

## **Pacific Northwest Conference Pastoral Support Worksheet Definitions - 2024**

### **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. For 2023 the IRS raised the maximum allowable IRS mileage rate to 65.5¢. The IRS sets the rate annually in December of each year so check back later for the 2024 allowance.

### **Before Tax Deferrals**

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 if have not maxed out the before-tax contribution option; a Roth where earnings grow tax free and no tax when withdrawn. Get the UMPIP form from Bruce Galvin ([bruce.galvin@pnwumc.org](mailto:bruce.galvin@pnwumc.org)). The maximum allowed to contribute to UMPIP has not been determined for 2024. In 2023 the limit is \$22,500 if under 50 and \$30,000 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 2024 annual defined benefit cost is \$5,500. As in 2023 the conference board of pensions is contributing \$500 towards the cost with the net to church of \$5,000 annually.

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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 one’s 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, deacons and full-time lay/w benefits are covered 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 2024 is \$78,292.

### **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 several benefit choices to meet personal needs.

### **Health Insurance Direct Bill**

The annual mandatory funding of health insurance direct billed to local churches (salary-

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paying unit) for each appointed full-time pastor. It is the actual cost for providing health coverage for the pastor (not spouse or dependent children, if applicable) with the balance coming from the conference board of pension's budget.

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 or health savings 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 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**

An 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 has contribution limits for HSAs. There is no "use-it-or-lose" requirement with HSAs – money that is not used for health 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 health 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 and UMPIP retirement cost for part-time and lay/w benefits.

### **Salary-Reduction Agreement**

The agreement one makes with church/salary-paying unit that authorizes them to make contributions from one's 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 ½ & ¾ 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 and death benefit coverage is provided to the pastor and death benefit coverage provided to 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 3% of plan compensation in 2024. The estimated cost is 5.5% of plan compensation with the conference board of pensions budget picking up the difference.

### **United Methodist Personal Investment Plan (UMPIP)**

UMPIP is an Internal Revenue Code section 403(b) voluntary retirement savings plan designed to supplement one's 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 ½ and ¾ 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 ¼ 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.

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There are no benefits for pastors appointed less than ¼ time.

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 was begun. One's before-tax contribution is increased by 1% of plan compensation per year at the beginning of each subsequent year up to a maximum of 10% of plan compensation if appointed to the same appointment. 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. It has been very effective. In 2018 the average contribution as a percentage of plan compensation was 6.5% in July of 2023 the contribution rate is 9.2%!

bg 7/28/2022