



2012 MMBB Guide for Church-Related Employers

THE LABORER DESERVES TO BE PAID



**THE MINISTERS AND MISSIONARIES
BENEFIT BOARD**

www.mmbb.org

475 Riverside Drive, Suite 1700
New York, NY 10115-0049

T 800.986.6222

F 800.986.6782

E service@mmbb.org

October 2011

The enclosed 2012 edition of *The MMBB Guide for Church-Related Employers* ("Employer Guide") is designed to assist you and your organization with information on clergy compensation, pastoral budgeting, clergy taxes and benefits. MMBB updates the Employer Guide each year—and we provide it to employers and members for free as just one of the benefits of participation in our benefit programs.

One important change worth noting: this year, for the first time, we have combined the Employer Guide with a related publication, *The Laborer Deserves to Be Paid*. Your feedback confirmed the results of our own review—namely, that these publications were duplicative—and we hope this new, combined publication will serve as a "go to" resource throughout the year.

Among the questions this updated Employer Guide answers:

- What recommendations does MMBB have for our 2012 compensation planning? (See page 3 and following)
- What health insurance does MMBB sponsor? (See page 26 and following)
- How can we set up an expense account for our minister? (See page 33 and following)
- What do we need to know to prepare the 2011 Form W-2 for our employees? (See page 35 and following)

If you have any questions about the information in this guide, please contact a senior benefits specialist at **800.986.6222** or **service@mmbb.org**. Our ministry is to serve *you*.

Sincerely,

A handwritten signature in black ink that reads "Sumner M. Grant". The signature is written in a cursive, flowing style.

Sumner M. Grant
Executive Director

P.S.: You can always download additional copies of this guide—and other helpful materials—on our website, **www.mmbb.org**.

FOR MORE INFORMATION

Call toll free: 800.986.6222
8:30 a.m. to 5:30 p.m., Eastern Time (Monday-Thursday)
8:30 a.m. to 4:15 p.m., Eastern Time (Friday)

Email: service@mmbb.org (for general questions)
billing@mmbb.org (for billing questions)
403bregs@mmbb.org (for 403(b) regulations questions)

Mail: MMBB
475 Riverside Drive, Suite 1700
New York, NY 10115-0049
*(Please do not correspond with MMBB using
the Dallas address for premium payments.)*

Fax toll free: 800.986.6782

Website: www.mmbb.org

2012 MMBB GUIDE FOR CHURCH-RELATED EMPLOYERS

As an employer, your organization:

- Establishes compensation policies and yearly pastoral budgets;
- Pays ministers and lay employees;
- Maintains compliance with Internal Revenue Service (IRS) regulations regarding 403(b) plans;
- Pays monthly premiums to The Ministers and Missionaries Benefit Board (MMBB) for employee benefits;
- Pays premiums for health insurance to the insurer; and
- Withholds and pays taxes, and reports on pay to employees and the IRS in accordance with IRS rules.

This guide will help you with these crucial functions.

TABLE OF CONTENTS

Honoring The Church and Its Ministry	2
Best Practices in Clergy Compensation	3
Pastoral Relations Committee	3
Calling a New Pastor	3
Compensation	4
Annual Compensation Increases	5
Pastoral Budgets.....	6
Pastoral Budget Guidelines.....	8
Minister’s compensation	8
Benefits.....	8
Accountable plan expenses to be reimbursed	8
Pastoral Budget Worksheet.....	9
MMBB Benefit Plans	10
The Church’s Role as Plan Administrator	10
Enrollment.....	13
Billing.....	17
Health Insurance	26
Tax Advantages for Ministers and Other Church Employees.....	31
How to Calculate the Imputed Income for Group Term Life Insurance Benefits	40
Glossary.....	41
Year-End Checklist.....	44
Resources	45

HONORING THE CHURCH AND ITS MINISTRY

Church employees—both ordained and lay—devote their time and talents to ministry. With their compassion, experience and vision, they help make the world a better place.

At the center of this effort is the minister. The minister's work goes far beyond preaching on Sunday and leading a mid-week Bible study. The minister is responsible for attending to both the spiritual health and day-to-day functioning of the congregation.

Leading a community of faith requires widely varying skills—from preaching and teaching to counseling and administration. Churches expect their minister to provide spiritual guidance, effective programming and a vision for the development of the church. For the church to have vital worship, financial stability, effective education and meaningful programs, the minister must also lead the people who serve as staff and volunteers.

Those who attempt great things for God deserve to be esteemed and honored by those who have called them to this service. In Paul's letter to the church in Thessalonica, he writes, "... respect those who labor among you and have charge of you in the Lord and admonish you; esteem them very highly in love because of their work" (I Thessalonians 5:12-13). By honoring their pastoral leaders, the congregation found peace and spiritual blessing as they worshipped, prayed, shared together and lived out the Gospel message in their secular culture. So it is today.

As congregational leaders, you determine how to compensate your minister and church staff. In doing so, you establish a value for the entire ministry of the church. For this reason, as a church leader, you have the responsibility to provide for the financial needs of your pastoral staff to the best of the congregation's ability. The New Testament makes clear that those who serve in ministry deserve compensation for their labors.

For 100 years, MMBB has counseled churches and faith-based organizations about compensation and related matters. It is as true today as when MMBB was founded that both churches and their ministers benefit from a deliberate process to determine salaries, benefits and expense reimbursement policies. This booklet gives you the benefit of that experience by providing suggestions on how to determine and review compensation, how the Internal Revenue Code affects compensation and how to build your church's pastoral staff budget.

Let the elders who rule well be considered worthy of double honor, especially those who labor in preaching and teaching; for the scripture says, "... the laborer deserves to be paid."

1 Timothy 5:17-18 NRSV

BEST PRACTICES IN CLERGY COMPENSATION

This section addresses best practices in establishing a pastoral relations committee, how to call a new pastor, determining appropriate annual compensation increases and more.

Pastoral Relations Committee

A crucial first step in effective staff management is for the church to establish a Pastoral Relations Committee or, for churches with multiple staff, a Church/Staff Relations Committee. A Pastoral Relations Committee provides an avenue where your minister or pastoral staff can communicate openly with you about their needs. The committee can then advocate for fair compensation.

The committee can help address:

- Compensation, including cash salary, housing and utilities. Most churches also provide a Social Security/Medicare tax offset.
- Ministry-related expenses, which are church expenses the minister incurs while doing ministry. Examples of these expenses can be found on pages 33-34. These expenses should be listed in the church budget—separate from the minister’s compensation—and fully reimbursed.
- Benefits, including income protection, retirement benefits, flexible spending accounts for health and dependent care, and medical and dental benefits.

Through this process, the committee can promote the financial security of church employees and free them to do what they do best—provide for the spiritual well-being of the congregation.

Calling a New Pastor

When your church calls a new pastor, you have an opportunity to start off on the right foot as you set up the pastor’s compensation. Consider the following factors when determining how much to pay your pastor:

- The church’s financial resources
- Housing provided by the church
- The pastor’s responsibilities
- Your new pastor’s experience and education
- The salaries of other professionals in your community with similar experience and education
- The cost of living in your area
- Salaries at other churches of similar size

A common mistake that distorts the actual amount of pay your pastor will have for living expenses is to offer your new pastor a “package” meant to cover take-home pay, retirement and medical benefits and ministry-related expenses. A church might say, for example, that it will budget a set dollar amount for the pastor, letting the pastor decide how to allocate funds for benefits and ministry-related expenses. This forces the pastor to choose between waiving essential benefits and doing without justifiable expenses or accepting lower take-home pay.

Offering a “package” may also lead to a miscommunication if the pastor does not understand how benefits and expenses will be taken from his or her paycheck. This practice leaves the church without a clear understanding of how much they are providing to meet the pastor’s basic needs and may disadvantage the church if the pastor dies or becomes disabled and benefit protections are not in place. MMBB strongly recommends that churches budget separately for compensation, benefits and ministry-related expenses. The church—not the pastor—is responsible for benefits and ministry-related expenses.

\$50,000 compensation paid in two different ways	Compensation paid as “package”	Church pays benefits and expenses in addition to compensation
Cash salary and housing	\$50,000	\$50,000
Retirement and medical benefits	- \$15,000	- \$ 0
Ministry-related expenses	- \$ 4,000	- \$ 0
Minister’s income (before taxes)	\$31,000	\$50,000

CAUTION! Beware of creating a salary “package” for your minister. The church should reimburse ministry-related expenses and pay for benefits separately.

Compensation

Determining pastoral compensation is among the most important decisions that your church will make. It not only affects the minister’s current financial status, but has consequences far into the future. The minister’s cash salary also impacts his or her ability to save for retirement through MMBB’s plans. For more information, see the “Church Finances & Administration” section of MMBB’s website, www.mmbb.org or call us at 800.986.6222 to ask about compensation comparisons with other churches.

Many churches with multiple pastoral staff members relate staff compensation to a percentage of the senior minister’s pay. For example, a staff person responsible for planning, developing and leading ministries across a broad spectrum of congregational life might receive 75% to 85% of the senior minister’s compensation; someone responsible for one or two aspects of congregational life and requiring minimum supervision, 70% to 80% of the base; and someone with entry level skills requiring substantial supervision, 65% to 75%.

If a church considers these factors and finds that appropriate pastoral staff compensation is not feasible in the current year, the church can establish a plan now to reach that goal over two or three years.

After setting the base compensation, the church should revisit compensation issues each year and consider a cost-of-living increase. Due to the effects of inflation, a salary that doesn’t keep pace is actually a reduction in pay. Many churches provide merit increases to recognize pastoral leadership in achieving church goals. Other considerations, such as completing a course of study that will be valuable to your church’s ministry, may also deserve a compensation increase. Lay employees may also deserve a merit increase.

Annual Compensation Increases

Once you have established the new pastor's compensation, you will review that compensation annually. The annual budgeting process allows you to review the pastor's compensation in light of factors, such as attaining program goals, performance of pastoral duties, cost-of-living increases and other concerns specific to your church. If your pastor's income does not measure up, set a deadline to bring it to an adequate level. If your church cannot make up for the shortage in one year, MMBB recommends making up for the compensation shortfall with annual adjustments in addition to regular cost-of-living and merit increases. The principles you use to review and increase compensation—such as providing a cost-of-living increase and considering a merit increase—apply to your pastoral staff as well as your lay employees.

