

HR IN TODAY'S CHURCH – MANAGING CATASTROPHIC RISKS
“OPTIMIZING OUTCOMES”

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INTRODUCTION

As Church Administrators, we are blessed to be given the awesome responsibility of facilitating the ministries of the church. Our proficiency in this role necessitates that we have a working knowledge of a number of key areas tied to the day-to-day operations of the church.

While attending one of the many seminars during the 2008 National Conference in Nashville, Tennessee, I learned that NACBA (National Association of Church Business Administrators) promotes at least 14 core competencies or primary areas of knowledge involved in being a Certified Church Administrator or CCA. Mr. Phill Martin, Deputy CEO of the NACBA, explained that to be effective in our role as an administrator, we need a working knowledge of: Office Management, Personnel/HR, Legal & Tax Matters, Financial Accounting, Strategic Planning, Volunteer Training, Records Management, Plant & Property, Grant Writing, Staff Development, Communication & Marketing, Purchasing, Technology, and Food Service. (Appendix A: Figure 1). A review of my conference notes revealed that my own experiences led me to add three additional areas to the NACBA list of core competencies: Outreach & Evangelism, Missions, and Worship Services. (Appendix A: Figure 2). The original listing, as well as my own additions, convinced me that there were many areas of responsibility and much knowledge to be acquired.

Mr. Martin's arguments were persuasive and led me to research the certification process. As an administrator in a United Methodist Church (UMC), my due diligence led me to the training and education courses offered at Emory University in Atlanta, Georgia. The Candler School of Theology, through their Office of Lifelong Learning, offers the required curriculum for certification by both the National Association and the United Methodist Association of Church Business Administrators. Candler's National Institute in Church Finance and Administration afforded me the opportunity to complete my class and curriculum requirements for certification. It was the completion of the coursework that led to this project, the final step in my certification process.

CONSULTATION TEAM

Rev. Joe Lay, Jr., Sr. Pastor, Trinity United Methodist Church, Opelika, Alabama (2006 to present). Joe has served the United Methodist Church for over 30 years and has spent the last four of those years leading the Trinity UMC family. Pastor Joe provided valuable input pertaining to theological, ecclesiastical, and Biblical considerations pertaining to this project.

Rev. Alan J. Morrison serves as the Business Manager of the General Conference and Director of Support Services of The General Council on Finance and Administration of The United Methodist Church. Alan provided excellent feedback and direction as to the focus of this project, as well as guidance and direction to many valuable resources available within the United Methodist Church. His familiarity with the Methodist Discipline also proved quite helpful.

Mr. Ken Godevenos, CHRP, CCP, is President of Accord Resolution Services Inc., a management consulting firm headquartered in Toronto, Ontario. He is also the author of *Human Resources for the Church: Applying Corporate Practices In a Spiritual Setting* (Essence, 2009). Ken's emails and writings provided much-needed insight and experience with integration and application of secular HR practices.

Dr. Raleigh F. (Sandy) Seay, Jr., is President and CEO of Seay Management Consultants, Inc., a full service Human Resources Management firm, located in Orlando, Florida. I had the pleasure of meeting Dr. Seay a few years ago as he lead a three day workshop for Church Administrators at Lake Junaluska, North Carolina entitled "Balancing Reality With Grace: Human Resources In The Church." The original workshop materials along with subsequent input he provided was much needed and appreciated.

AUTOBIOGRAPHY

Denominationally speaking, I am now and always have been a United Methodist. Baptized as an infant at First UMC, Pratt, Kansas, I made a first time dedication of faith as a teenager and member of Iuka UMC in Iuka, Kansas. My best friend during my grade school years was the preacher's son, John. John's mom baked the best homemade bread I've ever had and it was customary to be invited to his house for Sunday lunch as long as I'd been in attendance for church or Sunday school. Perhaps my motives were not entirely pure, but I had perfect attendance during those years. We sang and played guitars for our youth group and spent hours and hours keeping company with the ping pong table in the church basement. In a rural farm community setting the church served as the social hub for all acceptable fellowship among the youth from the surrounding area. John and I also served as custodians for the church and one would have to say that even back then, God was giving me a glimpse at some of the things that needed to be done during the week to prepare the facility for worship on Sunday.

Following my eight grade graduation, we moved to Buhler, which is near Hutchinson, Kansas. I didn't realize at the time, but my parents moved there because it was one of the best high schools in the area. During this timeframe, I began my 24 year sabbatical from any sort of steady church attendance. Maybe I thought I had it all figured out and didn't need to go. Maybe it was the absence of the aroma of fresh-baked, homemade bread. Maybe it was my coaching and teaching schedule that kept me busy during weekends. Truth is, I don't remember making a conscious decision to disengage from corporate worship. Four colleges and four college degrees later, it occurred to me that the only time I was going to church was when a church team softball coach told me I couldn't be in the starting lineup on Tuesday if I wasn't in a pew on Sunday. Once again, my motives were not the purest, but it would seem that God was using whatever chance He had to get me to reconnect with the Body of Christ.

In 1993, the Good Lord sent my wife and best friend, Keita, to lead me back to the church. In March of 1994, we were married at St. James UMC in Montgomery, Alabama. During our pre-marital counseling, Dr. Lester Spencer, Jr., the Senior Pastor, asked us if we had intentions of joining the church. In response, I said I wasn't sure, and I jokingly told him it depended on whether or not St. James had a men's softball team. His reply was yes, there was a team, the organizational meeting was being held at a Baptist church on the following Tuesday evening, and that I was the coach. Pastor Lester was very adept with the "assumed consent" approach to having me coach, serve, or chair any given project or committee. I wasn't fond of the meetings, and at the time I couldn't really see why God was putting me through all of these "opportunities."

In 2003, the members of St. James UMC in Montgomery, Alabama were blessed to share a structured time of prayer, worship, and study together entitled "40 Days of Purpose." This small group study lead all of us through the well known book *The Purpose Driven Life* by Pastor Rick Warren. The last chapter of the book gave each of us a reflective task to perform. As I progressed with the prescribed task, it became clearer to me that God had a greater purpose for my completing that final chapter. Whereas I just wanted to say I'd completed the study, God wanted me to complete some "unfiltered evaluation" of my own life and the career path I'd chosen on my own, by myself, for myself.

A former Assistant Professor at Auburn University, I left academia to start a business and financial consulting operation. Over the course of ten to twelve years, I developed a successful practice. Financially, I'd reached a point where I was able to donate fairly significant sums of time and money to my favorite charities and church.

I'd been active in church leadership for several years and was part of the leadership team that relocated a 50 year old church from a downtown, land-locked location out to the land of milk and honey in the distant suburbs of East Montgomery. I taught Sunday school, served on and chaired various committees, facilitated small groups, served in leadership roles on the Walk to Emmaus,

served as a Certified Methodist Lay Speaker, and even spent time loading semi trailers with shoe boxes for Operation Christmas Child. Yet for some time, I'd felt that what I was doing still wasn't "enough" and that God wanted "something more." Something was missing. Great marriage, successful business, nice big house, Jaguars in the garage, freedom to travel, plenty of business options and opportunities, and yet there was still a very strong feeling that something was missing. My favorite thing to say back then was "I just wish the Good Lord would send me a postcard telling me what He wants me to do."

The final chapter in *The Purpose Driven Life* led me to think about making a move from success to significance. I was convinced the first two Bible verses starting the 40th Chapter of the book were printed there solely for my benefit. Proverbs 19:21 told me "Many are the plans in a man's heart, but it is the Lord's purpose that prevails." Acts 13:36 reminded me that "For David . . . served the purpose of God in his own generation." In the Upper Room, Jesus reminded His disciples that they knew what they needed to do and if they'd just go do it they would be blessed. Rick Warren summarized it all by saying "once you know what God wants you to do, the blessings come in actually doing it. . . now that you know God's purposes for your life, you will be blessed if you do them!"¹ A few friends were telling me to go to seminary because I had the gift of elocution and I should preach. Others were telling me my background in business management, development, and finance would fit nicely in a ministry path of church administration. Keita and I began to pray earnestly for God's guidance and direction. We felt strongly God was calling me into full time service in the ministry of administration.

The decision really wasn't that difficult and in retrospect, it's easy to see God had a plan and a purpose for me all along. He has blessed me with an extensive education and practical business experience which I could put to work for Him. He has given me a chance to apply much of what I

¹ Rick Warren, *The Purpose Driven Life*. (Grand Rapids, Michigan: Zondervan, 2002). pp. 312-319.

used to teach in a college classroom. The over 17 years of consulting and work with financial services, business development, insurance, and human resource management has prepared me for most of what I get to do for Him now day-to-day. Six years later, we still feel we are exactly where God wants us to be. We have been, and continue to be, richly blessed by serving God on a full time basis each and every day.

