

A Guide for Determining Pastor's Salary

Studies have indicated that the key to healthy congregations is healthy pastoral and lay leadership. One key factor in attracting healthy pastoral leadership is compensation. As in any occupation the more highly prized worker receives a higher wage. The same is true in the church.

While we regard ministry as a "call" rather than a "profession" pastors look to be paid a fair and just wage for the ministry they are called to do for a congregation. Recent graduates of seminary often enter ministry with significant debt from education loans. Most pastors have obligations to support their families. A congregation desiring strong pastoral leadership will want to give attention to the rate it compensates their pastor and the benefits which are offered.

The challenge for the church has been determining compensation for church staff without any standards. This guide is an attempt to suggest minimum standards which have been determined by studying clergy compensation across the United States in multiple denominations.

The minimum salary of \$40,000 is one which has been developed by one region (Rochester/Genesee) through a comparison of clergy salaries with entry level salaries for professions requiring similar educational preparation. The [spreadsheet attachment](#) has used a cost of living calculator to determine what the minimum base salary would be in various locations across the country where ABC-USA congregations are located.

The website used in calculating the cost of living comparisons for other communities is: <http://www.bestplaces.net/col/> As you can see, a \$40,000 salary in Rochester NY is equal to \$140,430 in Jackson, Wyoming. It is equal to \$35,117 in Flint, Michigan. Churches can use one of the listed communities in their state as a base and use a cost of living calculator to find the comparison for their community. (***Note:** The suggested standard was established January 1, 2008 and must be adjusted for cost of living each year.)

Many churches will be challenged to pay their pastors at the levels suggested. It is important that churches be realistic in what salary their giving can sustain. At the same time churches should not be expecting for a pastor to work for less than just wages. It is suggested that churches unable to pay just wages; factoring in size of the church, education and years of service; recognize that they may not be able to afford a full-time pastor. **(See document: Calling a Part-Time Pastor)**

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Calling a Part-Time Pastor

If a church determines it cannot afford a full-time pastor it can determine the hours it can afford by how much money is available. For example: using \$40,000 as a base salary, a church which has \$30,000 available for salary (including cash salary, housing and social security offset) would at a minimum be able to afford a $\frac{3}{4}$ time pastor. The church at the point of extending a call would need to determine what duties their pastor would be expected to fulfill in the 30 hours allotted. An important part of this conversation is also the determination of how the remaining duties would be handled.

An important consideration in identifying available funds is that benefits are usually included at the same proportion as the pastor's employment. Therefore, health care, continuing education, retirement and travel allowance are generally included on a proportional basis.

Involving new people in ministerial activities can be a benefit for the church.

It must be understood that the $\frac{3}{4}$ time pastor would pursue other activities during the remaining $\frac{1}{4}$ time that will likely involve seeking additional income.

Although cases can be cited where a part-time pastorate returned to full-time, such instances are rare. Congregations that strategically seek outside funding or designate a portion of their endowment for such purposes should develop an intentional plan for rebuilding the congregation and carefully monitor the results of their efforts to ensure that such resources are not depleted prior to achieving the goal of returning to full time ministry. The purpose of this document is to lift up several viable and healthy options to full time pastoral ministry. For instance, if the church moves into a bi-vocational model, many of these arrangements lead to long term healthy pastor/congregation relationships, especially if the pastor's other source of income is community based.

It is better to be honest about what the church can afford in terms of leadership than to offer less than a full-time salary and expect full-time service for less than a fair wage. More pastors are preparing for bi-vocational ministry by receiving training or education in another field. Others may not need to supplement their income.



Clergy Care: Compensation

Person in Ministry



Your Call & Responsibility:

The Spirit of the Lord GOD *is* upon Me,
Because the LORD has anointed Me

To preach good tidings to the poor;

He has sent Me to *heal the brokenhearted,*

To proclaim liberty to the captives,

And the *opening of the prison to those who are bound;* ²

To proclaim the acceptable year of the LORD, and the day of vengeance of our God;

To comfort all who mourn; ³

To console those who mourn in Zion,

To give them beauty for ashes, the oil of joy for mourning, The garment of praise for the spirit of heaviness;

That they may be called trees of righteousness, the planting of the LORD, that He may be glorified." *Isaiah 61:1-3 (NKJV)*

The call into Ministry includes all of the above as well as all of the duties and responsibilities that are added by the church: administration, finance, facility management, board meetings, conflict management, community involvement, local & national associations, crisis management, and more. We must therefore "walk worthy of God who calls you into His own kingdom and glory." 1 Thess 2:12 (NKJV)

Your Worth:

Let the elders who rule well be counted *worthy of double honor*, especially those who labor in the word and doctrine. ¹⁸ For the Scripture says, "*You shall not muzzle an ox while it treads out the grain,*" and, "*The laborer is worthy of his wages.*" 1 Tim 5:17-18 (NKJV)
See also Matthew 10:5-13; Luke 10:2-11; 1 Cor. 9:4-10 & Dt. 25:4

Your Position:

- Senior Pastor – leader of paid staff that includes other ministers/pastors
- Solo Pastor – no other paid ministers (usually includes paid secretary)
- Associate Pastor – Full time paid position
- Administrative Pastor – Full time administrator who is also clergy
- Associate **Minister** – Voluntary (unpaid) position
- Youth Pastor and other positions may or may not be paid, full time or part time

Determining your position determines how you are to be compensated.

If your hours are controlled or monitored by the church, if your office or place of work is in the church, and if you are spending more than ½ of your time on a regular basis in the church you are considered an employee of the church.



Clergy Care: Compensation

Person in Ministry



Full time paid clergy are usually classified as employees of the church and should receive a W-2 from the church each year reporting your wages paid for the previous year.

Contract employees are not employees of the church because they control all of the above and are paid like a contractor, which is temporary work. All contract employees receive a 1099 to report any and all wages over \$600/year for each location worked. This means that if you preach at a church more than once and receive more than \$600 for the year, that church should issue you a 1099 and report your wages to the IRS.

When you receive a 1099 you are responsible for the payment of all taxes. No deductions or withholdings are made by the payee. Contract employees do not receive compensation packages and many of the clergy tax benefits are eliminated.

Your Compensation:

Compensation for Clergy includes four major parts:

1. Wages
2. Housing Allowance
3. Health Coverage
4. Retirement

Wages: - This is the base pay that you receive, which is reported to the IRS as your annual salary. When determining or setting a pastor's salary there are three areas of comparison:

- *Compare to a teacher*
- *Compare to church leadership*
- *Compare to other pastors in the area*

After coming up with the average, consider this question: *Do you feel you are at least an average pastor?* If you are better than average, don't you think you deserve at least an average salary? Depending on the size of your salary, you may be forced to work another job. This would classify you as a bi-vocational pastor or part time pastor. Under these conditions a church may not be able to afford to pay you anything other than wages.

Housing Allowance: The biggest advantage of a clergy compensation package is the housing allowance. This is income that is used to pay for housing expenses. ***It includes ALL expenses for your house except for personal items such as food, clothing, jewelry, and personal hygiene.*** The housing allowance is predetermined each year and must be included in the board minutes and/or the annual budget.

The housing allowance is not taxed by the Federal Government. It is taxed for Social Security and Medicaid. So it is not reported as income for federal Taxes, but is reported as income for self-employment taxes. The housing allowance cannot exceed the fair housing market value of your home.



Clergy Care: Compensation

Person in Ministry



Tax Alert: Clergy are responsible for paying their own taxes. The church does not deduct taxes for clergy, even though they are employees. Clergy pay their taxes directly on a quarterly basis using estimated tax payments.

Health Coverage:

Unfortunately many small churches and independent churches do not offer health coverage. This is one of the most important parts of your compensation. It covers you and your family in times of sickness. Health coverage usually covers hospital care, prescriptions, dental, and vision. Some denominations are able to provide group coverage for their clergy, while small or independent churches must join medical plans like COSE for small businesses.

A part of health coverage also includes Life Insurance and Disability Insurance. You must look at your coverage as you would any other employee at a company. What are the things that you need to have in place in case of an emergency, illness, or death. If you do not have Health Insurance and may be using that of your spouse, consider what the church needs to pay to put your health Insurance in place and work towards that end.