COMPENSATION INCREASES FOR 2012

- **Cost-of-Living Increase.** The overall inflation rate for the last 12 months has increased, and certain crucial expenses, such as food and transportation, continue to increase as well. Such increases in individual living expenses put pressure on your pastoral staff and give good reason for a cost-of-living increase.
- **Catch-Up Increase.** Studies show that the salary of most pastors lags significantly behind others in your community with similar responsibilities such as school principals and chief executives of non-profit organizations like the United Way.
- **Merit Increase.** Has your pastor met or exceeded the goals you set for the year? Has your pastor taken on additional responsibilities? Has your pastor responded to the year's challenges with energy and initiative? If you answer "yes" to these questions, consider rewarding your pastor with a merit increase.

MMBB recommends that you use the following formula to calculate percentage increases for your pastoral staff's 2012 compensation:

Current compensation	\$ _____
Cost-of-living increase	+ _____
Catch-up increase	+ _____
Merit increase	+ _____
<hr/>	
Total	\$ _____

PASTORAL BUDGETS

Both the church and the pastoral staff benefit from a thoughtful and orderly procedure to plan the pastoral budget. MMBB strongly recommends that churches budget pastoral compensation separately from benefits and ministry-related expenses. Use the Pastoral Budget Guidelines and Pastoral Budget Worksheet that follow to plan your church budget.

Q: How can we start to plan a pastoral budget?

A: If you do not have one already, establish a Pastoral Relations Committee or Church/Staff Relations Committee for multiple-staff churches. This committee takes the initiative to talk with the minister and represent the minister's needs. Many ministers are hesitant to discuss their financial needs. Among the Pastoral Relations Committee's many functions is fostering open communication about the minister's needs and advocating for fair compensation with other church groups.

Compensation includes cash salary and a parsonage and/or housing allowance, including utilities. Separate the ministry-related expenses of the church from the minister's compensation and reimburse him/her separately. The minister should not pay out of his or her own pocket for a book on sermon preparation or pizza for the youth group. Use an "accountable plan" to establish a budget for reimbursable expenses.

Q: What is an accountable plan?

A: An accountable plan is a business-expense reimbursement arrangement under which ministry-related expenses are reimbursed, tax free, to the minister. The reimbursement amount is not reported as taxable income on the employee's Form W-2 or Form 1040. See the "Tax Advantages for Ministers and Other Church Employees" section of this booklet, and *Federal Reporting Requirements for Churches* by Richard R. Hammar, available at no charge from MMBB.

Q: What is a Social Security/Medicare tax offset?

A: While the IRS generally considers clergy serving churches as employees for federal income tax purposes, they are considered self-employed by the government for Social Security/Medicare tax purposes. In other words, ministers must pay their own Social Security/Medicare taxes (15.3% of annual compensation). For 2011 this rate was reduced to 13.3%. At the time of this publication, it was not yet known if this reduction would remain in place for 2012.

Churches are not permitted to pay the Social Security/Medicare tax for their pastors, but churches must pay the employer portion of the Social Security/Medicare tax for lay employees.

Most churches assist their ministers to pay Social Security and Medicare by providing them with a Social Security/Medicare tax offset of at least 50% of the tax. The Social Security/Medicare tax offset is considered taxable income to the minister. In the church budget, the offset appears separately from salaries. While such an offset is taxable income for ministers, it provides a helpful and much appreciated way for a church to assist its ordained staff members.

Q: Where can we obtain medical and dental coverage for our minister?

A: The MMBB *PremierHealth* plan offers medical and dental coverage for ministers and lay employees of eligible churches and organizations. Some regional organizations provide group coverage for those in their region. See the “Health Insurance” section of this booklet.

Pastoral Budget Guidelines

MMBB recommends using these guidelines and the pastoral budget worksheet to build your pastoral budget.

Minister's compensation

Cash salary should include both an annual cost-of-living increase and recognition of merit or appreciation of service, and should be comparable with the salaries of other similarly educated professionals in your area.

A Social Security/Medicare tax offset provides assistance to your minister who must pay his or her full Social Security and Medicare tax as a self-employed person. Most churches provide an offset for their pastors. The offset is reported as taxable income for federal income tax and Social Security/Medicare tax purposes.

A parsonage rental value is based on the fair rental value of the furnished parsonage.

A parsonage allowance is a portion of a minister's salary designated by the church to cover the cost of insurance, repairs, furnishings, etc., paid by the minister. It also includes utility costs if the pastor is paying for them. The allowance is excluded from taxable income only to the extent it is actually used.

Utilities include items such as heat, electricity, telephone, etc. When the church pays for utilities directly, the amount should be included as part of the pastor's total compensation.

Where there is no parsonage, the **housing allowance** designation should include the cost of maintaining a home, including mortgage payments, furnishing, utilities, etc.

Benefits

Benefits for Life (BFL) provides retirement benefits and protects the minister and his or her family in the event of disability or death before retirement.

The Tax-Deferred Annuity (TDA) provides retirement benefits to supplement those available through Benefits for Life.

Health insurance should be provided by the church. MMBB has arranged to make *PremierHealth* medical coverage available to ministers and lay employees of sponsoring churches and organizations. In addition, some regional organizations make group coverage available to those in their region.

Accountable plan expenses to be reimbursed

Automobile reimbursement is for miles driven each year by the minister in performance of church business. A guideline could be the standard amount allowed for deduction by the IRS.

Convention expenses include the cost of attending denominational area, regional and national meetings, i.e., transportation, meals, housing and registration.

Continuing education should include an annual amount set aside for a course of study or educational conference to develop professional skills. The equivalent of 10 days should be set aside each year for this purpose. Both funds and time may be accumulated for up to three years.

Books, periodicals and other resources are essential tools for the minister. A reasonable amount should be included in the budget for these items.

The hospitality fund provides for the cost to the minister of hospitality extended to individuals and groups on behalf of the church.

Other expenses unique to a particular ministry also should be included for reimbursement, including Ministers Council dues.

Pastoral Budget Worksheet

Minister's compensation

	This Year	Next Year
Cash salary	_____	_____
Housing (either a or b)	_____	_____
a. Parsonage rental value	a) _____	_____
Parsonage allowance		
Utilities allowance		
b. Housing allowance	b) _____	_____
Social Security/Medicare tax offset*	_____	_____
Total compensation**	\$ _____	\$ _____

Benefits

	This Year	Next Year
Benefits for Life premiums	_____	_____
Tax-Deferred Annuity Plan contributions	_____	_____
Medical and dental premiums	_____	_____
Total benefits	\$ _____	\$ _____

Accountable plan expenses to be reimbursed

	This Year	Next Year
Automobile _____ miles at _____ cents per mile	_____	_____
Convention expenses	_____	_____
Continuing education	_____	_____
Books, periodicals, other resources	_____	_____
Hospitality fund	_____	_____
Other expenses	_____	_____
Total reimbursement for ministry-related expenses	\$ _____	\$ _____

* Employers choose whether or not to include the Social Security/Medicare tax offset for determining Benefits for Life premiums.

** This amount is used to determine Benefits for Life premiums.

MMBB BENEFIT PLANS

MMBB benefits provide increased financial security and peace of mind for your employees and their families. MMBB plans also benefit you. They help you attract and keep valued staff members. MMBB retirement, health, death and disability benefits also protect you in the event of a catastrophic illness or death of your minister or other staff members. By extending MMBB benefits, your employees receive disability and survivor protection today and build resources for retirement tomorrow.

ELIGIBILITY FOR MMBB PLANS

Clergy and lay persons employed by an eligible church or organization, or eligible ministers engaged in ministry elsewhere or self-employed for federal income tax purposes, are eligible for membership in MMBB's plans. To check on your eligibility as a church employer, contact MMBB at 800.986.6222. An individual classified as an independent contractor for federal income tax purposes is not eligible for enrollment in the plan. The IRS limits enrollment in denominational benefit plans to those considered employees for federal income tax purposes. The one exception is for some clergy, such as those consulting with a church, who are treated by the employer as self-employed for federal income tax purposes. The premiums for such individuals would have to be reported by the employer as taxable income to the individual on his or her IRS Form 1099-MISC.

The Church's Role as Plan Administrator

MMBB benefit plans are Section 403(b)(9) plans under the Internal Revenue Code. IRS regulations governing these plans give the church employer specific responsibilities as the plan administrator.

For employers whose only 403(b) plan offering to employees is the MMBB 403(b) plan (i.e., you do not maintain any other 403(b) arrangements for your employees), compliance is easy. MMBB will take care of most, if not all, of the administrative responsibilities involving the MMBB plans. Employers who maintain other 403(b) arrangements, in addition to participating in MMBB's plans, will have significant additional administrative and legal responsibilities to ensure that their employer-sponsored 403(b) plans are in compliance.

Failure of an employer to have a legally compliant 403(b) plan document in place could result in immediate taxation to employees of all contributions made on their behalf. Similar adverse tax consequences would result if a 403(b) plan is not maintained in accordance with the ongoing administrative requirements prescribed by the regulations, creating a significant financial burden for your minister and staff. For additional information, you may contact us at 403bregs@mmbb.org.

MMBB offers three separate plans:

SUMMARY COMPARISON OF BFL, TDA AND TAS

	Benefits for Life BFL	Tax-Deferred Annuity TDA	The Annuity Supplement TAS
IRS code	403(b)	403(b)	403(b)
Funded by	Monthly employer premium payments	Employer contributions	Employee contributions
Eligibility	Employment by eligible church or organization	Employment by eligible church or organization	Employment by eligible church or organization
Life insurance benefits	Yes	No	No
Disability coverage	Yes	No	No
Enrollment	Form A-1 and employer check	Form A-34	Form A-26 and Form A-13a (Salary Reduction Agreement for pre-tax contributions)
Where to send payment with application?	MMBB 475 Riverside Drive Suite 1700 New York, NY 10115	MMBB 475 Riverside Drive Suite 1700 New York, NY 10115	MMBB 475 Riverside Drive Suite 1700 New York, NY 10115
Billing	Monthly invoice	Monthly billing optional	Monthly invoice
Where to send invoice payments?	Dallas address (see invoice)	Dallas address (see invoice)	Dallas address (see invoice)
Report billing changes	MMBB 800.986.6222	MMBB 800.986.6222	MMBB 800.986.6222

BENEFITS FOR LIFE (BFL)

Benefits for Life is a comprehensive program of benefits that includes the Retirement Plan (a tax-deferred 403(b) church retirement income plan), disability coverage and the Death Benefit Plan. The program provides income protection before retirement and income during retirement years. BFL is the foundation on which to build a package of benefits for all church employees. Benefits for Life is employer-funded with a set premium rate based on reported compensation.

