



**The Board of Pensions**  
of the Presbyterian Church (U.S.A.)



# **Understanding Effective Salary**



## 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 coverage benefits including medical, pension, and death and disability, as well as optional benefits programs.
- Affiliated Benefits Program benefits that include medical 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.

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.

If you have questions, please call the Board of Pensions at 800-773-7752 (800-PRESPLAN) or visit [Pensions.org](http://Pensions.org).

## 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:

- medical and pension dues for members in the Traditional Program coverage
- death and disability dues and the 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 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 as a housing (including utilities and furnishings) allowance. Effective Salary shall also include any deferred compensation (funded or unfunded) credited to or contributed on account of a Member by an employing organization during a Plan Year, with the exception of any amounts contributed as an employer contribution to the Retirement Savings Plan under a matching contribution program that is available to at least all employees of the employer in the same employment classification, and any salary reduction contributions to a plan or other arrangement providing a tax-favored benefit. 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. With respect to a Member eligible for a housing allowance, 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 (e.g., honoraria or 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. Any and all compensation, whether received in cash, in kind, or in deferred form, is included. Please see the detailed information in the chart on Specific Types of Payments on 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 the 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 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 Pensions.org) to clarify 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, use the following formula:

- 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.

## Healthcare Deductible and Copayment Requirements

The member's healthcare deductible and copayment maximums are based on his or 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), the member's deductible and copayment maximum also changes. If the deductible or copayment maximum requirements had not been met, the member's deductible and copayment limits also change. 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 31 days of any changes.

Church treasurers and business administrators registered as their employing organization's Authorized Web Representative can securely confirm or change their members' salary information through Benefits Connect. They can also submit salary changes by completing the Change of Salary form (ENR-111), and changes to employment classification and/or hours worked per week by completing the Service Change form (ENR-110). All changes should be reported within 31 days of the date 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 on Benefits Connect through the "Service" tab or by generating a current 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 Authorized Web Representatives can securely verify salary information on file with the Board through Benefits Connect. If they identify a discrepancy, the church treasurer or business administrator can call Member Services. (Due to the confidential nature of the information, the Member Service Representatives can only confirm if the salary amount is consistent with the Board's records. If there is a discrepancy, the representative will provide instructions for correcting the Board's records.)

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 the receipt of supporting documentation.

## Reporting Variable Compensation to the Board

The amounts of some compensation paid to members vary from year to year (e.g., bonuses, overtime, reimbursements for deductibles, and others). The total compensation for the year may be unknown at the beginning of the year. No specific figure for unknown items is included in the terms of call or his or 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 other medical expenses should be reported in full in January as adjustments to the prior year.
- Bonuses should 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 “upfront” 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, health-care 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 (i.e., medical, pension, or death and disability). The basis does not exceed the established maximum basis for either medical or pension.

Dues for salary adjustments will be invoiced retroactively.

Please visit [Pensions.org](https://pensions.org) or call the Board at 800-773-7752 (800-PRESPLAN) for current year minimum and maximum participation basis. You can use the Total Effective Salary Calculator and Dues Calculator on [Pensions.org](https://pensions.org) to determine the potential impact salary adjustments or changes to hours worked have on dues.

## Specific Types of Payments

For questions about taxes associated with a form of payment, please call your tax adviser. The Member Services Representatives at the Board of Pensions may

answer your questions about Effective Salary, but are not qualified to provide tax advice (e.g., federal income tax, FICA, or SECA).

Form of Payment	Is it included?	Explanation
<b>Annual Cash Salary</b>	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 or she works.
<b>Automobile Allowance</b>	See Car Allowance.	
<b>Book Allowance</b>	No	It <i>is not</i> included if it is reimbursed to the member through an accountable reimbursement plan.
	Yes	It <i>is</i> included if it is a lump sum amount paid directly to the member and not a reimbursement processed through an accountable reimbursement plan.
<b>Bonuses</b>	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.
<b>Car Allowance</b>	No	It <i>is not</i> included if it is reimbursed to the member through an accountable reimbursement plan.
	Yes	It <i>is</i> included if it is a lump sum amount paid directly to the member and not a reimbursement processed through an accountable reimbursement plan.
<b>Copayment Reimbursement</b>	No	It <i>is not</i> included if the member's copayment amounts are paid or reimbursed by a third party as part of a supplemental wrap-around plan provided by the employing organization (under Internal Revenue Code Sec. 105) on a group coverage basis to all employees of that employing organization or members of the sponsoring governing body.
	Yes	It <i>is</i> included if the copayment amounts are paid or reimbursed to the member by the employing organization on an individual basis, even if the payments are made through a Flexible Spending Plan (Sec. 125 Plan).
	Yes	It <i>is</i> included if the member's copayment amounts are paid or reimbursed by a third party as part of a supplemental wrap-around plan provided by the employing organization on an individual basis. The amount includes the dues or premiums paid by the employing organization for that coverage, not the benefits actually received.



