



Understanding
Effective
Salary

If any discrepancy exists between this booklet and the terms and conditions set forth in the Benefits Plan of the Presbyterian Church (U.S.A.), the Plan document shall control.

The Benefits Plan is a church plan under §414(e) of the Internal Revenue Code. The Plan has not elected to be subject to the Employee Retirement Income Security Act of 1974 (ERISA) and, pursuant to the Church Plan Parity and Entanglement Protection Act of 2000, is exempt from state insurance licensing, solvency and funding requirements.



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If you have any questions, please call the Board of Pensions at 800-773-7752 or 800-PRESPLAN or visit the Board's Web site at www.pensions.org.

The Community of Faith and the Benefits Plan

Following a biblical understanding of sharing based on need, the Benefits Plan calls on the entire community of faith to contribute toward the care of all servants of the church. Churches and employing organizations with members enrolled for traditional coverage do not pay for the benefits of their own enrolled members, but for their share of the total cost of providing benefits for all Church workers in the Plan.

The Benefits Plan serves ordained ministers and lay church workers in churches and other employing organizations by offering participation in

- traditional benefits that include healthcare, pension, death and disability as well as optional benefits programs.
- Affiliated Benefits Program benefits that include healthcare coverage for organizations that are controlled by or associated with the Presbyterian Church (U.S.A.). At the option of the employing organizations, Affiliated Benefits Program members may also participate in death and disability coverage as well as optional benefits programs.

Effective Salary and the Benefits Plan

Effective salary is an important part of the Benefits Plan for employing organizations who pay dues and members who receive benefits. This booklet describes the various types of compensation or reimbursements most frequently paid by churches and other employing organizations and identifies those types that must be included in effective salary for Benefits Plan purposes.

The Benefits Plan links both dues and benefits to the financial situation of the employing organization and employee. The effective salary of the participant determines

- healthcare and pension dues for members with traditional coverage.
- death and disability dues and benefits for all participating members.
- dues for members with Optional Supplemental Disability coverage.
- healthcare deductible and copayment limits for all participating members.
- accrued pension credits for members with pension coverage.

Plan Definition

The definition of effective salary in Sec. 2.1(n) of the Benefits Plan is:

Any compensation received during a Plan Year by a Benefits Plan Member from an employing organization, including but not limited to any sums paid for housing (including utilities and furnishings) allowance. Effective Salary shall also include any deferred compensation (funded or unfunded) credited to a Member by an employing organization during a Plan Year. Effective Salary does not include amounts received for reimbursement of professional expenses through an accountable reimbursement plan or Social Security amounts up to fifty percent (50%) of a minister's Self-Employment Contributions Act obligations. In the case of a Member eligible for a housing allowance only, the amount for housing is calculated as follows: if a Manse is provided, the amount shall be at least thirty percent (30%) of all other compensation described above; if no Manse is provided, the amount shall be the actual housing allowance.

The Plan year is January 1 to December 31.

Elements of Effective Salary

The administrative interpretations set forth in this booklet establish the amounts of a member's compensation that must be included in the effective salary reported to the Board.

Effective salary only relates to compensation received from the member's employing organization. Amounts received directly from other organizations or persons are not included (for example, honoraria, gifts).

Effective salary includes most compensation, whether received in cash, in kind, or in deferred form.

Generally, fringe benefits only offered to individual employees, or where an employee can elect an optional or supplemental benefit in lieu of cash, are included in effective salary. Tax-free fringe benefits (other than housing-related expenses or fringe benefits in lieu of cash) are generally excluded if the benefit is offered to all employees. The current taxability of the compensation under federal and state income tax laws does not determine whether an item of compensation is to be included in effective salary. Please see the detailed information in the chart on Specific Types of Payment, Page 5.

Effective salary does not include accountable reimbursements for business expenses advanced by the member on behalf of the employing organization.

Accountable reimbursements for business expenses are those expenses paid by an employing organization upon substantiation or an accounting from the member of the purpose, date, amount, and place of the expenditure. See Internal Revenue Code or the *Tax Guide for Ministers and Churches* from the Board of Pensions for further clarification of requirements.

Generally, effective salary includes reimbursement of personal expenses and general lump sum allowances for which the member has no obligation to account for to the employing organization.

