

WHAT A PASTOR SHOULD KNOW

3 Key Essentials for Navigating
the Complexities of Running a Church



ChurchLaw&Tax

LEAD YOUR MINISTRY WITH CONFIDENCE



ABOUT THE AUTHOR

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INTRODUCTION

There is a common misconception that seasoned pastors, board members, and church leaders understand all the ins and outs of running a ministry. It takes a lot of work and knowledge to lead a church both spiritually and legally. In his more than three decades of working with churches, Richard Hammar has discovered fifteen areas that frequently trip up both new and seasoned church leaders.

Three common areas that church leaders struggle with are understanding the importance of church constitution and bylaws, knowing the basics for running legal church meetings, and making sure they have the right insurance for their church. Hammar addresses each area in a way that is accessible and offers sound principles to reflect on and apply.



GOVERNING DOCUMENTS

A church's governing documents include a corporate charter and a constitution or bylaws (sometimes both). The lead minister should be familiar with these documents and be able to identify the current version. There are several aspects of governing documents ministers should understand, including the following.

Bylaw basics: What are church bylaws?

The Model Nonprofit Corporations Act (3rd ed. 2008), which has been adopted by several states, defines bylaws as “the code or codes of rules (other than the articles of incorporation) adopted for the regulation and governance of the internal affairs of the nonprofit corporation, regardless of the name or names used to refer to those rules.”

One court defined bylaws as follows:

The bylaws of a corporation are the rules of law for its government. The term “bylaw” may be further defined according to its function, which is to prescribe the rights and duties of the members with reference to the internal government of the corporation, the management of its affairs, and the rights and duties existing among the members. Bylaws are self-imposed rules, resulting from an agreement or contract between the corporation and its members to conduct the corporate business in a particular way. Until repealed, bylaws are the continuing rule for the government of the corporation and its officers. *Schraft v. Leis*, 686 P.2d 865 (Kan. 1984).

Know your current version of your bylaws

In many churches, the bylaws were adopted long ago, and have been amended numerous times over the years. As a result, there may be various “editions” in circulation. Often, these editions are undated, making it difficult (if not impossible) to identify the current one. This can create confusion.

Going forward, here are two ways to prevent confusion over which set of bylaws is the current edition:

- Identify copies of the church bylaws with a numeric designation. To illustrate, a church identifies its current bylaws as “version 1.0.” During the church’s membership meeting, two amendments are made to the bylaws. Following the meeting, the revised bylaws are printed, and designated as “version 1.1.”
- Identify copies of the church bylaws by date. For example, designate the current bylaws “Current as of [date].”

In either case, be sure that all printed copies of the bylaws bear the appropriate designation, and dispose of undesignated versions.

Do churches need both a constitution and bylaws?

Some churches have both a constitution and bylaws. This was a common practice a century ago, and it persists to this day. But there is little justification for a church to have both a constitution and bylaws unless the constitution is made superior to the bylaws either by express provision or by a more restrictive amendment procedure.

To illustrate, some churches have:

(1) a constitution that can only be amended by providing members with advance notice of the proposed amendment prior to a membership meeting, and by a two-thirds vote of the membership at the meeting; and

(2) bylaws that can be amended at a membership meeting, without prior notice to the members, and by a simple majority vote. The church places provisions of greatest importance in the constitution, such as church doctrine and the purchase or sale of church assets, since these can be changed only through a more deliberative process involving advance notice and a super-majority vote. Routine provisions are assigned to the bylaws.

Churches that have both a constitution and bylaws typically address many of the same issues in both documents. Over time, this often leads to conflicts, since amendments in one document may not be made to similar provisions in the other.

Identifying a single body of rules as the “constitution and bylaws” without any attempt to distinguish between the two is a common but inappropriate practice.