Retirement:

About 6% of your wages should be set aside on a regular basis in a tax deferred “qualified” retirement account. This is an account that the church pays into for your retirement using pre-taxed money. The money is not taxed until it is withdrawn (at retirement). This allows it to be invested and to grow without taxation over a period of time. The sooner a retirement account is set up the better you will be prepared to retire. Like Health Insurance, many small churches and independent churches do not offer retirement accounts.

An IRA can also be set up through your local bank(s). A Roth IRA is an account that uses post-taxed dollars for retirement. Because this money is taxed before it goes into the account, it is not taxed when it is withdrawn at retirement.

You are also allowed to put up to \$6,000 per year into a separate Annuity account that would supplement your retirement income. Annuity accounts can be set up through your life insurance agent(s).

Other Items to consider:

- Vacation Time (2-3 weeks per year paid vacation)
- Sick Time (May need to be increased with age)
- Continuing Education
- Business Expense Account – to pay for travel, dining, clergy attire, licenses, memberships, professional association dues, books, subscriptions, hospitality, & benevolence



Clergy Care: Compensation
Person in Ministry



Compensation Package

Wages-----

Housing Allowance.....-----

Retirement-----

Health Insurance-----

Education.....-----

Expense Account-----

Total Compensation.....-----

Cost of living increase for 2016 was 0%

Projected cost of living increase for 2017 is 3%

Catch-Up Increase-----

Merit Increase-----

New Total-----

"The laborer is worthy of his wages." 1 Tim 5:17-18

Financial Responsibility

Where do you believe you should be financially?

Rich and prosperous



Or Poor and Needy



What does the bible say about Money?

“Money is the root of all evil.” *1 Tim 6:6-12*

What does scripture say about money?

No servant can serve two masters: for either he will hate the one, and love the other; or else he will hold to the one, and despise the other. **Ye cannot serve God and mammon.** *Luke 6:13*

Lay not up for yourselves treasures upon earth, where moth and rust doth corrupt, and where thieves break through and steal: But lay up for yourselves treasures in heaven, where neither moth nor rust doth corrupt, and where thieves do not break through nor steal: **For where your treasure is, there will your heart be also.**
Matt 6:19-21

Render therefore to all their dues: tribute to whom tribute *is due*; custom to whom custom; fear to whom fear; honour to whom honour. **Owe no man any thing**, but to love one another: for he that loveth another hath fulfilled the law.
Romans 13:7-8

... Then saith he unto them, **Render therefore unto Caesar the things which are Caesar's; and unto God the things that are God's.** *Matt 22:21 (KJV)*

What do you know about money?

While we are accustomed to viewing money as small green pieces of paper that come in various denominations ranging from \$1 - \$100,000, money is actually **any medium of exchange that is widely accepted in payment for goods and services and in settlement of debts.** It also serves as a standard of value for measuring the relative worth of different goods and services.

Money is a keystone of modern economic life. Without money trade would be reduced to barter, or the direct exchange of one commodity for another.

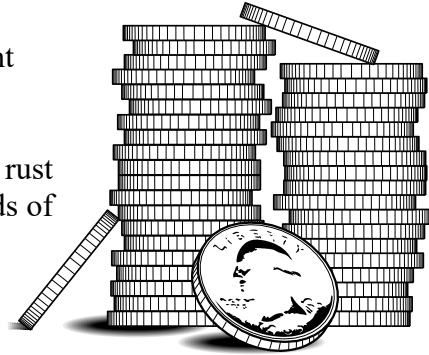
Money was invented more than 4,000 years ago. People who wanted to trade goods and services gradually realized that exchange would be easier if there were

Financial Responsibility

some single commodity that everyone would accept as valuable. There was something precious, metal, or three precious metals, to be exact. **Gold, silver, and copper**, were all valued for their uses, and they were highly regarded because of their scarcity. Since gold was the scarcest, it was usually but not always more highly valued than the other two.

Just like today's money, gold and silver have advantages over other kinds of goods.

- First, they have universal purchasing power everyone agrees they are valuable.
- Second, they can be processed into different sizes and weights to stand for a variety of different values.
- Third, they are fairly durable; they will not rust or decay; they can be stored for long periods of time.
- Fourth, since even small amounts of these metals are valuable, it is easy to carry them around, just as it is easy to carry coins in a pocket or purse today.
- Fifth, silver and gold but especially gold have never lost their exchange value. Even after 4,000 years, gold is still acceptable in any civilized society as money. Its universal acceptability made it the medium of exchange in long-distance trade.



Modern paper money originated during the Middle Ages. Merchants, moneylenders, goldsmiths, and others issued notes, written promises to pay metal money on demand. These receipts and notes were very helpful in trade, because it became unnecessary to move gold from one place to another for every transaction. This kind of paper was called **credit currency**, because it was not regarded as real money. It was merely a promise to pay money, if asked.

It was not a very big step *from credit currency to fiat money*. Governments handling credit currency wanted it to be regarded as real money. Such money, by government edict, became legal tender money that creditors can, and often must, accept in payment of debts. ***The term "legal tender" is printed on currency issued by the United States Treasury.*** It indicates that the money has purchasing power and asset value, qualities gold and silver always had.

"This note is legal tender for all debts, public and private."

Financial Responsibility

From Gold to Paper Money

Silver and gold have what is called use value. Silver is used as a backing for mirrors and in making photographic film. Gold is used primarily in jewelry. When silver and gold are used as money, they have exchange value, as well as use value. Silver and gold are called "hard money." This term does not only refer to their solidity as metals. It suggests that silver and gold are real money, in contrast to paper money. Gold and silver were assigned exchange value by people because of their scarcity and because they were potentially useful in other ways. Another term for hard money is specie, a Latin word that refers to the commodity nature of gold and silver.

Paper money is not hard money. There is no limit to the amount of paper that can be manufactured, as long as trees grow. Paper is not scarce, though it has many uses. Paper money is called fiat money. The word "fiat" is a Latin verb form that means "let it be." Nearly every country in the world uses paper money. Governments print currency and declare it to be money. Its use is mandated as both legal and necessary as the proper medium of exchange within a nation.

From Paper Money to Credit Money

The Grocery Store "Due Bill" was a precursor to the credit account and credit card.

Credit spending is merely spending money that you do not have. Instead of someone promising to pay you, you become the debtor, owing someone else. It becomes a loan with interest. Credit spending is manageable for up to three months, but becomes burdensome beyond this brief period. Creditors, knowing this, have offered the unknowing consumer the following options:

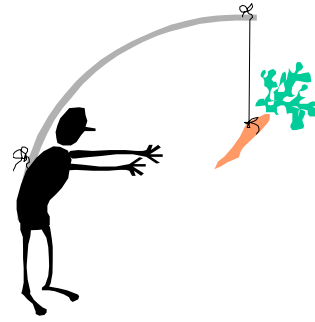
- "90 Days Same as Cash"
- Payday Loans
- Cash Advances
- Rental Centers
- Equity Loans
- Reverse Mortgages
- Credit Cards with moving interest rates

All of these options can be beneficial for short term or emergency fixes when there is an immediate need for finances. However, most people use these instruments believing that they will only need it the short term, or that it gives them a temporary financial advantage. When they fail to fulfill the contract they become trapped by the long range penalties.

Financial Responsibility

What is the problem that you have with Money?

- I do not have enough of it.
- I have not learned how to properly use it.
- I have not learned how to manage it.



How do I solve my problem?

Everything belongs to God.

Psalms 24:1

Phil 4:19

Matt 6:33-34

Psalms 37:1-5

We are called by God to be wise stewards of all that he has given us.