TAX-DEFERRED ANNUITY (TDA)

The Tax-Deferred Annuity (TDA) is a tax-deferred 403(b) church retirement income plan. TDA accepts retirement contributions only from employers on behalf of employees. TDA does not offer group term life insurance and disability benefits, as BFL does. Contribution levels may vary according to the employer's choice.

THE ANNUITY SUPPLEMENT (TAS)

The Annuity Supplement (TAS) is a tax-deferred 403(b) plan offered by MMBB to help ministers, missionaries and church-related lay employees supplement their retirement savings. Pre-tax contributions are made when an employee chooses to divert a portion of his or her salary into a TAS account; contribution amounts may vary. After-tax contributions are also accepted. TAS does not offer group term life insurance and disability benefits, as BFL does.

HEALTH INSURANCE

MMBB sponsors medical, prescription drug and dental plans for members who qualify. Please see the section in this booklet starting on page 26 for more information.

Enrollment

ENROLLMENT IN MMBB BENEFIT PLANS

All employers must have a signed Adoption Agreement (see Glossary) on file with MMBB. Contact MMBB at 800.986.6222 with any questions on eligibility and/or to receive a membership application.

FREQUENTLY ASKED QUESTIONS REGARDING ENROLLMENT IN BENEFITS FOR LIFE (BFL)

Q: What happens if a check is not sent with the application?

A: MMBB will send an invoice to your church on the first business day of the month after we receive the completed application. Membership (including disability and group term life insurance coverage) begins when we receive the initial payment.

Q. When does coverage become effective?

A. If the application has all necessary information, coverage goes into effect the day MMBB receives the employer's check.

Q: Can death or disability coverage be retroactive to the date of employment?

A: No. The death and disability benefits only go into effect when MMBB receives the completed application and the employer premium payment.

Q: Our church has two staff persons who are already members of Benefits for Life. If we want to begin membership for another, can we add the name to the invoice and send in the amount we know we will owe?

A: No. We must receive a completed application (Form A-1) for each new member before we can process the membership. We will then add the member to the invoice or your church can send a separate payment before the next invoice.

Q: Is an Adoption Agreement required for every employee enrolling in the plan?

A: No, only one Adoption Agreement is required from each employer for all BFL enrollees.

Q: How can our church start coverage for our employee as soon as possible?

A: Contact MMBB to determine the amount of the premium and send an employer check in that amount with the completed application (Form A-1).

Q: Our pastor was employed for four years before the church could afford Benefits for Life coverage. Can the church make up the lost premiums?

A: Yes, if the amount of those additional premiums falls within IRS limits. Contact MMBB for information and a calculation of contribution limits for the member in question. We will credit additional premium payment amounts entirely to the member's Retirement Plan account.

FREQUENTLY ASKED QUESTIONS REGARDING ENROLLMENT IN TAX-DEFERRED ANNUITY (TDA)

Q. Does an employer have to make monthly contributions to TDA on behalf of its employee(s)?

A: No. Employers may make contributions on a one-time basis or periodically, at the intervals they prefer. However, in order to qualify for MMBB's *PremierHealth* plan, employers must make monthly contributions on behalf of employees in an amount not less than \$50 per month.

Q. If we make monthly contributions on behalf of our employee(s), is there a minimum amount we must contribute per month?

A. Yes, \$50.

Q. Can I make a one-time contribution on behalf of an employee?

A. Yes, you may make one-time contributions at any time.

FREQUENTLY ASKED QUESTIONS REGARDING ENROLLMENT IN THE ANNUITY SUPPLEMENT (TAS)

Q: Our church employs a clergyperson as a consultant who is treated as self-employed for federal income tax purposes. The person wants to contribute to TAS. Does the church have to sign off on the salary reduction agreement?

A: No. The self-employed clergyperson can execute his or her own salary reduction agreement and sign as both the "employee" and "employer." In order for the contribution of a self-employed clergyperson to be tax deductible, the self-employed person must make the contribution directly. If MMBB bills you, the employer, for these TAS contributions, the contributions must be regarded as taxable income.

Q: If the church approves a clergyperson's request for a higher housing allowance, will that affect the amount he or she could contribute to TAS?

A: As long as the cash compensation does not change, increasing the housing allowance will not affect the amount she or he can contribute to TAS. The TAS contributions, as well as the Benefits for Life and TDA contributions, are based upon the minister's "includible compensation," as defined by IRS rules. Compensation provided through the housing allowance is not part of "includible compensation." If in doubt, contact MMBB at 800.986.6222 or service@mmbb.org for a calculation of your employee's contribution limits.

Q. What action does the church need to take prior to enrolling employees in TAS?


A. The trustees or board of your church or institution must adopt a resolution authorizing the church or institution to modify employees' salaries in order for them to make pre-tax TAS contributions. The following is a suggested resolution authorizing salary modification:

Form of Resolution Authorizing Salary Modification

WHEREAS, Section 403(b) of the Internal Revenue Code permits _____(employer) to purchase annuity retirement benefits for its employees on a tax-deferred basis, and the employer wishes to cooperate with and assist its employees in obtaining such benefits; now, therefore, be it RESOLVED, That upon receipt of written request from employees, the officers of _____(employer) be, and they hereby are, authorized to make such modifications in the terms of compensation of such employees and to take such further action as in their judgment shall be appropriate and desirable in order to enable such employees to receive annuity retirement benefits and obtain the benefits of Section 403(b) of the Internal Revenue Code.

Signature _____ Date _____
(church officer)

SALARY REDUCTION AGREEMENT



**THE ANNUITY SUPPLEMENT (TAS)
SALARY REDUCTION AGREEMENT**

A-13a

Employee Information	Check one: <input type="radio"/> Initial Agreement <input type="radio"/> Change to Prior Agreement	
Last Name	First Name	M.I.
Social Security No.	Name of Employer	

Salary Reduction Agreement

The employee authorizes the employer to make salary reduction contributions on the employee's behalf to The Annuity Supplement (TAS). All such salary reduction contributions shall be forwarded by the employer to The Ministers and Missionaries Benefit Board (MMBB). For purposes of making such contributions, the employee agrees that his/her compensation will be reduced as indicated below.

Contribution

<p>1. Deduct From Paycheck* (Select one)</p> <p><input type="radio"/> \$ _____ per month</p> <p>or</p> <p><input type="radio"/> _____ % of total annual compensation</p> <p><small>* Subject to certain legal limits described below and in TAS. ** In no event shall this agreement apply to amounts earned prior to the effective date of this agreement.</small></p>	<p>2. Salary Reductions start with the payroll period beginning**</p> <p>____/____/____</p>
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Terms and Conditions

This agreement is legally binding on the undersigned employee and employer, and is irrevocable with respect to compensation earned by such employee while this agreement is in effect. This agreement shall continue until it is terminated or amended or the employee no longer receives eligible compensation from the employer or is no longer eligible to make contributions to TAS. This agreement may be amended, with regard to compensation not yet earned, by the execution of a Salary Reduction Agreement by the employer and the employee no less than 14 days before the start of a payroll period. This agreement supersedes all prior Salary Reduction Agreements and contributions pursuant to this agreement shall immediately cease upon the employee's termination of employment with the employer. If the employee is re-hired, a new Salary Reduction Agreement will be necessary. This agreement may be terminated at any time by the employee for compensation not yet earned, upon written notice delivered by the employee to the employer. A termination request is permanent and remains in effect until a new Salary Reduction Agreement is submitted.

The employee and employer understand that the contributions originate and the tax deferral applies to amounts derived through a reduction of the employee's salary, and the employer forwarding such contributions to MMBB. *In no event shall these contributions exceed the limits provided by Section 402(g) and/or 415 of the Internal Revenue Code or other applicable limits, which limits are also set forth in the Plan.* The employee agrees to promptly notify the employer in the event that these limits are affected by any other tax-qualified retirement plan(s) maintained outside of this employer (for example, another Section 403(b) plan, a Section 401(k) plan or a pension plan, as applicable) or if he/she has knowledge that they reached any of the foregoing limits. The employer and MMBB reserve the right to automatically reduce the amount of the employee's contribution if it is determined that these contributions will exceed any applicable legal or plan limits.

This agreement is not a contract of employment between the employee and the employer, and does not restrict the right of the employer to discharge the employee or the right of the employee to terminate his/her own employment.

Signature of employee	Date
Signature of employer representative	Date

Please return this completed form to:

The Ministers and Missionaries Benefit Board
475 Riverside Drive, Suite 1700 New York, NY 10115-0049
Phone: 800 986-6222 Fax: 800 986-6782 Web: www.mmbb.org

A13A1010 **Top Copy - MMBB Middle Copy - EMPLOYER Bottom Copy - MEMBER**

Be sure to include the amount or percentage of the monthly contribution and the effective date in this box. Only whole numbers may be used for percentages (e.g 1%, not 1.5%).

Both employee and employer must sign and date the form prior to the funds being withheld.

The form is in triplicate. Separate the copies and send only the top copy to MMBB. A copy should be given to the employee. The employer should keep a copy on file.

All forms and correspondence should be sent to MMBB in New York; do not send any correspondence or application forms to the Dallas address.

Billing

MMBB mails all invoices on the first business day of each month. The invoices reflect premiums due for all plans in which your employees participate. This means that your bill will show BFL premiums as well as any TDA or TAS contributions you remit on behalf of your employees.

Please review your invoice carefully (see sample invoice on page 19) and contact a senior benefits specialist at 800.986.6222 or billing@mmbb.org with any questions. When submitting a check for monthly payment, make sure to write the employer account number on the check and send it with the payment coupon in the envelope provided.

Premiums and contributions should be remitted as soon as possible for the proper administration of each plan. To comply with the IRS requirements, MMBB should receive your payment no later than the 15th day of the month following the month the invoice is intended to cover. For example, if MMBB mails an invoice on February 1st requesting the premiums for MMBB to provide coverage for the month of February, you must send the payment no later than the 15th day of the following month, March 15.

Send premium payments to Bank of New York Mellon in Dallas at the address printed on the monthly invoice. All premium payments—and only premium payments—should be sent to this address.

BILLING FOR BFL

The Benefits for Life premium is a fixed percentage of the member's reported compensation. When you report the compensation for employees, include the following amounts:

- Cash salary, including amounts you withhold for TAS contributions and for Flexible Spending Accounts (FSAs).
- When reporting clergy compensation for BFL purposes, include the fair rental value of a parsonage plus utilities and a parsonage allowance, or a cash housing allowance. Under-reporting compensation negatively affects benefits in the event of disability or death before retirement.

