

# The General Synod

## ASSOCIATE REFORMED PRESBYTERIAN CHURCH

### Board of Benefits



### PLANNING FOR 2007

The good news continues!

We are pleased to be able to report that it will not be necessary to increase the premiums in October of this year and, except for minor changes in the premiums for Dependent Life and Long Term Disability, premiums should not increase in 2007. As explained below, it could become necessary to have a premium change in October 2007, but at this time such a change is not anticipated.

The medical plan has a renewal date of August 1 each year. Premiums are set to cover the total dollar liability that the plan could incur for the plan year – August 1 to July 31 of the following year. In addition, the Plan must keep sufficient reserves to pay claims that have been incurred but not reported in the plan year. If the Claim Reserve is greater than the calculated reserve for incurred claims, premium increases can be delayed (as from August to October or January of the following year) and/or premiums can be set below the aggregate claim liability.

Medical costs continue to increase and as your church engages in compensation planning for 2007 we encourage you to be aware that there could possibly be an increase in October 2007. The actual dollar amount can be calculated on the "Worksheet for Calculating Benefit Costs." Hopefully, our claim experience will once again be such that the increase will not be necessary.

There will be some minor changes in the benefits provided and these changes will be communicated directly to the participants.

There is one significant change for budgeting purposes. Effective January 1, 2007, a three-tier premium will become effective and will be priced as follows:

<u>Employee Category</u>	<u>Current Annual Cost</u>	<u>Revised Annual Cost</u>
Employee Only	\$ 5,262.48	\$ 5,262.48
Employee Plus One	\$ Not Offered	\$ 10,524.96
Family Coverage	\$ 13,022.76	\$ 13,022.76

As reported to and approved at the 2005 meeting of the General Synod, all eligible full-time employees are covered in the employee life, dependent life (if the employee has dependents), accidental death, and long term disability programs. If you have full-time employees that have not enrolled, please contact the ARP Center.

We have included the annual report on pastoral earnings. The following notes should be helpful as you review the accompanying report for 2006:

- The report reflects only those individuals eligible for enrollment in the Associate Reformed Presbyterian Retirement Plan and serving on a full-time basis.
- The term "Earnings" includes
  - Base Salary, excluding all allowances, but including voluntary withholdings for a 403B Tax Deferred Annuity
  - 40% of Base Salary if a manse is provided
  - Housing Allowance paid to the participant
  - All other allowances paid to the participant **excluding** allowances paid under an accountable expense reimbursement plan.
- The maximum Earnings for Retirement Plan purposes is \$95,000. Ministers making in excess of that amount are recorded with Earnings of \$95,000.
- The category "Senior Pastor" is used for Pastors serving in churches with more than 400 active members.
- The category "Pastor Associate" is used for Associate Pastors serving in churches with more than 400 active members.
- Group Insurance Premiums and ARP Retirement Plan contributions by the churches **are excluded**. Such payments should not be considered as compensation.
- In comparing your employees, you should consider length of service and other relevant factors not reflected in this report. You are encouraged also to review the report of the Committee on Minister and His Work, 2006 *Minutes of Synod*, page 423.)

The web-site address for information on the CPI is <http://www.bls.gov/cpi/home.htm>. The unadjusted CPI-U as calculated for the 12 month period ending July 2006 was 4.1%.

It is the practice of the Board of Benefits not to reveal information on a particular individual. Where there is only one person in a category, data is omitted. Some presbyteries publish information in Presbytery Minutes.

Please be assured that the Board of Benefits will continue to work diligently in its efforts to provide meaningful security for the Ministers and other employees of the General Synod. If you would like to have an educational/awareness program in your church or presbytery, please let me know.

We continue to solicit your input and your prayers.

Respectfully,



Ed Hogan, Secretary  
Board of Benefits

## COMPENSATION AND BENEFITS

The comments and illustrations are based on the assumption that an Associate Reformed Presbyterian Minister serving under the terms of a Call approved by Presbytery should be considered an Employee and should be issued a W-2.