- *Time:* *1 Corinthians 6:19-20; Matthew 16:24*
- *Gifts:* *1 Corinthians 12:1-11; Romans 12:4-8*
- *Talents:* *Ephesians 4:11*
- *Possessions:* *Mark 12:42-44; Psalms 24:1; Deuteronomy 16:17; Proverbs 3:9; Luke 6:38; 16:1-13; 1 Corinthians 16:1-2*

We are to seek after the things of God first and foremost and not to overindulge ourselves in the love of money. Those things that occupy most of our time are a reflection of the things that we treasure. *Matt 6:19-21* *1 Tim 6:6-12*

We are in the world, but not of the world. This world is not our home. We are only travelers, where heaven is our final destination. However, since we are here, we are told to “occupy” until he comes. Since we live in a society that is managed by the financial markets we must learn how to effectively operate within that system. *Matt 25:14-30*

There will come a time when we will have to give an account of our stewardship. *Luke 16:1-13*

My people are destroyed for lack of knowledge: because thou hast rejected knowledge... *Hosea 4:6 (KJV)*

...for the children of this world are in their generation wiser than the children of light. *Luke 16:8 (KJV)*

Financial Responsibility

1. *Change Ownership!*

2. Identify the problem:

Begin by writing down all of your spending. Save your receipts or use a small pocket notebook. Write down everything, including money spent on snacks.

Next make a list of all of your monthly expenses, including the items that were written down each day.

3. Budget how you spend:

Determine before hand how you plan to spend your money each month by using a budget.

How much do you make?

How much do you take home each year after taxes?

How much is that over five years?

Where is it going?

First list items that you must have, such as food, rent, gas lights, etc. Then list all of your creditors, such as Visa, MasterCard, furniture stores, etc. Then list items that are convenient but not necessary, such as cell phones, pagers, cable, movies, subscriptions, clubs, events, etc.

4. Cut Expenses:

Now look at your list and determine where you can reduce the amount spent in any of the above items. Look for all of the little things that you have added that you do not need.

5. Plan your spending:

Look at your list of expenses and plan how much you want to spend in each area. Set money aside for each expense and try not to exceed that amount each month.

6. Attack the Debt:

Take the amount saved on your reductions and apply it to your plan of getting out of debt. Apply this extra money to your first targeted bill until it is paid off.

**Pay minimum monthly on every credit card except your target until it is paid.

Once the first bill is paid off, then apply all of the money from this bill to your next goal and repeat these steps until all of your debts are paid down. This can include your car and house.

7. Add an additional job:

For a specified period of time you may need to work an extra job to attack your debt. Specify how much you need and determine how much and how long you will have to work to acquire the extra money.

Financial Responsibility

Success in getting out of debt and staying out of debt requires a change in your life style. Continue to ask your self these questions:

- Am I spending more than I make?
- Do I have to have this item?
- Will my spending today prevent me from getting what I need tomorrow?
- Can I pay this debt off in three months or less?
- Have I paid myself first?

Given the amount of time it took to get into debt, it will take time and persistence to get out of debt.

If you persist and work at it, you should be debt free in five years.

Then celebrate with a cash purchase that you have saved for and deserve.



The Next Step!!!

Investments, Health Care & Retirement

Matthew 25: 14-30

Financial Responsibility

Investments

Knowing the Game:

Stocks:

A share of stock represents a piece of ownership in a company. If you have 100 shares of McDonalds and the company has a total of 1,000 shares, then you own 1/10 of the company. When the company makes money your shares increase in value. When the company loses money your shares decrease in value. The goal is always to buy **low** and sell **high**.

Bonds:

A bond is an IOU. It is a promise to pay back an amount borrowed plus a certain interest rate. When companies do not have enough money to finance their business needs, they will issue bonds, which are loans. By purchasing a bond, I am loaning money to the company, which then promises to pay it back over a certain period of time with a **fixed interest rate**. So the bond is not tied to the company's stock.

Mutual Funds:

A mutual fund is a family of companies. Instead of owning shares in one company, a mutual fund is a group of companies. Therefore if one of the companies does poorly, it does not mean that all of the companies in the fund do poorly. This decreases your risk of loss and increases your chance of gaining. Just as there are thousands of individual stocks; there are thousands of different mutual funds to invest in.

CDs

Certificates of Deposit are like bonds. They are interest-bearing investments offered by the banks that lock you in for a specified period of time. By giving your money to the bank for that period, they promise to pay you your money plus a guaranteed interest rate. CDs can be purchased for 1 month, 3 months, 6 months, 1 year, 2.5 years, 5 years and ten years. The longer the period the better the rate. However, rates on CDs are low. In 1997 the average return on a 5 yr CD was only 5.17%. Remember, Banks are in the business of making money, not giving it away.

Money Market Account:

This is a place where investors park their money. This account holds the money that you use to buy and sell stocks and mutual funds, etc. Each dollar in a Money Market Account has \$1.00 value. When investors say, "Cash is King" it means that your best investment is to keep your money as liquid cash where it is not affected by a volatile market.

Financial Responsibility Investments

Pension Plans

These are retirement plans provided by companies that are insured by the Pension Benefit Guaranty Corporation. This is the same as putting your money into a federally insured bank. You are covered in case the company folds. Moneys placed into a pension are tax deferred. This means that you do not pay tax on the money until it is drawn out of the plan. The amount placed into the pension plan also reduces your current taxes.

401(K)

A 401K plan is also tax deferred. It differs from a pension in two ways. The company usually will match funds placed into a 401k plan. However, these plans are not insured. Therefore, if the company folds, your money folds with it.

401K plans do offer other benefits. They can travel with you when you leave your company, and they offer an average of 13 different funds to invest your money into giving you more control of your money.

403(b) plans are used by public schools, religious organizations and other tax-exempt organizations.

457 plans are used for government employees.

IRAs (Individual Retirement Accounts)

These are exactly what they say. They are individual accounts controlled by YOU. You are allowed to invest up to \$2,000 per year into an IRA. Again this is tax-deferred money. In an IRA you have thousands of choices as to where to invest your money.

ROTH IRAs are for individuals who make too much money to contribute to a regular IRA. (over 30,000 individual 50,000 joint)

Diversify:

Mutual Funds are already diversified since they are a family of companies. But you may also pick between different types of mutual funds.

Types of Funds:

- Small-cap Funds - less than \$1.4 Billion
- Mid-cap Funds -1.4 – 9 Billion
- Large-cap Funds - over \$9 billion
- Value Funds - under priced stocks
- Growth Funds -where growth and sales are increasing
- Blend Funds - value & growth
- Foreign Funds - outside of USA
- Technology Funds
- Electronics
- Communications
- Health
- Real Estate
- Banking, etc. etc. etc.



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COMPENSATION COMPARISON

September 2017

Compensation Comparison. As of July 1, 2017, the national average compensation of ordained American Baptist Comprehensive Plan members working at ABC employers is \$58,444. This represents a 2.0% increase over the July 1, 2016 average of \$57,257. The attached chart details the compensation comparison from 2016 to 2017 by region. We include the median comparison of compensation by region to assist you further in your analysis.

Compensation Analysis. Many regions use a comparison analysis to help churches determine fair compensation for their pastoral leaders. Upon request, MMBB will produce an analysis comparing churches of similar size in your region. Please provide the names of the churches and their pastors grouped together to one of three categories: (1) church membership; (2) average attendance in worship, or (3) annual church budget.

Compensation refers to cash salary and housing allowance or parsonage rental value plus utilities. If Social Security/Medicare tax offset is included for determining the MMBB Comprehensive Plan premium, that figure is included.

Please direct your inquires and comments about clergy compensation to a Senior Benefits Specialist in New York toll-free at 800.986.6222 or via email at service@mmbb.org.



