You can pay me now...
...or you can pay me later.

Remember the old Fram oil filter commercial with the mechanic advising you to spend little bit with him to maintain your car's engine all along to avoid paying a lot to replace your worn engine later? (Well, some of you probably aren't old enough, but *pay attention!* **This could save you some big bucks!**) Tidbits picked up at the Board of Pensions benefits review:

Insight #1— Pay the IRS a LITTLE BIT now, or a WHOLE LOT later.

If your employing organization pays the premium on a life insurance policy for you or any employee, this applies to you. (If you pay it yourself from after tax money, this does not apply.) The IRS allows an employer to provide up to $50,000 of life insurance as a tax free benefit. ANY AMOUNT OVER THAT IS TAXABLE. You owe tax on the value of the premium it costs to provide the extra amount. It is not that much, and chances are that the IRS is not going to notice, UNLESS YOU ACTUALLY DIE. Then, they will likely swoop in and tax the amount your beneficiary receives in the normally tax-free payout as ordinary income. Chances are, it will throw the beneficiary into a higher bracket as well. Would you rather pay tax on a hundred dollars or so as you go along, or on tens of thousands of dollars all at once (at 28-33%). OK, you would be dead, but the whole point of the insurance is not to leave your heirs in this kind of fix.

There is a formula to calculate the "imputed benefit" in the workbook the Board of Pensions sends church treasurers. It seems complicated, but taken step by step it can be done in about 5 minutes. It even tells in what box on the W-2 the imputed benefit goes. (Using a 1099 instead of a W-2? Big no no! Might even trigger an audit. I know you used to do it, but the law has changed. Use a W-2.) Here's what a difference this little exercise can make:

Someone, age 52, whose effective salary is $47,900 is given a life insurance policy of $100,000 as a benefit. The church pays the premium. $50,000 of the face amount is non-taxable, but the remaining $50,000 (the premium on it) is taxable. The formula determines that the benefit is worth $126.41 this year. In the 15% bracket that costs less than **$19.00**. At 28% it is barely **$35**. But if the tax is not paid, at the time of death your heirs would pay 15% of $50,000, which is **$7,500**—or 28%, which is **$14,000**.

$100,000 policy	Taxes paid yearly	Taxes not paid yearly
	~ $20-$40/year	$0
Tax at death on $50,000	$0	$7,500-$14,000
Keep on death	$100,000	$86,000-$92,500
Difference	Negligible over time	A LOT! (and it could be more if it raises your rate on everything else)

(**DISCLAIMER! This is NOT tax advice. Consult an expert.**[Our lawyers feel better now.]) If you have not been doing this, it is probably not worth re-filing past years. It **IS** worth doing it going forward, unless you have a few extra grand laying around that you want to give Uncle Sam. He will be happy to take it off your hands. <u>It is the taxpayer's responsibility to make sure this reporting is done, not the treasurer's.</u>

Insight #2—Let the church pay itself (and you) A LITTLE BIT now, and you A LOT later.

Employees of non-profit organizations (such as churches) are eligible to participate in 403 (b) retirement programs. As long as every employee in a certain class (see the rules) is given the same option to participate, there is an approach that can save money or *spread the same amount around differently to benefit the employee more for less cost to the employer*. <u>The only "catch" is that *the employee has to contribute to a 403 (b) through the Board of Pensions*</u>. Here is how it works.

The Board now allows (and encourages) employers to match employee contributions to the 403 (b) plan. As an incentive, the employer's portion of **the match DOES NOT COUNT TOWARD THE EFFECTIVE SALARY OF THE EMPLOYEE**. What that means is that the employer does not pay the 31.5% dues for pension and insurance on the amount matched. That savings can be used to restructure the package for the employee or, if the employee is overpaid (oh, sure!), to free up money for ministry in other areas.

There is a trade off here. There would be no pension credits on the matching amount to apply to the employee's account; BUT, the money in the 403 (b) would be the employee's outright. If left to "grow" in the 403 (b) until retirement, it could increase substantially. Furthermore, the nature of a pension is that it goes away completely upon the death of the employee and survivor; but, the 403 (b) passes on to the heirs. It is possible that the shift could even reduce the outlay for major medical enough to give the employee a lower deductible for healthcare. It could reduce and/or defer taxes, also. Here is a person whose current effective salary totals $61,000 looked at from several approaches. (Special treatment of housing allowances for tax purposes will not be considered here.)

Effective Salary	Dues of .315	Employee cont. to 403 b	Church cont. to 403 b	Cost to Church	Deductible for employee	Co pay limit for employee	Employee pays tax on
$61,000	$19,215	0	0	**$80,215**	$610	$2,435	$61,000
$61,000	$19,215	$6000	0	**$80,215**	$610	$2,435	$55,000
$58,000	$18,270	$3000	$3000	**$79, 270**	$570	$2,270	$55,000
$58,500	$18,428	$3300	$3300	**$80,220**	$570	$2,270	$54,400

Line 1 shows a "no frills, no savings, higher deductible, higher co-pay, higher tax" approach. **Line 2** shows how an employee willing to save for retirement can improve his/her tax liability, but it still costs the church the same amount. ***Line 3** shows how restructuring the same savings plan to include an employer match can save a church and an employee several hundred dollars each*. <u>**Line 4** shows that an employer willing to pay **essentially the same amount as line 1** could help the employee save even more</u>, especially considering tax and medical liabilities. Depending on how much the employee is able and willing to put into the 403 (b), the savings could be even more dramatic.

The tax savings on $6600 diverted to a 403 (b) at 15% would be$990. At 28% it would be $1848. That means that ***<u>$6600 could be saved</u>*** for retirement **at a true cost to the employee of *<u>only $2310</u>* in the 15% bracket** or **a *<u>mere $1452</u>* in the 28% bracket**!

Why would you not want to do this?