With respect to services they perform in the exercise of their ministry, ordained Ministers are always treated as self-employed for purposes of social security **and** employers are **not required** to withhold federal or state income taxes. Churches **may**, at the request of the Minister, withhold federal and state taxes and may withhold sufficient amounts to cover the Social Security and Medicare taxes. All funds withheld must be reported as federal income tax withheld. Unless a church also has non-ministerial Employees the ordained Minister should not request his Church to do withholding.

There are several considerations in structuring compensation and benefits that have implications for the Employee in terms of taxation and potential benefits.

- a. In addition to the ARP Retirement Plan, if eligible, Employees may also elect to have pre-tax dollars withheld for a 403B tax deferred annuity. For ordained Employees the amount withheld is not included for computing Social Security and Medicare. For non-ordained Employees, such amounts are included as wages for Social Security and Medicare purposes.
- b. Employer paid premiums for medical, dental, life and Accidental Death (\$50,000 maximum), and long term disability are non-taxable. (Note: If the Minister is reported as self-employed and provided with a 1099 the premiums paid by the church are considered as taxable income.)
- c. Business expense reimbursements under an "Accountable Reimbursement Plan" are non-taxable and should not be reported on the W-2. To satisfy IRS requirements the Plan must satisfy the following requirements:
  1. The expenses must meet the business connection requirement (the expenses could be claimed as a business deduction and the expense was incurred or paid in connection with the performance of services as an Employee.)
  2. The Plan must meet the substantiation requirement. Each business expense must be substantiated (with reliable written evidence, including a receipt for any expense of \$75 or greater) to the Employer within a reasonable period of time.
  3. The Plan must require the Employee to return within a reasonable time any unused amounts paid to the Employee. If the Employee fails to properly account for the use of the funds the full amount must be reported as taxable income. If he properly reports for a portion of the funds but fails to return the unused portion, then the unsubstantiated amount must be reported as taxable income.
  4. Reimbursements for substantiated business expenses are not taxable and should not be reported on the W-2.

For benefit plan purposes consider the following. Benefits under the ARP Retirement Plan and the long-term disability benefit are determined on the basis of the Employee's "Earnings." Earnings is defined as:

- a. Base Salary, excluding all payments as allowances, but including any amount withheld for a 403B tax-deferred annuity; plus
- b. if a manse is provided, an amount equal to 40% of the base salary; plus
- c. all allowances paid to the Employee, excluding those amounts paid under an Accountable Expense Reimbursement Plan.

Do not include amounts paid FOR the minister.

The Retirement Plan has three benefit provisions:

- a. Retirement. Under the current Plan, the Normal Retirement Benefit is an annual benefit equal to 3.1% of the Employee's total career Earnings while covered by the Plan. This is an age 65 benefit (64 if the Employee has 25 or more years of Credited Service) and will be actuarially reduced to provide for a Joint and Survivor Annuity, if applicable.
- b. Death Benefit. If a covered Employee dies while accruing credit for Service and Earnings, his Spouse will be paid an amount equal to the current annual Earnings.
- c. Survivor Income Benefit. If a covered Employee dies while accruing credit for Service and Earnings, his Spouse will be paid a monthly benefit equal to 20% of the Employee's monthly Earnings at the time of death. This will be paid until the Spouse reaches age 65, at which time the Retirement benefit would begin, based on the Employee's accrued credited Service and Earnings at the time of death. An additional monthly benefit equal to 10% of the Employee's monthly Earnings will be paid as long as there is a dependent child. The maximum monthly benefit is \$800 for the Spouse or \$1,200 for Spouse and dependent(s).

In the event of disability, the Employee is paid a monthly benefit equal to 60% of the Earnings at the time of disability. This benefit is coordinated with Social Security. Under the General Synod plan, the benefit is taxable.

As can be noted, the amount included in compensation under an Accountable Expense Reimbursement Plan would not be considered in determining these benefits.

Recommended Resource: Church and Clergy Tax Guide, Richard R. Hammar, published by Christianity Today International, 465 Gundersen Drive, Carol Stream, IL 60188. 800-222-1840. [www.churchlawtoday.com](http://www.churchlawtoday.com).