

Defined Contribution - A Smart Health Insurance Alternative for Churches



Stacy Lee

January 6, 2014

Defined contribution health benefits offer churches a smart alternative to traditional group health insurance. When churches cannot afford group health insurance, many churches use defined contribution to offer employees flexible and cost-effective health benefits. Ultimately, defined contribution health benefits allow churches to take care of valued staff.

- Churches can use defined contribution health benefits to legally reimburse staff for individual health insurance premiums.
- Churches decide how much to provide to employees. There are no minimum contribution amounts, therefore all costs are predictable to the church.
- Churches decide who to offer the health benefits to. For example: all employees, only clergy/pastors, only full-time employees, etc.
- Church employees select the individual health insurance policy that best fits the needs of their family. Eligible employees can purchase an individual health insurance policy through their state health insurance exchange and access the health insurance tax credits.



The easiest way to think about defined contribution health benefits is that the church offers employees an [allowance for health insurance](#) rather than offering coverage under a group health insurance policy.

Defined contribution health benefits are gaining popularity with churches because of these four (4) key benefits:

1. Minimal Administration for the Church

With [Defined Contribution Software](#), health benefits are easy and inexpensive for the church to administer. Defined Contribution Software sets up required plan documents and manages all employee enrollment, reimbursement tracking, integration with payroll, and reporting online.

With Defined Contribution Software, the church can administer health benefits in 5-10 minutes per month. Essentially, administration involves the church adding approved reimbursements to employees' paychecks during payroll time.

2. The Church Controls the Cost of Health Benefits

Defined contribution health benefits provide churches complete control over the costs of the health benefits, creating predictability with the health benefits budget. For example, with defined contribution health benefits:

- There are no minimum amounts to contribute (the church decides the amounts of the defined contribution allowances).
- At the end of the plan year, or when employees leave the church, funds stay with the church.
- At the end of the plan year, or when employees leave the church, funds stay with the church.

Tip: If the church wants to contribute any amount to employees' health care costs, they can afford defined contribution health benefits. How? The amount to contribute to employee health benefits is 100% up to the church. Many churches set up a defined contribution allowance for clergy or pastors first, then expand health benefits to other key staff (such as a full-time office manager) as the budget allows.

3. Defined Contribution Helps the Church Take Care of Employees

From our experience, churches express a high moral obligation to take care of employees. Health benefits are an important part of the compensation offered to church staff. Employees value defined contribution health benefits because they are given choice in how they spend their health care dollars and can select any type of insurance plan, from any carrier.

On average, individual health insurance plans are 20-30% less expensive than group health coverage for the same type of plan. So, the church sees *value* and their health insurance dollars go farther. Another key benefit for employees is that as of 2014, employees may purchase individual health insurance plans through the new state health insurance exchanges, where they can receive access to federal health insurance tax subsidies, and will not be denied because of a pre-existing condition.

4. Defined Contribution Software Ensures Compliance

The IRS allows this type of individual health insurance reimbursement only if legal plan documents are in place, and if it is administered according to federal guidelines. By using Defined Contribution Software, the church ensures compliance with:

- HIPAA Privacy
- COBRA
- Medicare Reporting
- IRS Plan Documents
- ERISA-Compliant Reimbursement of Individual Health Plans
- Affordable Care Act (ACA) Requirements

For more details on defined contribution health benefits by state, [see this overview](#).

Do you have questions on how or why defined contribution is a smart health insurance alternative for churches? Leave a comment below and we'll help answer questions.