



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

Understanding Effective Salary

OF THE PRESBYTERIAN CHURCH (U.S.A.)



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Effective Salary and the Benefits Plan

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

Effective salary determines:

- medical deductibles and coinsurance out-of-pocket maximums for members in the PPO option
- medical dues for members in the Congregational Pastors Package or Transitional Pastor's Participation
- pension and death and disability dues
- accrual of pension credits and pension benefit
- death benefits, including salary continuation benefits and lump-sum death payments

PLAN DEFINITION

The definition of effective salary as it appears in Section 1.6 of the Benefits Plan follows:

The total compensation received by a Member and reported to the Board by the Eligible Employer during a Plan Year, including, but not limited to, any sums paid as a Housing Allowance (including utilities and furnishings). Effective Salary includes (1) any deferred compensation (funded or unfunded) credited to or contributed on account of a Member by an Eligible Employer during a Plan Year, with the exception of any amounts contributed as an Eligible Employer contribution to the Retirement Savings Plan under a matching contribution program that is available to at least all employees of the Eligible Employer in the same employment classification, and (2) any salary reduction contributions to a plan or other arrangement providing a tax-favored benefit. Effective Salary does not include amounts received for reimbursement of professional expenses through an accountable reimbursement plan or Social Security amounts up to fifty percent (50%) of a Minister's Self-Employment Contributions Act obligations. With respect to a Member eligible for a Housing Allowance, the amount for housing is calculated as follows: if a Manse is provided, the amount will be at least thirty percent (30%) of all other compensation described above; if no Manse is provided, the amount will be the actual Housing Allowance.

For a Minister Member serving in concurrent multiple Eligible Services, for purposes of benefit accruals and the allocation of dues, Effective Salary is the aggregate of the compensation reported to the Board by each Eligible Employer for purposes of benefit accruals and the allocation of dues. The allocation of dues between the Eligible Employers and the designation of the Eligible Employer responsible for the Employer Agreement and dues remittance must be approved by the Board.

The plan year is January 1 to December 31.

This guide is a summary of certain Benefits Plan provisions. If there are any inconsistencies between the information in this guide and the terms of the plan document, the official plan document will govern. The official plan document — The Benefits Plan of the Presbyterian Church (U.S.A.) — is available on pensions.org or by request from The Board of Pensions of the Presbyterian Church (U.S.A.), 800-PRESPLAN (800-773-7752) (TTY:711).

ELEMENTS OF EFFECTIVE SALARY

The administrative interpretations set forth in this booklet establish the amounts of a member's compensation that must be included in the annual effective salary reported to the Board.

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

Effective salary includes most compensation, whether received in cash, in kind, or in deferred form. Generally, fringe benefits offered only to individual employees and optional benefits elected in lieu of cash are included in effective salary. Tax-free fringe benefits (other than housing-related expenses and benefits in lieu of cash) are generally excluded if the benefit is offered to all employees. The taxability of the compensation under federal and state income tax laws does not determine whether an item of compensation is to be included in effective salary. Any and all compensation, whether received in cash, in kind, or in deferred form, is included, with the exception of moving expenses reimbursed or paid by an employer pursuant to receipt of itemized expenses. Detailed information appears in the Specific Types of Payments chart in this booklet.

Effective salary does not include accountable reimbursements for business expenses advanced by the member on behalf of the employer. Accountable reimbursements for business expenses are those reimbursements made by an employer upon substantiation by or an accounting from the member of the purpose, date, amount, and place of the expenditure. Refer to the Internal Revenue Code or consult with your personal tax adviser or a qualified tax professional for further clarification of requirements.

Generally, effective salary includes reimbursement of personal expenses and general lump-sum allowances for which the member has no obligation to account for to the employer, with the exception of moving expenses reimbursed or paid by an employer for a relocation for a new position.

SPECIFYING THE HOUSING ALLOWANCE

When a housing allowance is part of a member's effective salary, it must be itemized when reported to the Board. To comply with tax laws, the Board must maintain records of the itemized components of effective salary, such as cash salary and housing.

Most ministers' compensation packages include income that is not subject to federal income tax (for example, housing allowance or in-kind benefits, such as a manse). These effective salary components are important because Defined Benefit Pension Plan benefits accrue annually according to the plan's formula, rather than taxable income, namely, 1.25% of the greater of:

- your pension participation basis* for that year, or
- the applicable median salary

*Your pension participation basis is the greater of your effective salary (up to the IRS annual compensation limit for Defined Benefit Pension Plan purposes) or 25% of the applicable median.

MEDICAL DEDUCTIBLE AND OUT-OF-POCKET REQUIREMENTS

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

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

The deductible and medical coinsurance out-of-pocket maximum in effect on the date of service apply, not the deductible and medical coinsurance out-of-pocket maximum in effect when the claim is processed.

SALARY REPORTING AND VERIFICATION

The employer must correctly report the member's annual effective salary, benefit group, and the number of hours they are regularly scheduled to work a week and notify the Board within 30 days of any changes. Reporting information correctly and quickly ensures that members receive accurate benefits information and appropriate benefits payments and accruals.

The employer representative confirms or changes their members' salary information through Benefits Connect, the Board's benefits management website. Members can verify their salary and other benefits information through Benefits Connect.

