

NEW CHURCH RETIREMENT PLAN RULES

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In July 2007, the Internal Revenue Service issued final regulations dealing with retirement benefits provided under Section 403(b), including church retirement plans. This was the first change in the regulations since the 1960s, before ERISA (Employee Retirement Income Security Act of 1974 and before Section 401(k) plans were even dreamed up. Section 403(b) addresses retirement plans provided for employees of tax exempt organizations and government employees.

Since 2000, IRS has determined that over 90% of the Section 403(b) retirement plans did not comply with the law. The IRS also found that employees of nonprofit organizations have about one third less in their retirement account and employees participating in Section 401(k) plans. Since employees had very little information about their retirement plans, the new regulations require lots of paperwork to fill the information gap.

Most Section 403(b) will be required to be in compliance with the new regulations for tax years beginning after December 31, 2008. For church plans that require the vote of a convention, the effective date is one year later or December 31, 2009.

First, all Section 403(b) plans must have a written document. In essence, the regulations require the employer to create a document spelling out the details of how the plan operates. For example, the employer will need to disclose the investment choices that are available to the employee and the fees charged for each investment and the employee's retirement account. Many experts expect that nonprofit employers will trim the number of investment choices available to employees.

Further, churches will need to begin to educate their employees about their Section 403(b) plans. This requirement likely will lead to seminars where the retirement plans are explained to employees.