

News & Notes

Spring 2023

Important Concept: Sources of Contributions to the Retirement Plan

by Jerry Rich, FCMM Vice President

There are two sources for contributions sent to an employer retirement plan, such as the FCMM Plan:

- (1) Employer Contributions and
- (2) Employee Contributions.

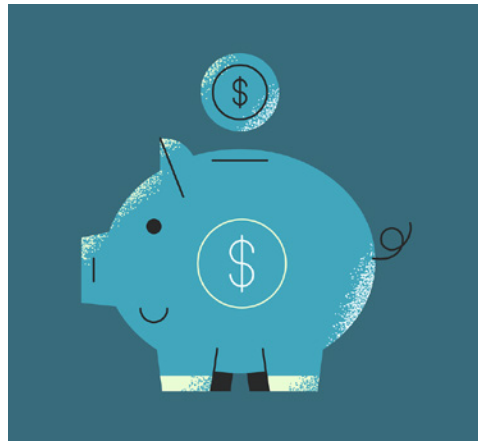
The correct reporting of these two sources of contributions is important for W-2 filing, for hardship withdrawal rules, for FAFSA and tax reporting, and for annual contribution limits.

EmployER contributions are a benefit of employment provided to an employee. They are not withheld from the employee's salary. The employer contribution is determined by the Employer and should be accurately stated in the Employer Adoption Agreement (Form 20). Employer contributions can be a base contribution rate or amount, the employer's corresponding contribution to a matching employee contribution, or both.

Employer contributions can be remitted on a per pay period, monthly, quarterly, or annual basis as determined by the employer. In the case of a matching contribution, the employer match should be sent at the same time as the employee's deferral is remitted, per pay period or monthly.

EmployEE contributions, also called salary deferral contributions, are withheld from an employee's salary

each pay period on either a pre-tax or Roth (after-tax) basis. Salary deferral contributions are voluntary and are initiated by the participant completing the salary deferral section of the Investment Selection and Salary Deferral form (Form 03). This form should then be given to the employer to sign on the last page and send to FCMM.



Unless the employer has set a different threshold, all employees regularly working 20 hours a week or more should be given the opportunity to make salary deferral contributions.

Employee contributions must be remitted to FCMM as soon as reasonable for the proper administration of the plan. An example of a reasonable time is no later than 15 business days following the month in which contributions are withheld from an employee's salary.

W-2 Reporting of Contributions

When preparing W-2s, ALL participating employees should have a checkmark next to "Retirement Plan" in Box 13 of the W-2. The reporting of Employer and Employee contribution amounts, however, are each treated differently.

At year-end, the total employee deferral amount withheld must be reported in Box 12 on the employee's W-2, with pre-tax and Roth deferrals noted separately with the appropriate codes.

Inclusion of employer contributions on the W-2 is not required but the annual amount may *optionally* be recorded in box 14, *for reference purposes only*.

What about annual negotiation of an Employer contribution?

It has been a practice of some smaller churches to ask the pastor each year

Cont. on p.2

Definition of Compensation

The Plan defines compensation as consisting of the participant's salary plus housing allowance and any other amounts which are excludable from gross income.

Sources of Contributions

Cont. from p.1

how he would like his compensation “divvied up”, including what portion the church would give as an employer contribution.

While this practice is not conclusively non-compliant, it does not reflect the IRS understanding of an employer contribution, which should be determined solely by the employer.

Contributions that reduce salary should properly be handled as voluntary employee salary deferral. As mentioned above, the salary deferral should be formally requested and documented by use of Form 03. In the case of pre-tax deferral, the amount will lessen the amount of taxable wages reported in Box 1 of the employee’s W-2. (For Roth contributions, the amount in Box 1 is not reduced, since Roth-designated amounts are subject to tax in the year contributed.)

We have seen miscommunication occur when an employer contribution is negotiated for the year and then is reported to FCMM as salary deferral “since the staff member chose the amount”.

For clear and proper contribution remittance reporting, it is the best practice to handle salary reduction rightly as the voluntary request of the staff member, based on completion of Form 03.



The IRS has set dollar limits on Retirement Plan Contributions, which are updated on an annual basis. See "Retirement Plan Contribution Limits (2023)" on FCMM's website regarding the current overall limit and the salary deferral limit.

What are "Roth" contributions to retirement funds?

As with many other retirement plans and individual retirement accounts (IRAs), the FCMM Retirement Plan permits contributions that are classified as Roth-designated contributions. Such contributions may only come from employee salary deferral, not from employer contributions.

As opposed to regular pre-tax contributions, the deferral amount designated as Roth does not reduce reported taxable income but may grow tax-free for eventual non-taxable distribution.

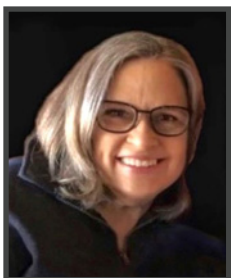
For an individual, the benefit of reducing current taxable income can be weighed against the benefit of future non-taxed draws. (Retirees will often be in a lower tax bracket than during earning years, so the current tax saving

may, or may not, be more significant than future tax saving.) The decision of how to contribute through salary deferral is up to the employee.

Roth-designated deferrals are accomplished by the employee requesting Roth salary deferral on Form 03. Either pre-tax or Roth, or even some of both, can be authorized.

For ministers, an additional factor should be considered ... the FCMM automatic designation housing allowance for 100% of retirement distributions. This feature may make Roth contributions less favorable. (See the article “What Could Be Better Than a Roth?” on the FCMM website for discussion of the topic. Use search term “Roth” to readily find the article.)

Staff Update



Valessa Caspers will retire May 9, following nine years of service to FCMM members as Manager of Benefits and Client Services.



Stepping into the role is Dan May who comes to FCMM from 14 years of pastoral experience, preceded by retail management.

FCMM • 901 East 78th Street • Minneapolis, MN 55420 • (800)995-5357



Retirement Plan: fcmmbenefits.org
Benefit Plan (Long Term Disability Insurance, Life Insurance): benefits@fcmmbenefits.org
FCMM serves as the church benefits organization of the Evangelical Free Church of America