6 Questions to Assess Vehicle Insurance

Managing the money of the church includes being up-to-date on insurance policies.

By Bobby Ross Jr.

After Hurricane Harvey struck southeast Texas last year, an Oklahoma church sent 150 people to help with disaster relief.

Before they left, church leaders worked to bolster safety on the nearly 1,000-mile round trip. They rented 18 newer-model vans and required volunteer drivers to complete an online training course.

This was in addition to making sure the vehicles, drivers, and passengers had insurance coverage.

“God forbid, if we had an accident with a van load full of people—you can run up some pretty high medical expenses,” said John Trotter, elder and administrator for the Oklahoma church.

Managing the money of the church includes being up to date on insurance policies—knowing what types of coverage are essential, that policies include all possible drivers and vehicle scenarios, and that the limits are adequate.

Here are six questions to help church leaders when evaluating vehicle insurance coverage.

1. When does a church need vehicle insurance?

Of course, if a church owns a vehicle, it clearly needs a policy to cover that vehicle. Also, if a church plans to rent a vehicle, it needs appropriate insurance through its own company or through the rental company. (Whether or not to purchase insurance through a rental company is handled later in this article.)

In most cases, a volunteer driving his or her own vehicle on the church’s behalf will need personal auto insurance, which typically will be that person’s primary coverage. The church’s policy generally is responsible for damages and liability beyond the personal auto policy, said Scott Figgins, vice president of underwriting for Brotherhood Mutual Insurance Company.

However, laws vary by state, so the church should discuss specifics with its insurance company.

Churches should discuss “non-owned and hired” (NOHA) insurance coverage with their agent, said Tom Strong, GuideOne Insurance’s senior loss control manager. NOHA will offer protection when they rent a vehicle (hired) and when volunteers drive their own vehicles (non-owned), Strong said. In most states, for volunteers driving their own vehicles, their personal insurance is the primary coverage and the NOHA is for additional coverage.

Churches should make sure their policy includes noninsured motorist coverage, said Eric Spacek, GuideOne’s former risk management and loss control director. That coverage is important “if you’re involved in an accident, even if it’s not the church driver’s fault, but the other vehicle doesn’t have coverage,” Spacek said.

Vehicle insurance for an employee typically will exclude medical coverage “because they should be covered under workers’ compensation statutes,” noted Zach Lutzke, underwriter for Church Mutual. But to keep from being caught off guard, a church should check to make sure employees are fully covered, Lutzke stressed.

2. What specific types of insurance are needed for church employees and volunteers?

Types of vehicle insurance that churches might need include: liability, property damage, uninsured/underinsured motorist (depending on the state), auto medical coverage (this, too, varies by state), hired/own-owned/rental, and various miscellaneous items that could apply to a church, Lutzke explained.

“The most important piece of advice that I can give is for churches to understand their activities and exposures and then discuss those exposures with their insurance representative,” Lutzke said. “The representative should be able to provide insight into what options are available and how each coverage option would apply.”

Most commercial auto policies cover any permissive user, including employees and volunteers, Figgins noted. The policies exclude anyone using a church vehicle without permission.

A personal auto policy “follows you no matter what car you get in,” Figgins explained. “So if you
Six Debt Ratios Your Church Should Monitor

By Verns Lawe

In the January Church Finance Today, CPA and editorial advisor Verns Lawe detailed ratios for measuring net income, cash flow, and expenses. He completed with a look at important measurements to monitor with this article.

For some of the ratios, the top number of the ratio should be divided by the bottom number. This will provide a scalable measurement for tracking trends and making comparisons.

Many loan covenants are based on the results of key debt ratios. If you violate one, there may be penalties and, in extreme circumstances, the lender may even call your loan, which requires you to refinance or pay off the remaining balance. Most importantly, you will strain the relationship with your lender.

Here are six debt ratios you can use to monitor your church’s dependence on debt levels and identify any needed adjustments.

1. Debt to unrestricted contributions

This ratio measures how many times your debt is greater than annual unrestricted gifts. The lender may think the debt level indicates that the church is relying on its debt to pay current expenses instead of the unrestricted giving that is intended for capital improvements.

2. Current asset measurement

This ratio helps determine how easily the church can meet its current obligations through current assets or resources. A low ratio (less than 1) indicates that the church does not have enough current resources to meet its upcoming short-term obligations. The insurance policy might need a careful review of cash-flow and reserve levels.

