



Pension Fund

of the Christian Church
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Paying the Pastor

Ministry compensation is unique from most other compensation structures. Due to the taxation of clergy income and the ability to exclude certain housing expenses from income, extra attention is needed when structuring clergy pay and benefits.

In this paper, we will examine the elements of clergy compensation including salary, housing, fringe benefits and reimbursable expenses. We hope this provides guidance to both ministers and church leaders who make decisions about clergy compensation.

It's worth saying that ministry is a hard job. Setting fair compensation provides benefits for both the church and minister. A minister who doesn't have to struggle to make ends meet can focus better on Christ's service. Churches can attract and retain qualified leadership when they compensate their minister fairly.

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First, a few specific considerations regarding clergy compensation.

- Be sure you're paying a fair and living wage. MIT's Living Wage Calculator (found at livingwage.mit.edu) provides up-to-date information about the cost of living in your community. Recently, this site has also added salary comparisons for local area, based on various industries. While "ministry" is not listed, you can look at average salaries for careers with similar educational requirements to ministry, such as "Legal" and "Healthcare Practitioner." You can also research the local salaries of other comparable positions such as School Principals and Social Work Supervisors. These provide helpful benchmarks if you're trying to determine whether or not your church is providing a fair salary for your minister(s).
- It is also important to provide annual cost-of-living adjustments (COLA) for your employees. This is different from a merit increase for good employee performance. A COLA allows your employees' income to keep up pace with the rising costs of goods and services. Each year, the US federal government establishes a COLA which can be found at www.bls.gov
- Finally, consider giving your employees merit increases for exceeding expectations on the job. This is a great way retain talent within your church. Make sure clear goals and expectations are written for your employees so it is evident when exceptional performance is achieved, then reward employees for meeting those goals.
- Also remember that your ministers do not work a typical 40-hour work week. There are evening meetings, bible studies, late-night phone calls and hospital visits. Because of

that, it is unrealistic to expect a minister to be in the office all day for four or five days per week.

- Ministry can be an itinerant lifestyle, moving to different cities from time to time. It is important to know what to expect when moving to a new city, whether it is across the state or across the country. To compare living costs in different parts of the U.S., visit the “Cost of Living Calculator” at bankrate.com

There are three main components to minister’s compensation:

- **Cash Compensation** – This includes salary and a housing (or parsonage) allowance, plus cash equivalents such as a Social Security offset (**see explanation below*).
- **Benefits** – These can include health, life and disability insurance, dependent care, retirement savings, sabbatical, vacation, paid leave time for illness, family care and/or childbirth/adoption.
- **Job-Related Reimbursable Expenses** – These include use of personal vehicle, work-related travel, materials for study and/or sermon preparation, hospitality expenses, ministry conventions and continuing education.

Cash Compensation should include an amount designated by the minister for a housing allowance. This amount must be approved by the official church leadership in advance of being paid to the minister. For IRS purposes, the amount should be clearly documented in the church’s leadership meeting minutes. This housing allowance can be any amount up to 100% of the minister’s cash compensation.

Note: while the church designates the amount for housing allowance, it is up to the minister to track his/her housing-related expense and claim them when filing taxes. A minister can exclude from income the *lesser* of the following three amounts:

- The official amount designated by the church;
- The actual amount spent on eligible housing expenses; or
- The fair rental value of the furnished home, plus utilities.

While we’re discussing taxes, it is important to remember that – in the eyes of the IRS -- ministers are both employees of the church and self-employed. They are employees for income tax purposes and they are self-employed for Social Security/Medicare tax purposes. For this reason, the church should provide the minister(s) a “social security offset” as part of his/her cash compensation.

**What is a Social Security Offset?* The Federal government taxes all wages at 15.3% to pay for Social Security and Medicare. Typically, an employer splits this cost with its employees (each paying 7.65%). Ministers, however, must pay the full amount (15.3%) as SECA. Many churches will offer their pastor(s) a “Social Security Offset” (in the amount of 7.65% of salary-plus-housing) to help with this share of the tax. This amount will be taxable and should be included with the minister’s cash compensation.