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**COMPENSATION COMPARISON
2016-2017**

ORDAINED ABC MEMBERS OF MMBB'S RETIREMENT PLAN

<u>REGION NAME</u>	<u>2016 AVERAGE</u>	<u>2017 AVERAGE</u>	<u>% CHANGE</u>	<u>2016 MEDIAN</u>	<u>2017 MEDIAN</u>	<u>% CHANGE</u>
ABCOSH and Former Pacific Southwest	\$ 62,463	\$ 62,350	-0.2%	\$ 58,000	\$ 58,500	0.9%
Alaska	\$ 52,791	\$ 58,374	9.6%	\$ 57,243	\$ 59,900	4.4%
Central Region	\$ 48,415	\$ 51,635	6.2%	\$ 45,934	\$ 49,528	7.3%
Chicago	\$ 67,321	\$ 64,501	-4.4%	\$ 60,000	\$ 53,000	-13.2%
Cleveland	\$ 65,756	\$ 70,739	7.0%	\$ 60,000	\$ 65,550	8.5%
Connecticut	\$ 64,852	\$ 65,887	1.6%	\$ 58,008	\$ 60,151	3.6%
Dakotas	\$ 44,264	\$ 45,255	2.2%	\$ 42,539	\$ 43,146	1.4%
District of Columbia	\$ 76,644	\$ 75,533	-1.5%	\$ 71,525	\$ 75,010	4.6%
Evergreen Baptist Association	\$ 59,353	\$ 60,460	1.8%	\$ 54,438	\$ 55,545	2.0%
Great Rivers Region	\$ 54,482	\$ 55,454	1.8%	\$ 50,000	\$ 51,717	3.3%
Indiana/Kentucky	\$ 48,086	\$ 49,801	3.4%	\$ 50,063	\$ 50,660	1.2%
Greater Indianapolis	\$ 51,700	\$ 50,995	-1.4%	\$ 50,221	\$ 48,000	-4.6%
Growing Healthy Churches	\$ 65,012	\$ 67,854	4.2%	\$ 61,921	\$ 65,367	5.3%
ABCOFLASH	\$ 64,251	\$ 64,878	1.0%	\$ 58,429	\$ 59,077	1.1%
Maine	\$ 42,252	\$ 41,686	-1.4%	\$ 40,950	\$ 40,950	0.0%
Massachusetts	\$ 54,255	\$ 56,370	3.8%	\$ 51,191	\$ 53,404	4.1%
Michigan	\$ 56,952	\$ 56,678	-0.5%	\$ 52,500	\$ 53,000	0.9%
Mid-American	\$ 53,802	\$ 52,559	-2.4%	\$ 52,947	\$ 52,806	-0.3%
Nebraska	\$ 53,144	\$ 51,952	-2.3%	\$ 52,200	\$ 53,500	2.4%
New Jersey	\$ 62,250	\$ 63,263	1.6%	\$ 56,200	\$ 56,200	0.0%
New York State	\$ 46,922	\$ 46,641	-0.6%	\$ 45,591	\$ 45,383	-0.5%
Northwest	\$ 51,151	\$ 52,783	3.1%	\$ 51,483	\$ 51,766	0.5%
Metropolitan New York	\$ 84,407	\$ 82,825	-1.9%	\$ 62,179	\$ 64,500	3.6%
Ohio	\$ 56,272	\$ 54,448	-3.3%	\$ 49,903	\$ 50,000	0.2%
Oregon (Pacific Coast Region)	\$ 61,300	\$ 62,857	2.5%	\$ 56,102	\$ 56,360	0.5%
Pennsylvania/Delaware	\$ 55,419	\$ 57,462	3.6%	\$ 52,344	\$ 51,943	-0.8%
Philadelphia Baptist Association	\$ 76,470	\$ 78,881	3.1%	\$ 64,274	\$ 66,619	3.5%
Rhode Island	\$ 49,191	\$ 54,634	10.0%	\$ 50,000	\$ 56,769	11.9%
Rochester/Genessee Region	\$ 50,654	\$ 52,318	3.2%	\$ 49,298	\$ 51,250	3.8%
Rocky Mountain Region	\$ 51,442	\$ 53,256	3.4%	\$ 51,750	\$ 54,561	5.2%
Region of the South	\$ 76,245	\$ 78,168	2.5%	\$ 68,295	\$ 69,727	2.1%
Vermont/New Hampshire	\$ 44,243	\$ 46,896	5.7%	\$ 42,411	\$ 46,842	9.5%
West Virginia	\$ 48,593	\$ 49,912	2.6%	\$ 47,386	\$ 48,628	2.6%
Wisconsin	\$ 46,393	\$ 49,784	6.8%	\$ 41,900	\$ 45,400	7.7%
National Average and National Median 2017	\$ 57,257	\$ 58,444	2.0%	\$ 53,448	\$ 54,846	2.5%



**THE MINISTERS AND MISSIONARIES
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COMPENSATION ANALYSIS

Upon request, MMBB can produce compensation analyses comparing the compensation of pastors of similar-sized churches, usually within the same region. These analyses are prepared to assist regional staff members and church leaders in determining fair compensation.

The key to setting up the analysis is grouping pastors according to the size of the churches they serve, based on resident membership, average worship attendance or annual church income. When the groupings are submitted to MMBB, the compensation of each pastor who is a member of the MMBB Comprehensive Plan is entered onto a spreadsheet. A report is then produced listing the high, low, median, and average compensation of each grouping. See the attached sample.

Compensation refers to cash salary and housing allowance or parsonage rental value plus utilities. If Social Security/Medicare tax offset is included for determining the MMBB Comprehensive Plan Premium, that figure is included.

Instructions:

1. Make as many photocopies of the attached blank form as needed for your data. Save a blank copy for future use.
2. Fill in the name of the region at the top of each copy of the form submitted.
3. Check the category to be used for the analysis: (1) resident membership, (2) average attendance in worship, or (3) annual church income.
4. Fill in the range for that page. For example, a starting range for Resident Membership might be 1 to 150; a starting range for Annual Church Income might be \$50,000 to \$75,000. Use ranges of numbers or dollar amounts that are useful to you.
5. List on each page the church name, city, and pastor for each church that falls within the range. Church names can be abbreviated (e.g., First or FBC, Jacksonville, Calvary, Smithville). Use additional forms for as many ranges as needed.
6. To maintain confidentiality, at least seven of the MMBB Comprehensive Plan members are required in each grouping. MMBB may combine groupings to reach the necessary minimum.
7. Start a new form when changing the range of numbers or dollar amounts.
8. Fill in the page number and total number of pages being submitted at the lower right corner of each page.
9. Return the completed forms to: **Gladys Ward, The Ministers and Missionaries Benefit Board, 475 Riverside Drive, Suite 1700, New York, NY 10115-0049**, or fax toll-free to 800.986.6782



REGION COMPENSATION FORM

Name of Region: _____

Category (check one):

Resident Membership

Average Attendance in Worship

Annual Church Income

Range: _____ to _____

Church and City	Pastor	MMBB Use Only
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		

Build your housing allowance knowledge.
We'll hand you the tools.

Did you know?

Many ministers either fail to claim the allowance or simply do not claim enough.

Types of clergy housing allowance

1

Church-provided parsonage

1 Those who live in a church-provided parsonage do not pay federal income taxes on the amount of their compensation that their church designates in advance as a parsonage allowance.

2

Rented house or apartment

2 If the pastor rents a home or apartment, the pastor does not pay federal income taxes on the amount of compensation the church designates in advance as a housing allowance.

3

Home ownership

3 The same applies if a minister owns their home.

“

First, how much did your church or employer designate as your housing allowance?

Second, what is the fair rental value of your home furnished, plus utilities? That requires some assessment of how much that home is worth, maybe even an appraisal.

And the third, after totaling up all your expenses for the year, what's that number?

Under the IRS code the limit is the lowest amount of those three that you're eligible to claim.”

Rev. Dr. Perry Hopper
Associate Executive Director

Inclusions

The clergy housing allowance includes housing-related expenses such as:

- Mortgage and rental payments
- Utilities
- Repairs
- Furnishings
- Insurance
- Property taxes
- Additions
- Maintenance

Limits

The IRS says clergy are limited to the lesser of the three:

- What did the church designate?
- What did the pastor actually spend for the year?
- What is the fair market value of the home?

“

MABB recommends structuring compensation so that cash and the Social Security allowance (also known as a Social Security/ Medicare tax offset) are paid directly to the clergy, and the rest is paid on their behalf, so it doesn't become taxable income to the pastor. Ministers should also take note that they must pay Social Security/Medicare taxes on the dollar amount designated as clergy housing allowance.”



The housing allowance is considered compensation for ministerial services, and the church must designate the value of the clergy housing allowance in advance.

“

... a minister cannot exclude more than the church designates. Any amount a minister spends on housing that exceeds what the church designates must be reported as taxable income.”



Some parts of compensation should be paid directly to the clergy, but other parts should be paid on their behalf.



Pastors must pay close attention to structuring their compensation package to take advantage of every tax benefit available.