I taught in my classroom that we are never really committed to a career until we obligate ourselves to a pattern and practice of continuing education. This perspective is, in part, what led me to NICFA (National Institute in Church Finance and Administration) and to this project to obtain my certification. To me, obtaining the CCA (Certified Church Administrator) designation sends a clear signal to myself and others that I've found the career path God has intended me to have. I am willing to make an on-going commitment to learn whatever I can to improve so I can continue to help facilitate the day-to-day ministries of the church He has called me to serve. As the Immediate Past President of the South East Jurisdiction United Methodist Association of Church Business Administrators, it is also important for me to lead by example. Completing the certification process will make it much easier for me to encourage other members and directors to follow a career path empowered through advanced training and a life-long commitment to continuing education.

CHURCH HISTORY

Located on the corner of 2nd Avenue and 8th Street, **Trinity United Methodist Church** has been a landmark in Opelika, Alabama for over a century. Steeped in history, Trinity began early in 1902 when the First Methodist Church of Opelika formed a Sunday school in the northeast section. Trinity has grown from a mission of 98 people, under the charge of Rev. W.B. Parrent, to its current membership of over 1,200.

On December 12, 1905, J.H. Holloway was appointed pastor to succeed W.B. Parrent. During Rev. Holloway's first year of ministry, a proposal was considered for a new church building in a more accessible location. The current location of 8th Street and 2nd Avenue was chosen. The newly acquired home was moved to the northeast end of the lot and remodeled for temporary use as a house of worship. The first service was held on a Sunday in late 1906, when the church added 75 members. On November 9, 1906, this group selected "Trinity" as the name for their new congregation.

After 4 years of conducting services in the house on 8th and 2nd, the membership of Trinity had nearly doubled and the need was felt for a permanent edifice. Rev. O.V. Calhoun, who came in 1907, was instrumental in the planning and building of the new sanctuary. The original building plans called for an outlay of \$25,000. With enthusiasm, the membership formulated a budget of \$75,000. Dr. D. M. Banks, chairman of the building committee, officiated at the groundbreaking ceremony. He shoveled the first spade of dirt in placing the foundation in 1907.

No church in the history of the Alabama conference had ever financed its building with as little difficulty as Trinity. The members responded with gifts of money, time, and talents. Superior materials were used throughout the structure. Tom Plant, a master craftsman who supervised the workers, finished the beautiful oak flooring by hand. J.E. (Buck) Rice, then a teenager, helped carry brick and mortar to the masons. E.E. Hudson was the contractor.

The first service held in the new structure, was in June of 1909; the official dedication of the sanctuary occurred on December 4, 1910. This sanctuary is the same one we worship in today. The pipe organ was installed in the sanctuary in November of 1909; an electric organ console was added in 1951. The Carillon Tower Bells and the marble baptismal font were dedicated in 1947.

A major building and renovation program began in August of 1955, which added a two-story educational wing, (now known as the children's building), attached to the church by a chapel, forming a courtyard. Plans called for the renovation of the existing facilities, including the Fellowship Hall, a new kitchen and a new lighting system for the sanctuary.

In 1983-86, elaborate plans were made, with the help of Revs. Jerry Dooling and Earl Ballard, to construct a separate building to house the church office and classrooms. This facility would also include a large Fellowship Hall, that would convert to a basketball court, and also house an adjoining kitchen facility. Ground breaking for the Trinity Christian Life Center took place September 27, 1987, and on January 25, 1989, the consecration of the new building was held. The new structure was deemed "a chance of a lifetime," an opportunity for the current membership to add to the heritage with which we have been so richly blessed.

In June 1989, Walter Albritton was appointed pastor. After Rev. Albritton retired, Mike Roberts became pastor of Trinity in June 2002. In June 2006, Rev. Mike Roberts was promoted to Superintendent of the Pensacola District for the Alabama West Florida Conference of the UMC. Rev. Joe Lay, Jr. was appointed as Senior Pastor of Trinity UMC. Joe and his wife Laura, have two children, Elizabeth and Catherine.

On Sunday mornings, sunshine streams in the brilliant, colored, stained glass windows in the sanctuary at Trinity United Methodist Church and bathes the antique carved woods with warmth, providing a beautiful setting for worship. While the church is a rich heritage, it has forged into the 21st century offering a wide variety of programs for all ages as it reaches out to the community with compassion and a mission to share the Gospel. Today, the Trinity family looks forward to the future

God has planned for this church that He planted in 1902. We know the best is yet to come. Trinity has *A Great Heritage, and, A Greater Future!*²

As one would expect, the growth in the size of the Trinity congregation has also led to the expansion of the Trinity staff and ministry budget. Trinity presently has a staff of over 21 full and part-time employees. The Trinity ministry budget has now grown in excess of \$1,360,000. Total disbursements for ministry, mission, and missionary support now exceeds \$2,000,000.

Over the past several years the Trinity Trustees have implemented a program called Fulfilling His Vision which provides for restoration, renovation, and repair of our existing facilities. From August 15, 2007 through April 15, 2010, the Trustees have completed over \$1,300,000 in new construction, renovations, and upgrades on the Trinity campus. Through the sacrificial giving and generosity of the Trinity Family the vast majority of financial needs have been met. Trinity has only had to borrow \$370,000 of the total dollars required. Completed projects include: a new 10,000 square foot Student Center, completely renovated 3rd floor classrooms in the Christian Life Center, a new stage, lighting, and A/V system in the Fellowship Hall, renovations within the Children's Education Building and Nursery, and renovations and upgrades within the main Sanctuary.

To date, Fulfilling His Vision has touched everyone at Trinity, from infants to senior adults, by having a positive impact on many ministries.³

² Ann Cipperly, The History of Trinity, church document prepared for Trinity Archives, December, 2003.

³ Mack Arrington, "Fulfilling His Vision: Review and Update", the Trinity Tidings, Vol. 60: Issue 18, May 5, 2010. pg. 1.

BIBLICAL & THEOLOGICAL BASIS

As administrators we are entrusted with being good stewards or caretakers of the resources of the church. Senior Pastor Dr. Charles Price explained that “the church operates primarily out of Divine Resources, with Christ Himself the Head and the Life of His Church. Effective churches operate under His Lordship and in His strength. However, the way God chooses to work is through human beings and therefore we need to know the best practices for working together in unity with each other, as well as in union with Christ.”⁴ To me, one of the most precious resources we help care for are our human resources, the employees who serve God daily.

The Bible has much to say about how members of the Body of Christ are to care for, and behave toward, one another. Most church staff would contend we have been called to carry on, or facilitate, the ministries of the church based upon our unique gifts and talents. In 1st Corinthians 12:28, the Apostle Paul reminds us, “...in the church God has appointed first of all apostles, second prophets, third teachers, then workers of miracles, also those having gifts of healing, those able to help others, those with gifts of administration, and those speaking in different kinds of tongues.” About five years later, Paul instructs us in the 4th Chapter of the Book of Ephesians that we all need to live a life worthy of the calling we have received and we need to be humble, gentle, patient, and loving as we strive in unity to equip and prepare God’s people for works of service to help build up the Body of Christ.

If these behavioral standards are clear and understood, then shouldn’t they be used as guidelines for how the church treats staff and employees as well? As a church, can we separate our rules for how we treat our employees from the principles that direct our activities in worship or in ministry to others within the Body of Christ?

⁴Ken B. Godevenos, Human Resources For the Church: Applying Corporate Practices In a Spiritual Setting. (Bellville, Ontario: Essence Publishing, 2009). pg. 13.

Human resource consultant and author Ken Godevenos, in his book *Human Resources for the Church*, suggests the ultimate vision statement for the local church, in its simplest form, would read “We exist to glorify God.” He goes on to explain; “those of us who have chosen to walk the road espousing the church’s philosophy cannot do so in isolation from how we treat those who work for and with us. To put it bluntly, we could not take any action with our employees that didn’t ‘glorify God.’ Every policy, every order, every evaluation, and everything related to the working relationship would have to satisfy that vision.”⁵ How are we doing? Are our employee compensation and benefit packages fair, equitable, just, and competitive? Does the way we seek to compensate our employees “glorify God?”

While many industrial organizations provide benefits to sustain their reputation as good and competitive employers, most churches, on the other hand, need to be reminded that benefits reflect concern for the well-being of the individual employee and his/her dependants. Benefits for church employees need to focus on keeping him/her healthy and providing the security of knowing that should something disastrous happen, he/she will be taken care of and, when necessary, dependents will be able to manage.⁶

The United Methodist Church has attempted to provide direction for the local church that is consistent with this perspective. In the 2008 *Book of Discipline*, the Staff-Parish Relations Committee is directed to recommend to the Church Council “a provision for adequate health and life insurance and severance pay for all lay employees.”⁷ Directions also provide lay employees who meet certain hour, age, and seniority requirements with pension benefits.

⁵ Godevenos, pg. 29.

⁶ *ibid*, pg. 78.

