Alaska Conference Pastoral Support Worksheet Definitions - 2027

Accountable Reimbursement Plan

Because pastors are employees for federal income taxes a formal plan must be adopted whereby the local church reimburses pastor for professional expenses incurred in performing their ministry, including travel, professional and continuing education, as they are requested and accounted for by the pastor to the local church. In a resolution each year the local church sets forth the mileage rate the pastor will be reimbursement. For 2026 the IRS raised the maximum allowable IRS mileage rate to 72.5¢. The IRS sets the rate annually in December of each year so check back later for the 2027 rate.

Before Tax Deferrals

To save for retirement years on a before-tax basis, the pastor and church (salary-paying unit) may enter into a salary-reduction agreement. In the agreement, pastor will state the amount of salary they are willing to forgo as current compensation. Church will agree to make before-tax contributions to Compass if appointed ½ time and above or UMPIP (United Methodist Personal Investment Plan) if appointed ¼ time equal to the amount specified in the salary-reduction agreement. Pastor does not pay federal income taxes on this deferral until withdrawal.

The pastor can also have a salary-reduction as an After-Tax Deferral where an after-tax contribution is made to Compass or UMPIP. The pastor would pay federal income taxes on this deferral. There is a better option for after-tax contributions if have not maxed out the before-tax contribution option; a Roth where earnings grow tax free and no tax when withdrawn. Get the Compass or UMPIP form from Kristi Durhan (kristi@umoi.org) or make the change directly on your Wespath Benefit Access account. The maximum allowed to contribute to Compass/UMPIP has not been determined for 2027. In 2026 the limit is $24,500 if under 50 and $32,500 if 50 to 59 or over 62. From ages 60 to 63 the 2026 limit is $35,750.

<u>Note that a Before Tax Compass or UMPIP contribution also reduces the pastor's self-employment taxes where neither after-tax or Roth do.</u>

Code Section 107 Housing Exclusion and Housing Allowance

IRS code provides pastors with an exclusion from gross income for the rental value of a home furnished as a part of compensation (parsonage) or the rental allowance paid as part of compensation to the extent used to rent or provide a home. A cleric who is provided with a home may also receive a cash allowance to cover additional qualifying expenses (utilities/furnishing). Most churches in Alaska pay the utilities directly for pastor where they live in parsonage. If church pays utilities directly it is not included is pastor's plan compensation.

Code Section 125 "Cafeteria Plan"; medical reimbursement/dependent care accounts
Employer (Wespath) has agreed to provide benefits according to section 125 of the Internal Revenue Code. A Section 125 plan is a written group insurance plan which allows pastors a choice (cafeteria) among benefits consisting of a salary reduction through pre-taxed dollars to pay for eligible expenses. There are two types of accounts; The Medical Reimbursement Account (MRA) and the Dependent Care Account (DCA). The pre-tax dollars will be deducted from one's salary each pay period on a pre-tax basis. It is available through the HealthFlex plans of Wespath.

Code Section 403(b) Plans
The retirement benefit plans administered by the Wespath are governed by the provisions of Code section 403(b) of the Internal Revenue Code. Code section 403(b) plans are available only to pastors of certain non-profit organizations and public schools.

Compass Retirement Plan
In May 2024, General Conference voted to create a new mandatory account-based retirement plan for U.S. clergy called **Compass**, which began January 1, 2026. Accordingly, effective December 31, 2025, the Clergy Retirement Security Program (CRSP) became the predecessor plan. All benefits earned under CRSP are preserved, meaning clergy retain all their earned benefits. With an account-based, defined contribution (DC) retirement plan, each clergy has their own account—the money in that account belongs to that individual, to keep for the rest of their lives—and any remaining balance can be left to family members, or to a church, charity or other beneficiaries after the clergy dies. A DC account grows over time by investing in the financial markets.

Compass will not change the benefits being received through legacy retirement plan, Pre-82 and Ministerial Pension Plan. Clergy who earned pensions through Pre-82 or MPP will retain these benefits. The move to Compass does not impact any benefits that have already been earned.

The UMC will make three types of contributions to each eligible clergyperson's Compass account:

$150 per month **flat-dollar contribution** (increasing 2% per year rounded down to the nearest $5 increment). If ½ appointment the flat-dollar contribution is $75 per month and ¾ time $112.50 per month. <u>As a missionary conference the cost for this benefit is paid by non-missionary conferences.</u>
3% of clergy's compensation; <u>as a missionary conference the cost for this benefit is paid by non-missionary conferences.</u>
$1 for $1 match on up to 4% of the clergy's compensation, based on how much the clergy contributes to Compass. The salary paying unit will be charged 3% of plan compensation with the conference board of pensions picking up the remaining 1%. 3% will be charged the local church no matter if the pastor contributes enough for the full match.

Compass eligibility is for clergy appointed half-time (50%) and above. To help pastors increase their Compass personal contribution to be better prepared financially for retirement Compass automatic features apply. Beginning in 2026 the minimum Compass contribution is 4% of plan compensation unless pastor opts out.

Compass's automatic contribution escalation is increased by 1% of plan compensation per year at the beginning of each subsequent year up to a maximum of 10% of plan compensation.