Keep in mind

Insights from
Rev. Dr. Perry Hopper

“

... you estimate to the best of your ability how much of your income will be declared as housing. And so, you set it up in consultation with the church, you declare how much it is, or is going to be, and then you put that on file with the employer or with the church.”



During budget season, churches must consider the clergy housing allowance as part of their spending plan for the year.



Under certain circumstances, pastors can make changes in their housing allowance. This is true even if you move to another church.

“

[Housing allowance] ... can be changed for things like a major expense, such as a roof replacement... If you change in the middle of the year, in July, for example, that can only be for expenses going from July forward. You cannot change retroactively. Changes can only be for those expenses that are paid forward... If you move from one ministry to another, or you go to another church during the middle of the year, of course, you are able to change your housing allowance from that point on.”

Guide to Negotiating Pastor Compensation



MIMBB
A Financial Services Ministry™

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A Guide for Pastors

Many ministers have devoted their lives to matters of faith and spiritual health. But your experience dealing with salaries and benefits packages may be limited. If you're a lay church leader, you must determine the staff's compensation. Talking about money can be a difficult conversation for anyone, but it can be even harder for people who serve God.

MMBB Financial Services understands the importance of fair compensation. It's not simply a matter of pastors being paid for their work. Fair compensation is a matter of justice and good stewardship by congregational leaders.

MMBB has over 100 years of experience working with clergy, as well as churches and faith-based organizations. This guide offers you the benefit of that expertise. This publication is intended for both churches and ministers, as well as for chaplains, pastoral counselors and those in other forms of ministry. The booklet will focus on three areas:

- Compensation 101 (The Basics) including salaries, benefits and reimbursable expenses
- Understanding and Achieving Fair Compensation including how to develop negotiating strategies
- What Compensation Means for Future Financial Wellness including reaching your financial goals

The guide will help you understand:

- what is compensation?
 - Salaries
 - Benefits
 - Reimbursable expenses
- clergy dual tax status
- how to determine "fair" compensation
- how to develop negotiating strategies

“Let the elders who rule well be considered worthy of double honor, especially those who labor in preaching and teaching; for the scripture says, ‘... the laborer deserves to be paid.’”

1 Timothy 5:17–18 (NKSV)

1. Compensation 101 - The Basics

Leading a community of faith requires many skills, such as compassion, vision, education and experience. Compensation reflects a minister's value to your church, and it should take these skills into account. Managing faith-based communities necessitates equitable compensation for all staff.

A fair compensation package is a win-win situation for all parties. A church should provide its staff with adequate income so that they can fulfill their roles without undue concern about current and future financial needs. Freedom from financial anxiety lets a pastor focus on his or her service and provide joyful stewardship. It also helps a church attract and retain qualified pastoral leadership.

Consider benefits and insurance components of compensation as risk management. They protect both the pastor and church from unexpected setbacks. These components ensure that pastors receive support, even if they are unable to fully carry out the church's ministry. Finally, a compensation package serves a managerial and motivational function. It can reward staff for meeting agreed-upon goals.

What Is in a Compensation Package?

Compensation has three parts: salary, benefits and reimbursable expenses

- A.** Salary or cash compensation includes:
 - Cash
 - Housing, Parsonage or Equity Allowance
 - Social Security/Medicare Tax Offset
- B.** Benefits
 - Retirement; life insurance, disability insurance and health insurance; and paid sabbatical, which contributes to a staff member's feeling of security and well-being
- C.** Reimbursable ministry-related expenses help ministers with the day-to-day costs of performing their duties. They include:
 - Work-related travel
 - Books
 - Education





A Sample \$75,000 Compensation Package	
Cash Compensation	
Cash salary	\$30,000
Housing allowance	20,000
Social Security offset	3,800
Equity allowance	5,000
Benefits	
Retirement, plus life and disability insurance	4,400
Health insurance	10,000
Reimbursement for Job-Related Expenses	
Auto allowance	650
Conventions	400
Hospitality	250
Subscriptions/books	200
Continuing education	300
TOTAL:	\$75,000

Let's take a closer look at each of the three parts of a compensation package.

Salary or Cash Compensation

A. Cash Salary

Ministers' salaries are straightforward. It's how much they're paid—whether they receive a paycheck every week, every other week, or monthly. Their salaries are subject to employment taxes, which can come as a surprise to many clergy. Even if they work for a tax-exempt organization, they still have to pay employment taxes.

Cash compensation also serves as the basis for calculating allowable retirement plan contributions.

- Increasing the cash portion of a compensation package could mean that the pastor has to pay more in taxes.
- Employee-paid retirement plan contributions cannot exceed 100 percent of includable compensation (plus any age 50 catch-up contributions). Reducing cash salary can potentially limit a minister's contribution to his or her retirement plan. As a matter of note, few pastors set aside 100 percent of their salary for retirement, so this is a lesser concern.

B. Social Security and Medicare Tax Offset

Churches can help clergy with their self-employment taxes by providing an “offset,” which is a kind of allowance that typically is the equivalent of an employer’s portion of Social Security and Medicare taxes.

Tax planning for ministers is very different from tax planning for lay church employees or other workers. Employees typically have to pay three different types of federal taxes: income tax, Social Security tax and Medicare tax. With most non-ministerial employment, an employee pays one half of Social Security and Medicare taxes and the employer pays the other half. Total Social Security/Medicare tax is 15.3 percent of all eligible income with the employer paying 7.65 percent of the total amount.

Ministers who are ordained and self-employed, however, have to cover the entire amount of employment taxes on their own. That’s because they basically serve as both employer and employee. This “dual tax status” means that, for federal income tax purposes, the minister is considered a W2 employee. For Social Security and Medicare, he or she is classified as self-employed—and the employer cannot pay those taxes for the pastor.

Your church can provide an allowance to help the minister “offset” the cost of paying employment taxes entirely on his or her own—hence the terms Social Security and Medicare tax offset. But remember: that extra offset counts as income and must be included as income and reported to the Internal Revenue Service by the minister. With the U.S. tax code constantly changing, it’s a smart idea for a pastor to work with a professional who understands clergy taxes.



Making Sense of Your Taxes

If you’re a minister, it’s important to find a qualified tax professional experienced in clergy taxes. You might want to ask other pastors in your community for recommendations. A pastor or minister needs to look at his or her entire tax situation—not just deductions. Most important, clergy should find out if their compensation is structured to help them lower their taxes and increase their earnings. A knowledgeable professional with clergy tax experience can help ministers stay up to date on the latest rules to create a tax plan for individual situations.

You can also contact MIMBB for a free copy of our annual *Clergy Tax Return Preparation Guide*. It’s an invaluable resource for anyone trying to navigate the world of clergy taxes.



C. Housing Allowance

The housing allowance allows eligible clergy to exclude the cost of housing from their income for federal income taxes only. The allowance should cover the cost of maintaining a home: mortgage or rent payments, taxes, repairs, insurance, furnishings, utilities, etc.

The church must designate the housing allowance in advance of the tax year and ahead of when a salary adjustment takes effect. For example, a minister receiving a cash salary of \$30,000 might have \$5,000 of the cash amount designated as a housing or parsonage allowance. Only \$25,000 would be subject to federal income taxes.

Keep in mind the following:

- Designating a larger portion of salary as a housing allowance will reduce a minister’s federal tax liability; however, overestimating the housing allowance may cause a pastor to under report his or her taxable wages. This could lead to an underpaying of taxes by the minister.
- A guideline for deciding what to exclude from taxable income is the lesser of the fair market value of the home furnished plus utilities, designated by the church for the home or the amount actually spent on housing. The minister is responsible for documenting actual housing expenses.
- A pastor cannot exclude more than his or her church designates, so the designated amount must at least be enough to cover the fair rental value of the dwelling, including utilities, etc., or the actual amount spent by the minister on housing in a year.
- If the designated amount exceeds the lesser of the fair rental value and the actual yearly housing expenses, the pastor must report the excess as taxable income.

Housing Allowance Example	
Designated by the church	\$22,000
Fair rental value of a furnished house, plus utilities	\$19,000
Actually spent on housing by the minister for the year	\$17,600

In this example, the church designated \$22,000 of its minister’s salary as a housing allowance. A realtor’s estimate of the rental value for a similarly furnished house came to \$19,000, so the church’s designation was too high.

