## Understanding Effective Salary

*For the latest edition of the Terms of Call please see the Presbytery of Milwaukee website.*

Effective salary is an important part of the Benefits Plan for employing organizations who pay dues and members who receive benefits. The booklet, [*Understanding Effective Salary*](https://www.pensions.org/AvailableResources/BookletsandPublications/Documents/pln-103.pdf), from pensions.org, describes the various types of compensation or reimbursements most frequently paid by churches and other employing organizations and identifies those types that must be included in effective salary for Benefits Plan purposes.

The Benefits Plan links both dues and benefits to the financial situation of the employing organization and employee. The effective salary of the participant determines:

* Medical and pension dues for members in the Traditional Program.
* Death and disability dues and the benefits for all participating members.
* Dues for members with optional supplemental disability coverage.
* Healthcare deductible and copayment limits for all participating members.
* Accrued pension credits for members with pension coverage.

### Definition

The definition of effective salary in Sec. 2 .1 of the Benefits Plan is:

“Any compensation received during a Plan Year by a Benefits Plan Member from an employing organization, including but not limited to any sums paid as a housing (including utilities and furnishings) allowance. Effective Salary shall also include any deferred compensation (funded or unfunded) credited to or contributed on account of a Member by an employing organization during a Plan Year, with the exception of any amounts contributed as an employer contribution to the Retirement Savings Plan under a matching contribution program that is available to at least all employees of the employer in the same employment classification, and 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 teaching elder’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 shall be at least thirty percent (30%) of all other compensation described above; if no Manse is provided, the amount shall be the actual housing allowance.”

The plan year is January 1 to December 31.

### Elements of Effective Salary

Effective salary only relates to compensation received from the member’s employing organization. Amounts received directly from other organizations or persons are not included (e .g ., honoraria or gifts). Effective salary includes most compensation, whether received in cash, in kind, or in deferred form. Generally, fringe benefits only offered to individual employees, or where an employee can elect an optional or supplemental benefit in lieu of cash, are included in effective salary. Tax- free fringe benefits (other than housing-related expenses or fringe benefits in lieu of cash) are generally excluded if the benefit is offered to all employees. The current 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.

### Minimum Effective Salary Requirement

The Benefits Plan of the Presbyterian Church (U.S.A.) is a church employee benefit plan as defined in §414(e) of the Internal Revenue Code with legal standing to provide benefits for teaching elders and church employees only. Donated or volunteer services do not constitute a valid employment relationship for plan purposes.

The Board of Pensions adopted Administrative Rule 305 (available on pensions .org) to clarify that the plan deems an eligible employment relationship to exist when the employee/member has a total effective annual salary of at least 25% of the current year’s church-wide median salary for pastors serving local congregations (the minimum pension participation basis) . The IRS has other tests for determining employed status.

Annual salary for full-time service (35 hours a week or more) must be at least equal to the current year’s pension minimum salary participation basis. The Benefits Plan defines 1,820 hours as full-time service (1,820 hours/52 weeks = 35 hours a week).

For part-time workers (working 20 or more hours a week, but fewer than 35 hours a week), the minimum annual salary is prorated based on the hours worked compared to 35 hours. Annual salary for part-time service must reflect the same proportion to the current year’s minimum salary requirement as the member’s hours are to 35 hours.

To arrive at the required annual minimum salary for employees scheduled to work fewer than 35 hours a week, use the following formula:

Divide the current year’s minimum pension participation basis by 35 hours a week.

Then multiply the result by the actual number of hours a week the employee is scheduled to work.