Specifying the Housing Amounts

When a housing allowance is part of a member's effective salary, it must be itemized when reported to the Board. To comply with tax laws, the Board must maintain records of the itemized components of effective salary such as cash salary, housing, and others.

Effective salary is a term defined in the Plan to include cash salary, housing allowance, certain other allowances, and deferred compensation paid to a member.

Most ministers' compensation packages include income that is not subject to federal income tax (for example, housing allowance or in-kind benefits such as a manse). These parts of effective salary are important because the Benefits Plan retirement benefits accrue annually on the basis of the Plan's formula rather than taxable income; namely, 1.25% of total annual effective salary of the member.

Minimum Effective Salary Requirement

The Benefits Plan of the Presbyterian Church (U.S.A.) is a church employee benefit plan as defined in §414(e) of the Internal Revenue Code with legal standing to provide benefits for ministers and church employees only. Donated or volunteer services do not constitute a valid employment relationship for Plan purposes.

The Board of Pensions adopted Administrative Rule 305 (available on www.pensions.org) that clarifies that the Plan deems an eligible employment relationship to exist when the employee/member has a total effective annual salary of at least 25% of the current year's churchwide median salary for pastors serving local congregations (the minimum pension participation basis). The IRS has other tests for determining employed status.

Annual salary for full-time service (35 hours a week or more) must be at least equal to the current year's pension minimum salary participation basis.

The Benefits Plan defines 1,820 hours as full-time service (1,820 hours/52 weeks = 35 hours a week).

For part-time workers (working 20 or more hours a week, but fewer than 35 hours a week), the minimum annual salary is prorated based on the hours worked compared to 35 hours. Annual salary for part-time service must reflect the same proportion to the current year's minimum salary requirement as the member's hours are to 35 hours.

To arrive at the required annual minimum salary for employees scheduled to work fewer than 35 hours a week,

- divide the current year's minimum pension participation basis by 35 hours a week, then
- multiply the result by the actual number of hours a week the employee is scheduled to work.

Severance Payments

Severance payments (lump sum or payouts) are part of effective salary.

Severance payments (lump sum or payouts) that

- do not include a continuation of employer-paid benefits are treated as a salary increase in the year they are paid. In this instance, the termination date of the member is the last day of service and any free coverage for which the member is eligible starts the following day. The employing organization receives an adjusted invoice for any additional dues payable on the severance amount.
- include a continuation of employer-paid benefits are treated as extending the service period for Plan purposes. In this instance, the termination date of the member is the last date through which the employing organization agrees to provide benefits. Benefits provided during any severance period **must continue** at the same level of participation for which the member was enrolled as of the date of termination of service. Any free coverage for which the member is eligible starts after the end of the severance period.

Healthcare Deductible and Copayment Requirements

The member's healthcare deductible and copayment maximums are based on his/her effective salary. The member's effective salary can change during the calendar year as a result of a salary increase or decrease, bonus payment, overtime compensation, or change of position.

When a salary change is reported, the member's deductible and copayment maximum changes only if a salary increase or decrease puts the member's salary in a different deductible/copayment salary range.

If the member's participation changes (for example, from active to Medical Continuation or from Medical Continuation to Medicare Supplement) and the member's medical participation basis increases or decreases, the member's deductible and copayment maximum also changes. Any credit toward the deductible or copayment requirements is applied to the deductible or copayment requirement for the new participation.

The deductible and copayment maximum in effect on the date of service is applied, not the deductible and copayment maximum in effect when the claim is processed.

Salary Reporting and Verification

The church or employing organization must correctly report the member's total annual effective salary, employment classification, and scheduled hours to work a week and notify the Board within 30 days of any changes.

All these changes should be reported on the Service/Salary Change Form, ENR-100, within 30 days of the date that the change takes effect.

Reporting information correctly and quickly is important so that members receive accurate benefits information, and appropriate benefit payments and accruals.

To protect member benefits, churches and other employing organizations must ensure the accuracy of salary information reported to the Board of Pensions. Members can verify salary information by checking their Annual Statement of Benefits. They can also verify salary information, employment classification and hours worked in a week by checking the Member Confirmation Forms sent to them every time the Board updates their records.

Members and representatives of a church or other employing organization may call their Regional Service Teams to verify that the specific salary information in their files is the same as that in the Board records.