But when the pastor added up his or her actual mortgage payments, utility, and maintenance costs for the year, the total was even lower: \$17,600. Since that is the least of the three amounts, the minister can only exclude \$17,600 from federally taxable income.

C1. Rental Value of a Parsonage

For a minister living in a parsonage, the church does not report the rental value or any utility costs paid or reimbursed by the church as income for federal income tax purposes. However, the pastor must count the parsonage rental value, utilities and parsonage allowance as income when calculating his or her Self Employment Contributions Act (SECA) tax.

A church should base the rental value on what the parsonage could be rented for in the community. A local real estate agent can help determine this. Alternatively, a church can use 1 percent of the market value of the parsonage. For example, if the parsonage market value is \$100,000, the monthly rental value would be \$1,000. Consider annual adjustments to the parsonage rental value based on market data.

C2. Parsonage Allowance

In addition to determining the parsonage rental value, your church can also designate a part of a minister's cash salary as a parsonage allowance. The parsonage allowance covers anything bought by the pastor to maintain a home in the parsonage, such as furniture or renter's insurance. The amount of this allowance is excluded from the minister's taxable income to the extent that it can be justified by actual housing costs.

C3. Equity Allowance for Ministers Living in a Parsonage

Unlike homeowners, ministers who live in parsonages usually do not have equity in their homes. This puts them at a disadvantage when they approach retirement. They must seek housing while not having built up equity over the years.

Churches can help such pastors by providing an equity allowance in addition to the minister's compensation. There are several tax-advantaged ways to do this:

- The church can make contributions on behalf of the pastor to the Retirement Only Plan, available from MMBB. Retirement Only Plan contributions and earnings are not taxable to the minister until withdrawn in retirement (see page x for more plan information).
- A pastor may choose to supplement the equity allowance by starting or increasing contributions to the Member Contribution Plan, also known as the Annuity Supplement (TAS). Contributions are excluded from Social Security/Medicare taxes for ordained ministers.

Now that we've shed light on what compensation is, let's examine benefits.





Why Benefits Matter

A strong benefits program adds value to an overall employment package and is essential for maintaining employee health and morale. There are also tax advantages for employees. Employers generally offer four types of benefits:

- A. Retirement savings
- B. Life insurance
- C. Disability insurance
- D. Health insurance

A church should offer all four benefits to protect the institution in case the unexpected happens. Churches should also want to protect ordained staff so that they can fulfill their ministry knowing that they and their family will be cared for – now and in the future. That’s why clergy should examine their entire compensation package when considering a call to ministry and lay leaders should use the same consideration when setting salaries for staff. Let’s focus on the four types of benefits.

A. Retirement Savings

A strong retirement plan—plus a commitment to saving—can help a minister build assets for the future. At MMBB, we offer our members several retirement plans and encourage all eligible employees to enroll as soon as possible. Starting early is key because it gives your money time to grow. Here’s an example. If a pastor started investing \$250 a month at age 25—and earned a 6 percent annual return on their investments—he or she would have nearly half a million dollars by the time he or she turned 65. If the minister waited until age 35—and invested the same \$250 each month and earned the same 6 percent return on his or her investments—the pastor would have only about \$250,000 (about half the money) at age 65.

But don’t worry. It’s never too late to start saving for your retirement. Remember to contact MMBB to learn more about our flexible retirement plans that work with any budget (see the MMBB Benefit Plans at a Glance sidebar on page 14).

When churches help their staff build retirement assets for the future, pastors gain confidence that helps them better fulfill their ministry. It also assures that they will not have to serve beyond the point where they—or the church—want them to work.

To fully appreciate the importance of saving for retirement, consider the following facts:

- According to data compiled by the Social Security Administration, a man retiring today at age 65 can expect to live to age 84. A woman can expect to live to age 86. And those are just averages – one in seven 65-year-olds can expect to live past age 95. That means their retirement savings must last 19 to 31 years.
- Financial advisors generally assume that a retiree will need 70 to 80 percent of his or her pre-retirement income. So a pastor earning \$50,000 a year at retirement may need \$35,000 to \$40,000 a year for 19 to 31 years.

A well-structured retirement plan can help build up the necessary savings. The tax advantages of 401(k) plans, 403(b) plans and traditional IRAs are similar. Amounts contributed today are excluded from current taxable income. Taxes on the invested amount, along with any investment growth, are deferred until the funds are withdrawn during retirement years.

Once a church has decided to offer a retirement savings plan, usually a 403(b) plan for churches, it must decide how to structure it. The church may consider contributing a percentage of each staff member's salary or offering a matching plan to encourage staff to save.

B. Life Insurance

The death of a loved one is traumatic, and it can be even more devastating if surviving family members can't meet their ongoing expenses. A life insurance plan helps take away some of that stress by providing protection against lost wages and future financial needs. A life insurance plan not only offers vital protection against economic catastrophe, but it also makes it easier for a church to support the family without undermining the church's ministry.

A church can provide up to \$50,000 worth of life insurance coverage without tax consequences to the staff member. Church-paid life insurance over \$50,000 has to be reported to the Internal Revenue Service as taxable income.

Many churches offer group term life insurance to their pastors and lay staff—such as the one offered in the MIMBB Comprehensive Plan. Typically, group term life insurance is less expensive than most other insurance coverages individuals purchase.

C. Disability

People often think that only older workers become disabled. But even young and healthy staff members can get hurt in a car accident or other mishap and be unable to work for several weeks or more.

Disability insurance helps replace lost income during that time. It allows your church to continue its ministry by freeing resources that might otherwise be required to support the disabled minister. And like life insurance, disability insurance is often cheaper for the pastor to buy through an employer than on his or her own. Employer-paid premiums for disability insurance are not taxable for staff. They only pay taxes on income paid by the policy after they are disabled.





D. Health Insurance

Health insurance is one of the most important benefits an employer can offer. A medical emergency can cost tens of thousands of dollars if a minister doesn't have insurance coverage. That's why it's critical that you and your family have some form of health insurance. MMBB recommends that your church or employer provide you with health insurance. Doing so helps them retain talented workers—and frees you from having to shop for coverage on your own.

Paid Leave

- **Paid leave** is an employee benefit, but it is typically not given a dollar value. Most compensation packages usually specify how much paid leave a minister can take. Since this doesn't increase or reduce the pastor's salary, the dollar value is generally not stated. Still, you can increase or reduce this part of the compensation package as part of your negotiations.
- **Paid sick leave** – Most churches establish a certain number of days per year for sick leave. Ten days per year is a common option. Most pastors work more than enough hours to compensate for any days off due to illness. A church may or may not include the option to carry over unused sick days from one year to the next. If you do, we recommend limiting that to no more than one year's worth of accumulated sick days.
- **Paid holidays** – July 4th, Labor Day, Thanksgiving Day, Christmas and New Year's Day are examples of paid holidays. Pastors must often work on holidays and it is appropriate to allow them days off instead of the actual commemoration date. We suggest using such "comp" days within one month of the holiday rather than carrying comp days over from one year to the next.
- **Paid vacations** – Generally negotiated by the Pastoral Search Committee or other church board in the hiring process. A typical starting point would be three weeks in the first year of service. For a 10-day-per-year paid vacation rate, use an accumulation rate of 6.67 hours per month.
- **Extra paid days** – Paid time for working with pastoral organizations, jury duty, military training, bereavement and advanced education are all items to consider. Establish a limit of paid days to limit church liability.
- **Paid sabbatical** – This benefit can be tailored to ensure value to the church (e.g., requiring the pastor to remain with the church for a certain period post-sabbatical, or to share learnings from the sabbatical through special programs, workshops and seminars).

Reimbursement of Ministry-Related Expenses

The last part of a pastor's overall compensation package deals with ministry-related expenses. Church staff can incur out-of-pocket business expenses for travel, lodging, education and more.

A minister can be reimbursed for these costs by setting up an Accountable Reimbursement Plan through his or her church. These plans allow you to be reimbursed for qualified expenses—and not have those costs count as additional income that could be subject to tax. Be sure to document all of your costs and submit your receipts within 60 days.

