone else and pay the pastor the rental fee collected so the pastor can apply it towards their house payment.
4. The church may be able to make the down payment for the pastor with a forgiveness statement in the contract for remaining as pastor for a period of time. IE: The church could forgive the down payment over 5 years by forgiving 20% each year.
5. Purchase a home to rent out for rental income. The pastor will be building equity and paying down the loan at the same time and will be in a much better financial position for retirement.

CONCLUSION

By jointly recognizing the challenges and working together to provide practical solutions, churches and pastors can ensure a more secure and equitable retirement for pastoral leaders living in church-owned parsonages.