



Free Methodist Church of North America Pastor's Compensation Calculator

For Use in Determining Compensation Information to Report for Pension Purposes

Note: Please remember that there is no relationship between pension and taxes when reporting compensation to Human Resources. The two are governed by entirely separate sets of rules.

Eligibility: In order to be eligible for the pension plan, a pastor must be under appointment by the conference (not a direct hire by the church, which is sometimes the case with youth and music ministers, for example), and must be compensated by the church with a salary and/or some type of housing compensation. To determine eligibility for conference employees or non-pastoral employees of the church, please call the Human Resources office.

Part One: Base Salary

Report the pastor's base salary (please specify weekly, monthly or yearly), plus or minus the following:

Effective January 1, 2006, Social Security should be included as part of compensation for pension reporting purposes - regardless of how it is listed in the church budget.

Social Security (Prior to January 1, 2006): If the pastor receives compensation for Social Security from the church, it may be reportable as salary for pension purposes. The answer is found in the church's official budget. If the pastor is responsible for his or her own Social Security payments out of the base salary (the budget will not show a "Social Security" line item), then report the entire base salary. If the Social Security compensation is listed as a reimbursement (in the same way that mileage, expenses, etc. are listed), then it cannot be reported as part of the pastor's income for pension purposes.

TDA Payments: If the church pays into a tax-deferred annuity plan on behalf of the pastor, this amount should be reported as part of the pastor's base salary for pension purposes. This includes contributions to IRAs, 403(b) accounts, etc. *Please note that the church's payments on behalf of the pastor to the Free Methodist pension plan cannot be counted as part of the pastor's salary for pension purposes.*

Do not include:

- ❖ Any insurance premiums paid by the church on behalf of the pastor.
- ❖ Direct reimbursements and/or benefit payments by the church for ...
 - Mileage and/or travel
 - Professional expenses
 - Educational expenses
 - Medical expenses – However, if the pastor designates a portion of the salary to be withheld as a tax-free reimbursement for medical, dental, or other expenses (such as a Section 125 cafeteria plan), this portion of the salary should be reported as part of the pastor's income for pension purposes (because the reimbursements are actually being made from the pastor's salary and not the church budget – they function as a tax shelter for the pastor).

Part Two: Housing Compensation

Note: *If the pastor receives no salary (as defined above), but does receive housing compensation (as defined below), then the pastor is still eligible for the Free Methodist Church of N.A. Defined Benefit plan.*

How to report the pastor's housing for pension purposes depends on whether the pastor has a parsonage or receives a housing allowance. Please see the appropriate section below, based on the pastor's arrangement.

If the pastor receives a cash housing allowance (*pays own housing expenses*) ...

... then simply report the amount of the housing allowance as housing compensation (please specify either annually or monthly).

If the pastor lives in a parsonage or other church-provided housing (*church pays pastor's housing expenses directly*) ...

... then use the guidelines below to report the pastor's housing compensation:

1. The church should determine the fair market rental value of the parsonage.
2. The church should determine the average monthly amount of the utility bills paid on the parsonage.
3. Add the two amounts together and report the total as the pastor's housing compensation (please specify either annually or monthly).

Please Note: When any change in compensation and/or status occurs, it is important that Human Resources receive a "Change of Status" form within 30 days of the change. Below are some examples of changes that need to be reported:

- ❖ A pastor's marital status changes (this usually changes the beneficiary)
- ❖ A pastor transfers to another church and/or conference
- ❖ A pastor's salary either increases or decreases

The Change of Status form can be obtained via our Web site (<http://hr.freemethodistchurch.org>) – please click on the "forms" button on the home page, or by calling us for a faxed or mailed copy.

The Change of Status notice is needed in addition to completing the Annual Report.

If you have any questions about the above information, please call the Human Resources office at the World Ministries Center (800-342-5531).