⁷ The Book of Discipline of the United Methodist Church 2008. (Nashville, Tennessee: The United Methodist Publishing House, 2008). pg. 183

Wages and benefits reflect concern for the church employee and their family. For the employee, their most valuable asset is their ability to earn a living and provide for their family. The Bible is unambiguous about providing compensation or making provision to care for dependants. Romans 4:4 indicates, "... when a man works, his wages are not credited to him as a gift, but as an obligation." 1st Timothy 5:8 instructs, "If anyone does not provide for his relatives, and especially for his immediate family, he has denied the faith and is worse than an unbeliever." There is always a risk that premature death or some sort of disability could interrupt the flow of income to the employee and his/her dependants. Proper risk management pertaining to compensation also involves provision for those we leave behind. Proverbs 13:22 reminds us, "A good man leaves an inheritance for his children's children, but a sinner's wealth is stored up for the righteous." The theology of this component of compensation and risk management is revealed in James 1:27, "Religion that God our Father accepts as pure and faultless is this: to look after orphans and widows in their distress ..."

Most churches do everything they can to help their staff and dependants in a time of need. Without some form of a risk management plan to provide for the continuation or replacement of salaries, the default is to pass the plate and ask for additional donations and contributions to try and safeguard the family's standard of living. It is, after all, the compassionate and caring thing to do. Questions of stewardship and resource management beg the question "is there a better way?" Are there risk management considerations we are missing that could help optimize the outcome for both the employee and the church?

I submit that the first glimpse of "risk management" can be found in the Book of Genesis when God warned Adam about the consequences of eating the fruit from the tree of the knowledge of good and evil. Genesis 2:15-18 says, "The LORD God took the man and put him in the Garden of Eden to work it and take care of it."¹⁶ And the LORD God commanded the man, "You are free to eat from any tree in the garden;¹⁷ but you must not eat from the tree of the knowledge of good and evil, for when you eat of it you will surely die." Current day writers on the subject of risk management

would submit we need not be aware of a risk in order for it to exist. Yet clearly God was educating Adam and those to follow that there can be significant consequences to our choices and decisions. Questions of planning, vision, stewardship, equitable treatment of employees, fairness, compensation, risk management, care for widows and orphans, all are addressed in the Bible.

PROJECT DESCRIPTION

This project will seek to explain and apply the principles of risk management to the context of human resources within the church. Basic risk management involves the identification, measurement, and management of risk. The two most catastrophic risks any church faces with respect to its staff are: temporary or permanent disability of an employee, or premature death. From a financial stewardship standpoint, the project will explore the need to optimize outcomes for both the employee/family and the church.

Two things protect our family's standard of living: 1) people at work, or 2) money at work. In the absence of our ability to work and generate an income, we need to make sure we have plans for income replacement or continuation in place.

Questions of salary continuation and survivor benefits can be addressed in either a reactive or proactive way. Experience specific to Trinity UMC will be utilized in conjunction with information gathered from other sources. Statistical probabilities of disability and premature death will be explored along with cost-effective ways to manage the associated risks (risk reduction, transfer, or retention practices).

Our churches would seem to have a plan either by design or by default. With extended staff / employee absence due to injury or illness, we've continued to pay salaries for weeks and months (paying *from* the budget). As a risk management plan, disability insurance would safeguard the employee's standard of living and provide discounted dollars purchased from an insurance company (paying *for* the budget). Policy options and risk management plan designs will be explored using Trinity UMC and other examples of how secular practices were integrated into church HR.

When an employee dies prematurely, it is not uncommon for salaries to be continued for weeks or months and in some cases special collections are taken up to help cover funeral costs. As a risk management plan, life insurance would safeguard the surviving spouse and children(s) standard of living (at least in part) and would do this, again, with discounted dollars purchased from an

insurance company (paying *for*, instead of *from*, the annual Ministry Budget). Employee benefit offerings, policy options, and risk management plan designs will be explored using Trinity UMC and other examples of how secular practices were integrated into church HR. A discussion of available resources, as well as, tips on how to select insurance companies, agents and policies will also be included.

PROJECT PURPOSE

A review of the risk management programs in place at Trinity UMC revealed that our exposures to loss were being adequately addressed with the exception of one area: human resources. Business insurance programs were in place to protect the church from fire, theft, data loss, general liability, transportation risks, etc., yet little was being done to manage the risks associated with premature death or disability of our lay staff. Preliminary research revealed that the UMC Conference provides risk management in these areas for clergy. Lay staff, however, had little to nothing being done to directly address these important concerns. Recent history and experience at Trinity UMC revealed a need for a review of available plan options and alternatives. Accordingly, this project seeks to provide the Staff-Parish-Relations Committee (SPRC) with input, guidance and direction as to how to work with specialists to design and implement a risk management plan tailored to the risks of death and disability.

Much has been written and published about risk management and the church as it pertains to reducing the risk of lawsuits associated with various liability exposures (on-campus hazards, use of volunteers, sexual harassment, sharing confidential information, questionable counseling practices, child abuse, etc.). The primary focus has been on protecting the financial and physical resources of the church. Alternatively, this project seeks to provide practical advice as to how churches can protect their most precious resource, the human resource.

In addition to assisting the SPRC at Trinity, this project will seek to provide a practical resource for church administrators and lay leadership as they address the issues associated with catastrophic HR risk management in today's church.

INTRODUCTION TO RISK MANAGEMENT

Merriam-Webster Online defines the term *axiom* as “a maxim widely accepted on its intrinsic merit or statement accepted as true.”⁸ While teaching an undergraduate course at Auburn University entitled “Insurance and Risk Management,” I used to begin the first day of classes by introducing the first axiom of risk management: “one need not be aware of a risk in order for it to exist.” We would discuss this statement in detail and I would solicit examples from my students. Red dye #2 in our M&Ms, nitrites in our bacon, PCBs in our milk, benzene in our Perrier, asbestos in our hair dryers, the list was extensive. A disclosure of my personal experience with teaching classrooms, later part of asbestos eradication programs, would usually lead to some nervous laughter followed by questions of doubt. Fact was, I had taught at Baylor University in Waco, Texas, the University of Kansas in Lawrence, Kansas, and then Auburn University in Auburn, Alabama. In each location, buildings housing my teaching classrooms later became part of campus-wide asbestos eradication programs. The discussions easily led to agreement that the first axiom of risk management was true.

Dr. Mark Dorfman has defined risk management as “the logical development and implementation of a plan to deal with potential losses.”⁹ The purpose of a risk management program is to manage an organizations exposure to loss and to protect its assets. Risk management benefits all types of organizations facing potential losses, including corporations, non-profit organizations, churches, individuals, and families.

Risk managers are responsible for identifying exposures that create risks and designing programs to handle them. As church administrators, we take on the role of risk manager. It is, therefore, important for us to familiarize ourselves with the formal steps of the process. Professors Athearn, Pritchett, and Schmit, in their book *Risk and Insurance* explain that professionals who have

⁸ *Merriam-Webster Online*. www.merriam-webster.com/dictionary/axiom.

⁹ Mark S. Dorfman, Ph.D., *Risk Management and Insurance*, eleventh edition. (Englewood Cliffs, NJ: Prentice Hall, 2007). pg. 43.

this responsibility in organizations use the **process of risk management**, which involves the following steps:

1. Establishing objectives
2. Identifying exposures to loss
3. Evaluating measurable aspects of the exposures
4. Selecting the best method or methods for handling risks
 - a. Avoidance
 - b. Reduction
 - c. Retention
 - d. Transfer
 - e. Combination
5. Implementing the risk management plan
6. Reviewing the plan and monitoring outcomes¹⁰

Establishing objectives is critical to prudent management of any kind, including risk management. Trying to implement a risk management program without objectives is like trying to drive a car across the country without a roadmap.

Identifying exposures to loss is the most important and most difficult step. A risk exposure that is not identified cannot be dealt with intelligently. The risk manager's job is to identify the organization's risk exposures to the best of his or her ability within the constraints of limited available resources.

Risk evaluation is the process of deciding how important an exposure to risk is. The best measure of importance is the potential size (or severity) of a loss, coupled with the probability of occurrence (or frequency). There are four potential combinations of severity and frequency for risk managers to consider. (Appendix A: Figure 3).

¹⁰ James L. Athearn, S. Travis Pritchett and Joan T. Schmit, Risk and Insurance, sixth edition. (St. Paul, MN: West Publishing, 1989). pg. 20.

Selecting the method of handling the risks that have been identified and evaluated as being important requires consideration of the ability to bear losses. Some risks should be avoided because they are unbearable and cannot be transferred or handled in other ways. Some may be manageable or responsive to risk reduction measures. Others may be small enough in terms of potential loss to justify retention. Still others can and should be managed through transfer or a combination of the aforementioned options.

After identifying exposures, evaluating their characteristics, and deciding upon the best method or methods of handling them, the risk manager must take whatever steps are required to *implement the program*. For example, he or she must take loss prevention and reduction action, establish reserves for risks that are to be retained, and arrange the transfer for those risks that are to be transferred. When insurance is the transfer mechanism, it must be purchased.

Continuous review and monitoring of the risk management program is essential to keep it current. Risk exposures to the organization change constantly. Effectiveness of the plan must be reviewed and evaluated periodically to test for new, increasing or decreasing areas of exposure. Plan adjustments will need to be made in accordance with periodic findings.¹¹

All organizations face uncertainties caused by the possibility of loss. A risk management program is an organized method for dealing with risks.