Provisions you may want to include in your bylaws

There are a number of potentially helpful provisions that are often omitted from church bylaws, including:

- An arbitration or mediation provision requiring specified disputes to be resolved through mediation or binding arbitration.
- Choice of parliamentary law to govern membership meetings. Many church leaders assume that *Robert's Rules of Order Newly Revised* governs church business meetings. But this is not the case. There are dozens of competing models of parliamentary procedure, and a church should formally select the model that will be applied. If your church intends to use *Robert's Rules of Order Newly Revised*, then your bylaws should say so.
- If your church bylaws contain a provision addressing the discipline of members who violate your standards of membership, they should clarify that members who have been charged with conduct in violation of the standards of membership waive their right to resign from membership in the church. Without such a provision, members can preempt a church's disciplinary procedure by simply informing their pastor that they are resigning as members. *Guinn v. Church of Christ*, 775 P.2d 766 (Okla. 1989).
- A clause specifying how contracts and other legal documents are to be approved.
- State who has the authority to sign church checks. It is a basic tenet of internal control that two persons sign checks, and a church's bylaws should specify which two officers have this authority.
- "Bonding" of officers and employees who handle church funds.
- An annual audit by independent certified public accountants (CPAs). There are compelling reasons why a church should consider having an annual audit. Most importantly, an audit promotes an environment of accountability in which opportunities for embezzlement (and therefore the risk of embezzlement) are reduced. And, the CPAs who conduct the audit will provide the church leadership with a "management letter" that points out weaknesses and inefficiencies in the church's accounting and financial procedures. This information can be invaluable to church leaders. Smaller churches that cannot afford a full audit may want to consider two other options: (1) Hire a CPA to conduct a review, which is a simpler and less expensive procedure. If the review detects irregularities, a full audit may be considered worth the price. (2) Create an internal audit committee if there are accountants or business leaders within the church who have the ability to review

accounting procedures and practices and look for weaknesses. These people often are very familiar with sound internal control policies, and will quickly correct weaknesses in the church's financial operations.

- An indemnification clause providing for the indemnification of officers and directors who are sued as a result of actions or decisions made in the course of performing their duties on behalf of the church.
- Specification of the church's fiscal year.
- "Staggered voting" of directors (a portion of the board is elected each year to ensure year-to-year continuity of leadership).
- The bylaws should specify if the church board can act without conducting a formal meeting. To illustrate, section 8.21 of the Model Nonprofit Corporation Bylaws, which has been adopted by several states, specifies that "except to the extent that the articles of incorporation or bylaws require that action by the board of directors be taken at a meeting, action required or permitted to be taken by the board of directors may be taken without a meeting if each director signs a consent in the form of a record describing the action to be taken and delivers it to the nonprofit corporation. . . . A consent signed under this section has the effect of action taken at a meeting of the board of directors and may be described as such in any document."
- The bylaws should authorize the church board to conduct meetings by telephone or a video conference, or allow the "attendance" of an otherwise absent director through telephone connection or video conference, if desired.
- The bylaws should specify if absentee voting is permitted at membership meetings. Absentee voting is not ordinarily permitted unless expressly authorized by an organization's bylaws. *Robert's Rules of Order Newly Revised* specifies: "It is a fundamental principle of parliamentary law that the right to vote is limited to the members of an organization who are actually present at the time the vote is taken in a legal meeting. Exceptions to this rule must be expressly stated in the bylaws. . . . An organization should never adopt a bylaw permitting a question to be decided by a voting procedure in which the votes of persons who attend a meeting are counted together with ballots mailed in by absentees, since in practice such a procedure is likely to be unfair."
- The bylaws should specify if proxy voting is permitted at membership meetings.
- State who is authorized to have custody of the minutes of church membership and board meetings.

