

# Congregational assistance for pastors/staff health insurance

## Introduction

Some congregations, rather than providing group health insurance to pastors and staff, prefer financial assistance in the form of a salary increase or other compensation. This assistance is used by the pastor and staff to purchase individual health insurance.

This arrangement can be set up, yet there are consequences. Here are possible options to consider:

### *Option 1: Direct compensation*

When compensation is specifically tied to making a premium payment in the individual health insurance market, such an arrangement is generally considered an employer payment plan, exposing both the congregation and employee to taxation.

It would require reporting the financial assistance as income on the employee's W-2 and would be subject to taxation. The arrangement may also expose the congregation to an excise tax that could be as high as \$100 per day per violation.

### *Option 2: Indirect compensation*

The congregation may simply give a salary increase, granting employees the option to use the additional salary as they wish, for a premium payment for individual health insurance or another purpose. In that case, the congregation should not be exposed to the excise tax, but the additional income must be reported on the employee's W-2 and is subject to tax.

### *Option 3: The Corinthian Plan*

Of course, congregations acquiring group health insurance coverage for their pastors and staff through The Corinthian Plan would not be exposed to the excise tax or expose employees to additional income taxation.\*

### **\*Internal Revenue Service bulletin, Dec. 9, 2014, Employer Health Care Arrangements**

*Q1. What are the consequences to the employer if the employer does not establish a health insurance plan for its own employees, but reimburses those employees for premiums they pay for health insurance (either through a qualified health plan in the Marketplace or outside the Marketplace)?*

Under IRS Notice 2013-54, such arrangements are described as employer payment plans. An employer payment plan, as the term is used in this notice, generally does not include an arrangement under which an employee may have an after-tax amount applied toward health coverage or take that amount in cash compensation. As explained in Notice 2013-54, these employer payment plans are considered to be group health plans subject to the market reforms, including the prohibition on annual limits for essential health benefits and the requirement to provide certain preventive care without cost sharing. Notice 2013-54 clarifies that such arrangements cannot be integrated with individual policies to satisfy the market reforms. Consequently, such an arrangement fails to satisfy the market reforms and may be subject to a \$100/day excise tax per applicable employee (which is \$36,500 per year, per employee) under section 4980D of the Internal Revenue Code.

*Q2. Where can I get more information?*

On Sept. 13, 2013, the IRS issued Notice 2013-54, which explains how the Affordable Care Act's market reforms apply to certain types of group health plans, including health reimbursement arrangements (HRAs), health flexible spending arrangements (health FSAs) and certain other employer health care arrangements, including arrangements under which an employer reimburses an employee for some or all of the premium expenses incurred for an individual health insurance policy. DOL has issued a notice in substantially identical form to Notice 2013-54, DOL Technical Release 2013-03. On Jan. 24, 2013, DOL and HHS issued FAQs that address the application of the Affordable Care Act to HRAs. On Nov. 6, 2014, DOL issued additional FAQs that address the application of the Affordable Care Act to HRAs and other payment arrangements.