Q: Is the minister's Social Security/Medicare tax offset included in the compensation figure for determining the Benefits for Life premium?

A: If you, the employer, provide a Social Security/Medicare tax offset for your clergy staff, you decide whether to include it in the compensation you report for calculating MMBB premiums.

Q: If the minister's Social Security/Medicare tax offset is not reported as part of the pastor's compensation for billing purposes, is there a need to report the offset to MMBB?

A: Yes. MMBB needs to know the Social Security/Medicare tax offset to make sure the retirement contribution for the member does not exceed the maximum annual contribution limit permitted by the IRS. This is particularly important if the pastor's housing allowance represents a sizable portion of his or her compensation.

CAUTION! Send only premium payments for MMBB invoices to the address for Bank of New York Mellon in Dallas. Any correspondence, forms or additional premium payments (to make up for underreported compensation or delayed enrollment) should be sent to MMBB in New York.

BILLING FOR TDA

Billing for TDA will begin at the start of the month after MMBB receives the application and processes it. The invoice you receive from MMBB will show the amount you have agreed to contribute monthly on behalf of the employee. A contribution may be either a dollar amount or an amount based on a percentage of compensation. Employers may make contributions on a one-time or periodic basis if they prefer not to pay monthly invoices; contact MMBB at 800.986.6222 for more information.

Q: Where are TDA contributions sent?

A: Send payments to the address for Bank of New York Mellon in Dallas, printed on the invoice.

BILLING FOR TAS

Pre-Tax

MMBB bills employers monthly on the same invoice with Benefits for Life and/or TDA billing. The employer simply withholds from each paycheck the agreed-upon amount for TAS contributions and sends it to MMBB along with BFL and TDA monthly premiums.

After-Tax

Contributions for after-tax TAS can be made either through the employer or by the member directly, by personal check. Employer-withheld contributions will appear on the monthly invoice.

MMBB PREMIUM INVOICE

ACCOUNT NUMBER

Number assigned to each employer. Use this number when communicating with MMBB.

PERIOD COVERED

Month being billed.

INVOICE NUMBER

Computer assigned number for the current month's bill.

PREVIOUS BALANCE

The previous month's amount due.

PAYMENT RECEIVED

Checks received through the last business day of the previous month. **All checks received are shown as negative since payments reduce the amount due.**

OTHER CREDITS/DEBITS

Adjustments made in the prior month. Credits remove charges and debits add charges. The total combines all credits and debits. For more information call MMBB.


CURRENT PREMIUM

Current month's billing.

AMOUNT DUE

Last month's amount due plus the current premiums and debits, less any payments received and credits.

Page: 1 of 1



Premium Invoice

Name: FIRST BAPTIST CHURCH Account Number: 1234 Period Covered: OCT 2009 Invoice Number: 123456

Previous Balance	Payment Received	Other Credits/Debits	Current Premium	Amount Due
3,848.93	-3,848.93	-800.00	3,848.93	3,048.93

Member Name	Compensation	TAS	TDA	Benefits For Life	Total
JONES EDWARD A	28,042	750.00		373.89	1,123.89
LEWIS PETER R	10,000		200.00		200.00
SMITHSON SHARON L	77,611			1,034.81	1,034.81
COOPER JEAN T	36,767	1,000.00		490.23	1,490.23
		1,750.00	200.00	1,898.93	3,848.93

SAMPLE

▼ TEAR HERE
MMBB • 475 RIVERSIDE DRIVE, SUITE 1700, NEW YORK, NY 10115-0049 • 800.986.6222
TEAR HERE ▼

Payment Coupon 1234

For address change, billing changes and compensation changes, write to MMBB at the address below or call.

MMBB Tel: 800.986.6222
475 Riverside Drive, Suite 1700 Fax: 800.986.6782
New York, NY 10115-0049 Email: billing@mmbb.org

FIRST BAPTIST CHURCH
111 E 1ST ST
ANYTOWN, NY 12345

Due Date: 10/26/2009 Amount Due: 3,048.93

Return this portion of the invoice with your payment to the address below.

- Make check payable to "MMBB"
- Put your account number on the check
- Do not include any correspondence

Checks received after the end of the month will be posted on your next invoice.

MMBB
PO BOX 121142, DEPT. 1142
DALLAS, TX 75312-1142

ABC000001234003048931

COMPENSATION

Current salaries as reported to MMBB, can be hidden if requested.

TAS (THE ANNUITY SUPPLEMENT)

Employee contributions made through salary reduction.

TDA (TAX-DEFERRED ANNUITY)

Employer contributions.

BENEFITS FOR LIFE

Employer paid premiums for retirement, death and disability benefits.

PAYMENT COUPON

Include payment coupon with your check.

Make check payable to MMBB and send it to the Dallas address:

MMBB
P.O. Box 121142, Dept. 1142
Dallas, TX 75312

LATE PAYMENTS

Benefits for Life

If MMBB does not receive the BFL premium payment by the end of the second month following the month for which premiums are due, we terminate the member's coverage for death and disability benefits. For example if premium payments for January are not paid by the end of March, we will terminate the member's coverage on April 1 and inactivate his or her membership.

Q: What happens when membership in Benefits for Life is inactivated?

A: An inactive member has neither death benefits nor disability coverage, and no further contributions are made to the retirement account. An inactive member who wishes to have premiums paid for him or her again must be reinstated.

Q: What is the impact on the member's benefits if a membership is reinstated?

A: Reinstatement reduces the death benefit in the same way as for a new membership: 2/3 in the first year and 1/3 in the second, a significant decrease. Reinstatement can occur by simply notifying MMBB; if the inactivation is longer than one year, the member must re-enroll.

Q: Is there a way to avoid BFL reinstatement and begin paying premiums again?

A: Yes. If MMBB has inactivated a membership because of delinquent payments, we will reverse the inactivation within a six-month period as long as you, the employer, pay the total amount due from the time of the inactivation through the current month's premium. When MMBB receives the full payment for all past due and current premiums, coverage for death and disability begins again at previous levels.

Employers who can foresee problems paying their BFL premiums should consult with MMBB to explore options to avoid inactivation.

Tax-Deferred Annuity

If payments are late, the employer and member are notified in writing. After four months, the member's account is inactivated.

The Annuity Supplement (TAS)

Final 403(b) regulations require that funds withheld from an employee's pay must be credited no later than the 15th day of the month following the month the invoice is intended to cover. The employer who has not sent an employee's TAS contributions to MMBB in a timely way has not fulfilled their fiduciary responsibility. Continued late payments leads to your church's noncompliance with these regulations.

REPORTING CHANGES TO MMBB

Employment Change

Q: What happens when a minister ends employment with a church?

A: When a minister's employment ends, notify MMBB immediately. You are responsible for paying BFL premiums for the full month, even if the minister's employment ends during the month. Notify MMBB of the last month for which you, the employer, will pay the premium for the minister terminating employment. Please provide MMBB with the name and address of the minister's new employer if you know it.

Q: What information does MMBB need when you employ a minister who is already a premium-paying member of Benefits for Life?

A: MMBB needs:

- Name, address and telephone number of the employee and new employer
- Month that you, as the new employer, will start paying premiums
- Minister's compensation for determining the premium

Also, provide the applicable components of the minister's compensation as follows:

- Cash salary
- Rental value of parsonage, utilities allowance and parsonage allowance or housing allowance (for more on the parsonage and housing allowance, see page 31)
- Social Security/Medicare tax offset, indicating if it is to be included for determining the premium

Q: What happens when a church employs a new minister in the middle of the month and the individual is already a Benefits for Life member?

A: Because the minister's previous church probably paid the current month's premium in full, your church will not be billed until the next month. MMBB should be notified of your new minister's name, home address, starting date of employment and compensation as described above.

Q: Our pastor is retiring. When should we notify MMBB?

A: Notify MMBB at least 90 days before the intended date of retirement. Send in final premium payments no later than the 15th of the month before the pastor's retirement date to ensure that they are included in the annuity.

Q: How do we report other kinds of changes—such as address changes—to MMBB?

A: If you have any questions regarding address changes, premium invoices, compensation changes, billing or employment changes for any of MMBB's plans, call us at 800.986.6222 or send an email to service@mmbb.org.

COMPENSATION CHANGES FOR BFL

MMBB requires certain information before a member's compensation can be changed on the MMBB system. We recommend making compensation changes with MMBB's Compensation Change Request (Form A-18). Please read the form carefully before completing it. Incomplete forms will delay the processing of your request.

Q: How can you report a compensation change to MMBB?

A: Notify MMBB in New York (do not send changes to the Dallas address with premium payments). Changes received by the 15th of each month generally appear on the following month's invoice. For example, if MMBB receives a compensation increase by January 15th, the February invoice will reflect the change. Report any compensation change to MMBB as soon as the change is approved. Compensation changes affect death and disability benefits as well as retirement accounts. Retroactive changes are more difficult to make.

Q: What happens when compensation changes are not reported?

A: Since a member's retirement income, disability and death benefits are based on the compensation reported, failure to report changes could result in lower benefits.

Example, based on 16% plan:

Rev. Jones, age 40	Amount	Death Benefit*	Disability Income	BFL contribution
Actual compensation	\$40,000	\$200,000	\$26,668	\$5,200
Compensation reported to MMBB	\$35,000	\$175,000	\$23,334.50	\$4,550
Difference	-\$ 5,000	-\$ 25,000	-\$ 3,333.50	-\$ 650

A lower reported compensation deprives Rev. Jones of \$650 in his or her retirement account for that year. If the member dies, the group term life insurance benefit payable to the surviving spouse or beneficiary is \$25,000 less. If the member becomes disabled, annual disability income is \$3,333.50 lower.

*Assumes member has at least two years in the plan.

Q: Can our church make up for compensation that has been underreported to MMBB?

A: Yes, as long as the amount of those additional premiums falls within IRS limits and your church provides documentation of the member's actual compensation for those years. Contact MMBB for information and a calculation of contribution limits for the member. MMBB will invest additional premium payment amounts entirely in the member's Retirement Plan account.

Q: Will additional premium billing to make up for underreported compensation or delayed enrollment appear on the monthly invoice?

A: No. Send these payments to MMBB separately.

Q: Where should you send the additional premium payments?

A: Send these payments to MMBB in New York with a letter indicating the purpose of the payment.

Q: Do we need to include all components of a minister's compensation whenever a new compensation amount is reported to MMBB?

A: Yes, it is best to report all components of a minister's compensation—especially amounts for housing and a Social Security/Medicare tax offset—whenever a new compensation amount is reported to MMBB.