What Are the Requirements for an Accountable Plan?

- Expenses must be incurred while performing services as a church staff member.
- The staff member must provide documentary evidence of the expense. This can be a record of auto mileage for work-related use of a personal car or receipts, plus a notation of the time, place and professional purpose for each expense.
- Expenses must be reported and substantiated within 60 days of their occurrence.
- An accountable plan cannot be funded through salary reduction. The reimbursements must be over and above any salary paid to the staff member, from a spending category that is listed in the church budget.
- Excess reimbursement that the pastor does not spend must be returned. Otherwise, it becomes taxable income.

Your church must pass a resolution establishing an accountable plan.

The IRS requires the church board to pass a formal resolution creating an accountable plan. The plan policy should be in writing and clearly specify which expenses the church will reimburse. The policy should also state the documentation and reporting requirements. You may use the following sample wording:

RESOLVED, That, in addition to compensation paid to our (pastor/staff), we will reimburse (him/her/them) for automobile and other ministry-related expenses considered ordinary and necessary to carry out (his/her/their) responsibilities. Expenses must be substantiated as to the date, amount and purpose within 60 days after they are incurred, or they will not be reimbursed. Any excess reimbursements must be refunded to the church within 120 days after expenses are paid or incurred.





What are allowable reimbursement expenses? They include:

- Business-related travel and automobile use
- Hospitality
- Conference attendance
- Continuing education
- Subscriptions/books/periodicals
- Fees and dues for professional associations, such as Ministers Council or clergy association dues
- Work-related cellphone use

Now that we've explained what benefits are, let's examine the benefits MMBB provides.

MMBB Financial Services Benefits Plans at a Glance

For more than 100 years, MMBB has specialized in providing retirement benefits to faith-based organizations. We work with your church to tailor a flexible benefits package that fits your budget. Call 800.986.6222, or send an email to service@mmbb.org, to arrange to speak with one of our retirement benefits consultants.

MMBB BENEFIT OFFERINGS AND SUPPORT SERVICES

Comprehensive Plan

- Retirement contributions that provide lifetime annuity benefits. Flexible investment options that provide lifetime income in retirement. A housing allowance on these annuity benefits is available for clergy in retirement.
- Disability insurance coverage includes monthly income replacement, an annual cost of living adjustment, continued retirement contributions and a monthly allowance for dependent children under 21.
- Term life insurance includes a lump sum death benefit payment to the survivor. In addition, there is survivorship income from the retirement account for spouses and child allowances for dependent children under age 21.

Retirement Only Plan

- The employer can set the contribution rate as a percentage of salary or fixed dollar amount. You can even make one-time contributions such as tax-deferred thank you gifts.
- An employer can create a matching plan to encourage staff to participate. The plan can be changed over time.
- In most instances, employers can provide different benefits to different classifications of staff.
- The housing allowance on annuity payments from contributions made to the Retirement Only Plan is available for clergy in retirement.

Employee Contribution Plan

- Staff can contribute on a pre-tax basis through easy payroll deduction.
- Pre-tax saving defers federal income taxes on your contributions until you begin receiving benefits in retirement.



MMBB Plan Comparison			
	Comprehensive Plan	Retirement Only Plan	Member Contribution Plan
Retirement Savings	●	●	●
Life Insurance Benefits	●	●	●
Disability Coverage	●	●	●
Funding	Monthly employer premium contributions	Employer contributions	Employee contributions



2. Understanding and Achieving Fair Compensation

The next part of understanding compensation is knowing what constitutes fair compensation and how to attain it. Your first step? Do your homework. The more information a minister has, the better off he or she will be when it comes time to negotiate an employment package. Start your research with MMBB's annual compensation study, which gathers reported church salaries around the country. You can also check online resources such as ChurchSalary.com or Indeed.com to find out what people with similar education and experience earn. Taking a look at what professionals with the same level of education and experience earn is a barometer for fair compensation for a pastor. An example of a comparable profession would be a school principal or school district superintendent.

Whether for ordained ministers or lay staff, generally speaking, the more education, experience and responsibilities someone has, the more he or she is likely to earn. But church lay leaders need to take into account several other factors, too, like:

- The local cost of living.
- How much similar-sized churches in their region are paying their employees.
- The level of management responsibilities and staff supervision.
- And what people with similar skills earn in non-church employment.

Compensation packages for lay staff should be based on educational background, responsibilities, experience and the financial capacity of the church. Once you've settled on compensation, remember to review it annually and make adjustments for inflation, performance and increased workload.

TIPS FOR CLERGY

Preparing for the Conversation

Effective communication is crucial when you're talking about salaries and benefit packages. You want to make sure everyone is on the same page and working toward the same goals. One of the best ways to do this is through Pastoral Relations Committees (PRC). These committees allow ministers and pastoral staff to talk openly about their needs and maintain a strong relationship with their congregation. On issues of compensation, the committee conducts research, works closely with the pastor to design an acceptable package, and advocates for fair compensation.

If your church doesn't have a Pastoral Relations Committee (PRC), you can help create one. Here are some helpful tips:

- The committee should be relatively small—about three to six people. That's large enough to create an open dialogue, but small enough to encourage everyone to take part.

- The pastor and congregation should work together to choose the committee members. This ensures that all sides are represented in any discussions.
- So...who would make a good committee member? You're looking for men and women who:
 - Have a good relationship with the minister
 - Can work on confidential agreements
 - Are good listeners
 - Balance the needs of the pastor with the needs of the congregation
 - Understand finance and compensation
 - Represent diverse points of view

Starting Negotiations

When it comes time to negotiate your compensation, if you're a minister you'll want to keep these tips in mind.

- Be efficient and stay focused on what you want and don't become sidetracked by other topics.
- Negotiations should improve, or at the very least not damage, the relationship between parties.
- Work toward a win-win agreement. Negotiations are a lot easier if both sides can walk away feeling like they came to an amicable solution.
- Educate the decision makers on the components of a compensation package and the principles of benchmarking such packages. Share your research on compensation comparisons and try to have objective discussions based on facts.
- Know what you want and what you absolutely need and prioritize your requests. It is important to think about these matters before the negotiation begins. Being unprepared diminishes your credibility. ("How important can this be? He didn't even know what he wanted.")
- Whenever possible, point out the positive impact your requests will have on you and the church's ministry. We are all partners in ministry. Fair compensation, finance and ministry are connected.

Being Your Own Advocate

As a pastor, it can be hard to talk about yourself and your accomplishments. But you need to set those concerns aside and be your own advocate when negotiating. Make sure the PRC is aware of all your responsibilities—and anything else that shows your worth to the church. This includes:

- Additional experience or degrees you've earned or any new responsibilities you've taken on.
- Your history of raises—and if those were limited due to budget constraints—and any performance goals that you've met.
- Keeping track of your accomplishments—and telling the committee about them—will help everyone see your true value at your church.





Steps for Agreeing on a Compensation Package

As the PRC conducts its research, give some thought to your expectations about a fair compensation package. Refer to ChurchSalary.com and findings of the PRC. Based on a national survey, ChurchSalary.com provides reliable compensation breakdowns for part-time, bi-vocational and full-time church staff. It presents survey data from more than 4,600 churches representing nearly 8,000 staff members. It also adjusts for church size, budget and geographical setting.

TIPS FOR EMPLOYERS/CHURCH AND MINISTERS

When negotiating:

- Be an active listener and try to understand the logic of others' positions. Many negotiations have broken down over minor points because people simply didn't understand what their negotiating partners wanted or needed. Restate your understanding of your counterpart's position. It will help you gain added credibility.
- Try not to put your negotiating partners on the defensive. It prevents people from listening and encourages them to dig in rather than being open to your position. Instead, state your position in objective terms. Be hard on the problem; be soft on people.
- Be realistic in your expectations. You may not be able to achieve all your goals at once. Expect to give up on some requests and compromise on others.
- Be willing to take a leap of faith. Sometimes the other side needs to see a gesture of goodwill before they will soften their position.

Once the PRC has conducted its research, it should work with the minister to design a fair and viable compensation package. See the previous sections of this guide for tips on optimizing the mix of taxable and tax-advantaged compensation.