To protect this confidential information, Board member services representatives may only confirm or deny a match. If any discrepancy is identified, the Board can give the caller instructions to remedy the discrepancy.

Retroactive changes to salary, employment classification or hours worked a week are made **only** for the current year and the immediate preceding calendar year, subject to receipt of supporting documentation.

The standard components of effective salary (cash, housing, deferred compensation) must be reported on an annual basis. For variable components of effective salary (overtime, bonuses, reimbursements for personal expenses, and others), the actual amounts are to be reported in effective salary.

Reporting Variable Compensation to the Board

The amounts of some compensation paid to members vary from year to year (for example, bonuses, overtime, reimbursements for deductibles, and others). The total compensation for the year may be unknown at the beginning of the year. As a result, no specific figure for these items is included in the terms of call or his/her effective salary when the information is reported to the Board of Pensions at the beginning of the year.

Timing of Variable Reporting

- Reimbursements for deductibles and healthcare copayment expenses should be reported in full in January as adjustments to the prior year.
- Bonuses and severance payments are to be reported within 30 days. If applicable, adjustments to dues and pension credits will be made for the year in which the payment is made.
- Overtime pay should be reported each January for the prior year and adjustments, if applicable, will be made for the year in which the payment is made.
- Fixed allowances such as a car allowance paid in equal monthly amounts are to be reported “up-front” with cash salary information when such allowances are not paid through an accountable reimbursement plan.

For members with a manse component, effective salary increases by the total amount of the reported adjustments plus an adjustment to ensure that the manse amount continues to be at least 30% of all other components of effective salary.

When changes in effective salary are reported, healthcare deductible and copayment requirements are adjusted only as explained on Page 3. When applicable, dues for benefits are adjusted.

Billing and Effective Salary

Billing for healthcare (traditional coverage), pension, and death and disability dues is based on the greater of the member's total annual effective salary or the minimum participation basis for the particular benefit (medical, pension, or death and disability). The basis does not exceed the established maximum basis for either medical or pension.

Please check our online library at www.pensions.org or call us at 800-773-7752 or 800-PRESPLAN for current year minimum and maximum participation bases.

Specific Types of Payments

For questions about taxes associated with a form of payment, please call Response, the Plan's employee assistance plan, at 800-455-5129 or your tax advisor. The member services

representatives at the Board of Pensions may answer your questions about effective salary, but are not qualified to provide tax advice (federal income tax, FICA or SECA).

Form of Payment	Is it included in Effective Salary?	Effective Salary Explanation
Annual Cash Salary	Yes	The full amount of gross cash compensation paid to the member must be included in effective salary. The annual salary or 12-month salary must be reported (for example, if the salary is \$20,000 but the member starts July 1, report the annual salary of \$20,000, not the amount the member receives for the part of the year he/she works.)
Automobile Allowance	See Car Allowance.	
Book Allowance	No	It is not included when the allowance is reimbursed to the member through an accountable reimbursement plan.
	Yes	It is included when it is a lump sum amount for which the member will not be reimbursed through an accountable reimbursement plan.
Bonuses	Yes	An adjusted effective salary incorporating the actual amount of the bonus is to be reported within 30 days of the award. Pension credits for the bonus are accrued during the year in which the bonus is paid.
Car Allowance	No	It is not included when the allowance is reimbursed to the member through an accountable reimbursement plan.
	Yes	It is included when it is a lump sum amount for which the member will not be reimbursed through an accountable reimbursement plan.
Copayment Reimbursement	Yes	It is included if the copayments are paid or reimbursed to the member by the employing organization on an individual basis.
	Yes	It is included when the member's copayments are paid or reimbursed by a third party as part of a supplemental wraparound plan provided by the employing organization on an individual basis. The amount to report is the charge paid by the employing organization for that coverage, not the total of reimbursements received by the member.
	No	It is not included when the member's copayments are paid or reimbursed as part of an HRA (Healthcare Reimbursement Account) plan, or supplemental wrap-around plan provided by the employing organization under Sec. 105 of the Internal Revenue Code ("Code") on a group coverage basis to all employees of that employing organization or members of the sponsoring governing body.