If there appears to be a discrepancy between the employer's records and the information in Benefits Connect, the employer representative should call the Board at 800-PRESPLAN (800-773-7752) (TTY:711) and speak with a service representative. (Due to the confidential nature of the information, service representatives can confirm only whether the salary amount quoted is consistent with Board records. If there is a discrepancy, the representative will provide instructions for correcting Board records.)

REPORTING VARIABLE COMPENSATION

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

Timing of variable reporting

- Employers must report all salary changes online through Benefits Connect. The effective date for any salary change, including bonuses, must be within 30 days of the effective date. This timing requirement applies to all elements of compensation. (When reporting a salary change with an effective date in the future, keep in mind that the member's new salary will not appear in Benefits Connect until the effective date.)
- When reporting a bonus, employers should make certain that the effective date for the bonus is the appropriate year. Do not report a bonus for a prior year with the current year's effective salary. To report a bonus for the previous year and a salary change for the current year, employers must submit two salary changes: one salary change that reflects the prior year's salary, with the appropriate effective date of the bonus, and a second salary change with the current year's effective salary and the appropriate effective date.
- Fixed allowances, such as a car allowance paid in equal monthly amounts, are to be reported upfront, with cash salary information, when such allowances are not paid through an accountable reimbursement plan.

For members with a manse component, effective salary increases by the total amount of the reported changes, with an adjustment to ensure that the manse amount continues to be at least 30% of all other components of effective salary.

BILLING AND EFFECTIVE SALARY

Billing for pension and death and disability dues is based on the greater of the member's effective salary or the pension participation basis. The basis does not exceed the established maximum basis for pension and death and disability. Billing for medical dues for members enrolled in the Congregational Pastors Package or Transitional Pastor's Participation is based on effective salary subject to minimum and maximum salary amounts determined annually.

Dues for salary adjustments will be invoiced retroactively.

Visit pensions.org or call the Board at 800-PRESPLAN (800-773-7752) (TTY: 711) for current-year minimum and maximum participation bases. You can use the Total Effective Salary Calculator, on pensions.org, to determine the potential impact of salary adjustments on dues.

SPECIFIC TYPES OF PAYMENTS

For questions about taxes associated with a form of payment, call your tax adviser. The Board's service representatives may answer effective salary questions but are not qualified to provide advice about federal income taxes or payroll taxes.

Form of payment	Is it included?	Explanation
Allowances book/car/study	No	Excluded if reimbursed via an accountable plan under the IRS rules.
Annual cash salary	Yes	Gross annual compensation must be reported. For partial-year employment, report the full annual salary.
Bonuses/gifts to an employee	Yes	Must be reported within 30 days of award; pension credits for the bonus accrue in the payment year.
Copay, coinsurance and/or deductible reimbursement	No	It is not included if paid or reimbursed by a third party as part of a supplemental wraparound plan provided by the employer (under Internal Revenue Code Sec. 105) on a group coverage basis to all employees of that employer or employees of the sponsoring governing body.
Deferred compensation	Yes	Includes employer and employee contributions to the Retirement Savings Plan of the Presbyterian Church (U.S.A.), 403(b) plans, or similar arrangements. If an employer offers to match elective contributions made to the Retirement Savings Plan, the employer match portion of the contribution is not included. Employers must make any match program available to all eligible employees.
Dues/Benefits Plan	No	The amount paid by the employer represents that organization's share of the funds needed to provide the benefits to all employees under the Benefits Plan and is not included in effective salary.
Housing allowance	Yes	Includes designated amounts for housing, even if used to pay rent to the employer.

Form of payment	Is it included?	Explanation
Insurance premiums (group policies)	No	Premiums for group coverage, such as dental, vision, etc., provided by an employer to all employees in one or more employment classifications are not included under any circumstance. All Benefits Plan benefits that are paid for by an employer are considered group policies.
Manse value	Yes	Included if a manse is provided to clergy, in an amount equal to at least 30% of all other compensation included in effective salary.
Self-Employment Contributions Act (SECA) reimbursements	Yes, in excess of 50%	SECA tax is generally 15.3% of the minister's net income. If the employer pays for or reimburses the minister more than 50% (in other words 7.65%) of this expense, then the amount in excess of 7.65% is included in effective salary.
Severance pay	Yes	Includes all payments related to termination, whether made as a lump sum or in installments. Dues apply to all salary components of the severance arrangement.
Spending accounts (125 allowances)	Yes	Includes voluntary salary reductions for tax-advantaged plans [e.g., flexible spending accounts (FSAs) or health savings accounts (HSAs)].
Tax-deferred/sheltered annuities	Yes	Includes voluntary salary reductions for tax-advantaged plans.
Utilities allowance	No	Excluded if utilities are maintained in the employer's name and paid for directly by the employer.
Vacation pay	Yes	Included, even though the employee is not actively working.

TOTAL EFFECTIVE SALARY CALCULATOR

The Total Effective Salary Calculator, available on pensions.org, is designed to help you calculate total annual effective salary for Benefits Plan purposes, based on the information you provide. It may be helpful in submitting salary changes through Benefits Connect. The calculator is for effective salary only and is not intended to provide Social Security or income tax advice. For income tax information, please refer to IRS publications or seek the advice of a competent tax adviser.



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