

LEADER'S EDGE

Equipping for Effective Ministry
August 2010

How Much Should We Pay Our Pastor?

"It's that time again," says the chairperson. "Our personnel committee is responsible for proposing staff salaries to the finance committee. Then, that committee submits next year's annual budget to the governing board."

Karen, a new member of the committee unfamiliar with this process, asks, "Where do we begin...?"

George, another committee member, interrupts Karen with the firm tone of a judge pronouncing the final verdict: "Let's begin by agreeing to keep the pastor's salary exactly the same as last year. Times are tough! Besides, when you compare our pastor's salary and benefits with others in the community, like school teachers, we're already paying a lot."

"I don't agree," says Sheila, an elementary school principal who is another new committee member. "If we make comparisons, some other professional groups are more valid. Plus, under this pastor, our church is doing better than it has in years. Why risk sending the wrong signal and losing our excellent pastor to another church?"

Brad, a CPA who prepares tax returns for a half-dozen clergy in the community, says, "How about if we begin by looking at the various factors that comprise a pastor's salary?"

"That sounds good," says the chair, happy to rescue the discussion from its abrasive trajectory. "What are some of those factors, Brad?"

What factors comprise a pastor's salary? Responding to Sheila's question, Brad's monologue, interrupted by occasional questions, tutors the committee on clergy salary issues:

1. Our committee must think about the pastor's *total compensation*, not just salary. For example, when a church provides a parsonage, or what some denominations call a manse, the pastor's total compensation includes that house's fair market rental value. In churches like ours (we don't own a parsonage but instead provide a monthly housing allowance so the pastor can own or rent a home), total compensation includes that housing allowance.

2. Unlike the typical American worker, the IRS considers clergy *employees* for Federal Income Tax purposes but considers them *self-employed* for Social Security Tax purposes. Thus, churches must designate how many dollars are for salary and how many dollars are for housing.

Each church determines when and how often it sets and changes these amounts. It must do so in writing and in advance, including them in the minutes of an official meeting (we can't designate the amounts retroactively).

3. Some churches like to designate a large percentage of the pastor's salary as housing allowance, thinking that this lets the pastor avoid paying Federal Income Taxes on those housing dollars. That theory is erroneous. If the pastor does not use all of that housing allowance to pay for items such as rent, mortgage payments, property taxes, utilities, repairs, furnishings, etc., what's left over is added back, in full, to the pastor's taxable compensation. (The salary *and* the full amount of the housing allowance are used to compute the Social Security Taxes.)

4. Some churches compensate their clergy for a percentage of what they must pay in self-employed Social Security Taxes—which is about double the amount paid by workers who are classified as employees.

5. Churches provide additional types of compensation that are not taxable. Most full-time pastors receive (a) health insurance (often purchased through the de-



nomination) and (b) retirement benefits (usually through a plan provided by their denomination).

6. Another slice of the financial pie is reimbursements. If a church neglects these, they become an unfair financial drain on the pastor. For example, most churches reimburse pastors for transportation expenses (a per-mile figure established by the IRS that covers only ministry-related travel, not travel between the pastor's home and the church). Also, most churches establish line-items in their budgets for work-related continuing education, books for the pastor's personal library, and attending workshops or conferences. The IRS does not treat these reimbursements as personal income for tax purposes.

7. To choose a strategy that best fits the pastor and congregation, a personnel committee member should (a) talk with someone familiar with current clergy tax law (which keeps changing) and (b) may also want to study the most recent Clergy Tax Update that many denominations publish for their congregations.*

“How do we come up with a fair salary range?”

Sheila asks. Brad responds with another list of guidelines (this meeting was not Brad's first rodeo; he has educated several previous personnel committees):

1. Many denominations provide some printed or Web-site assistance; some of them suggest salary and benefit minimums or publish percentile rankings of all their clergy. But churches are in such different cost-of-living locations that general information is seldom helpful.

2. To some extent, the salaries provided by other congregations like ours, in our denomination, in this area, also influence salary levels. In other words, to some extent, we compete with them for the pool of clergy.

3. A church should also take into account its community's cost of living (see The U.S. Census, local Chamber of Commerce, or online estimates).

4. Are we theologically comfortable with “merit pay” in addition to cost of living raises?

5. What are our church's goals? What do we want our congregation to look like in five years? What kind of leader can help us get there?

6. If a church can't afford a full-time pastor, is it willing to explore a creative alternative—for example, a bivocational pastor, trained lay leadership, merger with another church, or a multi-point parish?

7. Churches make one of their biggest mistakes by failing to keep track of inflation. Over time, that failure can make a church's clergy compensation package uncompetitive—and the pastor feels no choice but to seek to move. In other words, every church's reality includes the replacement costs of existing clergy. High clergy turnover often generates moving expenses that exceed appropriate annual salary increases.

8. Clergy compensation discussions warrant a frank, annual discussion with the pastor. Committees that make arbitrary decisions without such a conversation with their pastor generate low-motivation in clergy.

“What factors should we not consider?” Karen asks. Again, Brad produces a list:

1. The size of the church's budget should not be a guiding factor in setting clergy compensation. Fairness to our paid staff is a moral and ethical issue, not to be confused with our natural inclination to “save money” by trimming expenses.

2. A church should not set a percentage of the total annual budget that it spends on staff salaries. Congregations in some denominations spend 65 percent of their annual budgets on staff (clergy, clerical, and custodial)—while congregations in other denominations spend 40 percent of their budgets on staff. Church governing boards seldom recognize that those differences are determined by whether a church has for several decades conducted an effective or an ineffective annual stewardship education program.

3. Churches should not get distracted by the clergy spouse's employment status and compensation. Using a clergy family's total household income as an excuse for underpaying their pastor is morally and ethically inappropriate.

4. Churches must not be tempted to cut salaries during difficult financial times. Review other budget areas and strategies first. Again, because it is the primary cause of this problem, ask whether the annual stewardship campaign should be replaced with a better one.

5. Salary compensation is both an ineffective and an unfair way to communicate dissatisfaction with a clergy-person's job-performance. The personnel committee is charged with communicating our members' expectations (time expectations, quality of performance). The personnel committee should conduct these conversations with clergy in their regular meetings throughout the year.

What's the point? An old story pictures three bricklayers working on a wall. Someone asks the first bricklayer what he is doing. “I'm laying bricks,” he replies. In response to the same question, the second bricklayer says, “I'm putting up a wall.” The third bricklayer replies, “I'm building a cathedral.”

Church leaders working on the question “What should we pay the pastor?” also respond in varied ways. Some say, “We're hiring someone to run our church.” Another group says, “We're funding the ministries our pastor does on our behalf.” A third group gets the point: “We're partnering to proclaim the Gospel.”

* Information in this *Parish Paper* issue is not intended as legal or tax-return advice. Contact a local tax preparer familiar with clergy tax laws for that counsel.