- State who is authorized to have custody of the church's financial records. These documents are church records, and ordinarily should not be entrusted to the treasurer's personal possession.
- Most state nonprofit corporation laws give members a right to inspect specified corporate records at a proper time and for a proper purpose. Usually, these laws provide that this authority to inspect corporate records exists unless limited or abolished by the corporate bylaws. To illustrate, the Revised Model Nonprofit Corporation Act, which has been enacted by several states, gives a member a right to inspect the minutes of board meetings if the member's demand is made in good faith and for a proper purpose; the member describes with "reasonable particularity" the purpose and the records the member desires to inspect; and the records are directly connected with this purpose. The Act specifies that a church's articles of incorporation or bylaws "may limit or abolish the right of a member under this section to inspect and copy any corporate record."
- Clarify the meaning of all voting requirements specified in the bylaws. For example, a church's bylaws may call for a "two-thirds vote" for certain actions. This can have various meanings, including a vote that is precisely two-thirds of the membership; at least two-thirds of the total voting membership, regardless of how many come to a business meeting; or, at least two-thirds of the members present at a duly called meeting at which a quorum is present. This kind of ambiguity has caused countless internal church disputes.
- Suspension [removal of board members](#) who miss a specified number of board meetings. Board members owe various "fiduciary duties" to their church, and one of these is the duty to exercise "due care" in the performance of their responsibilities. Board members who miss most board meetings eventually will be in violation of this duty, and some churches have chosen to address this issue in their bylaws with a provision calling for the suspension or removal of such persons. The fiduciary duty of due care goes to the very heart of the status of a board member.
- It is common for church board members to resign their position when they relocate or become incapacitated. However, church bylaws usually do not address when and how such resignations will occur. This is an important and frequently overlooked issue, since board members generally remain liable for the actions of the board until their resignation is effective. If the timing of a resignation is ambiguous, then this can create lingering exposure to liability. To avoid this, a church's bylaws should clarify precisely how and when a board member's resignation will be effective.

Seek legal assistance. The drafting of church bylaws is a complex task that should not be attempted without the assistance of an attorney. Knowing what to include and exclude from your bylaws are important tasks that require legal knowledge and experience.

Is it time to rewrite our bylaws?

Do church bylaws ever need to be rewritten? That depends on several factors, including the following:

- How old are the bylaws? The older they are, the more likely they are in need of a legal review, and possibly revisions or a new and updated document.
- Who drafted the bylaws? If the bylaws were drafted by one or more attorneys with experience in corporate governance, ideally involving churches or other nonprofit organization, there is less need to rewrite the bylaws. On the other hand, many churches have bylaws that were drafted by a committee of laypersons with little if any specialized knowledge in corporate governance. In such a case, there may be a greater need for revisions or a new document.
- Some church bylaws are mandated by the denomination with which they are affiliated, and the church has little if any authority to make changes. Church leaders should be familiar with any such limitations.

The application of denominational governing documents

In many denominations, affiliated churches are limited in their ability to compose or revise their bylaws. In some cases, the church's bylaws are entirely prescribed by the denomination's governing documents. In others, the church is free to compose its own bylaws, but must include terms mandated by the denomination's governing document. As one court noted, "For religious nonprofit corporations, bylaws may partly be prescribed by, and may be an important tie to, a related superior or affiliated religious organization." *New v. Kroeger*, 84 Cal.Rptr.3d 464 (Cal. App. 2008).

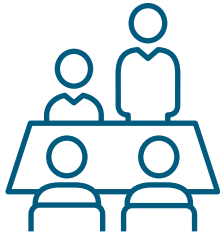
Church charters

The application for incorporation that is filed with the secretary of state generally is called the articles of incorporation or articles of agreement. This document, when approved and certified by the appropriate government official, is commonly referred to as the corporate charter.

Church charters typically set forth the following information:

- corporate name
- corporate address
- period of duration
- purposes of the corporation
- names and addresses of incorporators and directors

Continue to Key Essential 2: [Parliamentary Procedures](#) →



PARLIAMENTARY PROCEDURE

Ministers are not expected to be experts in parliamentary procedure, but familiarity with five common and recurring issues can help clear up confusion as they seek to conduct meetings in a proper and orderly way.

Which parliamentary authority applies to meetings of our board and membership?

