

## **FAQ: FLEXIBLE SPENDING ACCOUNTS (FSA'S)**

(For details -- see Flexible Benefit Plan- Summary Plan Description)

*Why the need for a change from our current MERP? Our health insurance broker, Corporate Synergies, has informed us that we are not in compliance with IRS rules and codes regarding a Medical Expense Reimbursement Plan (MERP). A MERP is also called a Health Reimbursement Account (HRA). 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. We called ours a MERP, but most of the funding for them came as payroll deduction from the pastor's salary and we did not allow any remaining funds to be carried over to the new year; thus we were not in compliance as the IRS defines a MERP. FSA's allow for both the employer (the church) and the employee (the pastor) to contribute. In the FAQ below, FSA's are further explained.*

**What are FSA's?** The church establishes a Flexible Benefit Plan 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?** 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, assigned pastors are eligible who are employed a minimum of 25 hours/week.

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

**Can my church contribute to my FSA?** Yes, The IRS allows employer contributions and by National Conference Rule 1002.7, churches are to provide \$500. Pastors can only receive this \$500 if they agree to participate in the FSA with their own payroll contribution and if they are a participant in the health insurance plan of the denomination as administered by the EC Church Benefits Corporation.

**Is there a maximum amount that can be contributed?** Yes, the National Conference Compensation Committee has established a maximum of \$4000 that can be contributed to the FSA. This amount includes the \$500 church (employer) contribution.

**Can I change how much I contribute to my FSA during the year?** The basic answer is No, but there are qualifying life events or 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. (See Summary Plan Description for specifics)

**How am I reimbursed?** You need to submit supporting documentation to the agent in your local church who will review your claim.

**How often can I be reimbursed?** Generally, claims are submitted once a month.

**What if my claims to submit for reimbursement exceed what I have credited to my FSA?** You may be reimbursed at any time during the year, regardless of how much has already been credited to your FSA, as long as your total submitted claims do not exceed the amount that you set for the entire Plan year. Once you use up the amount that was set for the entire Plan year, you cannot submit any further claims for reimbursement unless you qualify for a revision or a new Plan year begins.

**What kind of documentation?** 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 my church who reviews my claim?** In most cases, this will be the church treasurer, but the person responsible may vary from church to church.

**Can I submit health care expenses for my family?** Yes, eligible health care expenses incurred by you, your spouse or any 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's prescription. (see Summary Plan Description for specifics)

**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) that are merely beneficial to your general health (See Summary Plan Description for specifics)

**What happens if I do not have enough medical expenses during the year to claim reimbursement of all the money that I have contributed to my 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, please determine a conservative amount when setting your contribution. No funds may be carried over from one year to the next. All funds remaining in the account at the end of the year are to be remitted to the Plan Administrator, the EC Church Benefits Corporation. By IRS regulations, the Corporation must then divide and distribute any remaining monies, equally, to all plan participants. PLEASE SET A CONSERVATIVE AMOUNT FOR YOUR CONTRIBUTION!

**What happens if my medical expenses occur in December and the Explanation of Benefits do not come until January of the new year?** If you have funds remaining in your account at the end of the year and you have participated in the Plan for the whole Plan year, you may submit claims for reimbursement for 90 days (or until March 31st) and use the funds remaining in the old year's FSA. If you do not have any funds remaining in the old year's FSA, these expenses may be submitted against the new year's FSA account.

**What happens if I leave my church in the middle of the Plan year (ex.: assigned to a new church at National Conference)?** If your salary was set and approved with a FSA contribution, you could use all of the amount designated, even though, you would not have had all of it credited yet to your FSA account when you are moved. Ethically, a better solution would be to use only the amount that has been actually credited to your FSA account for reimbursement through your final paycheck at that church. If you have unused funds left in your FSA at the time of your move, you will forfeit those unused funds, but you will have 90 days to submit any outstanding claims for expenses that you and/or your family incurred while pastor at that previous church.

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

**What is meant by the Pre-Tax Premium portion of the Flexible Benefits Plan?** This refers to Item #15 in the 2007 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 the schedule in Item #15 of this National Conference 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 Flexible Benefit Plan allows this deduction to be made pre-tax, as a deduction from the pastor's gross income for each payroll period. Your new gross income is your income less the pre-tax premium to the health insurance plan.

***Please read carefully the Flexible Benefit Plan-Summary Plan Description before deciding whether an FSA is right for you and your family.***