

# Understanding Effective Salary

of the Presbyterian Church (U.S.A.)



**THE BOARD OF PENSIONS**  
OF THE PRESBYTERIAN CHURCH (U.S.A.)

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# Effective Salary and the Benefits Plan

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

Effective salary determines

- medical deductibles and copayment maximums for members in the PPO option;
- pension and death and disability dues;
- dues for supplemental disability coverage;
- accrual of pension credits and pension benefit;
- death benefits, including salary continuation benefits and lump-sum death payments;
- medical dues for members in Pastor's Participation.

This guide is a summary of certain Benefits Plan provisions and Board of Pensions policies. If there are any inconsistencies between the information in this guide and the terms of the plan document, the official plan document will govern. The official plan document — The Benefits Plan of the Presbyterian Church (U.S.A.) — is available on [pensions.org](https://pensions.org) or by request from The Board of Pensions of the Presbyterian Church (U.S.A.), 800-773-7752 (800-PRESPLAN).

## PLAN DEFINITION

The definition of effective salary as it appears in Section 2.1(p) of the Benefits Plan follows:

Any compensation received during a Plan Year by a Plan Member from an employer, including but not limited to any sums paid as a housing (including utilities and furnishings) allowance. Effective Salary shall also include (1) any deferred compensation (funded or unfunded) credited to or contributed on account of a Member by an employer 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 (2) 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 annual effective salary reported to the Board.

**Effective salary relates only to compensation received from the member's employer.** Amounts received directly from other organizations or individuals are not included (e.g., honoraria, gifts).

**Effective salary includes most compensation, whether received in cash, in kind, or in deferred form.** Generally, fringe benefits offered only to individual employees and optional benefits elected in lieu of cash are included in effective salary. Tax-free fringe benefits (other than housing-related expenses and benefits in lieu of cash) are generally excluded if the benefit is offered to all employees. The 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, with the exception of moving expenses reimbursed or paid by an employer pursuant to receipt of itemized expenses. Detailed information appears in the Specific Types of Payments chart, in this booklet.

**Effective salary does not include accountable reimbursements for business expenses advanced by the member on behalf of the employer.** Accountable reimbursements for business expenses are those reimbursements made by an employer upon substantiation by 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* 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 employer, with the exception of moving expenses reimbursed or paid by an employer for a relocation for a new position.

## SPECIFYING THE HOUSING ALLOWANCE

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 and housing.

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 effective salary components are important because Pension Plan benefits accrue annually according to the plan's formula, rather than taxable income, namely, 1.25 percent of the greater of

- effective salary (up to an annual cap); or
- the applicable median salary.

## MEDICAL DEDUCTIBLE AND COPAYMENT REQUIREMENTS

The deductibles and copayment maximums for members enrolled in the PPO medical option are based on effective salary ranges. A member's effective salary can change during the plan year due to a salary increase or decrease, bonus payment, overtime compensation, or change of position. Deductibles and the copayment maximum would change only if the change in effective salary caused it to move into a different range.

If a member's enrollment status changes (e.g., from Medical Plan to medical continuation), the deductibles and copayment maximum may also change. Any credit toward the deductible or copayment requirements would be applied to the deductible or copayment requirement for the new enrollment status.

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

## SALARY REPORTING AND VERIFICATION

The employer must correctly report the member's annual effective salary, benefit group, and the number of hours he or she is regularly scheduled to work a week, and notify the Board within 60 days of changes. Reporting information correctly and quickly ensures that members receive accurate benefits information and appropriate benefits payments and accruals.

Church treasurers and business administrators registered as the employer representative confirm or change their members' salary information through Benefits Connect, the Board's benefits website. Members can verify their salary and other benefits information through Benefits Connect.

If a member or employer representative identifies a discrepancy, the church treasurer or business administrator should call the Board at 800-773-7752 (800-PRESPLAN) and speak with a service representative. (Due to the confidential nature of the information, service representatives can confirm only whether the salary amount quoted is consistent with Board records. If there is a discrepancy, the representative will provide instructions for correcting Board records.)

## REPORTING VARIABLE COMPENSATION

The amounts of some types of member compensation vary from year to year (e.g. bonuses, overtime, reimbursements for deductibles). So, the total annual compensation may be unknown at the beginning of the year. No specific figure for unknown compensation is included in the terms of call or effective salary when the information is reported to the Board at the beginning of the year.