Robert's Rules of Order Newly Revised, or any other body of parliamentary procedure, is not applicable unless specifically adopted.

Churches can and should select a specific body of parliamentary procedure by an appropriate clause in the church's governing document. If a particular system of parliamentary procedure has been used by common consent long enough to constitute a church practice or custom, then it probably would be considered as binding as if specifically adopted by a provision in the church's governing document.

If no body of parliamentary procedure has been adopted, either by reference in a church's governing document or by custom, then the ordinary or "common law" rules of parliamentary law should be observed in the conduct of a meeting.

Churches should not assume that *Robert's Rules of Order Newly Revised* is the only parliamentary authority. It is not. On the contrary, there are [alternative systems](#) of parliamentary procedure, some of which are excellent (and some would say superior).

Caution. Many churches adopted the original *Robert's Rules of Order*, or one of the early revisions. The original text was published in 1876, and it has been revised eleven times. The current (12th) edition was released in 2020. Obviously, churches that select "Robert's Rules" should be sure to identify this system of parliamentary procedure as "the most recent revision of Robert's Rules of Order." Otherwise, they may have to resort to obsolete rules to resolve parliamentary questions.

Can a church's bylaws be “suspended”?

Can church members vote to “suspend” the church bylaws during a membership meeting? Consider the following scenario. A church's bylaws state that board members serve a maximum of six years in office. The church is in the midst of a construction project, and a board member is a contractor who has provided invaluable assistance to the church during this project. Several church members want this person to remain on the board following the expiration of his term of office. A member made a motion at an annual church business meeting to “suspend the bylaws” to allow this to happen. Can church members, at a duly called business meeting, take action to suspend the bylaws?

In most cases, the answer is no. Consider the following ten points.

1. State nonprofit corporation laws under which many churches are incorporated generally make no provision for the suspension of bylaws.
2. Suspension of bylaws is an extraordinary action that is not found in most church bylaws, but it is important to confirm that this is the case.
3. If your church bylaws allow for their own suspension, then be sure to comply with any procedural requirements. For example, the bylaws of some public charities and for-profit corporations provide for their own suspension, but they typically require a supermajority vote, such as two-thirds or three-fourths of the members present.
4. Many churches have adopted the current version of *Robert's Rules of Order* as their official body of parliamentary procedure governing church business meetings. Section 25 of *Robert's Rules of Order Newly Revised* states:

Rules contained in the bylaws (or constitution) cannot be suspended no matter how large the vote in favor of doing so or how inconvenient the rule in question may be unless the particular rule specifically provides for its own suspension, or unless the rule properly is in the nature of a [procedural] rule of order.

For churches that have not formally adopted any body of parliamentary procedure, *Robert's Rules of Order Newly Revised* is persuasive authority. Section 2 of *Robert's Rules of Order Newly Revised* states:

Although it is unwise for an assembly or a society to attempt to function without formally adopted rules of order, a recognized parliamentary manual may be cited under such conditions as persuasive.

5. Some corporations have amended their bylaws to remove a provision authorizing their suspension. One common reason for doing so is that a provision authorizing bylaw suspension is antidemocratic. That is, the bylaws are adopted by the

corporate membership following an intensive period of drafting and consideration. Permitting this fundamental legal document, or a provision therein, to be suspended by a specified percentage of members present at an annual or specially called meeting of the members typically will result in a relatively small minority of the total membership dictating a suspension of the bylaws.