3. Net asset position

This ratio measures the church’s ability to handle further debt (also called its debt capacity). A low ratio suggests that a financial burden is being placed on additional debt. A higher ratio may indicate that the church can afford to be more flexible or at risk on any further debt.

4. Mandatory debt service to unrestricted contributions

This ratio is used to determine how many times a church would be able to cover its current annual debt obligations from current operations. This number indicates how much debt the church leadership deems necessary.

This ratio can fluctuate significantly between years since it includes the potential debt service on unrestricted net assets. Debt covenants typically have a required debt-to-liquidity ratio. This is the percentage of unrestricted contributions that will be used to make these annual required debt payments. Although your church may have many revenue sources, lenders typically only consider unrestricted contributions when determining how much debt a church can manage. Lenders also take into consideration other required expenditures (such as property, facility expenses, mission expenses, and so on) in determining the debt to unrestricted contributions ratio.

5. Debt per average adult attendee and giving unit

A giving unit is a group of family members, or any recurring supporter of the church who contributes a fixed amount to the church. This excludes an individual who may make a smaller one-time gift supporting a specific event, such as a short-term mission trip. To identify only the regular recurring giving units, we must set a maximum dollar threshold. For instance, a giving unit might be one who contributes more than $500 annually.

This measure shows how much of the church’s debt is covered by the regular giving units. While the church’s debt is not a specific obligation to the giving units, it is helpful to see these levels in order to know whether they place an excessive burden on your congregation. When this level is compared to other church assets, it can help determine whether any of your debt is too high or at an acceptable level. Trend comparisons over several years within your own church are helpful.

Debt coverage

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The Free Tax Calendar—available on ChurchLawAndTax.com—reminds you of upcoming deadlines, changes in the law, and significant events related to church taxes.
The Church Board as the Pastor's Advocate

In an interview on the Managing Your Church blog, CPA Stan Reif encouraged board members to champion fair compensation and raises for pastors:

The board should be advocating for their pastor. We love our pastors—we want them to be taken care of. We should all be advocating for them. But it's rare to find leadership that is proactive, ensuring that there are raises and appropriate support for the pastor. Most pastors I talk to have to advocate for themselves. If you are a board member, you should be trying to keep your pastor. If you like them and they are doing a good job, find out what they need and try to meet those needs.

For help setting compensation for pastors and other employees, see the 2018 Compensation Handbook for Church Staff—available on ChurchLawAndTaxStore.com.

Saving $1,300 Yearly on Trash Pickup

My church used the same trash service for 10 years, and the cost steadily increased each year. It was now up to $2,500 annually—a cost that I, as the executive pastor, could not justify paying.

I reached out to the company the church had been using, as well as others, in order to come up with a better deal. Through my research, I found a new service that would charge as only $1,200 a year. But when I tried to cancel with the original company, I was told the contract stated that cancellation had to be done within a given time frame and my church had missed the deadline. Unfortunately, the agreement had been made before I came on staff and the contract was nowhere to be found in the church office.

I determined that it would be best to go with the new company and pay the early termination fee. And even though it would mean that the savings in the first year would only amount to $200, the savings in the second year would increase to $1,300, so it was an easy call to make.

My church learned four lessons through this experience. First, review service costs regularly. Second, don't be afraid to explore other options if costs seem to be getting too high. Third, before signing, carefully read service agreements to see if there are any fines or penalties for breaking the terms of the contract. Fourth, keep all service contracts carefully labeled and filed.

—Dr. Brad McKerley, executive pastor of First Baptist Church, Doylestown, Pennsylvania

Dr. McKerley’s story was created with the help of Tim Samuel, chief financial officer of Bridgeway Community Church in Columbia, Maryland. “How We Saved Money” features stories of how a change in services, practices, or policies and procedures resulted in lower costs and added savings. Send your own money-saving stories to editor@churchlawandtax.com.

Deductible Contributions Must Be Unconditional

The word contribution is synonymous with the word gift, and so a contribution is not deductible unless it is a valid gift. Since no gift occurs unless a donor absolutely and irrevocably transfers title, dominion, and control over the gift, it follows that no charitable contribution deduction is available unless the contribution is unconditional. Similarly, no charitable contribution deduction is permitted if the donor receives a direct and material benefit for the contribution, since a gift by definition is a gratuitous transfer of property without consideration or benefit to the donor other than the feeling of satisfaction it evokes. If a donor does receive a return benefit in exchange for a contribution, then a charitable contribution exists only to the extent that the cash or property transferred by the donor exceeds the fair market value of the benefit received in return.

—Richard Hammar in the annual Church & Clergy Tax Guide