Q: If the employee's compensation changes, will that affect the amount he or she can contribute to TAS?

A: A compensation change may make a difference in the amount the IRS allows a member to contribute to TAS, especially if the TAS contribution is expressed as a percentage of compensation. When a compensation change occurs, you should request a new TAS calculation from MMBB.

CONTRIBUTION CHANGES FOR TDA

Q: How should we report changes in TDA billing?

A: Call MMBB, toll free, at 800.986.6222.

Q: Is it important to report a change in compensation for someone with a TDA account?

A: Yes. The amount of a member's compensation will make a difference in how much can be contributed to any 403(b) account the member has. Be sure to report compensation changes to MMBB promptly for all plan members.

CONTRIBUTION CHANGES FOR TAS

Q: How can employees change their TAS contributions?

A: Your employee can make up to four TAS changes per year, up to once per quarter, unless she or he changes employers. The first step in changing the amount of the TAS contribution is to submit a new salary reduction agreement to MMBB. The change in the TAS contribution takes place *after MMBB receives the completed salary reduction agreement*. Under IRS rules you, as the employer, cannot make the salary reduction retroactively.

If you have a new employee with an existing TAS account, she or he only needs to submit a new salary reduction agreement in order to resume contributing to TAS—provided that your church has the required resolution and TAS Adoption Agreement on record (see page 14). If the employee already has a TAS account, no application form is required.

Q: How much can an employee contribute to TAS?

A: The IRS limits how much money an employee can put into TAS on a pre-tax basis. The amount an employee can contribute to TAS depends on salary and other variables. Encourage your employees to call MMBB to request a calculation of the maximum allowable contribution.

Q: If an employee completes a salary reduction agreement to contribute a percentage of compensation to TAS, rather than a specific dollar amount, what happens when compensation changes are reported to MMBB for the employee?

A: MMBB's billing for TAS contributions for that employee will change according to the percentage. For example, an employee's salary reduction agreement states that his or her compensation will be reduced by 5% for TAS contributions. The following year the employee receives a \$2,400 compensation increase. The invoice will have a \$12 monthly increase in the employee's TAS contribution, which should be withheld from the employee's pay.

Q: Are pre-tax TAS contributions reported as taxable income when paid to MMBB?

A: Pre-tax TAS contributions are not included as income when calculating federal income taxes and self-employment taxes (Social Security/Medicare taxes) for clergy. For lay members, TAS contributions are not reported as taxable income for federal income tax purposes but are included for determining Social Security/Medicare taxes. TAS contributions are not reported as taxable income in most states.

Q: How long is a salary reduction agreement in effect?

A: The agreement continues until:

- MMBB is notified to terminate the agreement (you cannot terminate the agreement without the member's consent).
- There is a change in employment.
- There is a new salary reduction agreement.
- The amount of TAS contributions exceeds the IRS limit.
- A hardship distribution is made from the TAS account.

Q: What if an employee chooses to stop making TAS contributions?

A: The employee should submit a letter to the employer requesting termination of his or her salary reduction for TAS contributions with an effective date for the change. You, the employer, then convey that information to MMBB requesting the change in billing.

Q: When should your church and your employee complete a salary reduction agreement in order to have the employee's desired amount withheld from his or her pay for pre-tax contributions to TAS?

A: Complete the salary reduction agreement in the month before the pay period for which the employee would like to have the money withheld.

Example: Your payroll period is every two weeks. The member wants to have money withheld for TAS contributions from the February 5–19 pay period. In order for the withholding to be treated as a pre-tax TAS contribution, the salary reduction agreement must be signed by both employer and employee no later than January 31 and, of course, MMBB must receive a copy in time to adjust the invoice.

Q: Can a salary reduction agreement apply to amounts withheld from pay before the agreement is signed?

A: No. The amount invested in TAS is only considered a pre-tax contribution if it is made after the date a salary reduction agreement was signed by your employee and you, as the employer. If amounts are withheld before the completion of the salary reduction agreement, MMBB will notify you, as the employer, and your employee that the amount will only be accepted if treated as after-tax contributions and allowed within the maximum annual contribution. Such contributions should also be included as taxable income on the employee's IRS Form 1040.

Example: An employee decides to make TAS contributions. The employee signs the salary reduction agreement on February 25 and the employer signs it on March 12. Only money for wages earned after March 12 can be accepted by MMBB as pre-tax contributions. Any money withheld prior to March 12 will be treated as after-tax contributions by MMBB.

Q: Can an employee continue TAS contributions after a TAS distribution from his or her account based on IRS hardship tests and conditions?

A: No. Under IRS rules, a member who took a TAS distribution based on IRS hardship tests and conditions cannot make TAS contributions for the next six months.

Q: Does an employer need to execute a new salary reduction agreement for the employee to resume TAS contributions after the six months?

A: No. MMBB's billing for TAS will cease during that time and will resume for the same amount beginning the seventh month, unless MMBB is notified to stop billing for the TAS contributions for that employee. You must stop withholding TAS contributions for the employee in question for a period of six months after the employee has taken a TAS distribution based on IRS hardship tests and conditions. If your employee wants to change the amount of TAS contributions following the six-month suspension, your church and the employee must execute a new salary reduction agreement.

Health Insurance

Like other health insurance plans, MMBB's costs continue to rise. Three primary factors contribute to these increasing costs.

- The *PremierHealth* plan is open to everyone participating in BFL or contributing monthly payments to TDA. We see this as part of our mission to serve the better maintenance of the ministry.
- An increase in high-cost claims.
- The health care system in America includes practices that add costs.

You can play an important role in reducing the cost of health care. Encourage your staff to be stewards of their own health, just as they are stewards of the church. An annual physical examination is a good starting point.

MMBB sponsors *PremierHealth* medical, prescription drug and dental plans. The following organizations partner to make *PremierHealth* medical, pharmacy and dental benefits available:

- CIGNA HealthCare is the insurance company that provides the networks of CIGNA providers and handles medical and dental claims.
- Medco is the pharmacy benefit manager that handles prescriptions filled at local participating retail pharmacies and by mail order.
- UMR provides enrollment assistance and information about eligibility and premium rates. As the employer, you will receive your monthly invoice from UMR, and you will send your premium payments to UMR.

Q: What types of medical options are provided through *PremierHealth*?

A: *PremierHealth* includes Open Access Plus (OAP), a preferred provider network, and provides Comprehensive Indemnity medical coverage where the OAP networks are not available.

ELIGIBILITY

Q: Which employees are eligible for *PremierHealth* enrollment?

A: To be eligible for *PremierHealth* insurance coverage, employees must be premium-paying members of Benefits for Life or have a \$50 monthly minimum contribution made on their behalf to the Tax-Deferred Annuity (TDA).

Q: How does an employee qualify for dental coverage?

A: Employees must enroll in the *PremierHealth* medical plan in order to be eligible for dental coverage. If dental coverage is not selected when an employee first enrolls in *PremierHealth*, dental coverage will not be available for two calendar years. If dental coverage is elected, the employee must keep dental coverage for two calendar years before the coverage can be dropped.

ENROLLMENT

To enroll in *PremierHealth*, an employee must first enroll in MMBB's Benefits for Life program or TDA.

Q: When is enrollment permitted?

- A: Enrollment is possible within 30 days of one of the following qualifying events:
- Date of enrollment for the first time in either Benefits for Life or TDA;
 - Date of hire with an eligible employer if the employee is already enrolled in Benefits for Life or TDA; or
 - Date that prior health insurance ends due to the following involuntary circumstances:
 - Employment termination;
 - Divorce;
 - Death; or
 - Employer cancellation of employee medical coverage.

Spouses can be added to the *PremierHealth* enrollee's coverage if the spouse loses health insurance due to employment termination or the employer cancels medical coverage.

Eligible employees who are not enrolled in *PremierHealth* have an opportunity to enroll during the "open enrollment" period. The open enrollment period is announced to members every fall, for coverage effective January 1 of the following year.

Q: How do employees enroll in *PremierHealth*?

- A: Request an enrollment package and the amount of the monthly premium from UMR by calling their toll-free number: 866.868.0502, option 1. After the employee completes the application, you, the employer, then send it to UMR with a check for the initial month's premium.

Q: Where are payments for *PremierHealth* sent?

- A: The initial monthly premium payment that must be submitted with the application is sent to: *PremierHealth*, P.O. Box 690188, San Antonio, TX 78269. Ongoing premium payments should be sent to the *PremierHealth* lockbox at: *PremierHealth* Premium Account, 75 Remittance Drive, Suite 1412, Chicago, IL 60675-1412.

Q: What levels of coverage are available?

- A: *PremierHealth* offers coverage for members only; members and spouses; members and children; and families (member, spouse and children).

Q: Who qualifies as a dependent?

- A: Dependents include the employee's spouse and children.

Q: How long can children be covered under the enrollee's coverage?

A: Generally, children of enrolled members may be covered until they become 26 years of age.

Q: Can *PremierHealth* coverage continue if the employee's employment terminates or the dependent child reaches the age limit?

A: MMBB allows for Continuation of Coverage of up to 18 months for an enrollee who is no longer eligible for coverage based on his or her employment status or a dependent child based on the dependent's age. Continuation of Coverage premium rates are 102% of premium rates in effect while the employee had an eligible employer. Individuals must enroll in Continuation of Coverage within 60 days of the qualifying event. Premiums are paid by the person who is insured.

Q: When does *PremierHealth* coverage become effective?

A: Coverage becomes effective on:

- January 1 following the annual open enrollment period;
- The first of the month following either the initial enrollment or eligible change in enrollment; or
- The first of the month following the loss of previous health insurance coverage.

Q: How can the employer speed up the enrollment process?

A: Consider the following:

- Have application forms from MMBB and UMR in hand before hiring new employees.
- Have new employees complete all applications before employment begins.
- Contact MMBB for the initial month's Benefits for Life or TDA premium amount.
- Contact UMR for the monthly *PremierHealth* premium amount.
- Send MMBB application forms and appropriate checks via overnight mail to MMBB. UMR application forms and checks should be sent via overnight mail to UMR's overnight mail address: UMR/*PremierHealth*, 12668 Silicon Drive, San Antonio, TX 78249.

Q: Do pre-existing conditions apply for new enrollees?

A: If the enrollee was previously insured in a health plan for at least 12 months and does not experience more than a 63-day lapse in coverage between the prior plan and *PremierHealth*, pre-existing condition limits would not apply. A Certificate of Creditable Coverage from the prior insurance company would need to be provided to CIGNA upon request. The Patient Protection and Affordable Care Act of 2010 prohibits pre-existing conditions exclusion for children under the age of 19.