Form of Payment	Is it included in Effective Salary?	Effective Salary Explanation
Deductible Reimbursement	Yes	It is included when the employing organization pays for or reimburses the member for the deductible on an individual basis.
	Yes	It is included when the member's deductible amounts are paid or reimbursed by a third party as part of a supplemental wraparound plan provided by the employing organization on an individual basis, but the amount included is only the charge paid by the employing organization for that coverage, not the total of the member's reimbursement.
	No	It is not included when the member's deductible is paid or reimbursed as part of an HRA (Healthcare Reimbursement Account) plan, or supplemental wraparound plan provided by the employing organization under Code Sec. 105 on a group coverage basis to all employees of that employing organization or members of the sponsoring governing body.
Deferred Compensation	Yes	<p>Deferred compensation includes employer and member contributions to a 403(b) plan and tax sheltered annuity plans (including the Retirement Savings and MONY plans), Rabbi Trusts, and other forms of funded and unfunded deferred compensation arrangements. Benefits Plan dues are not included.</p> <p>These arrangements are generally elective and negotiated as part of an individual member's overall compensation package. As long as the member has a legally enforceable right to the deferred sums at some time in the future, the sum set aside in a given year to reserve for that obligation is to be included in the member's effective salary that year.</p>
Down Payment	Yes	It is compensation and included in effective salary when a down payment on a house/condominium is given to the member or paid for the member outright (that is, without the stipulation that the member must pay it back).
Dues/Benefits Plan	No	These are not included because the amount paid by the employing organization represents that organization's share of the funds needed to provide the benefits to all members of the Plan. The amount is not tied to the sum required to fund the promised benefits to the individual member.
Equity Allowances	Yes	Sums paid or contributed by an employing organization to a deferred compensation plan or other account, on behalf of a member residing in a manse, to compensate for equity which the member forgoes by not owning his or her own residence, are included in effective salary.
Flexible Spending Account	Yes	See Section 125 allowance.
Furnishings for primary residence used as a manse	Yes	These arrangements are generally elective and negotiated as part of an individual member's overall compensation package. When a member lives in a manse or other housing provided at no cost to the member and receives an additional allowance for utility services and/or furnishings, the additional allowances are to be included in effective salary, in addition to the 30% manse amount as previously defined.

Form of Payment	Is it included in Effective Salary?	Effective Salary Explanation
Gifts from the Employing Organization	Yes	Gifts of cash given to the member by the employing organization must be included in effective salary as they are compensation in addition to annual cash salary. Adjustments to the annual effective salary because of the gift are required to be reported at the time the gift is given.
Gifts from Others	No	Gifts from private donors are not included in the member's effective salary.
Healthcare Reimbursement Account	No	An option under which expenses paid for unreimbursed medical or healthcare services such as vision, hearing, and dental care (deductibles, copayments, exams, for example) are reimbursable by the employing organization on a nontaxable basis provided that Code Sec. 105 requirements are met.
Honoraria	No	These are gifts from an organization or individual other than the employing organization for services provided by the member and are not to be included.
Housing Allowance	Yes	These allowances are an elective portion of an individual member's compensation package. For this reason, they are included as part of effective salary. The housing allowance amount is designated annually by the session or employing organization in advance of payment. Effective salary includes any amount designated as housing allowance and used to pay rent to the employing organization. Rent reported as housing allowance for the employer-provided housing is the fair rental value of the housing as determined annually through appropriate means.
Insurance Premiums (Individual Policies)	Yes	Premiums for individual insurance policies (auto, disability, life, supplemental medical, and others), other than dues for participation in the basic benefits provided by the Benefits Plan of the Presbyterian Church (U.S.A.), that the employing organization pays for or reimburses to the member at his/her request are compensation to be included in effective salary.
	Yes	Subscription costs for optional benefit coverage under the Benefits Plan are to be included in effective salary.
Insurance Premiums (Group Policies)	No	Group coverage provided by an employing organization to all employees is not included.
Loan Forgiveness	Yes	Loan forgiveness should be reported as effective salary.
Loan Principal	No	The principal of a loan made to a member by her/his employing organization is not included in effective salary because it will be paid back to the lender.
Loan Interest-Free	Yes	Interest savings to the member on a loan provided by the employing organization are included. The amount of interest to be included in the effective salary calculation is that amount which is reportable under the federal income tax laws.
Manse Amount	Yes	When a manse or other housing is provided at no charge to the member, the amount included in effective salary shall be at least 30% of all other compensation included in effective salary. When utility or furnishings allowances are provided to a member residing in employer-provided housing, those allowances are to be included in effective salary in addition to the manse value defined above. See also Housing Allowance.

