**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 2020 the maximum allowable IRS mileage rate is 57.5¢. The IRS sets the rate annually in December of each year so check back later for the 2021 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 There is a better option for after-tax contributions; a Roth where earnings grow tax free and no tax when withdrawn.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 206-870-6819/206-579-6041). The maximum allowed to contribute to UMPIP has not been determined for 2021. In 2020 the limit is $19,500 if under 50 and $26,000 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. Benefit applies to pastors appointed ½ time or more. CRSP has two components; Defined Contribution – 2% of plan compensation with up to an additional 1% match if the pastor contributes up to 1% of plan compensation 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. As a missionary conference there is no charge for the DB component. It would cost about $5,950 per full-time pastor. It is picked up by the rest of the United States denomination.
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 part of compensation to 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/furnishing). Most churches in Alaska pay the utilities directly for pastor where they live in parsonage. It church pays utilities direct it is not included is pastor’s plan compensation.

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 Benefits and Investments are governed by the provisions of Code section 403(b) of the Internal Revenue Code. Code section 403(b) plans are available only to pastors 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 2021 is $74,199.

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 Wespath Benefits and Investments, which offers a number of benefit choices to meet personal needs.
Health Insurance Blended Rate
The annual mandatory funding of health insurance direct billed to local churches for each appointed full-time pastor and their family, if applicable. A blended rate is determined from the actual cost of single, pastor plus spouse and pastor plus family. If there is a spouse or spouse plus children covered by health plan the pastor through a salary reduction is responsible for $150 of the monthly cost.

The 2021 health premium is increasing slightly (medical – 1%, dental 9% and vision 35%) compared to cost to salary paying unit in 2020. In 2016 the conference switched to a new health program for non-Medicare participants called HealthFlex Exchange. Participants are given choice between six medical/pharmacy, three dental and three vision plans. The pastors will be given a defined contribution sum of money to be used to purchase the elected health benefits. If the defined contribution 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 defined contribution 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).

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-it“ 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. These funds can also be invested.

**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 those covered by clergy retirement security program.

**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 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 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 2021 cost is 2.2% 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 Benefits and Investments. 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.

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 began in 2018. Beginning in 2018 the minimum UMPIP contribution per new appointment on a before-tax basis is 2% of plan compensation unless pastor opts out, contributes to Roth/after-tax or is currently contribution more than 2%.

Beginning in 2019 automatic contribution escalation began if at same appointment as previous year. 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 or there is an appointment change.

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

bg 8/14/20