### Timing of variable reporting

- Employers must report all salary changes online through Benefits Connect. The effective date for any salary change, including bonuses, must be within 60 days of the current date. This timing requirement applies to all elements of compensation.
- Note about reporting a bonus: Employers should make certain that the effective date for the bonus is the appropriate year. Do not report a bonus for a prior year with the current year's effective salary. To report a bonus for the previous year and a salary change for the current year, employers must submit two salary changes: one salary change that reflects the prior year's salary, with the appropriate effective date of the bonus, and a second salary change with the current year's effective salary and the appropriate effective date.
- 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, with an adjustment to ensure that the manse amount continues to be at least 30 percent of all other components of effective salary.

## BILLING AND EFFECTIVE SALARY

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

Dues for salary adjustments will be invoiced retroactively.

Visit [pensions.org](https://pensions.org) or call the Board at 800-773-7752 (800-PRESPLAN) for current year minimum and maximum participation bases. You can use the total effective salary calculator, on [pensions.org](https://pensions.org), to determine the potential impact on dues of salary adjustments.

## SPECIFIC TYPES OF PAYMENTS

For questions about taxes associated with a form of payment, call your tax adviser. The Board’s service representatives may answer effective salary questions but are not qualified to provide tax advice (e.g., federal income tax, FICA, or SECA).

Form of payment	Is it included?	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 or she works.
Book Allowance	No	It <b>is not</b> included if it is reimbursed to the member through an accountable reimbursement plan.
	Yes	It <b>is</b> included if it is a lump-sum amount paid directly to the member and not a reimbursement processed through an accountable reimbursement plan.
Bonuses	Yes	An adjusted effective salary incorporating the actual amount of the bonuses must be reported through Benefits Connect within 30 days before or up to 60 days after the award. Pension credits for the bonus are accrued during the year in which the bonus is paid.
Car Allowance	No	It <b>is not</b> included if it is reimbursed to the member through an accountable reimbursement plan.
	Yes	It <b>is</b> included if it is a lump-sum amount paid directly to the member and not a reimbursement processed through an accountable reimbursement plan.
Copayment Reimbursement	No	It <b>is not</b> included if the member’s copayment amounts are paid or reimbursed by a third party as part of a supplemental wraparound plan provided by the employer (under Internal Revenue Code Sec. 105) on a group coverage basis to all employers or members of the sponsoring governing body.
	Yes	It <b>is</b> included if the copayment amounts are paid or reimbursed to the member by the employer on an individual basis, even if the payments are made through a flexible spending account (FSA Sec. 125 Plan).
	Yes	It <b>is</b> included if the member’s copayment amounts are paid or reimbursed by a third party as part of a supplemental wraparound plan provided by the employer on an individual basis. The amount includes the dues or premiums paid by the employer for that coverage, not the benefits actually received.
Deductible Reimbursement	No	It <b>is not</b> included if the member’s deductible amounts are paid or reimbursed as part of a health reimbursement account (HRA) plan or supplemental wraparound plan provided by the employer (under Internal Revenue Code Sec. 105) on a group coverage basis to all employees of that employer or members of the sponsoring governing body.
	Yes	It <b>is</b> included if the deductible amounts are paid for or reimbursed to the member by the employer on an individual basis, even if the payments are made through an FSA (Sec. 125 Plan).  It is included if the member’s deductible amounts are paid or reimbursed by a third party as part of an HRA or a supplemental wraparound plan provided by the employer on an individual basis. The amount includes the dues or premiums paid by the employer for that coverage, not the benefits actually received.

Form of payment	Is it included?	Explanation
<b>Deferred Compensation Elective Contributions and Certain Employer Contributions.</b>  (See below for treatment of Matching Employer Contributions to the Retirement Savings Plan.)	Yes	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 included in the member's effective salary that year.  If an employer offers to match elective contributions made to the Retirement Savings Plan, the employer match portion of the contribution is <b>not</b> included in effective salary .
<b>Deferred Compensation Matching Employer Contributions</b>	No	Employer contributions made to the Retirement Savings Plan of the Presbyterian Church (U.S.A.) to match elective contributions by employees are not 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 is included in effective salary.
<b>Dues/Benefits Plan</b>	No	The amount paid by the employer 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 employer 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. See Deferred Compensation for additional details.
<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 included in effective salary, <b>in addition to the 30% manse amount.</b>
<b>Gifts from the Employer</b>	Yes	Gifts of cash given to the member by the employer <b>are</b> 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 within 30 days of the gift being given. Dues and pension credit accruals will be adjusted retroactively.
<b>Gifts from Others</b>	No	Gifts from private donors <b>are not</b> included in 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 employer on a nontaxable 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 employer and <b>are not</b> included.