6. Churches that choose to provide for the suspension of their bylaws can limit potential problems by requiring a supermajority vote and by limiting the suspension option to specific bylaw articles or sections.
7. In a famous case, Supreme Court Justice Oliver Wendell Holmes noted that “hard cases make bad law.” The point being that bad precedents often result from difficult circumstances. Churches that feel compelled to suspend their bylaws, even when legally authorized, may end up regretting doing so. At a minimum, they will be establishing a precedent that may be referenced on many future occasions whenever an emergency arises. The very concept of corporate bylaws being subject to suspension is at odds with the fundamental nature of bylaws as a set of rules governing corporate practice and administration. In one sense, the bylaws are the one document that protects a church against anarchy. Any compromise to the stability of a church’s bylaws raises the potential for future problems.
8. Proper drafting of bylaws often can avoid the clamor for their suspension that may arise out of temporary emergencies. Church leaders should periodically have their bylaws reviewed by legal counsel.
9. Suspending the bylaws, when not authorized, will result in a “cloud” over the integrity and legitimacy of whatever action is taken while the bylaws are suspended.
10. Bylaw amendment should be viewed as an alternative to bylaw suspension. Bylaws typically provide for their own amendment. In many cases, bylaw amendments take effect immediately.

Improper and dilatory motions

A number of parliamentary rules are designed to facilitate the efficient consideration of business. Two of these rules are the prohibitions against improper and dilatory motions. These rules limit the ability of church members to hijack church business meetings with bizarre and irrelevant motions.

Improper motions

Robert's Rules of Order Newly Revised lists the following examples of improper motions:

- Motions that conflict with the corporate charter, constitution, or bylaws.
- Motions that conflict with procedural rules prescribed by national, state, or local laws.
- In some cases, motions that conflict with a previously adopted motion that has not been rescinded, or considered and rejected.
- Motions presenting practically the same question as one that is still under consideration.
- Motions that are outside the objective of the organization as specified in its governing documents.

Dilatory motions

Robert's Rules of Order Newly Revised defines a dilatory motion as one that “seeks to obstruct or thwart the will of the assembly.” It is the duty of the chair to rule that such motions are out of order as dilatory.

Section 10 of *Robert's Rules* describes another kind of improper dilatory motion:

Motions to reaffirm a position previously taken by adopting a motion or resolution are not in order. Such a motion serves no useful purpose because the original motion is still in effect; also . . . if a motion to reaffirm failed, it would create an ambiguous situation.

What is meant by receiving, accepting, or adopting a report?

It is common for motions to be offered at church board and membership meetings to “accept,” “receive,” or “adopt” a report. For example, after the church treasurer makes a report to the church board at a monthly meeting, a board member moves that the report be “received.” Is this an appropriate motion, or would some other motion be more appropriate? Consider the following explanations.

“Receiving” a report

A report of an officer or committee is “received” by a board or assembly when it is presented or read. In other words, the person making the report *presents* it, while the listeners *receive* it. As a result, it is incorrect parliamentary practice for a motion to be made at a board or membership meeting to “receive” a report after it is presented, since the act of presenting it constitutes reception by the hearers.

Example. A church treasurer makes a report of the church’s finances at a monthly meeting of the church board. Following the presentation of the report, and the treasurer’s response to questions and requests for clarification, a board member moves “to receive the treasurer’s report with appreciation.” This motion is nonsensical, since the treasurer’s report was received when it was read.

Adopting or accepting a report

Robert’s Rules of Order Newly Revised states that motions to adopt or accept the report of an officer or committee are synonymous, and signify that the entire report becomes “the act or statement of the assembly.” Such motions are common in church board and membership meetings.

To illustrate, it is common for motions to be made and passed to accept a treasurer’s report or the minutes of the previous meeting. It is important to understand, however, that such motions have the effect of “the assembly’s endorsing every word of the report, including the indicated facts and reasoning, as its own statement.” This may not be a problem in some, or even most, cases. For example, a board may want to formally adopt the minutes of each meeting, since they reflect the actions of the board itself. But, there can be situations in which it would be more appropriate for a board or assembly to merely receive a report (by having it presented).

Some reports of officers or committees contain one or more recommendations for action. In such cases, it is appropriate and necessary for a motion to adopt the recommendation. Usually, such a motion is made by the person presenting the report.

