

Pacific Northwest Conference Pastoral Support Worksheet Definitions - 2020

Accountable Reimbursement Plan

Because pastors are employees for federal income taxes a formal plan must be adopted whereby the local church reimburses pastor for professional expenses incurred in performing their ministry, including travel, professional and continuing education, as they are requested and accounted for by the pastor to the local church. In a resolution each year the local church sets forth the mileage rate the pastor will be reimbursement. In 2019 the maximum allowable IRS mileage rate is 58¢. The IRS sets the rate annually in December of each year so check back later for the 2020 allowance.

Before Tax Deferrals

In order to save for retirement years on a before-tax basis, the pastor and church (salary-paying unit) may enter into a salary-reduction agreement. In the agreement, pastor will state the amount of salary they are willing to forgo as current compensation. Church will agree to make before-tax contributions to UMPIP (United Methodist Personal Investment Plan) equal to the amount specified in the salary-reduction agreement. Pastor does not pay federal income taxes on this deferral until withdrawal.

The pastor can also have a salary-reduction as an After Tax Deferral where an after-tax contribution is made to UMPIP. The pastor would pay federal income taxes on this deferral. There is a better option for after-tax contributions; a Roth where earnings grow tax free and no tax when withdrawn. Get the UMPIP form from Bruce Galvin (bruce.galvin@pnwumc.org or 206-870-6819). The maximum allowed to contribute to UMPIP has not been determined for 2020. In 2019 the limit is \$19,000 if under 50 and \$25,000 if 50 and older. After-tax, the limits are higher.

Note that a Before Tax UMPIP contribution also reduces the pastor's self employment taxes where neither after-tax or Roth do.

Clergy Retirement Security Program (CRSP)

Denominational Pension retirement plan for appointed pastors beginning in 2007 that meets the requirements of a "church plan" as defined in section 414(e) of the Code and administered pursuant to the retirement income account provision of section 403(b)(9) of the Code. In 2014 the benefit changed to only apply to full-time appointed pastors. Please refer to UMPIP, at the end of this document, for retirement benefits for part-time appointments. CRSP has two components; Defined Contribution – 2% of plan compensation with up to an additional 1% match if the pastor contributes up to 1% and Defined Benefit with an annual cost determined annually by actuaries at the Wespath Benefits and Investments to fund the benefit at retirement of 1% times DAC times years of service under CRSP began in 2014. The 2020 annual defined benefit cost is \$5,700 which is a \$200 increase over the 2019 cost.

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Code Section 107 Housing Exclusion and Housing Allowance

IRS code provides pastors with an exclusion from gross income for the rental value of a home furnished as a part of compensation (parsonage) or the rental allowance paid as the extent used to rent or provide a home. A cleric who is provided a home may also receive a cash allowance to cover additional qualifying expenses (utilities/furnishings).

Code Section 125 “Cafeteria Plan”; medical reimbursement/dependent care accounts

Employer (Wespath) has agreed to provide benefits according to section 125 of the Internal Revenue Code. A Section 125 plan is a written group insurance plan which allows pastors a choice (cafeteria) among benefits consisting of a salary reduction through pre-taxed dollars to pay for eligible expenses. There are two types of accounts; The Medical Reimbursement Account (MRA) and the Dependent Care Account (DCA). The pre-tax dollars will be deducted from ones salary each pay period on a pre-tax basis. It is available through the HealthFlex plans of Wespath. .

Code Section 403(b) Plans

The pension plans administered by the Wespath are governed by the provisions of Code section 403(b) of the Internal Revenue Code. Code section 403(b) plans are available only to employees of certain non-profit organizations and public schools.

Comprehensive Protection Plan (CPP)

Denominational welfare plan for appointed pastors that provides disability and death benefits. This benefit is only available to full-time appointed pastors beginning in 2017. For part-time ordained, provisional, associates and deacons there is coverage provided through UMLife Options. Please see this section for the details.

Denominational Average Compensation (DAC)

Average annual compensation of pastors in denomination as determined in accordance with procedures established by the Wespath. The DAC in 2020 is \$72,648.

Equitable Compensation

Funding provided by conference to a few local churches for salary support of appointed pastor.

HealthFlex

It is a managed care health product administered through the Wespath which offers a number of benefit choices to meet personal needs.

Health Insurance Direct Bill

The annual mandatory funding of health insurance direct billed to local churches (salary-paying unit) for each appointed full-time pastor. It is the actual cost for providing health

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coverage for the pastor (not spouse or dependent children, if applicable).

In 2016 a new health plan for non-Medicare participants called HealthFlex Exchange began. Participants are given choice between six medical/pharmacy, three dental and three vision plans. The pastors will be given a premium credit to be used to assist with payment of the health benefits selected. If the premium credit amount is lower than the cost of plans selected the salary paying unit will be charged the difference to be paid through salary reduction from pastor. If the premium credit exceeds the cost of plans selected the balance will be added to their health reimbursement account. .