¹¹ Athearn, Pritchett and Schmit, pg. 21.

RISK MANAGEMENT & CHURCH HR

Some believe that God will protect His church and therefore, it isn't necessary to purchase a lot of insurance. The Bible is clear that God does protect His people from a spiritual standpoint. In those instances, however, where God has given a local body of believers facilities, personnel, and vehicles, He expects the leaders to be good stewards. Throughout the Old Testament, in those instances where God physically protected His people Israel, He still expected their cities to have walls, gates and armed soldiers. That was the kind of world they lived in and the way they managed risks.

Today, in most locations, our church buildings don't require armed guards, however we do make sure that the doors are locked, alarms set, strategic locations well lit, and liability insurance premiums paid in full. The world we live in sometimes requires added protection, even for churches. Good risk management is also good stewardship.

It is not uncommon for a church today to spend at least 50 percent of its total annual budget on staff salaries. Furthermore, the total cost of employee compensation includes more than just the dollars spent on salaries. Other expenditures such as health and life insurance, worker's compensation, Social Security taxes, and retirement programs should be figured into the equation.¹² A friend of mine once informed me that we can tell what is important to us by tracking our checkbook. If our annual ministry budget is important to us then it isn't a stretch to conclude that church staff, those compensated to facilitate the day-to-day ministries of the church, are easily classified as a very valuable resource.

Dr. Charles Tidwell, in his classic text *Church Administration: Effective Leadership for Ministry*, cautions us to remember that people are special and it is vitally important that we see them not just as resources. People are more than means to ends. It is almost unthinkable that

¹² David R. Pollock, Business Management in the Local Church. (Chicago, IL: Moody Press, 1996). pg. 187.

people who claim Christ as Lord would intentionally deal with one another, or with others, in ways that are personally or institutionally selfish or insensitive. As we administer a church's human resources, it is imperative to remember we are considering people and not things. Church leaders must try always to be fair, kind, redemptive, and Christ-like as they work with these precious human resources.¹³

We would all like to believe churches do their best to care for their staff and to see they are compensated as well as possible. Ken Godevenos in his book *Human Resources for the Church* contends, "the topic of compensation is difficult for most organizations at the best of times, but when it comes to churches, the problem seems to magnify itself."¹⁴ Mr. Godevenos goes on to explain that from a total compensation standpoint, the subject of employee benefits for church staff often gets second-class treatment. Sometimes the subject is neglected due to limited resources, while at others it is avoided due to limited knowledge of the topic. Neither, he contends, is a good enough reason to disregard the importance of employee benefits.¹⁵

It's true some employers operate on the premise that if they provide employees with sufficient cash compensation, staff members should be able to take care of personal family benefits on their own. However, what employees should be able to do and what they actually do are two different things. For this reason, an appropriate benefits package is a must for all organizations, especially churches.¹⁶ In an earlier section of this report we established that in the absence of a formal risk management or benefits plan, churches tend to pass the plate and try and cover income continuation or replacement considerations out of the ministry budget and

¹³ Charles A. Tidwell, Church Administration: Effective Leadership for Ministry. (Nashville, TN: Broadman Press, 1985). pp. 126-127.

¹⁴ Godevenos, pg. 165.

¹⁵ *ibid*, pg. 177.

¹⁶ *ibid*, pg. 177.

additional congregational giving. This is compassionate, but it isn't good stewardship. A properly designed plan will blend issues of compassion with stewardship of resources in a way to maximize outcomes for both the church and the employee.

HR Consultant and author Ken Godevenos explains, "while many industrial organizations provide benefits to sustain their reputation as good and competitive employers, most churches, on the other hand, need to be reminded that benefits reflect concern for the well-being of the individual employee and his/her dependants. Benefits for church employees need to focus on keeping him/her healthy and providing the security of knowing that should something disastrous happen, he/she will be taken care of and, when necessary, dependants will be able to manage."¹⁷

The two most catastrophic risks any church faces with respect to their staff are: temporary or permanent disability of an employee, or premature death. From a risk management standpoint, the severity of the risk would indicate risk transfer would be preferable to risk retention. A properly designed employee benefit plan would need to take both of these risks into consideration.

Benefits provided to clergy may vary from denomination to denomination. In the United Methodist Church, Conference benefits provided for clergy manage some of the risks associated with disability and death on their behalf. It is for this reason that my primary focus is on lay staff hired by the church.

¹⁷ Godevenos, pg. 178.

AN EXAMINATION OF CATASTROPHIC HR RISK

In keeping with the risk management process, we have already identified the two catastrophic risks confronting a church and their lay staff: temporary or permanent disability and premature death. We also know our objective is to minimize the impact the risks will have on the individual employees, their families, and the church. In short, we will seek to maximize the outcomes for all involved. The third step of the process leads us to evaluate the measurable aspects of these two identified loss exposures.

The Risk and Impact of an Unexpected Disability

Risk management is about preserving or protecting assets. What is our most important asset? Some of us would say our homes, our savings or investments, our education, our car, or some other possessions. The simple fact of the matter is our most important asset is our income. Our ability to generate an income makes all of the other things possible. A study completed in November of 2008 asked U.S. workers, “What is your biggest concern regarding unforeseen events and financial security?” The number one answer, at 68%, was disability of a primary wage earner.¹⁸ (Appendix A: Figure 4). The Council for Disability Awareness (CDA) provides us with statistics on both the likelihood of occurrence as well as the probable cause of a disability:

- 3 out of every 10 workers entering the workforce will experience a disability prior to retirement.
- 1 in 7 of us can expect to be disabled for more than five years.
- Every :01 second another disabling injury occurs. That's 60 per minute, 85,000+ each day. Surprisingly, more than 90% are NOT work-related.
- Not freak accidents, but back injuries, cancer, heart disease, and other illnesses cause the majority of long-term absences.¹⁹ (Appendix A: Figure 5).

¹⁸ Council for Disability Awareness, *2008 Disability Planning and Preparedness Study*, www.disabilitycanhappen.org/research/default.asp.

¹⁹ CDA, *Chances of Disability*, www.disabilitycanhappen.org/chances_disability/default.asp.

The impact a disabling injury or accident will have on a given family depends on how prepared or unprepared they might be. Unfortunately, the vast majority of employees are simply unprepared. The 2008 CDA study also asked workers the question “how long could you pay your bills in the event of a disability?”²⁰ 48% of the employees said they would only be able to pay their bills for a period of three months or less. (Appendix A: Figure 6). A 2008 American Payroll Association survey reinforced the need for concern when they disclosed, “71% of American employees live from paycheck to paycheck, without enough savings to cushion the financial blow.”²¹

The potential impact a disabling injury or accident can have on a family’s standard of living is significant. A new Harvard University report published in June of 2009 indicated 62% of all personal bankruptcies filed in the U.S. were related to disabling injuries, illnesses, accidents, and associated medical bills.²² Income has decreased or been discontinued at a time when expenses are increasing. About 2 million Americans a year are in families who have experienced a bankruptcy following illness or injury, representing about half of all bankruptcies in the United States. Most of those filings were middle-class workers who had health insurance at the onset of their medical difficulties. The problem wasn’t a lack of health insurance, but rather a lack of income continuation planning.²³

Risk management experts Athearn, Pritchett, and Schmit, in their summary chart entitled “*Risk Evaluation*” (Appendix A: Figure 3), would advise us the severity is “high” and even if the frequency is “low,” we must classify this risk as “**unbearable.**”

²⁰ CDA 2008 Disability Planning and Preparedness Study.

²¹ American Payroll Association, “Getting Paid in America” Survey, 2008.

²² “Medical Bankruptcy in the U.S.,” *The American Journal of Medicine*, June 4, 2009.

²³ “Medical Bankruptcies in America,” *Journal of Health Affairs*, February, 2005. www.healthaffairs.org.

The Risk and Impact of Premature Death

It will come as no great shock to those reading this report that the probability of our physical demise is, in fact, 100% certainty. Theologically, we adhere to the belief that we don't know when we will be called home to be with Jesus so we just need to make sure we're ready. I love a church sign I'd seen recently that read "Free coffee, Everlasting Life ... Membership Has Its Benefits." (Appendix A: Figure 7). John 3:16 explains "For God so loved the world that he gave his one and only Son, that whoever believes in him shall not perish but have eternal life." Eternal life with our Lord and Savior will be a blessing beyond anything we could ever ask or imagine.

From a risk management standpoint, the nugget we can pull from our theology is that we don't know when we will be called home so we'd better be ready. A pastor friend of mine sent me a humorous email recently that said he would love to die peacefully at a ripe old age in his sleep like his grandpa and not like the three passengers in grandpa's car that died yelling and screaming as they all went over the cliff. Are we effectively managing the risks associated with our untimely demise? If we go on home to be with Jesus and are no longer here to generate an income for our family, what will happen to them?

A November 2008 *Study of Employee Benefit Trends* asked thousands of employees to reveal their biggest concern regarding unforeseen life events. 59% of the employees surveyed identified the financial security of their family in the event of their premature death as a primary concern.²⁴ (Appendix A: Figure 8).

