403(b)(9) Church Retirement Plans

Housing Allowance and Tax Advantages for Minsiters

One of the most significant advantages of a 403(b)(9) Church Retirement Plan for ministers is that it can preserve the ability to receive tax-free housing allowance treatment in retirement—a benefit that is generally not available with a traditional IRA, 401k or most other retirement plans.

Housing Allowance Advantage for Retired Ministers

If you are an ordained, commissioned, or licensed minister, a qualifying **403(b)(9)** plan may allow part (or all) of your retirement distributions to be designated as a **housing allowance**.

If properly designated by the plan sponsor (generally the denomination), the designated amount may be excluded from your **federal taxable income** to the extent of the lesser of:

- The amount designated as housing allowance,
- Your actual housing expenses, or
- The fair rental value of your furnished home (including utilities).

Why This is Valuable

Unlike most retirees, retired ministers may be able to receive retirement income that is **completely free from federal income tax** when it is used for eligible housing expenses.
Qualified housing expenses include items such as:

- Mortgage payments (principal and interest)
- Rent
- Property taxes
- Homeowners insurance
- Utilities
- Repairs and maintenance
- Furnishings and appliances
- HOA dues
- Remodeling and improvements
- Landscaping and other normal home expenses

Important Planning Consideration

Many ministers are unaware that **rolling a 403(b)(9) balance into a traditional IRA may eliminate the ability to designate future distributions as housing allowance.** Before completing a rollover, ministers should carefully evaluate whether preserving the housing allowance benefit outweighs the flexibility of an IRA.

Even Better in Retirement

For active ministers, the housing allowance is excluded from **income tax** but generally remains subject to **self-employment (SECA)** tax (Medicare and Social Security).

Example

Suppose a retired minister receives **$40,000** from a 403(b)(9) during the year.

- Housing allowance designated by the plan sponsor (denomination): **$30,000**
- Actual housing expenses: **$28,000**
- Fair rental value of the home: **$32,000**

The minister may exclude **$28,000** from federal taxable income because the exclusion is limited to the lowest of the three amounts. The remaining **$12,000** is taxable as ordinary income.

Why a 403(b)(9) Is Unique

Traditional 401(k)	Traditional IRA	Church 403(b)(9)
Tax-deferred contributions	Tax-deferred growth	Tax-deferred growth
Taxable withdrawals	Taxable withdrawals	May qualify for housing allowance exclusion
No housing allowance	No housing allowance	Housing allowance available for eligible retired ministers
Designed for general employees	Designed for individuals	Designed specifically for churches and ministers

For many pastors, this unique housing allowance feature can reduce taxes by **thousands of dollars each year throughout retirement**, making a church-sponsored **403(b)(9)** one of the most tax-efficient retirement vehicles available for ministers.