No action

Many reports made by officers and committees to a board or assembly are for informational purposes and contain no recommendations or motions. For example, at a regularly scheduled meeting of a church board, a committee member reads a report that contains no proposed actions. It would be appropriate for the chairperson to thank

the committee and request that the report be placed on file, and then move to the next item of business. A motion to accept or adopt the report is not necessary, since it is informational.

In this regard, *Robert's Rules of Order Newly Revised* states: "Apart from filing such a report . . . no action on it is necessary and usually none should be taken."

In some organizations, the treasurer's periodic reports to the board of directors are not accepted or adopted (so long as they contain no specific recommendations for action). Instead, the chairperson requests the secretary to file these reports without action. At the end of the fiscal year the board adopts a motion to accept the report of the CPA firm that audits the organization's books. This has the effect of relieving the treasurer of any personal culpability for his or her reports (excepting fraudulent or illegal activity). It also may minimize the board's culpability that might otherwise exist if it adopted or accepted each report of its treasurer. The organization itself, at its annual business meeting, also adopts or accepts by motion the CPA's audit report.

Special rules for small meetings

Robert's Rules of Order Newly Revised permits certain parliamentary rules to be relaxed in "small boards and committees," which it defines as those "consisting of not more than about a dozen members." The reason for less formality in small boards and committees is to facilitate the conduct of business. Note that larger boards and committees (those with more than about a dozen members), are subject to the same parliamentary rules as a large deliberative assembly.

Here are the parliamentary rules that are relaxed in small boards and committees, according to *Robert's Rules of Order Newly Revised*:

- Members are not required to obtain the floor before making motions or speaking, which they can do while seated.
- Motions need not be seconded.
- There is no limit to the number of times a member can speak to a question, and motions to close or limit debate generally should not be entertained.
- Informal discussion of a subject is permitted while no motion is pending.

- Sometimes, when a proposal is perfectly clear to all present, a vote can be taken without a motion having been introduced. Unless agreed to by unanimous consent, however, all proposed actions of a board must be approved by vote under the same rules as in other assemblies, except that a vote can be taken initially by a show of hands, which is often a better method in such meetings.
- The chairperson need not rise while putting questions to vote.
- The chairperson can speak in discussion without rising or leaving the chair, and, subject to rule or custom within the particular board (which should be uniformly followed regardless of how many members are present), he or she usually can make motions and usually votes on all questions.

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ESSENTIAL - 3

CHURCH INSURANCE

There are few areas more important for a minister to master than those dealing with insurance coverages and exclusions. Consider the following.

What kinds of insurance should your church have?

Some insurance is *essential*, and should be obtained by every church. Other kinds of insurance coverage are *desirable*, meaning that they are not absolutely necessary but may be highly desirable depending upon a church's circumstances. Most church leaders would consider property and liability insurance to be essential. Other forms of insurance should be regarded as essential depending on the circumstances. These include:

Property Insurance Coverage

Covers many major risks to church property, including fire, smoke, lightning, hurricane, and tornado.

Action points

- Check to see if unique items such as stained glass windows, pipe organs, handbells, artwork, and sound equipment require special endorsements.
- Obtain appraisals of unique items to be sure they are adequately insured.
- Conduct periodic inventories of property to prove claims in the event of loss or destruction.
- Check to see if coverage is limited to the market value of damaged or destroyed property. If so, consider obtaining replacement cost coverage.
- Check on coverage for items of personal property owned by members or employees. Examples include expensive coats left in a coat room and an employee's personal laptop computer.

- Check to see if boilers require a special endorsement.
- Check the exclusions under the policy. Some risks, such as earthquakes, mold, and sewer or drain backup, may be excluded and require special endorsements.
- If your church is located in one of 22,000 communities that participate in the National Flood Insurance Program (NFIP), you can obtain flood insurance from insurers that participate in the NFIP. Coverage amounts are often inadequate.
- Check to see if your policy contains a coinsurance clause. If so, you are required to insure your property for a specified percentage of its replacement value. If you don't, you become a coinsurer, meaning that your policy will pay less than the stated limits in the event of a partial loss. These clauses make it essential for churches to have adequate coverage. This review should be done annually.