What are the odds that we will die prematurely? Findings from a recent study show that while mortality rates in the United States have decreased since the 1970s, the risk of premature death for those in their typical working years, ages 25-64, is still significant - a greater than 1-in-6

²⁴ MetLife's *7th Annual Employee Benefits Trends Study*, November ,2008. www.metlife.com.

chance for males and a 1-in-9 chance for females of not surviving from age 25 to normal retirement age. These odds are much higher than most Americans perceive.²⁵ As much as we'd all like to believe we will live to a ripe old age, the statistics tell a much different picture. While we are living longer, there is still a very real risk that many Americans won't live into their retirement years. Today, the probability of death before age 65 for a 35 year old is nearly 18% for males and 11% for females.²⁶ (Appendix A: figure 9).

So what happens to a surviving spouse and children in the event of the premature death of a primary wage earner? The potential negative impact on surviving families range from decreased standards of living to bankruptcy. Two-income families have been on the increase for years and the potential risk of losing one of the sources of household income due to premature death must be addressed. Our risk analysis would have to conclude that the potential severity is "high" and even if the risk of occurrence is "low" we would still have to classify the risk as "**unbearable.**" (Appendix A: Figure 3).

²⁵ Daniel Theodore, *The Changing Face of Mortality in the United States*, September, 2007. pg. 5.

²⁶ *ibid*, pg. 2.

AN EXAMINATION OF RISK MANAGEMENT METHODS

Thus far we have identified that our *objective* is to minimize the impact catastrophic risks will have on the individual employees, their families, and the church. In short, we will seek to maximize the outcomes for all involved. We have also identified the two catastrophic *risk exposures* confronting a church and their lay staff: temporary or permanent disability and premature death. Studies and statistics from a number of resources assisted with our evaluation of the measurable aspects of our two risk exposures. Our *risk assessment* has led to the classification of our risks as “**unbearable.**”

It may help to think of the preceding steps of the risk management process as the diagnosis prior to writing a prescription. The next step of the risk management process would lead us to an evaluation of the prescribed methods available to help us handle our risks. Some risk exposures match up well with certain management methods and yet not well at all with others. Efficacy of available methods should be reviewed and discussed, and as Christians, we should be familiar with the notion of seeking wise counsel. Proverbs 1:5 reminds us, “A wise man will hear and increase in learning, and a man of understanding will acquire wise counsel.” Management and stewardship questions involving valuable human resources should prompt us to seek input from those who have expertise in the areas of benefit planning, risk management, and insurance. Some churches may be blessed to have experts on their personnel committees while others will need to search for consultants and resource providers. Methods of selecting benefit planners, consultants, insurance policies, and companies are provided for your review in Appendix B.

Professors Athearn, Pritchett, and Schmit have acquainted us with the methods for handling risk: avoidance, reduction, retention, transfer, or a combination of methods.

When it comes to our two catastrophic risks, *risk avoidance* and *risk reduction* may be worth considering, but one would question the wisdom of making either of them the sole component of this risk management plan.

Is *risk avoidance* a viable approach to either of our two risk exposures? Whereas we might be able to avoid some exposures to potential causes of accidental disabilities or premature death, total risk avoidance is simply not possible. We can encourage one another to stay away from bungee jumping, sky diving, motorcycle racing, hang gliding, train surfing, and cliff jumping, etc. However, accidents will happen and physical death is ultimately inevitable and unavoidable.

What about *risk reduction*? Risk of becoming disabled due to injury or illness is often related to our personal habits. We could all benefit from shedding bad habits and adopting healthier ones. We could quit smoking, get regular checkups, have regular cancer screenings, exercise consistently, avoid excessive drinking, shed some pounds, become more safety-minded, the list seems endless. Many churches have training and education for their staff on workplace safety, accident avoidance, and injury prevention. Some have added heart-smart menu items to their church-wide dinners, provided exercise facilities or even supplement gym membership to encourage their staff to adopt a healthier lifestyle. Parish nurse programs provide on-site blood pressure screenings and health education seminars for members and attendees. All of these are good ideas, yet they only serve to decrease and not eliminate the risk associated with health factors contributing to some types of disabling illnesses. We could have a similar discussion about accidents. On its own, *risk reduction* doesn't seem to make a feasible risk management plan.

What about premature death? A multi-billion dollar industry thrives on enticing us to believe that they've found the current-day fountain of youth. The reality is there may be a way to postpone the inevitable, but it makes far more sense to plan for the financial well-being of those we leave behind in the event of our premature demise.

Risk retention would make sense in instances where the frequency and severity of the exposure were both classified as "low." Our risk evaluation chart (Appendix A: Figure 3) also indicates that if the frequency is high, but the severity or impact is low, then the risk is

“bearable.” For example, we know our inexpensive Bic ballpoint stick pens are going to walk out of our office workroom. We plan for that eventuality. We retain that risk and underwrite the associated expense as part of our office supply line item in our ministry budget. However, risk retention is not a good choice when dealing with concerns of income continuation in the event of the disability of a staff member, or for income replacement as survivor benefits. All too often churches are making uninformed choices about catastrophic risks and retain them by default. When something unexpected happens it becomes time to pass the plate and ask for special donations to try and absorb the financial impact of the unexpected event.

Risk transfer takes place when we assign or delegate financial responsibility of the risk to a third party, usually an insurance company. Insurance is a catastrophic risk transfer vehicle that enables us to purchase discounted dollars for use when needed for income continuation or income replacement. Anytime a risk assessment reveals a risk exposure is “unbearable,” some type of insurance program design may be in order. The notion of a design means you integrate the insurance with existing employee policies and benefits. In effect, this becomes a *combination* of a minor to moderate amount of retention with the bulk of the financial risk being transferred out of the church. In the event of a need for income continuation or replacement, insurance would pay “**for**” the church instead of the church having to pay “**from**” the existing ministry budget or take up additional collections.

INTRODUCTION TO INSURANCE FOR RISK TRANSFER

All churches and individuals face uncertainties caused by the possibility of catastrophic loss. When it comes to selection of a risk management method for catastrophic risks it should be clear that *risk transfer* is the method of choice. Insurance allows the purchaser to substitute a small certain premium for a large uncertain loss.²⁷ It is a prudent risk management decision when the chance of loss is low and the severity of loss is high.

Disability Insurance Coverage

Disability insurance is used to help you replace lost income in instances when an employee is not able to work due to illness or accident. Although this insurance exists in individual or group form, its function is to replace said income up to a certain percentage. In the case of group coverage, it is usually about 60 % of the employee's pre-disability earnings. The two main categories of disability policies are short-term and long-term. Benefit periods for short-term disability policies range from thirteen weeks to twenty six weeks, but rarely last for more than two years. Long-term disability policies provide benefits for specified periods like 5 years, 10 years, or to age 65. Both have waiting periods where no benefits are paid. The longer the waiting period, the lower the premiums.

Group disability insurance is not a substitute for workers' compensation. If an employee is disabled by a work-related accident or illness, worker's compensation benefits are available to provide some income replacement and rehabilitation payments. The 2008 report from the Council on Disability Awareness reminds us that 90 to 95% of disability claims are not work-related injuries or accidents.²⁸

²⁷ Dorfman, pg. 61.

²⁸ 2008 CDA Long-Term Disability Claims Review.
www.disabilitycanhappen.org/surveys/CDA_LTD_Claims_Survey_2008.asp

Disability insurance is a good idea for the church for many reasons, two of which are stewardship and management of liability risk. Disability insurance would pay “for” the church and avoid having to double-dip into the personnel line-item in the ministry budget. More often than not, in the absence of an insurance funded salary continuation plan, churches find that they attempt to continue one salary and often have to hire a replacement employee on a temporary basis. A disability plan would also help to avoid situations where we may not have the in-house financial resources to do for one employee what we had recently done for another. From a liability management perspective, uniformity in how we respond to or assist employees with needs during a period of disability is a must. What we do for one lay staff member we should do for all. Policies need to be written, disclosed and consistently administered to each staff member regardless of personality or position.

Another advantage to using a third party for salary continuation planning in this area addresses “return to work” issues. When is soon enough? Are they still disabled? What if an employee seems healthy but doesn’t return as soon as a Senior Pastor or Administrator thinks they should? How much of an employee’s medical history or condition should an administrator or staff member know? Are there privacy issues? Disability insurance plans have provisions to monitor and establish “return to work” guidelines that are coordinated with medical professionals. This removes the onus from the church and decreases the potential for heightened tensions or morale issues tied to this sensitive subject.

A disability specialist can work with you to help design a plan that makes sense for your church. It should mesh with your current employee benefits that might include worker’s compensation benefits and/or accumulation of unused sick leave and PTO days (Paid Time Off). Additional information on disability insurance types, policy provisions, and reputable carriers to consider is presented in Appendix B for your consideration.