Form of Payment	Is it included?	Explanation
<b>Deductible Reimbursement</b>	No	It <i>is not</i> included if the member's deductible amounts are paid or reimbursed as part of an HRA (Health Reimbursement Account) plan, or supplemental wrap-around plan provided by the employing organization under Internal Revenue Code Sec. 105 on a group coverage basis to all employees of that employing organization or members of the sponsoring governing body.
	Yes	It <i>is</i> included if the deductible amounts are paid for or reimbursed to the member by the employing organization on an individual basis, even if the payments are made through a Flexible Spending Plan (Sec. 125 Plan).
	Yes	It <i>is</i> included if the member's deductible amounts are paid or reimbursed by a third party as part of an HRA (Health Reimbursement Account) or a supplemental wrap-around plan provided by the employing organization on an individual basis. The amount includes the dues or premiums paid by the employing organization for that coverage, not the benefits actually received.
<b>Deferred Compensation - Elective Contributions and Certain Employer Contributions. (See directly below for treatment of Employer Matching Contributions to the Retirement Savings Plan.)</b>	Yes	<p>Deferred compensation plans (funded and unfunded) include employer and member contributions to 403(b) plans (including the Retirement Savings Plan of the Presbyterian Church (U.S.A.)), Rabbi Trusts, and other forms of funded and unfunded deferred compensation arrangements. 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> <p>If an employer offers to match elective contributions made to the Retirement Savings Plan, the employer match portion of the contribution is not to be included in Effective Salary.</p>
<b>Deferred Compensation - Matching Employer Contributions</b>	No	Employer contributions made to the Retirement Savings Plan of the Presbyterian Church (U.S.A.) (administered by the Board of Pensions) to match elective contributions by employees are not to be included in Effective Salary. Any match program must be available universally to all eligible employees.
<b>Down Payment</b>	Yes	If any amount for 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), it is considered compensation and included in Effective Salary.
<b>Dues/Benefits Plan</b>	No	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 Benefits Plan. The amount is not tied to the sum required to fund the promised benefits to the individual members.
<b>Equity Allowances</b>	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. See Deferred Compensation for additional details.

Form of Payment	Is it included?	Explanation
<b>Flexible Spending Account</b>	Yes	See Section 125 allowances.
<b>Furnishings</b>	Yes	These arrangements are generally elective and negotiated as part of an individual member's overall compensation package. If a member lives in a manse and receives an additional allowance for utility services and/or furnishings, the additional allowances are to be included in Effective Salary, <b>in addition to the 30% manse amount</b> .
<b>Gifts from the Employing Organization</b>	Yes	Gifts of cash given to the member by the employing organization must be included in Effective Salary because they are compensation in addition to annual cash salary. Adjustments to the annual Effective Salary because of the gift must be reported at the time the gift is given. Dues and pension credit accruals will be adjusted retroactively.
<b>Gifts from Others</b>	No	Gifts from private donors are not included in the Effective Salary.
<b>Health Reimbursement Account</b>	No	An option under which expenses paid for medical or other healthcare services not reimbursed by the Medical Plan, such as vision, hearing, dental care, and cost-sharing requirements (such as deductibles and copayments) are reimbursable by the employing organization on a non-taxable basis provided that Internal Revenue Code Sec. 105 requirements are met. Also see Deductible Reimbursement.
<b>Honoraria</b>	No	These are gifts for services provided to an organization other than the employing organization and are not to be included.
<b>Housing Allowance</b>	Yes	This allowance is an elective portion of an individual member's compensation package. For this reason, it is 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 also 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 market value of the housing as determined annually through appropriate means.
<b>Insurance Premiums (Group Policies)</b>	No	Premiums for group coverage provided by an employing organization to all employees are not to be included.
<b>Insurance Premiums (Individual Policies)</b>	Yes	Premiums for individual insurance policies (e.g., auto, disability, life, supplemental medical, etc.), 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 or her request should be included in Effective Salary. Subscription dues for optional benefit coverage under the Benefits Plan paid for by the employing organization are to be included in Effective Salary on the same basis.
<b>Loan Forgiveness</b>	Yes	Loan forgiveness should be reported as Effective Salary.
<b>Loans—Interest-Free</b>	Yes	Interest savings to the member because of the nature of this type of loan are included. The amount of interest to be included in the Effective Salary calculation is that amount reportable under federal income tax laws.