Health Insurance Paid by Pastor

A Section 125 “Cafeteria Plan”, see above, also allows a pastor to pay their and spouse/children health care coverage premiums on a pre-tax basis, thus lowering their taxable income and, consequently, their tax liability. A pastor’s election to pay for benefits on a pre-tax basis is made by entering into a salary reduction agreement with the employer. Under a salary reduction agreement, a pastor elects to reduce his/her compensation by a stated amount on a pre-tax basis and those amounts are considered by the IRS to be employer contributions. In effect, it is as if the pastor has given up the right to receive that part of his/her salary before actually becoming entitled to it. Therefore, the pastor’s salary reduction contributions are not actually received by the pastor, and thus, are neither considered wages for state, federal income and employment (social security and Medicare) taxes.

Health Savings Account

A HSA is a tax-advantaged account where money can be set aside to pay for future medical expenses. The HSA is offered as an employment benefit (money is contributed by the plan and additional amount can be added by the pastor up to IRS limits).

In order to contribute to an HSA, the pastor has to have an HSA-qualified high-deductible health plan in place (there are three). The IRS sets limits on the minimum and maximum out-of-pocket levels for the HDHP and also has contribution limits for HSAs. There is no “use-it-or-lose “ requirement with HSAs – money that is not used for medical expenses rolls over from one year to the next, and the account belongs to the employee, even if it’s funded by the plan.

Withdrawals for purposes other than qualified medical expenses are subject to income taxes and a penalty. However, once one turns 65, one can use the money in their HSA for any purpose they like, without a penalty. One will still pay income taxes on it if it’s used for non-medical expenses. It is good way to build a fund for health costs for when one retires.

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Plan Compensation

It is determined by adding the total cash salary to either a housing allowance or 25% of total cash salary if live in church parsonage. The plan compensation is used to determine the costs for the defined contribution portion of the pension plan, the comprehensive protection plan and the 1% match for full-time appointments.

Salary-Reduction Agreement

The agreement one makes with church/salary-paying unit that authorizes them to make contributions from ones salary to a plan qualified under section 125 of the Code or to a tax-sheltered annuity described in section 403(b) of the Code.

UMLife Options

In 2017 CPP was no longer available to $\frac{1}{2}$ & $\frac{3}{4}$ time appointed ordained, provisional, associates or deacons. In its place UMLife Options is provided. It is a program through Wespath and is fully insured through UNUM. Disability coverage is provided to the pastor and death benefit coverage is provided to the pastor, their spouse and eligible children. The cost is charged to the local church (salary paying unit) as a percentage of plan compensation even though the cost is age based. The plan compensation percentage is the same for each eligible part-time appointment. The current cost is 2% of plan compensation.

United Methodist Personal Investment Plan (UMPIP)

UMPIP is an Internal Revenue Code section 403(b) voluntary retirement savings plan designed to supplement ones employer-sponsored pension plan. UMPIP is administered by the Wespath. Any before-tax contribution to UMPIP by pastor is reduced from the income used to determine their self employment tax.

It will be important that all pastors contribute to UMPIP to receive the match unless a part-time local pastor has waived the benefit.

In 2014 CRSP was no longer available to part-time appointed pastors. The Annual Conference in June of 2013 adopted UMPIP as the program for part-time appointments with matching contributions. These programs are totally defined contributions plans. For $\frac{1}{2}$ and $\frac{3}{4}$ time appointments the salary paying unit will be required to pay 8% of plan compensation unless part-time local pastor has waived the benefit. For $\frac{1}{4}$ time appointments salary paying unit will be required to pay 6% unless part-time local pastor has waived benefit. There is also up to a 2% match by the salary paying unit if the pastor contributes up to 2% of plan compensation.

There are no benefits for pastors appointed less than $\frac{1}{4}$ time.

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To help pastors increase their UMPIP contributions to be better prepared financially for retirement UMPIP automatic features were implemented in 2018 and 2019. Beginning in 2018 the minimum UMPIP contribution on a before-tax basis was 2% of plan compensation unless pastor opted out, contributes to Roth/after-tax or is currently contribution more than 2%.

Beginning in 2019 automatic contribution escalation will begin. One's before-tax contribution will increase by 1% of plan compensation per year at the beginning of each subsequent year up to a maximum of 10% of plan compensation. The exceptions are the same as listed in previous paragraph for the minimum contribution.

The automatic features would strategically combat inertia and procrastination by getting pastors enrolled, contribution increases each year as compensation increases and jump-start their retirement savings program.

bg 8/5/2019