Liability Insurance Coverage

Covers many forms of personal injury and damage to the property of others. Common examples includes slips and falls, sexual misconduct (coverage may be limited to the church, and exclude the offender).

Action points

- Check to see if sexual misconduct coverage is limited, and if higher amounts can be obtained by complying with specified procedures.
- Check to see if liability insurance is provided on an “occurrence” or “claims made” basis.
- Some policies provide minimal medical benefits to persons injured on church property. Additional coverage should be considered.

Church-owned Vehicles Insurance Coverage

Covers injuries and damages resulting from the use of church-owned vehicles.

Action point

- Check to see if your property or general liability policy contains coverage for church-owned vehicles. If not, obtain a separate endorsement for this coverage.

Non-owned Vehicles Insurance Coverage

Covers injuries and damages caused by members who use their own vehicle while performing services for their church. The driver's personal car insurance is also available, but if inadequate, the church will likely be sued. This coverage often must be obtained as a separate endorsement. Essential for churches that allow members or employees to drive personal vehicles on church business.

Action point

- Check to see if non-owned vehicle coverage applies to rented vehicles.

Counseling Insurance Coverage

Covers injuries caused during counseling activities. Often must be obtained as a separate endorsement. Essential for churches that provide counseling services.

Action point

- Check exclusions carefully. For example, some policies exclude sexual misconduct.

Employment Practices Insurance Coverage

Covers certain employment-related claims such as wrongful dismissal and some forms of discrimination. These are among the most common types of church litigation today. Many church leaders erroneously assume that their general liability policy covers these claims. In most cases it does not.

Action point

- If your church has employees, you should consider this coverage. The more employees you have, the more essential this becomes.

For other important considerations, see "[What You Need in an Employment Practices Liability Insurance Policy.](#)"

Directors and Officers (D&O) Insurance Coverage

Covers several potential legal claims that can be brought against officers and directors directly. D&O policies also may cover claims not covered by general liability policies. While uncompensated directors of nonprofit organizations have "limited immunity" from personal liability under both state and federal law, this protection does not cover compensated directors and does not cover acts of "gross negligence." Must be obtained as a separate endorsement or policy.

Action point

- If your church lets children ride in fully-loaded 15-passenger vans, does not screen youth workers, or engages in other high-risk activities that may be deemed “grossly negligent,” then you need to purchase this coverage.

Theft Insurance Coverage

Covers embezzlement and other misappropriations of church funds and securities by employees and others having access to money or property. Often must be obtained as a separate endorsement. This form of insurance is also referred to as bonding.

Action point

- Remember, the opportunity to steal, rather than a need for money, is often the primary reason for employee theft. Institute procedures to minimize unsupervised access to funds.

Foreign Travel Insurance Coverage

Provides medical benefits for injuries occurring during foreign travel. Costs of a medical evacuation may also be covered. Often must be obtained as a separate endorsement or policy.

Action points

- Check to see if your general liability policy excludes any injuries or damages occurring outside of the US (most general liability policies do exclude such coverage).
- Make sure your church is covered if it sends groups on mission trips to foreign countries.

Umbrella Insurance Coverage

Covers legal judgments in excess of the limits on other insurance policies.

Action point

- Does your church have substantial assets to be protected, or inadequate liability insurance? If so, you need to purchase umbrella coverage to protect against catastrophic damages.

Workers' Compensation Insurance Coverage

Workers' compensation insurance provides benefits to employees who are injured or become ill in the course of (or because of) their employment. Many church leaders erroneously assume that churches are not covered by state workers' compensation laws. In most cases, this assumption is incorrect and exposes a church to a substantial uninsured risk.

Action point

- Check to see if churches are subject to workers' compensation law in your state. If so, obtain insurance to cover potential claims.

What amounts of coverage should your church have?

