

Administrative Guidelines For Establishing A Section 125 – Flexible Benefits Plan

The Section 125 – Flexible Benefits Plan (Plan) will be a conference–wide “cafeteria plan” on a multi-employer basis in which various local United Methodist Churches may elect to participate. The local church would sponsor the Plan; whereas, the Conference Benefits Office would provide administrative services; the Conference Treasurer would collect contributions and; Klais & Company, the conference’s third party administrator for health care benefits, would issue reimbursements from participant’s accounts.

I. Administrative Responsibilities

Local Church

The local church completes the *Adoption Agreement for the Section 125 – Flexible Benefits Plan*; thereby, becoming the Plan Sponsor.



The Plan Sponsor will designate a Plan Administrator. The Plan Administrator should be an individual within the local church who will be responsible for:

- Offering the Plan to their pastor(s) and employees NO LATER THAN one month prior to the start of a new Plan Year.
 - The Plan Year is the calendar year.
 - Participation in a Section 125 – Flexible Benefits Plan is an annual election.
- Distribution of an updated Flexible Benefits Plan booklet to each eligible participant prior to a Plan Year.
- Timely collection of the election forms from each eligible participant.
- Forwarding copies of the elections forms to the church’s payroll personnel.
 - Payroll personnel must deduct from each participant’s compensation their monthly pre-taxed contribution. If the local church issues compensation twice a month then the

participant's monthly contribution would be divided in half and deducted from each paycheck.

i.e., participant elects a yearly contribution of \$1200.00, the monthly deduction would be \$100.00; if the paychecks are issued bimonthly, then each paycheck would have a deduction of \$50.00.

- Verifying that each participant's monthly contribution is not greater than the participant's monthly compensation.
- Forwarding copies of the elections forms to the Conference Benefits Office.
- Timely communication of 'election changes' due to 'Life Status' changes to the Conference Benefits Office (Reference page 3 of the Flexible Benefits Plan Handbook.)
- Insuring that the contributions are forwarded to the Conference Treasurer's Office monthly.
 - The Health & Pension Statement issued each month by the Conference Treasurer's Office will include billing for participant's contributions.

Conference Benefits Office

The Conference Benefits Office will provide the local church with the following administrative services:

- Distribution each Plan Year of updated Flexible Benefits Plan Booklets, elections forms and claim forms to Plan Sponsors.
- Compiling, recording and maintaining elections forms.
- Providing Klais & Company with participants' elections.
- Setting up billing to the local church for monthly contributions.



- Paying Klais & Company for administrative costs of \$3.50 per month, per participant. (Interest from Health Care Reserve will fund administrative costs.)

Conference Treasurer's Office

- Collecting contributions and fund reimbursements in a timely manner.

Klais & Company, Inc.

Klais & Company, Inc., provide the following administrative services:

- Processing and issuing reimbursements on a bimonthly basis.
- Maintaining participant records.
- Issuing quarterly statements to participants.
- Sending monthly statement of participant accounts to Conference Benefits Office.

II. Disadvantages

What are the disadvantages for the participant?

- Accounts are regulated by Internal Revenue Service (IRS) guidelines; one regulation is known as the 'use it or lose it' rule, which states you must use all the money contributed in a plan year for eligible expenses incurred during the plan year. Any remaining balance is forfeited to the plan sponsor (employer).

What are the disadvantages of offering a Section 125 Plan for the plan sponsor (employer)?

- Employers offering a Flexible Spending Account bear some risk of loss. The uniform coverage requirement rule requires that the full amount elected by the employer be made available at the beginning of the plan year.

Important Note:

Example: an employee could elect to withhold \$3600 during the plan. The employee contributes \$300 each month. On January 15th, the employee submits a \$3,600 receipt for his corrective eye surgery performed a week earlier. The employee is entitled to reimbursement

of \$3,600. Ten days later the employee terminates his employment. The employer is not entitled to recover from the employee the balance owed the Flexible Spending Account.

The local church (Plan Sponsor) is responsible for funding the total amount reimbursed by the Plan minus the amount contributed.

III. Advantages

What are the advantages for the participants?

- Participants can pay for certain medical expenses on a pre-tax basis.
- Participation is voluntary.
- Participants' contributions are deducted from their compensation.
- Contributions are deducted BEFORE participants pay any social security taxes, federal, state, and local income taxes.
- Participants have more money in their take home pay.

What are the advantages of offering a Section 125 Plan for the plan sponsor (employer)?

- Plan sponsors (employers) pay less social security tax for their lay employees.
- Plan sponsors (employers) are offering a voluntary benefit.
- Under this conference-wide "cafeteria plan" the local church as the plan sponsor do not have any 'expense' to sponsoring the plan. The conference will absorb the cost. (Typically, annual and monthly fees are charged.)

IV. Eligible Participants

- Eligible participants are clergy and employees of the local church. (Temporary or seasonal employees are not eligible.)
- All participants should be mindful of the potential liability an appointment or employment



change could cause to their local church during the Plan Year; therefore, the participant should take this into consideration and make their election appropriately.

**Important
Note:**

At the time of the election period, an itinerant clergy who is knowledgeable of his/her change in appointment planned for July 1 of the upcoming Plan Year should make their election based on that knowledge and complete the appointment change box in Section IV of the Election Form.

Example: retirement is planned for July 1, the clergy person will be making only six (6) months of contributions to the Plan; therefore, the total amount of contributions would be eligible for reimbursement for expenses incurred during the same time period.

- *Participant elects \$1200 for the six (6) month prior to retirement.*
- *\$200 per month will be withheld from monthly compensation.*
- *Eligible reimbursements would be from January 1 through June 30.*

V. Implementation

What are the steps to implement a Section 125 Plan at our local church?

1. Thoroughly read the enclosed ‘sample’ handbook for participants.
2. Discuss the sponsoring of this benefit with the Finance Committee of your church.
3. Determine the contribution limit for the Medical Reimbursement Account. (The recommended maximum limit is \$3600.) IRS does not limit contributions to this account, whereas the Dependent Care Account cannot exceed the IRS limit of \$5000 in a Plan Year.
 - Note: A participant’s monthly contribution cannot exceed their monthly compensation.
 - Record the plan maximum limit of the Medical Reimbursement Account on the Adoption Agreement in Section 4.
4. The Finance Committee must approve the adoption of the Section 125 Plan; therefore, the local church becomes the Plan Sponsor.

5. Designate a Plan Administrator at your church. Reference page 1 for responsibilities.
6. Complete the Adoption Agreement - Immediately send the original copy of the Adoption Agreement to the EOC Benefits Office. (The mailing address is on the Adoption Agreement.)
7. Offer the Section 125 – Flexible Benefit Plan to other eligible participants as defined on the Adoption Agreement. (Each eligible participant must receive a copy of the enclosed ‘Flexible Benefits Plan – Participant Handbook & Election Form’.)
8. Each eligible participant must complete an Election Form. If an eligible participant does not wish to contribute to the Plan, the participant should complete the form, entering ‘0’ in all the fields, then sign and date the form.
9. Send copies of all participants’ completed election forms to the EOC Benefits Office.

**Important
Note!**

Election forms must be received prior to the start of the Plan Year.
Deadline for 2009 participation is December 8, 2008.

The 2009 Plan Year will be defined as January 1, 2009 through
December 31, 2009.

10. For ‘Flexible Benefits Plan’ Participant Handbooks & Election Forms, the Plan Sponsor may make copies of the “current” Plan Year Handbook or contact the Conference Benefits Office for any additional copy(s).