Form of Payment	Is it included?	Explanation
<b>Loans—Principal</b>	No	The principal of the loan is not included in Effective Salary because it will be paid back to the lender.
<b>Manse Value</b>	Yes	If a manse is provided, the rental value of the manse is included in Effective Salary. The amount included shall be at least thirty percent (30%) of all other compensation included in Effective Salary. If utility or furnishings allowances are provided to a member residing in a manse, those allowances are to be included in Effective Salary <b>in addition to</b> the manse value defined above.
<b>Medical Expense Reimbursement</b>	See Copayment Reimbursement and Deductible Reimbursement.	
<b>Mileage</b>	No	This professional expense (synonymous with “car allowance”), if reimbursed through an accountable reimbursement plan, should not be included.
<b>Overtime</b>	Yes	Overtime pay is to be reported in January each year for the preceding year and will be credited to the year for which it was paid. Dues will be billed retroactively.
<b>Rent Allowance</b>	See Housing Allowance.	
<b>Section 125 Allowances</b>	Yes	These allowances are voluntary salary reductions from a member’s cash salary. They are, therefore, to be included in Effective Salary.
<b>Self-Employment Contributions Act Reimbursements</b>	Yes, in excess of 50%	If the employing organization pays for or reimburses the member more than 50% of this expense, then the amount in excess of 50% of the expense must be included in Effective Salary.
<b>Severance Pay</b>	Yes	<p>A severance payment is any money given by an employing organization to a Benefits Plan member in association with the member’s termination of eligible service regardless of the description of that payment (e.g., gift, goodwill payment, payment for unused vacation, etc.). The presence or absence of a formal written agreement is not a factor when determining if the payment is considered severance.</p> <p>Dues are payable on any and all components of Effective Salary which are part of the severance arrangement. This applies whether or not the severance arrangement provides that the employing organization continues to pay for benefits under the traditional program and whether or not the severance payment is a lump sum or in installments.</p> <p>When a severance arrangement extends the terminated employee’s benefits beyond the last day worked, dues continue until the date specified in the arrangement as if the employee were still on the payroll.</p> <p>When a severance arrangement does not extend the terminated employee’s benefits beyond the last day worked, dues are paid in a single payment on all components of Effective Salary included in the severance payment based on the member’s level of benefits participation on the last day worked.</p> <p>Severance payments are to be reported in advance of or immediately upon the termination. If applicable, adjustments to dues and pension credits will be made for the year in which the payment is made.</p>

Form of Payment	Is it included?	Explanation
Study Allowance	No	It <i>is not</i> included if it is reimbursed to the member through an accountable reimbursement plan, provides for studies that are related to employment, and is actually undertaken in the current year.
	Yes	It <i>is</i> included if it is a lump sum amount paid directly to the member and not a reimbursement processed through an accountable reimbursement plan nor 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 Annuities	Yes	These allowances are voluntary salary reductions from a member's cash salary. They are, therefore, compensation to be included in Effective Salary.
Tuition Reimbursement	See Study Allowance.	
Utilities Allowance	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 <i>is not</i> to be included in Effective Salary.
	Yes	These allowances, if paid directly to the employee, are dues bearing and are to be included in Effective Salary. If a member lives in a manse and receives an additional allowance for utility services and/or furnishings, the additional allowances are to be included in Effective Salary, <b>in addition to the 30% manse amount.</b>
Vacation	Yes	Vacation pay is generally part of an employee's annual cash salary even though the member is not working and constitutes compensation to be included in effective salary.
Wrap-Around Plans	See Copayment Reimbursement and Deductible Reimbursement.	

## Effective Salary Worksheet

This worksheet is a guide to determining Effective Salary for Benefits Plan purposes. It may be helpful in completing the Change of Salary form (ENR-111).

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 adviser.

### Compensation Included in Effective Salary (see *Specific Types of Payments* starting on Page 5 for details)

1. \$\_\_\_\_\_ Annual cash salary (including employee contributions to 403(b)(9)) plans, tax-sheltered annuity plans, and salary reduction contributions to flexible health reimbursement accounts and cafeteria plans).
2. \$\_\_\_\_\_ Housing, utility, and furnishings allowances.
3. \$\_\_\_\_\_ Employing organization contributions to 403(b)(9) plans, tax-sheltered annuity plans, and equity allowances.
4. \$\_\_\_\_\_ Bonuses, overtime pay, unvouchered professional expense allowances, gifts from employing organization, and 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 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. \$\_\_\_\_\_ Any allowance provided to reimburse Self-Employment Contribution Act (SECA) tax obligations in excess of 50% of the minister's SECA tax obligation.
6. \$\_\_\_\_\_ Other allowances, including all forms of compensation not otherwise covered on Lines 1-5, such as 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.
7. \$\_\_\_\_\_ Manse amount (must be at least 30% of Lines 1-6 for members residing in employer-provided housing).
8. \$\_\_\_\_\_ **Total Effective Salary (Sum of Lines 1-7).** Dues are computed and benefits are determined on this amount.



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