Form of Payment	Is it included in Effective Salary?	Effective Salary Explanation
Medical Expense Reimbursements	See Copayment and Deductible Reimbursements.	
Mileage Allowances	See Car Allowance.	
Overtime	Yes	Overtime pay is to be reported in January each year for the preceding year and credited to the year for which it was paid.
Rent Allowance	See Housing Allowance.	
Section 125 Allowance (Flexible Spending Plan)	Yes	These allowances are voluntary salary reductions to a Flexible Spending Plan established under a Code Sec. 125 from a member's cash salary and are included in effective salary.
Self-Employment Contributions Act Reimbursement	Yes, in excess of 50%	If the employing organization reimburses the member more than 50% of the minister's SECA tax obligation, the amount of the allowance estimated to be in excess of 50% of the expense must be included in effective salary.
Severance Pay	Yes	Severance payments are included in effective salary. For more details, see Page 3.
Study Allowance	No	It is not included if it is reimbursed to the member through an accountable reimbursement plan for studies that are related to employment actually undertaken in the current year.
	Yes	It is included when it is a lump sum amount for which the member will not be reimbursed through an accountable reimbursement plan or when given to the member for studies completed before the current year.
Study Leave	Yes	Pay during study leave is generally part of an employee's annual cash salary and constitutes compensation to be included in effective salary even though the member is not working.
Tax-Deferred or Tax-Sheltered Compensation	Yes	These allowances are voluntary elective salary reductions from a member's cash salary, so are included in effective salary.
Tuition Reimbursement	See Study Allowance.	
Utilities Allowance	Yes	If a member lives in a manse and receives an additional allowance for utility services and/or furnishings, the additional allowance is to be included in effective salary, in addition to the manse amount as previously defined.
	No	If a member lives in a manse and the utility services are maintained in the employing organization's name and paid for directly by the employing organization, the value of those services is not to be included in effective salary.
Vacation	Yes	Vacation pay is generally part of an employee's annual cash salary and constitutes compensation to be included in effective salary even though the member is not working.
Wraparound Plans	See Deductible and Copayment Reimbursement.	

Effective Salary Worksheet

This worksheet is a guide to determining effective salary for Benefits Plan purposes. It may be helpful in completing the Service/Salary Change Form, ENR-100.

The worksheet is only for effective salary and is not

intended to provide Social Security or income tax advice. For more income tax information, please refer to Internal Revenue Service publications or seek the advice of a competent tax advisor.

Compensation Included in Effective Salary (see table starting on Page 5 for details)

1. \$ _____ Annual cash salary (including employee contributions to 403(b) plans, tax-sheltered annuity plans, salary reduction contributions to flexible health spending accounts and cafeteria plans).
2. \$ _____ Housing, utility, and furnishings allowances.
3. \$ _____ Employing organization contributions to 403(b) plans, tax sheltered annuity plans, equity allowances.
4. \$ _____ Bonuses, overtime pay, unvouchered professional expense allowances, gifts from employing organization, manse equity allowances (unless contributed to a qualified deferred compensation program). Include year-end or other bonuses, unvouchered allowances (such as expenses that are not paid through an accountable reimbursement plan), down payment grants for the purchase of a home, savings from interest-free or interest-reduced loans (not loan principal), and gifts paid by the employing organization. (Gifts received directly from private donors or honoraria are NOT included.)
5. \$ _____ Other allowances. Include all other forms of compensation not otherwise covered on Lines 1-4, including medical deductible and medical expense reimbursement allowances not paid through a group benefit plan, insurance premiums for additional insurance coverage provided for individual employees (premiums for group plan coverage are not included) and others. If an allowance is provided to reimburse Self-Employment Contribution Act (SECA) tax obligations, any amount in excess of 50% of the minister's SECA tax obligation should be included on this line.
6. \$ _____ Manse amount (must be at least 30% of Lines 1-5 for members residing in employer-provided housing).
7. \$ _____ Total effective salary (Sum of Lines 1-6). Dues are computed and benefits are determined on this amount.



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PLN-103 10/03