Section 105 – Medical Reimbursement Plan for Churches

What is a Medical Reimbursement Plan? (MREP)

A medical reimbursement plan (MREP) is any plan or arrangement under which an employer (church) reimburses an employee for uninsured health or accident expenses incurred by the employee or their dependents. Health or accident expenses are defined in IRC Section 213(e). If done correctly, these reimbursements are paid to the employee tax-free.

Note: An MREP is NOT a Section 125 plan, Cafeteria Plan, or Flexible Spending Plan. Differences include the fact that these plans are more complicated to administer, they are employee funded through salary reduction, and they are characterized as a use-it-or-lose-it type of plan.

Why would a Church Adopt a Medical Reimbursement Plan?

An MREP is a form of self-insurance. A church can use an MREP as a way to lower medical insurance costs but still cover the employees qualified medical expenses tax free. In a year when the cumulative medical costs for employees is relatively low, the savings on insurance costs can be quite significant. On the other hand, in a year of high medical costs, medical reimbursements could be higher than insurance premiums saved. If a church reduces medical insurance coverage in order to lower premiums without adding a MREP, that church is simply shifting medical expenses from employer to employee. In addition, the employee could then be forced to pay their higher medical expense using after-tax funds. The MREP helps avoid that added cost to the employee.

How Does a Medical Reimbursement Plan work?

1. The employer (church) must establish a formal written plan. (See sample plan document attached.) Note that this benefit is for employees only and is employer funded. It cannot be funded by any means of salary reduction.

2. The employer determines the amount available in each employee’s personal account for the coverage period (generally a year). The employer can establish a dollar limit per employee. The employer also determines how much of that amount can be rolled over to future coverage periods and determines whether former employees can access untapped MREP funds.

3. As eligible expenses are submitted, the employee's personal account is reduced and paid to them on a nontaxable basis.
   a. Expenses must be submitted using adequate claim substantiation.
   b. The expenses claimed cannot be reimbursed by any other plan.
   c. Only qualified expenses may be reimbursed (IRC Section 213)
   d. Claims must be only for those expenses incurred during the coverage period.
   e. Reimbursement for payments of medical insurance premiums may be included.

4. Unused funds at the end of the year are carried over to the next year. At the beginning of the next coverage period, additional funds are added. This leaves funds from a low medical cost period available for use in a higher cost period. With no “use-it-or-lose-it” requirements, employees have an incentive to be responsible managers of the MREP balances.

What are the non-discrimination requirements?

The plan must not discriminate in favor of highly compensated employees with respect to eligibility to participate or benefits provided under the plan.
Sample Medical Reimbursement Plan

A church may also exclude certain employees such as those under age 25 and seasonal employees.

1. It is the intention of the church that this Plan qualify as a self-insured medical reimbursement plan for the benefit of participating full time employees and provides for reimbursement of employee medical expenses referred to in Section 105(b) of the Internal Revenue Code.

2. Employee medical expenses include those medical expenses incurred for the employee's spouse and any legal dependents of the employee. Qualified medical expenses will include any such expenses required of the employee related to a child support court order such as those resulting from divorce.

3. Full time employees shall be defined as any employee who works a minimum of 35 hours per week.

4. The amounts paid under this Plan will be eligible for exclusion from gross income under Code Section 105.

5. This Plan is adopted by the church effective as of _______ , 200__ (the "Effective Date of this Plan")

6. The church intends for this plan to be a permanent program for the exclusive benefit of the church's full-time employees, including full-time employed clergy, and their respective spouses and dependents, and the church intends for the plan to be operated in a lawful, nondiscriminatory manner.

7. The church shall have the right to amend, modify, suspend, or terminate this plan, in accordance with applicable law. Any such amendment, modification, suspension or termination of this plan shall not apply to qualified expenses that were incurred prior to the effective date of any such amendment,

8. The purpose of this plan is to provide reimbursements of qualified medical expenses as defined in IRC section 123. No reimbursements will be made under this plan for any other purpose. Reimbursements will be made only to the employee and not paid directly to any health care provider. No advance payments will be made for anticipated medical expenses. No reimbursements will be made under this plan for expenses where proper substantiation of such expenses is not timely and properly provided to the plan administrator.

9. The coverage period for this plan shall be the calendar year. The church reserves the right to place limits on the amount of reimbursements in any given year. The personnel committee shall review this plan annually for the purpose of setting budgetary limits and shall make recommendations to the finance/budget committee which shall make final recommendations to be included in the church budget for church approval.

10. Upon termination of full-time employment, no further reimbursements shall be provided for medical expenses incurred after the termination of employment date. Expenses incurred prior to the termination of employment date shall still be reimbursed as long as submitted within 90 days after the termination of employment date.
11. The church intends for this plan to be a “church plan” within the meaning of IRC Section 414(e) and ERISA Section 3(33) and to be exempt from IRS COBRA contribution requirements.

12. Expenses that may be reimbursed are defined in IRC Section 213. These include, but are not limited to:

a. Health Insurance Premiums
b. Health Insurance Deductibles
c. Co-Payments
d. Charges by physicians, hospitals, labs, x-ray, etc. that are not paid by insurance or reimbursed by other plans.
e. Hearing Aids, dental exams, artificial teeth, Eye glasses, eye exams
f. Prescription drugs
g. Over the counter drugs for medical care
h. Birth control pills
i. Insulin and related devices
j. Wheel chair, artificial limbs
k. Travel expense necessary for medical treatment

13. Employees incurring a qualified expense shall, on a monthly basis (by the _____ th day of the following month), submit appropriate documentation (copies of bills, receipts, explanations of benefit forms from insurance, etc.) to the treasurer for reimbursement. Should any question arise as to the validity of a claim, the ___________ committee shall be consulted for a final decision. Properly reported expenses shall be paid by the treasurer within ___ days after receiving the appropriate documentation.

14. If any reimbursement is paid erroneously, the participating employee shall be responsible to reimburse that amount to the church.

15. Questions of interpretation and application of this plan shall be resolved by the ___________ committee of the church. Legal advice is to be obtained if needed to resolve differences in interpretation. At all times, it is the intent of the church that this plan be construed and interpreted in accordance with applicable federal law and, to the extent not preempted by applicable federal law, in accordance with state laws.

Enter church name and date plan was adopted by the church.

This Medical Reimbursement was adopted by the __________Baptist Church in business session on __________ ___, 20___.

__________________________
Signature of Church