Group Life Insurance

The second catastrophic risk we want to transfer out of the church involves the potential for the premature death of a staff member. Life insurance is a type of contract that provides beneficiaries with a death benefit or sum of money when the insured person dies. Group life insurance policies are provided through employers rather than purchased individually by employees. A standard group life insurance policy will provide a specified amount of insurance that may be a flat amount. For example, each beneficiary receives \$50,000 if a covered employee dies. Alternatively, the amount of insurance may be tied to a percentage of earnings. For example, each staff member's benefit might equal one year's salary or, perhaps, 150 % of annual salary. Group life insurance policies are usually "guaranteed issue" which means employees cannot be turned down due to pre-existing medical conditions.

Group life insurance is a good idea for the church for many reasons, two of which are stewardship and management of liability risk. Life insurance would pay "for" the church and avoid having to double-dip into the personnel line-item within the ministry budget. In the absence of an insurance funded salary replacement plan, churches may find they pass the plate to help with funeral expenses and may also continue a deceased staff members' salary as a way to soften the financial blow to a surviving spouse and children. A group life plan would also help to avoid situations where a church may not have the in-house financial resources to do for one employee what had recently been done for another. Insurance provided survivor benefits would help us be more uniform in how we provide survivor benefits in a time of need.

Additional information on group life insurance, policy provisions, and reputable carriers to consider is presented in Appendix B for your consideration.

CASE STUDY: OUR EXPERIENCE AT TRINITY UMC

Churches have a risk management plan either by design or by default. This is easy for me to see because I've lived it both ways here at Trinity. This July, I will celebrate my sixth anniversary as church administrator. During my first few weeks on the job, I received a very disturbing phone call from my Senior Associate Pastor. David, our Senior Custodian had gone to bed the night before and woke up with Jesus. While this event wasn't bad news for David (a committed Christian), it was a shock to the Trinity Staff and Family who had known him as a faithful servant at the church for over fifteen years. David was only 51 years old. As a primary income earner for his immediate and extended family, the emotional and financial shock of his untimely demise was wide-spread. As far as anyone could remember, this was the first full-time lay staff member to have died prematurely.

Given that I was new and still learning the church administration software, employment benefits and policies, I headed over to see our financial secretary as I knew she would have answers to my questions. The first answer was a stunner. "No, there is no employee life insurance." There were some retirement funds, but unless David had purchased his own life insurance policy there were going to be several concerns for the surviving family members. The caring and compassionate members at Trinity learned David had no life insurance and the Staff-Parish Relations Committee (SPR) worked with the Finance Committee to take up special offerings and donations to help cover final expenses and some income replacement for the immediate family. SPR also elected to continue paying David's salary to the family for a period of three months. Through the generosity of the Trinity family, over \$14,000 was provided to help with burial expenses and to provide for some income replacement.

Shortly thereafter, I met with our SPR Committee and obtained permission to work on putting an employee group life insurance plan in place. One of the committee members informed me they had discussed the option previously and dismissed it as an unnecessary personnel

expenditure. Now aware of the risk and the severity of the occurrence, they elected to put a group life insurance plan into place that would provide enough insurance to replace one year's salary for each full-time lay staff member. During the meeting, one of the SPR members remarked, "we could have paid for almost 10 years of this group life premium for the entire staff for what we collected and distributed for David."

One would think that through this life lesson learned, we would have been well on the way to a formal plan to manage the catastrophic risks of both death and disability. At a subsequent SPR meeting, I mentioned the need for an insured disability income replacement plan. There was some low-level interest, coupled with a voiced sentiment that we had done enough for now and maybe sometime in the future we could revisit the subject of disability insurance.

In June of the following year, Betty (not her real name), was diagnosed with a life-threatening illness and left for the MD Anderson Cancer Center in Houston, Texas. It was a shock to her Trinity family and friends to learn she had an aggressive type of throat cancer. We bathed Betty in prayer and all were bewildered as to how a non-smoker could develop a type of cancer most often associated with cigarettes. Betty is now a cancer survivor. We praise God that she was cured. Her disabling illness took her out of work for over five months.

The Staff-Parish Relations committee opted to do the compassionate and caring thing and paid Betty her salary for the entire time she was unable to work. They also paid her full-time wages and benefits during her "return to work" transition of working part-time for several weeks. As one SPR committee member remarked, "it was the Christian thing to do." The Trinity UMC Employee Handbook permits us to accumulate a total of 36 days of unused sick leave. Once Betty's available sick leave days were accounted for, the SPR committee had paid out over \$8,000 for salary continuation. This amount doesn't account for any monies spent to pay for temporary or replacement help during Betty's absence.

One would think this would have been an ideal time to re-visit the notion of some sort of short-term and/or long-term disability insurance program. Oddly enough, the decision was once again made to wait, as this was just one of those “special circumstances that only happens once every forty or fifty years.” Ironically, one of the discussions focused on the fact that “we couldn’t really afford the premiums given the amount of the personnel budget we’d exhausted paying two salaries for all that time.” I scratched my head and began to ask God if this was some sort of new exercise in patience or some new unexpected growth opportunity.

As fate would have it, less than three years later we had one of those “special circumstances that only happen once every forty or fifty years.” Billy (not his real name), became ill, missed a few days of work and went to his doctor. He was diagnosed as having a condition that would require gallbladder surgery. Due to the original illness and post-surgical complications related to infection, Billy almost died. He missed a total of 49 work days. I advised SPR of the need to be consistent with past practice. They continued his compensation throughout the entirety of his absence. Billy was able to return to work on a part-time basis and was paid for full-time service. From a salary continuation standpoint, TUMC paid out over \$4,000. This total does not reflect any additional hours paid to other individuals who may have assisted to fulfill Billy’s duties and responsibilities during his absence.

2010 brought a new year and a new SPR Committee. The current chair and members had not taken part in any of the prior discussions about the need for a disability income replacement plan. At a recent meeting, I presented them with the need for a risk management program that would address issues of salary continuation. Materials from the General Board of Pensions & Health of the United Methodist Church (Appendix C) were circulated explaining the need for, and benefits of, a disability insurance program. Preliminary quotes on premiums from three reputable, financially stable carriers were presented for both short-term and long-term disability insurance. The \$12,000 in salary continuation the church had paid out within the past three years was

discussed. As if on cue, one of the members of the committee remarked, “we could pay for over three years of premium for the whole staff for what we paid out on just those two people.”

CONCLUSION

For those of us who have faith in happy endings, it gives me great pleasure to report the Trinity UMC SPR Committee is working with a design specialist and has promised to have a coordinated, insured salary continued plan on the books by the Fall of 2010. I am confident that it will generate a plan that will maximize outcomes for both the church and the employees and their families.

A wise college professor and debate coach once told me there are two ways to learn: “experientially by doing or vicariously through the experiences of others.” “One of them” he proclaimed, “is less painful than the other.” It would be my prayer that church administrators, executive pastors, personnel committees, et al., could learn vicariously through this project and see the need to establish some formal risk management plan to address the needs of income continuation and replacement. This can be done in a way that maximizes outcomes for both the church and their employees and families. It’s not just the compassionate and caring thing to do, it’s good stewardship.