Form of payment	Is it included?	Explanation
Housing Allowance	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 employer in advance of payment. Effective Salary also includes any amount designated as housing allowance and used to pay rent to the employer. Rent reported as housing allowance for the employer-provided housing is the fair market value of the housing as determined annually through appropriate means.
Insurance Premiums (Group Policies)	No	Premiums for group coverage, such as optional benefits, provided by an employer to all employees <b>are not</b> included.
Insurance Premiums (Individual Policies)	Yes	Premiums for individual insurance policies (e.g., auto, disability, life, supplemental medical, optional benefits), other than dues for participation in the basic benefits provided by the Benefits Plan of the Presbyterian Church (U.S.A.), that the employer pays or reimburses to the member at his or her request <b>are</b> included in effective salary.
Loan Forgiveness	Yes	Loan forgiveness <b>is</b> reported as effective salary.
Loans – Interest-Free	Yes	Interest savings to the member because of the nature of this type of loan are included. The amount of interest included in the effective salary calculation is that amount reportable under federal income tax laws.
Loans – Principal	No	The principal of the loan <b>is not</b> included in effective salary because it will be paid back to the lender.
Manse Value	Yes	The rental value of a manse may only be designated if provided to a minister of the Word & Sacrament or commissioned lay pastor. The amount included shall be at least 30 percent of all other compensation included in effective salary. If utility or furnishings allowances are provided, those allowances are included in effective salary in addition to the manse value defined above.
Medical Expense Reimbursement	See Copayment Reimbursement and Deductible Reimbursement.	
Mileage	No	This professional expense, if reimbursed through an accountable reimbursement plan, <b>is not</b> included. See Car Allowance.
Moving Expenses	No	Moving expenses for relocation for a new position reimbursed or paid for by an employer pursuant to itemized receipts are not included in effective salary.
Overtime	Yes	Overtime pay must 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.
Rent Allowance	See Housing Allowance.	
Section 125 Allowances	Yes	These allowances are voluntary salary reductions from a member's cash salary. Therefore, they <b>are</b> included in effective salary.
Self-Employment Contributions Act Reimbursements	Yes, in excess of 50 percent.	SECA tax is generally 15.3 percent of the minister's net income. If the employer pays for or reimburses the minister more than 50 percent (7.65 percent) of this expense, then the amount in excess of 50 percent (7.65 percent) of the expense is included in effective salary.

Form of payment	Is it included?	Explanation
Severance Pay	Yes	<p>A severance payment is any money given by an employer 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 that are part of the severance arrangement. This applies whether or not the severance arrangement provides that the employer continues to pay for benefits and whether the severance payment is paid as 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 as if the employee were still on the payroll until the date specified in the arrangement subject to plan guidelines.</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 must be reported in advance of or immediately upon termination. If applicable, adjustments to dues and pension credits will be made for the year in which the payment is made.</p>
Study Allowance	No	It <b>is not</b> included if it is reimbursed to the member through an accountable reimbursement plan, provided for studies that are related to employment, and undertaken in the current year.
	Yes	It <b>is</b> 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 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 <b>are</b> , therefore, compensation to be included in effective salary.
Utilities Allowance	No	If a member lives in a manse and the utility services are maintained in the employer's name and paid for directly by the employer, the value of those services <b>is not</b> included in effective salary.
	Yes	These allowances, if paid directly to the employee, are 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 <b>are</b> included in effective salary, <b>in addition to the 30 percent manse amount</b> .
Vacation	Yes	Vacation pay is generally part of an employee's annual cash salary, even though the member is not working; it constitutes compensation included in effective salary.
Wraparound 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 submitting salary changes through Benefits Connect. The worksheet is for effective salary only and is not intended to provide Social Security or income tax advice. For 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 7, for details.)

1.	\$	Annual gross cash salary, not excluding employee contributions to 403(b)(9) plans, tax-sheltered annuity plans, and salary reduction contributions to FSAs, HRAs, and cafeteria plans.
2.	\$	Housing, utility, and furnishings allowances.
3.	\$	Employer contributions to 403(b)(9) plans, tax-sheltered annuity plans, and equity allowances.
4.	\$	Bonuses, overtime pay, unvouchered professional expense allowances, gifts from employer, and manse equity allowances (unless contributed to a qualified deferred compensation program). Include year-end or other bonuses, unvouchered allowances (e.g., 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 employer. (Gifts received directly from private donors or honoraria are not included.)
5.	\$	Any allowance provided to reimburse Self-Employment Contributions Act (SECA) tax obligations in excess of 50 percent 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, and insurance premiums for additional insurance coverage provided for individual employees (not premiums for group plan coverage).
7.	\$	Manse amount (must be at least 30 percent of lines 1-6 for members residing in employer-provided housing).
8.	\$	<b>Total effective salary (sum of lines 1-7).</b> Dues are computed and benefits are determined based on this amount.



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