PREMIUM RATES

Q: How are *PremierHealth* premiums determined?

A: Premiums are based on the geographic location (residence zip code) and the age of the employee. The geographic rates fall in three bands: low, average or high cost.

WHO TO CALL FOR SERVICE

If your employee is covered by *PremierHealth*, these numbers may be helpful:

- For questions on eligibility, enrollment, billing or premium rates, call UMR, toll free, at 866.868.0502, option 1, or visit www.tpa.com/mmbb. The mailing address is UMR, *PremierHealth*, P.O. Box 690188, San Antonio, TX 78269.
- For benefit inquiries, claims processing and provider questions, contact CIGNA HealthCare at 800.CIGNA24 (800.244.6224) or log onto www.mycigna.com.
- For inquiries about prescription drug coverage, contact Medco at 800.987.5256.

Q: How can one learn what the premium rates are?

A: For premium rate tables, visit www.tpa.com/mmbb or call UMR, toll free, at 866.868.0502, option 1.

Q: When an employee moves from one age band to another, when does the premium increase take effect?

A: Premium increases begin with the month after which the employee's birthday puts him or her in a higher premium rate bracket, unless the employee's birthday is on the first of the month.

BILLING

Q: When are premiums due?

A: Invoices are mailed at the beginning of the month before the month of coverage. Payments are due by the last business day of the month before the month of coverage. For example, invoices for October will be mailed the first business day of September and are due by the end of September.

Q: What happens if a payment is not received on time?

A: If the payment is not received by the due date, UMR will:

- Send a reminder that if the outstanding premium is not received by the end of the month for which the premium is being billed, coverage will terminate. This notice will be mailed early in the month for which the premium payment is due.
- Send a second notice in the middle of the month for which the premium payment is due, if payment is not received.
- Send a termination notice to you as the employer, as well as to the employee, immediately following the month for which the payment is due.

Example: The invoice for October is not paid by the end of September. A first notice will be mailed at the beginning of October. If payment for October is not received by the middle of October, a second notice will be sent. If October's invoice is not paid by the end of October, coverage will be terminated effective September 30 and a termination notice will be mailed at the beginning of November.

CHANGES IN COVERAGE

Q: Who should be notified of changes such as birth of a child, marriage or divorce?

A: Contact UMR at 866.868.0502, option 1, to request a change form and contact MMBB at 800.986.6222.

Q: What if a *PremierHealth* enrollee reaches age 65 and becomes eligible for Medicare, continues working and does not start an MMBB annuity?

A: The enrollee and any family members enrolled would remain in the *PremierHealth* plan.

Q: What if our church intends to provide health insurance for our minister and budgets for it but the minister's spouse has coverage through his or her employer?

A: Since the minister already has health insurance through his/her spouse, churches in this situation may wish to contribute the dollars set aside for health insurance to TDA for the minister. If the church provides the budgeted amount to the minister as cash, the payment will be considered taxable income.

EMPLOYMENT CHANGES

Q: When a member currently enrolled in *PremierHealth* leaves employment without giving information about a new eligible employer, how are premiums handled?

A: When you, as the employer, stop paying premiums, coverage for the member will be terminated. If the member wants to continue coverage, she or he must contact UMR and complete a Continuation of Coverage application. The application must be completed within 60 days of when the employer stops paying the premium. The member will be responsible for Continuation of Coverage premiums, and will be billed at 102% of the premium rate. If the member does not complete and return the application within 60 days, the individual will not be eligible for *PremierHealth* until he or she satisfies one of the eligibility criteria described above (see page 26).

Q: What if our church calls a pastor who has been enrolled in *PremierHealth* but his or her coverage was inactivated because UMR had not been notified of the member's new employer?

A: You, as the new employer, can make up to two months of the required payments to reinstate the member's coverage. For a longer gap in coverage, the member must wait until the fall open enrollment for coverage effective the following January 1.

Example: A *PremierHealth* enrollee's coverage is terminated October 31 because the October premium is not paid by the end of October. In November, UMR is contacted by the enrollee's new employer indicating it has agreed to pay the enrollee's premiums. The employer will need to send the premium amount due for October and November no later than the end of November to reinstate coverage. Otherwise, the enrollee is not able to re-enroll until the fall open enrollment for coverage effective the following January 1.

ADDRESS CHANGES

Q: If a *PremierHealth* enrollee's address changes, who should be notified?

A: Contact UMR directly with address changes for those covered by *PremierHealth*. The member or employer should also contact MMBB.

Tax Advantages for Ministers and Other Church Employees

Federal law provides several tax advantages for church employees:

- Clergy can exclude part or all of their housing allowance from taxable income for federal income tax purposes.
- Churches can structure expense reimbursement so their employees will not be taxed on out-of-pocket ministry-related expenses.
- Churches can offer flexible spending accounts (FSAs) that give their employees a way to pay eligible health and dependent care expenses tax-free.

To preserve each tax advantage, the church must follow IRS requirements. This section and *Federal Reporting Requirements for Churches* by Richard R. Hammar (available on the MMBB website at www.mmbb.org) explain how.

CLERGY HOUSING

Housing is an important part of clergy compensation. Section 107 of the Internal Revenue Code allows ordained ministers to exclude some or all expenses used to provide a home from income reported for federal income tax purposes. This exclusion can be of significant help to a minister and his or her family, but only if accounted for properly in the housing allowance.

Parsonages

For a minister living in a parsonage, the church does not report the rental value or any utility costs paid for or reimbursed by the church as income for federal income tax purposes. However, clergy must report the parsonage rental value, utilities and parsonage allowance as income for Social Security/Medicare tax purposes.

The church should base the parsonage rental value on what the parsonage could be rented for in the community. Consider annual adjustments to the parsonage rental value. A local real estate agent can help determine the fair rental value, or the church can use 1% of the market value of the parsonage. For example, if the parsonage market value is \$100,000, the monthly rental value would be \$1,000.

An accurate parsonage rental value does more for your pastor than save on taxes. This value, along with cash salaries and utilities, is reported to MMBB for Benefits for Life premium purposes. If your church reports a rental value that is less than the actual value of the parsonage, your minister's death, disability and retirement benefits will be lower. For example, if the parsonage's annual rental value is under-reported by \$5,000, the lump-sum death benefit to the beneficiary is \$20,000 less for a plan member at age 45. A larger death benefit can be particularly important if the member's surviving family must find alternative housing.

In addition to determining the parsonage rental value, you, the church, can also designate a part of your minister's cash salary as a parsonage allowance. The parsonage allowance covers anything purchased by the minister to maintain a home in the parsonage, such as furnishings or renters insurance. The amount of this allowance is excluded from the minister's taxable income to the extent that it can be justified by actual housing costs. For example, a minister living in a parsonage and receiving a cash salary of \$30,000 may have \$5,000 of the cash amount designated

as a parsonage allowance. In that case, only \$25,000 will be considered taxable for federal income taxes, provided, of course, the \$5,000 is actually used for housing expenses.

Equity Allowance

Unlike homeowners, ministers who live in parsonages usually do not have equity in their homes. This puts them at a disadvantage when they approach retirement because they must seek housing but have not had the opportunity to build equity over the years. Churches can help ministers who live in parsonages by providing an equity allowance in addition to the minister's compensation.

There are several ways to provide an equity allowance. The employer can make contributions on behalf of the minister to the Tax-Deferred Annuity (TDA), available from MMBB. TDA contributions and earnings are not taxable to the minister until withdrawn in retirement. Benefits paid to clergy in retirement may be eligible to be claimed as a tax-free housing allowance. A minister may choose to supplement the equity allowance by starting or increasing contributions to The Annuity Supplement (TAS).

Housing Allowance

When your minister lives in his or her own home, a portion of the minister's compensation may be designated by your church, in advance, as housing allowance. The designated amount should include the cost of maintaining a home, including mortgage payments, taxes, repairs, insurance, furnishings, utilities, etc. For federal income tax purposes, the excludable amount is limited to the lesser of: (1) the amount designated by the church, (2) the amount actually spent on housing for the year by the minister, or (3) the fair rental value of a house, furnished, plus utilities such as gas, electricity, oil, telephone and water.

Your minister cannot exclude more than the church designates, so the housing allowance must be enough to cover items 2 or 3 above. Of course, any amount of the designated housing allowance that exceeds the lesser of 2 or 3 must be reported as taxable income by the minister. If audited by the Internal Revenue Service (IRS), it is the responsibility of the minister to document actual housing expenses. Your pastor must pay Social Security/Medicare taxes on this allowance.

Q: What makes a church eligible to declare a parsonage or housing allowance for qualified clergy staff members?

A: Churches are eligible to declare a housing or parsonage allowance if they qualify as a "qualified church-controlled organization" (QCCO) according to the Internal Revenue Code 3121(w)(3). Generally, QCCOs, also known as "steeple" employers, do not offer goods, services or facilities for sale to the general public other than on an incidental basis and normally receive 25% or less of their support from such sales or from governmental sources.

Q: What should the church do to enable the minister to exclude his or her housing and utilities allowance from being reported as taxable income on his or her IRS Form 1040?

A: In order to qualify as an exclusion from taxable income for the minister, the housing or parsonage allowance must be designated in advance and be recorded in church minutes, appear in the church budget or be stated in a formal resolution by the church or appropriate church committee.

Q: How should the housing or parsonage allowance be reported for tax purposes?

A: The housing or parsonage allowance amount may be specified in Box 14 of the W-2 Form, but doing so is optional. *The church does not report the housing or parsonage allowance as taxable income to the pastor in Box 1 of Form W-2.* It is the responsibility of the minister, not the church, to report as taxable income any portion of the housing or parsonage allowance that cannot be justified based on the criteria above. The minister does report the housing or parsonage allowance for Social Security/Medicare tax purposes.

ACCOUNTABLE PLANS FOR MINISTRY-RELATED EXPENSES

Q: How can the church keep reimbursement for ministry-related expenses from being a tax liability for church employees?

A: The church should set up an “accountable plan,” also called an “accountable reimbursement plan,” following IRS rules. An accountable plan is a business-expense reimbursement arrangement under which ministry-related expenses are not reported as taxable income on the employee’s Form W-2 or Form 1040. The employee cannot claim expenses reimbursed through an accountable plan as deductions.

Q: How does a church set up an accountable plan?