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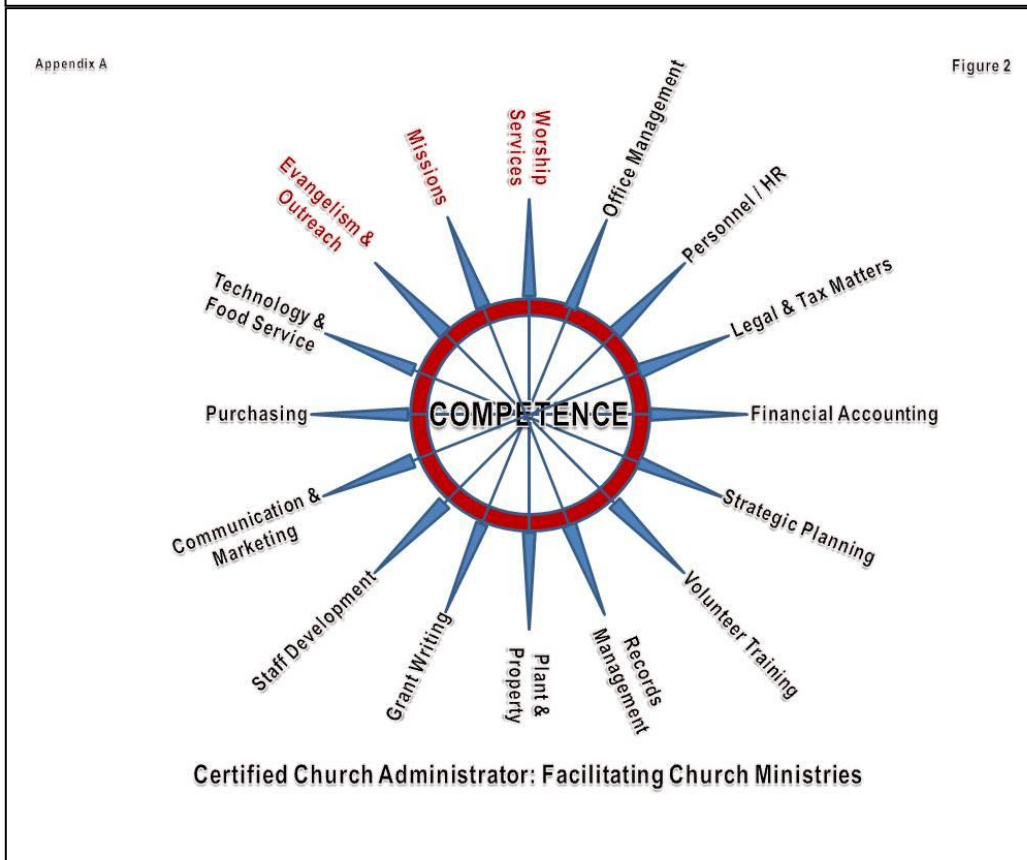
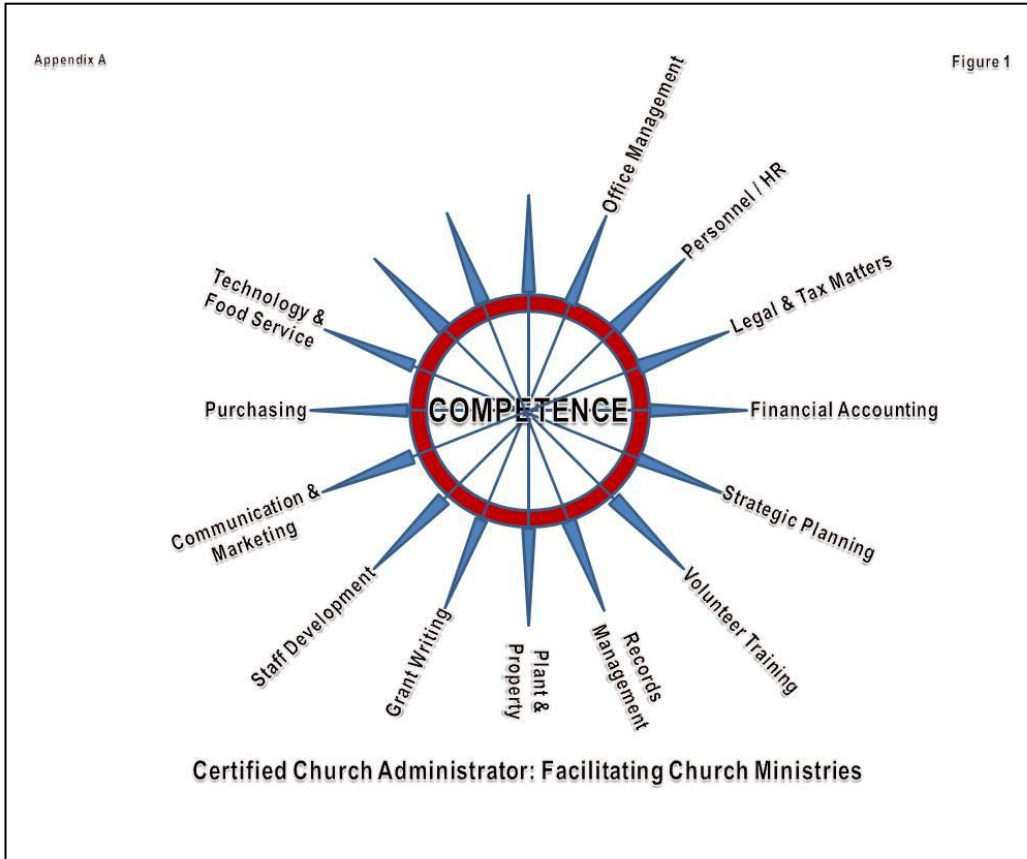
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ASSOCIATED CHARTS & GRAPHS: APPENDIX A



Risk Evaluation

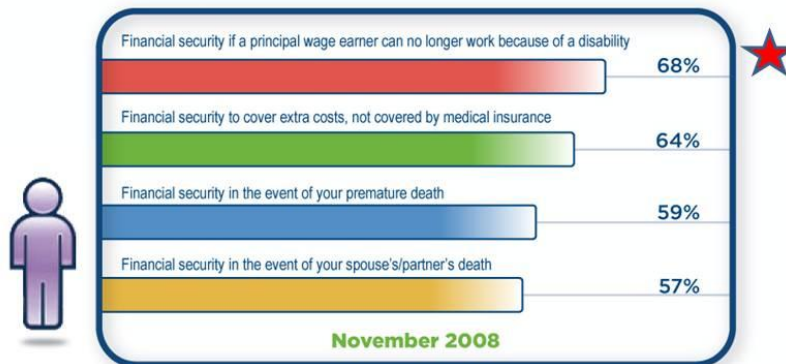
Severity	Frequency	Evaluation
High	High	Unbearable
Low	High	Bearable
Low	Low	Relatively Unimportant
High	Low	Unbearable

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Employees do not feel prepared for financial crises

Employees were asked to indicate their concerns regarding unforeseen events such as premature death, disability, or serious illness.



Source: *The 7th Annual MetLife Study of Employee Benefit Trends*

CDA 2008 Long-Term Disability Claims Survey Disability Claims by Diagnosis

% of New & Existing LTD Claims

Claim Diagnosis Category	2007		2008	
	New*	Existing*	New*	Existing*
Musculoskeletal/Connective Tissue	23.3%	26.5%	22.8%	26.5%
Cancer	13.9%	8.3%	13.7%	8.7%
Cardiovascular/Circulatory	8.9%	12.8%	8.5%	12.7%
Nervous System-Related	6.3%	12.3%	5.8%	12.3%
Injuries & Accidents	9.4%	6.1%	10.0%	6.2%
Maternity-Related	7.9%	1.9%	8.7%	2.3%
Mental Disorder/Psychiatric	6.3%	6.7%	6.4%	6.3%
Other	24.0%	25.4%	24.1%	25.0%
Total LTD Claims:	148,643	564,832	156,103	573,552

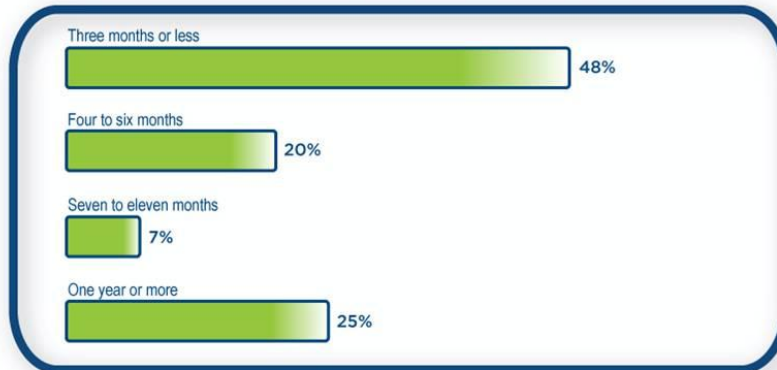
* "New" claims are those approved in the current year; "existing" claims are ongoing but approved in prior years.

Source: The 2008 CDA Long-Term Disability Claims Review.



Workers were asked how long expenses could be paid in case of disability

For how long do you think you could continue to pay for your normal living expenses and bills if an injury or sickness caused you to miss work and lose your employment income?



Source: The 2008 CDA Worker Disability Planning and Preparedness Study



Employees do not feel prepared for financial crises

Employees were asked to indicate their concerns regarding unforeseen events such as premature death, disability, or serious illness.



Source: The 7th Annual MetLife Study of Employee Benefit Trends

Probability of Death in 10 Years or Less				
	Starting Age 25	Starting Age 35	Starting Age 45	Starting Age 55
Males	1.4%	2.4%	5.3%	10.7%
Females	0.6%	1.4%	3.1%	6.9%
Probability of Death Prior to Attained Age 65				
	Starting Age 25	Starting Age 35	Starting Age 45	Starting Age 55
Males	18.6% or greater than 1-in-6	17.5% or greater than 1-in-6	15.5% or greater than 1-in-7	10.7% or greater than 1-in-10
Females	11.6% or greater than 1-in-9	11.0% or greater than 1-in-10	9.7% or greater than 1-in-11	6.9% or greater than 1-in-15

Daniel Theodore, *The Changing Face of Mortality in the United States*, September, 2007.

INSURANCE & INSURER CONSIDERATIONS: APPENDIX B

Q: What are some factors to consider when selecting an insurance agent?