Church leaders often ask, "How much insurance should we purchase?" Unfortunately, there is no simple answer to this question. Here are a few points that may help:

- In general, the amount of coverage should be based on two primary considerations: (1) the nature and frequency of your activities, and (2) the net value of the church's assets. To illustrate, if your church has a youth program that has frequent meetings involving several minors, or your church provides counseling, or hosts community activities, then your liability risks are increased and you should be looking for higher insurance limits. Further, as a general rule, liability insurance should have limits in excess of the net value of the church's assets, so that the assets are protected in the event of litigation.
- Annually review all church insurance coverages to be sure they are adequate.
- Periodically obtain appraisals of church property (real property, personal property, and fixtures) to be sure that you have adequate coverage.
- Be sure that your church is insured for an amount in excess of what is required by a coinsurance clause in your insurance policy. A coinsurance clause is often difficult to understand, but the idea is this: unless a church is insured for a specified amount (e.g., 80 percent of market value) then the church becomes a "coinsurer" in the event of a partial loss, and is responsible for paying part of that loss. This is done by a reduction in the amount that the insurer has to pay. The purpose of such clauses is to persuade property owners to insure their property for an amount equal to or approaching its market value. Over time, a church's failure to increase the amount of its property insurance to reflect the current value of the church property will reduce the insured amount to less than

the coinsurance amount, and this can result in an unpleasant and unbudgeted expense when the insurer only pays a portion of a substantial partial loss.

What are exclusions?

An exclusion is a loss that is not covered under an insurance policy. In some cases, excluded losses can be covered by a separate endorsement or “rider” by paying an additional premium. Church leaders should be familiar with exclusions under the church’s insurance policies, and obtain all desired endorsements.

For example, commercial general liability (CGL) insurance policies generally exclude intentional or criminal acts from coverage. Some policies specifically exclude coverage for sexual offenses. Insurers often assert such exclusions in cases of sexual molestation of minors by church employees and volunteers, since such acts are both intentional and criminal. But churches typically respond to such coverage denials by asserting that the exclusion does not apply since they were not guilty of intentional or criminal acts. Rather, they ordinarily are being sued on the basis of negligence. The courts have come to different conclusions in such disputes. This illustrates the importance of church leaders being familiar with the terms of their church’s CGL policy, and providing for sexual misconduct coverage as a separate policy or endorsement if necessary.

Most CGL policies exclude employment practices. As a result, churches that are sued for an employment-related claim may be denied coverage and the insurer will provide neither a legal defense nor indemnification. The most common employment-related claims involving churches include wrongful termination and various discrimination claims under state and federal law.

The duty to notify

Church insurance policies impose upon the church a duty to promptly notify the insurer of any potential claims when the injury or loss occurs, and not when a lawsuit is filed. This gives the insurance company sufficient time to investigate the incident and provide a defense. Notice is a condition of coverage and a church that fails to promptly notify its insurer of a potential claim may be denied coverage.

When faced with a “no coverage” letter due to failure to promptly notify, a church may argue that its delayed notification was not sufficiently long to violate the prompt notice requirement, or that its delay did not result in prejudice to the insurer. If it can be established that the insurer was not materially prejudiced by the insured’s delayed notice, the delay may not be fatal to the insurer’s obligations to defend and indemnify.

CONCLUSION

Pastors not only minister and guide their congregation spiritually, but they also may need to navigate the complexities of church administration. Therefore, running a church includes gaining a working knowledge of three key areas:

- **Governing documents.** Pastors need to be familiar with their governing documents and be able to easily identify the current version, among other things.
- **Parliamentary procedure.** While ministers are not expected to be experts in parliamentary procedure, they should be familiar with the five common issues which will help them properly conduct meetings.
- **Church insurance.** Church leaders should determine what coverages are essential and desirable for their church and always remember to review their coverages annually.

Richard Hammar covers 12 other key areas for running a church in his article series [*15 Things Richard Hammar Wants Pastors to Know*](#). [Become a member](#) and you will get access to the entire series.

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