Benefits and job-related expenses are outside of cash compensation and are the responsibility of the church to provide. They should be listed in the church budget as separate line items from cash compensation because many are non-taxable benefits. The church should understand that these costs can vary from year-to-year and shouldn't automatically expect the minister to take a pay-cut in salary to make up for budget increases to benefits and expenses. These changes can be negotiated with the minister, and the best time to have those discussions is at the time of hire. For example, the church and minister might agree, if healthcare costs increase, to share in the cost of the increase at 50% church and 50% minister.

Examples of benefits can include:

- Retirement contributions, such as paying Pension Plan dues equal to 14% of cash compensation. Pension Plan membership includes valuable death and disability benefits for the minister and his/her family.
- Healthcare insurance or a monthly stipend to buy insurance for the minister's family.
- Paid time off for vacation, sickness, family care, parental leave
- A sabbatical after five to seven years of service.

It's important to note that time to attend church camps and/or mission trips is *not* vacation time for a minister.

Job-Related Reimbursable Expenses are the church's costs of doing business. These expenses should not be borne by the pastor, but instead be reimbursed to the pastor by the church. If the church expects their pastor to make hospital calls and other visitation, the church should reimburse their pastor for the travel costs associated with that work. Similarly, the church should reimburse costs such as mobile phone service, ministry-related books, subscriptions, continuing education and convention attendance. The church will need to set policies for reimbursing these items, including a maximum allowed amount per year (in accordance with the church budget). When these are reimbursed to the minister according to the church's policies, the minister will not have to pay taxes on the expenses.

Common reimbursable expenses include:

- Mileage or auto allowance (find the current reimbursement rate at <https://www.irs.gov/tax-professionals/standard-mileage-rates>)
- Mobile phone (equipment and monthly usage)
- Books, subscriptions, digital content
- Retreats, conventions, clergy meetings
- Business-related meals ("hospitality")
- Continuing education fees and travel
- Ministry supplies

Before negotiations begin, a minister should know exactly what's required to adequately cover all of his/her financial obligations. If a move is necessary, the minister should research the cost

of living for that part of the country to compare with current living expenses. This also means creating a household budget to avoid any surprises once settled in a new position. The budget should include the payment of SECA taxes (Social Security and Medicare) on all compensation and federal, state and local income taxes on all *non-housing* compensation. Ministers fall under a unique set of rules for taxation and should consult a tax professional who is knowledgeable about clergy taxes.

The congregation also needs to make sure it can adequately pay for ministry leadership, including all elements of compensation named above. If the church is struggling to provide a fair and generous compensation package for its minister, then it may be more appropriate to call a part-time pastor. Hiring a full-time pastor but paying only part-time wages is not only unfair to the pastor and his/her family; it also causes clergy burnout.

This is just a brief overview of what goes into a minister's compensation package. Pension Fund is available to provide resources that can guide you through this very important start to a successful partnership in ministry. For more information on setting up a compensation package, contact the Pension Fund of the Christian Church. We can help both the pastor and the church leaders talk through the process for negotiating a fair compensation package for the pastor. Learn more at www.pensionfund.org.

Sample Budget for Compensation, Benefits and Expenses

Cash Compensation	
Salary	\$26,447
Housing allowance	\$20,000
Social Security offset (7.65% of salary + housing)	\$3,553
Total Cash Compensation	\$50,000
Benefits	
Retirement (including life and disability insurance with Pension Plan)	\$7,000
Health insurance Stipend	\$12,000
Savings for sabbatical	\$1,000
Total Benefits	\$20,000
Job-Related Reimbursable Expenses	
Auto allowance	\$650
Subscriptions/books	\$300
Continuing education	\$800
Hospitality	\$500
Conventions	\$1,200
Total Job-Related Reimbursable Expenses	\$3,450