A: The IRS requires the church board to pass an appropriate resolution containing criteria for ministry-related expenses. (See *Federal Reporting Requirements for Churches* by Richard R. Hammar.) An accountable plan describing the church’s reimbursement policy should be in writing, clearly specifying which expenses the church will reimburse. Descriptions of documentation and reporting requirements should be included.

The following is a sample of an appropriate resolution:

RESOLVED, That, in addition to compensation paid to our (pastor/staff), we will reimburse (him/her/them) for automobile and other ministry-related expenses considered ordinary and necessary to carry out (his/her/their) responsibilities. Expenses must be substantiated as to the date, amount and purpose within 60 days after they are incurred. Any excess reimbursements must be refunded to the church within 120 days after expenses are paid or incurred.

An accountable plan cannot be funded through salary reduction. Reimbursement for ministry-related expenses must be over and above the salary paid the minister or other church employee.

Q: What happens if the church does not have an accountable plan?

A: Without an accountable plan that meets IRS requirements, the minister or other church employee will pay more federal income tax, and, in some cases, more state income tax.

Without such a plan in place, allowances or reimbursements for ministry-related expenses must be reported as taxable income to the IRS on Form W-2. If employees claim the standard

deduction and do not itemize deductions, the expenses are not deductible. Even if they itemize deductions, the full amount of the expenses is not deductible. Expenses are deductible only to the extent that they exceed 2% of adjusted gross income. Business meals and entertainment are deductible at 50%. Furthermore, the employee's adjusted gross income will be greater because the allowances and reimbursements are reported as taxable income. Contact MMBB for additional information.

Q: Can an accountable plan be established retroactively?

A: No. If an accountable plan is established by a church mid-year, only reimbursements for expenses incurred after that date can be excluded from employees' taxable income on IRS Form W-2.

FLEXIBLE SPENDING PLANS

Q: How can an employer offer its employees tax savings for eligible health and dependent care expenses?

A: An employer can set up a flexible spending plan that allows flexible spending accounts (FSAs) for health care, dependent care or both. This makes it possible for employees to pay eligible expenses with tax-free dollars. An FSA must be established in writing. Contact MMBB at service@mmbb.org for a free FSA sample kit.

Q: How does an FSA work?

A: When an employer establishes an FSA, employees can each year elect how much to set aside from their paychecks for the following year. Paychecks throughout the year are reduced accordingly. Money withheld from each paycheck is not reported as taxable income for federal income tax or Social Security/Medicare tax. In most states, FSA contributions are not reported for state income tax purposes either. (See *Federal Reporting Requirements for Churches* by Richard R. Hammar.)

The health care FSA is used only for eligible health care expenses and the dependent care FSA is used only for eligible dependent care expenses. An employee cannot have money transferred from the health care FSA to the dependent care FSA or vice versa. The church sets the annual health care contribution limit at whatever they deem appropriate. The IRS has set the maximum dependent care reimbursement amount at \$5,000 per year. When the employee incurs an eligible expense, he or she submits documentation to the employer and is reimbursed with tax-free funds.

An annual election cannot be changed during the year unless the employee has a change in family or employment status that meets IRS requirements, such as marriage or birth of a child. Under IRS rules, any money for the year that is not claimed by the claims filing deadline in the following year is forfeited and returned to the employer. Unspent amounts cannot be carried over from year to year unless the employer amends the plan to include the IRS grace period. Beginning in 2011, during the grace period, expenses for qualified benefits (except for over-the-counter medication purchased without a prescription) incurred by plan participants may be paid or reimbursed from contributions remaining unused at the end of the preceding plan year.

The maximum grace period can only extend through the 15th day of the third calendar month after the end of the immediately preceding plan year.

Q: What types of expenses can be reimbursed under an FSA?

A: Health care FSA money can be used for health care expenses that are not reimbursed by a health care plan, such as deductibles, co-payments and items that are not covered, such as dental, vision and hearing expenses.

In the past, over-the-counter medication could be claimed as an eligible expense under a health care FSA if the employer's FSA document and employee communication indicated that these expenses could be claimed. As a result of the new healthcare legislation, over-the-counter medication is not eligible for FSA reimbursement after December 31, 2010 unless the purchase is pursuant to a doctor's prescription.

Dependent care FSA money can be used for child care expenses incurred for children under the age of 13, such as nursery school tuition and day care fees. It may also be used for the care of disabled adults who have the same principal residence as the taxpayer for more than half of the taxable year.

Q: Should the church report FSA contributions on the employees' IRS Form W-2?

A: No.

THE W-2 FORM AND TAX QUESTIONS

This section and *Federal Reporting Requirements for Churches* by Richard R. Hammar provide the basic information on IRS rules for churches. Read this section for information on how IRS reporting requirements affect churches with MMBB members, particularly clergy members. Read the *IRS 2011 Instructions for Forms W-2 and W-3* before preparing IRS Form W-2 for your church's employees (see pages 38–39 for sample W-2 forms).

Failure of an employer to have a legally compliant 403(b) plan document in place may result in immediate taxation to employees of all contributions made on their behalf. Similar adverse tax consequences may result if a 403(b) plan is not maintained in accordance with the ongoing administrative requirements prescribed by the regulations. This will create a significant financial burden for your minister and staff.

Q: Are Benefits for Life premiums and TDA contributions reported as taxable income to an employee?

A: No. The premiums and contributions paid by the employer are not reported as taxable income for federal income tax or Social Security/Medicare tax purposes. The amount should not be reported on the lay employee's or minister's Form W-2. However, "Retirement plan" in Box 13 should be checked for Benefits for Life and TDA members. The imputed income from a death benefit amount over \$50,000 should be added to the total in Box 1 (see page 39).

Q: Are TAS contributions reported as taxable income on Form W-2?

A: Not for federal income tax purposes. TAS contributions withheld from salary, based on a salary reduction agreement, are not reported as taxable income in Box 1 on the lay employee's or minister's Form W-2. However, for those who are not considered self-employed for Social Security and Medicare—primarily lay employees—the amount is included for Social Security and Medicare wages, Boxes 3 and 5. In one of the sections of Box 12, enter "E" in the box preceding the dollar sign and then enter the amount of TAS contributions withheld after the dollar sign.

Q: Is Form 1099-MISC or Form W-2 the correct form on which to report a minister's income?

A: IRS instructions indicate that Form W-2, not Form 1099-MISC, is the appropriate way to report a minister's taxable income paid as a regular salary by the church. If the church provides the minister with Form 1099-MISC rather than Form W-2, premiums paid by the employer for benefits, such as for benefit plans administered by MMBB and for health insurance, must be included as taxable income. Furthermore, the chances for an audit for the minister increase dramatically if Form 1099-MISC is used.

Q: Should the church pay unemployment taxes for its ministers and lay employees?

A: Not in most states. Ministers and lay employees of churches and organizations operated primarily for religious purposes and supervised, controlled or principally supported by a church generally are exempt from state unemployment taxes. Check with the employment division of your state to determine whether churches or related organizations are subject to the state unemployment tax.

Q: Is our church required to provide Workers' Compensation for our ministers and lay employees?

A: Most states require churches and related organizations to provide Workers' Compensation for their ministers and lay employees. Because a few states do exempt churches from Workers' Compensation coverage, MMBB recommends that you check with your state's employment division.

Following are notes on completing Form W-2 for ministers to supplement *Federal Reporting Requirements for Churches* by Richard R. Hammar.

Box 1:

Taxable income includes:

- Cash salary minus voluntary tax-deferred annuity contributions, such as TAS, made by the church on behalf of the minister, and amounts for flexible spending accounts;
- Social Security/Medicare tax offset;
- Allowances and reimbursements for ministry-related expenses if an accountable plan for the expenses has not been established;
- Automobile reimbursement in excess of the standard IRS mileage or per diem rates allowed by the IRS, even if an accountable plan is established;

- Personal use by the minister of a church-owned automobile;
- "Imputed income" equal to the annual cost of employer-provided group term life insurance in excess of \$50,000 (see page 40 for how to calculate this amount);
- Travel expense payment for a minister's spouse to attend a denominational meeting unless the spouse is an employee of the church and attending for business reasons;
- Cash paid to the pastor to reimburse for medical premiums paid by the spouse for coverage through his or her employment;
- Moving expenses paid or reimbursed by the church to a minister but not documented; and
- Any dependent care benefit provided by the employer for the minister in excess of \$5,000.

Taxable income does not include:

- Housing and utilities allowances;
- The fair rental value of the parsonage;
- Allowances and reimbursements for ministry-related expenses not exceeding the IRS standard amount, if an accountable plan is established;
- Benefits for Life premiums;
- Tax-Deferred Annuity (TDA) contributions;
- The Annuity Supplement (TAS) contributions;
- Amounts withheld for flexible spending accounts (FSAs);
- Documented moving expenses that could have been deducted by the minister but were reimbursed or paid directly by the church; and
- Cost of employer-provided health care.

Boxes 2-6:

If completing the W-2 for a minister, Boxes 2-6 will be blank. If the minister has arranged for voluntary withholding of federal income tax, Box 2 would include the amount of withholding.

Box 10:

Report the total amount of dependent care benefits provided under a Flexible Spending Plan, whether paid or incurred by the employer for the employee. Include the fair market value of any employer-provided or employer-sponsored day care facility and amounts paid or incurred in an FSA. The total should include any amount in excess of the \$5,000 exclusion. Include in Box 1 any amount in excess of the \$5,000 exclusion.

Box 12:

- C Be sure to include the "imputed income" equal to the annual cost of employer-provided group term life insurance in excess of \$50,000 (see page 40 for how to calculate this amount).
- E The amount deferred into a 403(b) salary reduction agreement, such as TAS.
- L If the church reimburses the minister under an accountable plan in excess of the standard IRS mileage or per diem rates, enter the portion of reimbursement that is equal to the amount allowed by the appropriate IRS rate. Do not include allowance reimbursement in Box 1 if the total is less than, or equal to, the amounts of the IRS mileage or per diem rate.
- P Qualified moving expenses reimbursed to the minister that are not reported as taxable income in Box 1. Expenses the employer pays to a moving company on behalf of the minister are no longer reported on Form W-2.

