FAQ: Flexible Spending Accounts (FSA's)

Why the need for a change from MERP to FSA? ***The Benefits Corporation has been informed that the MERP (Medical Expense Reimbursement Plan) is not in compliance with IRS rules and codes. Another name for a MERP is HRA (Health Reimbursement Account). HRA's are funded solely by the employer and any remaining funds at the end of the year can be carried over to the next year. Our MERP was funded generally from the payroll deductions of the pastor and did not allow any remaining funds to be carried over to the new year – therefore the MERP was not in compliance with IRS definitions. FSA's allow for both the employer (the church) and the employee (the pastor) to contribute.***

What are FSA's? The church establishes a Flexible Spending Account from which the pastor can be reimbursed for specified medical expenses. (see Health Care Flexible Spending Account agreement form included)

How did FSA's originate? The U.S. Congress passed the Revenue Act of 1978 initiating Flexible Spending Accounts. They are also part of the IRS Code Section 125 – also called 'cafeteria plans'.

Who is eligible for an FSA? All licensed and assigned pastors are eligible who are employed a minimum of 25 hours per week.

How is an FSA funded? With the establishment of the FSA, the pastor determines how much he elects to contribute for the Plan year. (the Plan year is the same as our salary year: January 1 through December 31) This amount will be deducted from each paycheck, on a pre-tax basis, and credited to your FSA. This means that a pay check will be reduced by the pro-rated amount that the pastor determines that he wants to contribute.

Can the church contribute to an FSA? Yes. The IRS allows employer contributions and by National Conference Rule 1002.7, churches are to provide $500 for full-time pastors and families ($250 for single pastors) to be used to reimburse deductible medical expenses. However, the $500 only applies to pastors who contribute to the FSA with a minimum of $100 per year from his own paycheck.

Can the amount contributed to the FSA change during the year? The basic answer is NO, but there are certain qualifying life events or a change in status that do allow a revision. Generally, the amount the pastor elects to be withheld from his salary when the salary is set is the figure that will be in effect for the entire salary year.

How is the pastor reimbursed? The pastor needs to submit supporting documentation to the agent in the local church who will review the claim.

How often can the pastor be reimbursed? Generally, claims are submitted once a month.

What if the claims submitted for reimbursement exceed what is credited to the FSA? The pastor can be reimbursed at any time during the year, regardless of how much has already been credited to his FSA, as long as the total submitted claims do not exceed the amount that is set for the entire Plan year. Once the pastor submits claims that reach the amount set for the entire Plan year, he cannot submit any further claims for reimbursement unless he qualifies for a revision or a new Plan year begins.

What kind of documentation is required? Copies of Explanation of Benefits from the health insurance provider that indicate the amount of unpaid expense; medical bills showing what the health insurance company paid and did not pay, and/or itemized receipts that indicate payment for medical expenses not covered under the health care plan.

Who is the agent in the church who reviews the claims? In most cases, this will be the church treasurer, but the person responsible may vary from church to church.

Can health care expenses be submitted for family members? Yes, eligible health care expenses incurred by family members (pastor, spouse or any other dependent as defined for income tax purposes) are allowable.

What are eligible medical expenses? Any expense allowed as a medical deduction under the IRS Code Section 213, such as deductibles, co-pays, routine physicals, vision and dental care; and medications purchased without a doctor' prescription.

What medical expenses are not eligible? Health care insurance premiums, cosmetic surgery, costs of weight loss programs, long-term care insurance, dietary supplements (ex.: vitamins), or any other products that are merely beneficial to the general health of an individual.

What happens if there are not enough medical expenses during the year to claim reimbursement of all the money that was contributed to the FSA? IRS rules forbid any kind of refund or transfer of any unused funds that remain in the FSA at the end of the year. The cliché "use it or lose it" applies to any unused funds. For this reason, the pastor should determine a conservative amount when setting his contribution. NO funds may be carried over from one year to the next.

What happens if medical expenses occur in December and the Explanation of Benefits do not come until January of the new year? If funds are remaining in the account at the end of the year and the pastor has participated in the Plan for the whole Plan year, he may submit claims for reimbursement for 90 days (or until March 31st) and use the funds remaining in the old year's FSA. If there are no funds remaining in the old year's FSA, these expenses may be submitted against the new year's FSA account.

What happens if the pastor leaves (by assignment to a new church by National Conference or through his own actions) sometime during the Plan year? If the salary was set and approved with an FSA contribution, the pastor could use the entire amount designated, even though, he would not have had all of it credited to his FSA account when he moved. Ethically, the solution would be to use only the amount that has been actually credited to the FSA account for reimbursement through the final paycheck at the served church. If there are unused funds in the FSA at the time of the move they will be forfeited, but the pastor will have 90 days to submit any outstanding claims for expense the he and/or any other member of his family incurred while assigned as pastor at the served church.

How does participation in an FSA affect taxable income? Neither the amount determined as a contribution to the FSA, nor the church's contribution is subject to federal income tax nor are they subject to Social Security Employment Tax. This means taxable income is reduced by the amount designated as a contribution.

What is meant by the Pre-Tax Premium portion of the Flexible Spending Account? This refers to item #15 in the 2007 National Conference Compensation Committee Report, where churches have the option to deduct a portion of the pastor's salary as payment for health insurance premiums according to a schedule listed in the report. This deduction is determined in discussion between the pastor and his church at the time the salary package is approved. This aspect of the FSA allows the deduction to be made pre-tax, as a deduction from the pastor's gross income for each payroll period. The new gross income is the income less the pre-tax deduction to the health insurance plan.

.