A: My college insurance professor told us to never buy insurance from anybody who didn't have gray hair. Ultimately, his point was that insurance planning is a bit different from insurance selling. Captive agents are usually within their first three years in the industry and are limited to marketing the products of the company that is bringing them into the business. It would be rare for one company to have the best of all available insurance products. Independent agents have usually been in the business for three or more years and have the ability to shop the market and match you with the best available products. They are not tied to any one given company. The more seasoned agents will have more experience at planning or doing a diagnosis prior to writing an insurance prescription. Make sure you work with an agent or consultant who takes the time to ask about your goals and objectives and that they tailor the recommendation to your specific set of circumstances. Agents who have been in the industry longer will likely have more training in specialist areas like employee benefit planning. It is prudent to ask their industry training or education courses. The American College is recognized as the provider of education and certification. Like the CCA certification, any of the designations would signal a commitment to the career path and exposure to industry specific education and training. Some of the applicable industry certifications include: LUTCF (Life Underwriter Training Council Fellow), CLU (Chartered Life Underwriter), ChFC (Chartered Financial Consultant), RHU (Registered Health Underwriter), MSFS (Master of Science in Financial Services) and REBC (Registered Employee Benefits Consultant). It would also be prudent to ask the consultant or agent about: the number of business clients they have, the number of churches they've worked with, the number of claims they've helped process, and ask them why they are in the insurance business. Obtain and check references.

Q: What are some factors to consider when selecting an insurance company?

The financial strength and stability of the company and its ability to pay a claim is a primary consideration. The good news is that most companies writing life or disability insurance are industry giants with millions of policies in force and billions of dollars in assets under management. The seasoned consultant or agent will usually be able to help you with questions pertaining to the independent industry ratings associated with the financial condition of the underwriting company he/she is recommending. Several private companies conduct financial analyses of insurance companies and their reports can typically be accessed online. After you are confident that the policy features and benefits match up with the church's goals and objectives, ratings should be reviewed. Some of the review services include: A.M. Best Company, Standard & Poor's, Moody's Investor Service, Weiss Ratings, and Fitch. Another consideration would be the market share or percentage of total industry sales or in-force policies a given company has for the type of policy you are considering. The annual JHA U.S. Group Disability Market Survey Summary Report ranks insurers on this basis. For example, for short-term disability policies, the top ten insurers for 2009 were: Hartford Life, Unum, MetLife, Lincoln Financial Group, CIGNA, Prudential, Standard, Sun Life Financial, The Guardian and Reliance Standard.

Q: Are there denominational resources available to help with this task?

A: For those administrators who serve in a denominational or connectional church, it would be a good idea to check with your state, regional, or national offices or boards. For those in the United Methodist Church, your Conference Office may have information available. The UMC General Board of Pensions & Health Benefits does have a good bit of information available on both life and disability insurance options available through Unum. You can access the information at their web site, www.gbophb.org, in the section entitled "Health & Welfare." Some of their informational material is presented here in Appendix C.

UMC RESOURCES AVAILABLE: APPENDIX C



GENERAL BOARD OF PENSION AND HEALTH BENEFITS
OF THE UNITED METHODIST CHURCH

Caring For Those Who Serve

Lay Long-Term Disability and Life Insurance Lay Long-Term Disability Plan Highlights



The Lay Long-Term Disability (LTD) and Life Insurance Plan provides long-term disability benefits for eligible active lay employees and clergy not eligible for the Comprehensive Protection Plan (CPP). Plan sponsors elect and pay for the plan. LTD coverage can be elected on its own or in combination with life coverage. (Please refer to the Lay LTD Plan Highlights sheet for lay LTD coverage details.)

Eligibility Criteria

- **Minimum hours of service:** Plan sponsors may determine an hours-of-service requirement that is at least 1,040 hours per year.
- **Initial minimum service:** Plan sponsors may choose a waiting period—the length of employment time before an individual is eligible for coverage; may be immediate or may allow participation after three, six or 12 months of service.
- **Minimum age:** Plan sponsors may choose a minimum age before an employee can be covered—at least 15, or 18 or 21 years-of-age.

Enrollment Criteria

Plan sponsors must cover 100% of their eligible population. The plan may be sponsored even if no other General Board of Pension and Health Benefits (General Board) administered benefit plan is sponsored.

Plan Benefits

- **Monthly disability income:** Replacement income equals 60% of pre-disability compensation—subject to a maximum monthly benefit of \$5,000 and an offset of Social Security disability income. Replacement income increase of up to 80% of pre-disability compensation if a claimant becomes incapable of two Activities of Daily Living (ADLs).
- **Elimination period:** Plan sponsors can choose either a 90- or 180-day elimination period—time that must elapse after the date of a claimant's disability, before benefits begin.
- **Benefit duration:** The plan provides benefits to disabled claimants, i.e., claimants who cannot perform the customary duties of their "own occupation" for up to 24 months. After 24 months of disability, the plan only provides benefits to claimants whose disability prevents them from engaging in "any occupation" for which they are reasonably qualified.

Additional Plan Features

- **UMPIP or RSP Plan Sponsor Retirement Contribution:** The plan will contribute up to 3% of pre-disability compensation to a disabled claimant's United Methodist Personal Investment Plan (UMPIP) or Retirement Security Program for General Agencies (RSP) account, if that claimant's plan sponsor was making contributions to the claimant's UMPIP or RSP account for at least three months prior to the date of disability.
- **Return-to-Work Incentive:** Replacement income may increase by 10% if disabled claimant complies with certain vocational, rehabilitation or return-to-work plans.
- **Premium Waiver:** The LTD premium is waived for disabled claimants, for the duration of disability.
- **Employee Assistance Program (EAP):** Emotional health counseling is provided to LTD claimants and their families through United Behavioral Health.
- **Pre-Disability Early Intervention Program (EIP):** Telephone-based coaching and support is available to plan participants, designed to minimize the impact of an emotional or physical condition, before it worsens or becomes disabling.
- **Travel Assistance Program:** Assist America provides transportation assistance, medical evacuation and prescription replacement services for participants and their families when they travel more than 100 miles from home—for business or pleasure.



Optional Life Insurance Plan Highlights



The voluntary Optional Life Insurance Plan gives eligible clergy and lay employees the option to purchase additional life insurance coverage. Participants may purchase life insurance to supplement coverage provided through:

- the Lay LTD and Life Insurance Plan,
- the Comprehensive Protection Plan (CPP), and/or
- the Clergy Supplemental Life Insurance Plan.

Participants may elect and pay for Optional Life Insurance coverage. By sponsoring the Lay LTD and Life Insurance Plan for life coverage, lay plan sponsors automatically sponsor the Optional Life Insurance Plan for enrolled employees.

Lay plan sponsors can only sponsor the Optional Life Insurance Plan if they also sponsor the Lay LTD and Life Insurance Plan for life coverage.

Clergy plan sponsors (for CPP) can offer the Optional Life Insurance Plan in conjunction with the Clergy Supplemental Life Insurance Plan or on its own.

Active participants can only elect Optional Life Insurance coverage if:

- they are enrolled in the Lay LTD and Life Insurance Plan (for life coverage) or in CPP, and
- for CPP enrollees, if the plan sponsor elects to sponsor the plan and they meet eligibility criteria.

(Active clergy participants do not have to be enrolled in the Clergy Supplemental Life Insurance Plan to be eligible.)

Eligibility Criteria

- **Minimum hours of service:** Lay Life and CPP enrollees must work 1,040 hours per year or more than a 50% appointment.

Available Coverage Levels

This plan offers the following types and amounts of life insurance benefits, on a guaranteed issue basis (coverage will not be refused for medical reasons during certain enrollment and coverage periods).

Active Lay and Clergy¹

Death Benefit for Active Participant²

- Flat-dollar amounts: in increments of \$10,000, up to \$500,000; minimum coverage of \$10,000
- Guaranteed issue: up to \$100,000
- Maximum coverage: \$500,000

Spousal Death Benefit

- Flat-dollar amounts: in increments of \$5,000, up to \$100,000; minimum coverage of \$5,000
- Guaranteed issue: up to \$25,000
- Maximum coverage: the lesser of \$100,000 or 100% of participant coverage

Child Death Benefit³

- Flat-dollar amounts: in increments of \$1,000, up to \$25,000; minimum coverage of \$1,000
- Guaranteed issue: up to \$25,000
- Maximum coverage: the lesser of \$25,000 or 100% of participant coverage

¹ Participants do not have to elect coverage for a spouse or child, but if they do, they must also elect coverage for themselves.

² An individual cannot be covered as both a participant and as a dependent. The participant's benefit amount must exceed a dependent's benefit amount.

³ A child cannot be covered by more than one participant in the plan.

(continued on back page)

Optional Life Insurance Plan Highlights

Additional Plan Features

Accelerated Death Benefit

Provides payment of up to 50% of the insured's face-value coverage amount, for circumstances in which the insured is terminally ill, with a life expectancy of less than 12 months.

Portability

Portable coverage may be elected at group rates, allowing active participants, and their covered spouses and dependents to "take the coverage with them" when participants retire, terminate or reduce hours. Covered dependents may also be able to port in the event of divorce from the participant or the participant's death.

Convertibility

Active participants and their covered spouses and dependents may convert their group coverage to individual whole-life insurance policies without evidence of insurability, if their group coverage ends.

Waiver of Premium

The life insurance premium may be waived if the participant begins receiving disability benefits.

Accidental Death and Dismemberment Benefit (Optional)

Provides up to an additional 100% of the face value of the benefit for participants who suffer accidental death or dismemberment. (Available only to insured participants, not dependents, at an additional cost.)