Sample W-2 for a Lay Employee

22222		Void <input type="checkbox"/>	a Employee's social security number 111-11-1111		For Official Use Only ▶ OMB No. 1545-0008		
b Employer identification number (EIN) 00-0000000			1 Wages, tips, other compensation \$ 25,060.00		2 Federal income tax withheld \$ 2,976.50		
c Employer's name, address, and ZIP code Sample Church 100 Main Street Anytown, ST 00000-0000			3 Social security wages \$ 25,060.00		4 Social security tax withheld \$ 1,553.72		
			5 Medicare wages and tips \$ 25,060.00		6 Medicare tax withheld \$ 363.37		
			7 Social security tips		8 Allocated tips		
d Control number			9 Advance EIC payment		10 Dependent care benefits \$ 1,000.00		
e Employee's first name and initial Charles L.		Last name Administrator		Suff.		11 Nonqualified plans	
305 8th Street Anytown, ST 00000-0000			13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12a See instructions for box 12		
			14 Other		12b		
f Employee's address and ZIP code					12c C \$ 600.00		
					12d		
15 State Employer's state ID number		16 State wages, tips, etc.		17 State income tax		18 Local wages, tips, etc.	
						19 Local income tax	
						20 Locality name	

Form **W-2** Wage and Tax Statement

Department of the Treasury—Internal Revenue Service

Copy A For Social Security Administration — Send this entire page with Form W-3 to the Social Security Administration; photocopies are **not** acceptable.

For Privacy Act and Paperwork Reduction Act Notice, see back of Copy D.

Cat. No. 10134D

How to Calculate the Imputed Income for Group Term Life Insurance Benefits

The annual cost of employer-provided death benefit protection in amounts over \$50,000 is considered imputed income by the IRS. This income is taxable to the employee, and it must be reported to the IRS in Section 12 of Form W-2. Here's how to calculate the amount for the life insurance portion of Benefits for Life.

1. Member's age: (a) _____

2. Member's annual compensation: (b) _____

3. Member's death benefit: (c) _____
(use table at right)

The MMBB Death Benefit is:

Through age 40	5x annual compensation
Age 41 through 50	4x annual compensation
Age 51 through 60	3x annual compensation
Age 61 through 65	2x annual compensation
Age 66 to retirement	1.5x annual compensation

Reduce by 2/3 in first year of membership and by 1/3 in second year of membership. Pay for benefit purposes is limited to \$250,000 per year.

4. Death benefit: (c) _____ minus \$50,000 equals (d) _____
(death benefit in step 3) (excess death benefit)

5. (d) _____ divided by \$1,000 equals (e) _____
(excess death benefit in step 4) (excess death benefit in thousands)

6. (e) _____ multiplied by (f) _____ equals (g) _____
(excess death benefit in thousands from step 5) (cost from IRS table below) (monthly cost of excess benefit amount)

7. (g) _____ multiplied by 12* equals (h) _____
(monthly cost of excess benefit amount) (imputed income or annual cost of excess benefit amount)

IRS Cost Table

Age Bracket	Cost per \$1,000 of Protection for 1 Month
Under age 25	\$.05
Age 25-29	.06
Age 30-34	.08
Age 35-39	.09
Age 40-44	.10
Age 45-49	.15
Age 50-54	.23
Age 55-59	.43
Age 60-64	.66
Age 65-69	1.27
Age 70 and above	2.06

*Adjust this multiplier if calculating for an employment period of less than one year.

GLOSSARY

This glossary includes common terms used to specify MMBB benefits and IRS rules. For more definitions visit the dictionary of benefit and investment terms at www.mmbb.org.

Accountable plan

A business-expense reimbursement arrangement, also called an “accountable reimbursement plan,” under which ministry-related expenses are not reported as taxable income on the minister’s Form W-2 or Form 1040, nor are deductions claimed. To qualify, the plan must be established according to IRS rules.

Adoption agreement

A written document signed by an employer that establishes eligibility rules and premium levels that the employer selects for their employees in accordance with the provisions of a plan. Each plan—the Retirement Plan, the Tax-Deferred Annuity plan and The Annuity Supplement—requires its own Adoption Agreement.

Annuity

A contract that provides an income for a specified period of time, such as a number of years or for life, usually beginning at retirement. MMBB annuities are lifetime annuities.

Benefits for Life (BFL)

The benefit program administered by MMBB combining the Retirement Plan, disability coverage, and the Death Benefit Plan.

Compensation

The pay that an employee receives. Compensation is used to determine an employee’s Benefits for Life premiums and may include housing and a Social Security/Medicare tax offset if the employee is a minister. It does not include premiums paid for employer-provided medical coverage or dollars paid for ministry-related expenses if they are reimbursed under an accountable plan.

Employee

Generally, an employee is one who provides services for the employer and receives wages, also referred to as compensation. The employer-employee relationship is defined for tax purposes by IRS criteria. In this booklet, the term “employee” refers to both the church’s or other organization’s clergy and lay staff members.

Flexible spending account (FSA)

An arrangement for an employee that uses a salary reduction agreement permitting the employee to set aside pre-tax dollars with which the employer reimburses the employee for certain health care and/or dependent care expenses.

403(b) church plan

A defined contribution plan established by certain church and church-related organizations to provide for retirement income savings on behalf of their employees. The Retirement Plan (a component of Benefits for Life), TAS and TDA administered by MMBB are 403(b) church plans. IRS regulations governing these types of plans give responsibility for plan administration to the employer.

Housing allowance

A portion of a minister's compensation that is generally excluded from gross income for federal income taxes, but not for Social Security/Medicare taxes. The housing allowance represents the cost to the minister of providing a home.

Information sharing agreement (ISA)

A document that assures that all of the employer's 403(b) plan vendors supply the data needed to determine whether a severance from employment has occurred, whether hardship withdrawal rules have been satisfied and whether a loan meets applicable requirements. An ISA is required if you, the employer, or your employee(s) use multiple vendors to provide 403(b) retirement plan contracts.

Parsonage allowance

A portion of a minister's compensation that is excluded from gross income for federal income taxes, but not for Social Security/Medicare taxes. The parsonage allowance represents the housing costs to the minister while living in the parsonage.

Parsonage rental value

The fair rental value of the church-owned parsonage in which the minister lives. The value is considered income to the minister and should be reported as such for Social Security/Medicare tax purposes. The rental value is excluded from gross income for federal income taxes.

Plan administrator

The person or entity responsible for managing the day-to-day affairs of the plan. Responsibilities include ensuring that contributions are properly made and payouts are properly and promptly distributed to qualified plan participants or beneficiaries.

Plan document

The formal, written, legal statement listing the provisions of each plan administered by MMBB.

PremierHealth

The MMBB-sponsored health plan that includes medical, prescription drug and dental plans. Provider networks are available through CIGNA HealthCare; Medco handles prescription drugs; and UMR provides enrollment assistance and information about eligibility and premium rates.

Salary reduction agreement

Form A-13a provided by MMBB to enable a church employer and employee to document their agreement to regularly contribute certain dollar amounts from the employee's salary to an account with The Annuity Supplement (TAS). The agreement must be signed by both employer and employee before contributions are diverted from the employee's pay.

Self-employed

For Social Security tax purposes, ministers are always regarded as self-employed and pay their own Social Security/Medicare tax. For federal income tax purposes, however, ministers usually do not qualify as self-employed and should be regarded as employees. Those who qualify as self-employed for federal income tax purposes would receive a 1099-MISC form, rather than a W-2, for tax reporting; health insurance premiums paid for them by the employer would be taxable income to them. Any lay person who qualifies as self-employed for federal income tax purposes would not be eligible to enroll in MMBB plans. For more information, see *Federal Reporting Requirements* by Richard R. Hammar.

Social Security/Medicare tax offset

An annual payment made by the church employer to staff who are ministers to assist them in paying the full Social Security and Medicare tax as self-employed persons. Generally, churches provide an amount equal to 7.65% of the minister's salary; the offset is taxable income to the minister for federal income tax and Social Security/Medicare tax purposes.

Tax-Deferred Annuity (TDA)

An MMBB sponsored plan which gives an employer a flexible way to build supplemental retirement income for the employee.

The Annuity Supplement (TAS)

An MMBB sponsored plan which allows employees to save for their retirement by making monthly contributions on a pre-tax and/or after-tax basis.

Utilities allowance

A portion of a minister's compensation that is excluded from gross income for federal income taxes, but not for Social Security/Medicare taxes. The utilities allowance represents the costs, such as heat, electricity, water, gas and local phone service, that the church pays while the minister lives in the parsonage.

YEAR-END CHECKLIST

- If your church provides a parsonage, review the fair rental value and report any increase to MMBB so Benefits for Life premiums and benefits will be accurate (see page 31).
- See that the following information is sent to MMBB by December 15, 2011, for inclusion in the January 2012 premium invoice (see pages 21-25):
 - Compensation changes, including any change in the fair rental value of the parsonage or amount of the housing allowance
 - TDA contribution changes
 - TAS contribution changes
- Review last year's accountable plan for ministry-related expenses and adjust as needed to ensure that the expense allowance is adequate (see page 33).
- Collect from employees new health care and dependent care flexible spending account (FSA) salary reduction elections before the end of the plan year (see page 34).
- Remind employees to submit their FSA claims for the year before the FSA claims filing deadline (see page 34).
- Provide Copies B, C and 2 of Form W-2 to employees by February 1, 2012 (see pages 35-39).
- File Copy A of Form W-2 with the Social Security Administration by March 1, 2012 (see pages 35-39).
- Contact UMR (866.868.0502, option 1) to obtain *PremierHealth* insurance plan premium rates for 2012 (see pages 26-30).
- Do you, the employer, have an MMBB plan document for each plan in which you participate?
- Does your church participate in other 403(b) retirement plans? If so, contact MMBB for an Information Sharing Agreement.
- Has your church signed and returned Adoption Agreements and kept copies on file?

RESOURCES

Available free of charge from the Internal Revenue Service, 800.829.3676, or www.irs.gov:

- Publication 517—*Social Security for Members of the Clergy and Religious Workers*
- Publication 15—*Employer's Tax Guide*
- Publication 17—*Your Federal Income Tax for Individuals*
- Publication 463—*Travel, Entertainment and Gift Expenses* (for help with accountable plans for ministry-related expenses)

Available free of charge from MMBB:

- *Tax Guide for Ministers*, Richard R. Hammar (updated annually)
- *Federal Reporting Requirements for Churches*, Richard R. Hammar (updated annually)
- Sample Flexible Spending Accounts Kit
- "Social Security Information for Those Entering the Ministry"

Available for purchase

- *Church and Clergy Tax Guide*, Richard R. Hammar. Purchase from www.YourChurchResources.com. Telephone: 800.222.1840.



The Ministers and Missionaries Benefit Board

475 Riverside Drive • Suite 1700
New York, NY • 10115-0049

T 800.986.6222

F 800.986.6782

www.mmbb.org