The automatic features will strategically combat inertia and procrastination by getting pastors enrolled, contribution increases each year as compensation increases and jump-start their retirement savings program. This change has been very effective to increase the contributions made by Alaska clergy to UMPIP. In January 2018 the average contribution was 5.22% of plan compensation. In August 2026 the average contribution was 11.4% of plan compensation!

Comprehensive Protection Plan (CPP)
Denominational welfare plan for appointed pastors that provides disability and death benefits. This benefit is only available to full-time appointed pastors beginning in 2017. For part-time ordained, provisional, associates and deacons there is coverage provided through UMLife Options. Please see this section for the details.

Denominational Average Compensation (DAC)
Beginning in 2026 the previous year's denominational average compensation will increase by 2% annually. The DAC in 2027 is $83,541. The DAC is the average compensation of full-time U.S. clergy participating in the Clergy Retirement Security Program (CRSP) and/or the Comprehensive Protection Plan (CPP).

Equitable Compensation
Funding provided by conference to a few local churches for salary support of appointed pastor.

HealthFlex
It is a managed care health product administered through Wespath which offers several benefit choices to meet personal needs.

Health Insurance Blended Rate
The annual mandatory funding of health insurance direct billed to local churches for each appointed full-time pastor and their family, if applicable. A blended rate is determined from the actual cost of single, pastor plus spouse and pastor plus family. If there is a

spouse or spouse plus children covered by health plan the pastor through a salary reduction is responsible for $150 of the monthly cost.

The 2027 health premium is increasing 14.8% (medical 16.4%, dental 0% and vision 0%) compared to the 2026 premium but the cost to the salary paying unit is only going up 7.5% with the conference board of pensions budget picking up the difference. In 2016 the conference switched to a new health program for non-Medicare participants called HealthFlex Exchange. Participants are given choice between six medical/pharmacy, three dental and three vision plans. The pastors will be given a premium credit sum of money to be used to purchase the elected health benefits. If the premium credit amount is lower than the cost of plans selected the salary paying unit will be charged the difference to be paid through salary reduction from pastor. If the premium credit exceeds the cost of plans selected the balance will be added to their health reimbursement account or health savings account.

Health Insurance Paid by Pastor

A Section 125 "Cafeteria Plan", see above, also allows a pastor to pay their and spouse/children health care coverage premiums on a pre-tax basis, thus lowering their taxable income and, consequently, their tax liability. A pastor's election to pay for benefits on a pre-tax basis is made by entering into a salary reduction agreement with the employer. Under a salary reduction agreement, a pastor elects to reduce his/her compensation by a stated amount on a pre-tax basis and those amounts are considered by the IRS to be employer contributions. In effect, it is as if the pastor has given up the right to receive that part of his/her salary before becoming entitled to it. Therefore, the pastor's salary reduction contributions are not actually received by the pastor, and thus, are neither considered wages for state, federal income and employment (social security and Medicare) taxes.

Health Savings Account

An HSA is a tax-advantaged account where money can be set aside to pay for future medical expenses. The HSA is offered as an employment benefit (money may be contributed by the plan and additional amount can be added by the pastor).

To contribute to an HSA, the pastor must have an HSA-qualified high-deductible health plan in place (there are two beginning in 2027). The IRS sets limits on the minimum and maximum out-of-pocket levels for the HDHP and has contribution limits for HSAs. There is no "use-it-or-lose-it" requirement with HSAs – money that is not used for health expenses rolls over from one year to the next, and the account belongs to the employee, even if it's funded by the plan.

Withdrawals for purposes other than qualified health expenses are subject to income taxes and a penalty. However, once one turns 65, one can use the money in their HSA for any purpose they like, without a penalty. One will still pay income taxes on it if it's used for non-health expenses. It is good way to build a fund for health costs for when one retires. These funds can also be invested.

Plan Compensation

It is determined by adding the total cash salary to either a housing allowance or 35% of total cash salary if live in church parsonage (this is a change with the Compass retirement plan). There is a minimum parsonage value of $10,000 and maximum of $65,215. The plan compensation is used to determine these benefit costs: Compass match, comprehensive protection plan, UMLife Options plan and those clergy covered by UMPIP.

Salary-Reduction Agreement

The agreement one makes with church/salary-paying unit that authorizes them to make contributions from one's salary to a plan qualified under section 125 of the Code or to a tax-sheltered annuity described in section 403(b) of the Code.

UMLife Options

In 2017 CPP was no longer available to ½ & ¾ time appointed ordained, provisional, associates or deacons. In its place UMLife Options is provided. It is a program through Wespath and is fully insured through UNUM. Disability and death benefit coverage is provided to the pastor, their spouse and eligible children. The cost is charged to the local church (salary paying unit) as a percentage of plan compensation even though the cost is age based. The percentage of plan compensatoin is the same for each eligible part-time appointment. The 2027 cost is 2% of plan compensation.

United Methodist Personal Investment Plan (UMPIP) ¼ time appointment

UMPIP is an Internal Revenue Code section 403(b) voluntary retirement savings plan designed to supplement one's employer- sponsored pension plan. UMPIP is administered by Wespath. Any before-tax contribution to UMPIP by pastor is reduced from the income used to determine their self-employment tax.

There are no benefits for pastors appointed less than ¼ time.

bg 8/12/2026