Now is also a good time to agree on severance compensation. The church and pastor can discuss the matter objectively, free of passions that may arise when actual departure is at hand. Here are two possible formulas:

- One to two weeks of pay for each year of service, up to a maximum of 26 weeks
- Half a month of salary for each year of service (e.g., 5 years of service = 2.5 months of severance pay)

Once a compensation package is agreed upon, present it to the finance committee and/or to the congregation. Then incorporate it into your church's annual budget.

Break a Pattern of Discriminatory Compensation

The average salary for female pastors tends to skew lower (see the chart below). As a center for teaching fairness and equality, your church should lead by example. Compensate your staff fairly, regardless of gender.



		Gender	
		Male	Female
Data Distribution			
Characteristics			
Average weekend worship attendance		192	132
Average church income		\$334,372	\$194,251
Average # of years employed		10	6
Average # of paid vacation days		20	23
% College graduate or higher		93%	93%
% who receive auto reimbursement allowance		%61	63%
% Ordained		99%	96%
% Supervise one or more people		79%	91%
Average % salary increase (for those who had an increase) this year		4.2%	3.8%
Compensation			
Base Salary	Median	\$44,413	\$38,890
	Average	\$47,282	\$38,083
Housing	Median	\$20,000	\$19,500
	Average	\$20,727	\$18,307
Parsonage	Median	\$14,200	\$8,425
	Average	\$13,940	\$9,506
Total Compensation	Median	\$55,550	\$40,000
	Average	\$58,585	\$41,040

Source: The 2016-2017 Compensation Handbook for Church Staff



How to Compare a Minister's Salary to Other Church Workers' Salaries

Earlier in this guide, we talked about the components a compensation package should include. How do you know your church's package is reasonable and fair? Compare it with those of thousands of other church workers nationwide.

ChurchSalary.com provides compensation profiles that are broken down by categories so that you can compare:

- Salary
- Retirement benefits
- Health insurance coverage
- Housing/parsonage allowance
- Life insurance benefits
- Continuing education

Some of the profiled positions on the site include:

- Senior Pastor
- Associate Pastor
- Executive/Administrative Pastor
- Youth Pastor
- Adult Ministry Director
- Non-ordained Ministers

A pastor or church administrator can find compensation levels based on personnel characteristics that include years employed, region and educational attainment. This lets you compare your plan or your compensation to other churches that have similar attributes and demographics. An annual subscription can be ordered to receive a salary report. If you are a minister, you may also find the worksheet provided with your salary report useful (see next page).

Preparing For a Church Call or Compensation Increase (WORKSHEET)

This worksheet is designed to help you gather relevant information needed for your job offer or raise conversation. It is not exhaustive, but it will help you prepare—using your Church Salary report and your own reflections—so that you can have an honest and informed conversation about an initial offer or compensation increase. In addition to the elements below, keep in mind the figures from previous pages highlighting averages, ranges, comparable jobs, and costs and incomes for your area.

In ADVANCE	Projected Salary Range (from this report)	\$	-	\$
	Non-Salary Benefits I (Will) Receive			
	Church's Financial Health	<input type="radio"/> 1 <input type="radio"/> 2 <input type="radio"/> 3 <input type="radio"/> 4 <input type="radio"/> 5 <input type="radio"/> 6 <input type="radio"/> 7 <input type="radio"/> 8 <input type="radio"/> 9 <input type="radio"/> 10	Use a scale of 1 to 10 (1 being terrible, 10 being exemplary)	
	Person I'll Speak to (who is in a position to negotiate my salary or raise)			
	Pay I Think is Fair (based on this report, my qualifications, my professional performance, etc.)	\$		
In the CONVERSATION	Personal Strengths (my skills, expertise and relevant experience)			
	Ministry Impact and Personal Development (In the last year)			
	Timing I Will Choose (to ask for a conversation—either immediately for a job offer OR before or during budgeting season for a raise)			
What I will ask for		What I will accept (the minimum)		
\$		\$		

Alternative Rules of Thumb for Determining a Fair Wage

If you or your pastor want an alternative to basing compensation on national averages, some churches base their pastor's salary on the average wage in their community for:

- The CEO of a non-profit organization
- A religious education director

TIPS FOR EMPLOYERS

If your church is multi-staffed, you may want to set compensation as a percentage of the senior minister's pay. For example:

- A staff person responsible for planning, developing and leading ministries across a broad spectrum of congregational life might receive 75 to 85 percent of the senior minister's compensation.
- Someone responsible for one or two aspects of congregational life and needing little supervision might earn 70 to 80 percent of that base.
- Someone with entry-level skills requiring substantial supervision might receive 65 to 75 percent of a senior pastor's compensation.

After conducting its research and making the appropriate adjustments, the PRC should share its information with the pastor(s).

In addition, MMBB recommends you see other published resources such as the Compensation Handbook for Church Staff; a publication of Christianity Today or ChurchSalary; or a publication of the Church Law and Tax Report in setting staff compensations. MMBB recognizes that there are situations where data is not readily available. We invite you to consult with your regional denominational office for guidance on relevant salary and compensation data for your geographic area.

Bi-vocational Ministers

If your church cannot compensate a pastor fairly for all his or her work, you may want to consider reducing the minister's responsibilities. Many smaller churches can manage with a part-time or bi-vocational pastor. Or they reduce the pastor's workload by providing lay volunteer assistance with certain tasks.

Churches who believe that they can only afford a part-time pastor should realize that this is a perfectly viable option. Christian ministry has a long and rich history of implementation by part-time leadership. The early Christian church grew out of multi-vocational leaders.

While multi-vocational ministry can be fulfilling and challenging, it is best to begin by setting clear guidelines:

1. Write a letter of understanding that clearly describes:
 - Ministry expectations and the number of days per week for service

- Supplemental pay when circumstances require service beyond the agreed-upon days per week
 - Financial arrangements
 - Accommodations, if there is no parsonage
2. Do not change the arrangements midstream without mutual agreement.
 3. Ensure that there is a clear plan for growth.

No pastor or church should settle for a non-growth environment. Even if the possibility of a full-time position seems unlikely, establish a vision and mission for more development. If your church does not really want to change, then the pastor should be told this before responding to a call.

More Compensation Information from MMBB

For added perspective on national averages in the Compensation Handbook for Church Staff, MMBB provides annual updates on average and median compensation for each region, as well as for the nation as a whole within the context of American Baptist Churches USA. Your church can also ask MMBB to conduct a customized compensation study of pastors at churches like yours within your region. The report will list the high, low, median and average compensation. For a copy of the annual update, or a customized compensation analysis request form, call 800.986.6222 or email service@MMBB.org.



Additional Resources for Churches and Ministers

Online:

- MMBB Website Section on Church Finances & Administration. Your online guide to church finances and benefits administration, including descriptions of MMBB benefits offerings (MMBB.org/managing-church-finances/).
- The Pastoral Relations Committee, prepared and published by the United Church of Christ Parish Life and Leadership Ministry Team. Suggested policies, principles and procedures that may enhance the work of the Pastoral Relations Committee (UCC.org/Ministers/PDFs/prc.pdf).
- Suggested Minister Church Agreement. A “covenant making” tool for congregations and ministerial leaders to use during the process of extending a call of ministry to a new leader. Helps establish and maintain a healthy relationship between the congregation and leader by making clear and specific the terms and benefits of employment (MinistersCouncil.com/ClergyCongregationalRelationships/SuggestedMinisterChurchAgreement).
- Federal Reporting Requirements for Churches, by Richard R. Hammar, J.D., LL.M., CPA. These payroll reporting requirements apply, in whole or in part, to almost every church. Churches should fully comply with them. Visit MMBB.org and search “reporting requirements.”



- Website of the Program on Negotiation at Harvard Law School. Click on “Blog,” then “Browse Topics” for succinct posts covering various aspects of negotiation and conflict resolution (PoN.Harvard.edu).
- ChurchSalary.com, a website from Christianity Today International (updated annually). Based on survey data from more than 4,600 churches representing nearly 8,000 staff members, this site provides reliable compensation breakdowns for part-time and full-time church staff.

Print:

- The Essential Guide to Church Finances, by Richard J. Vargo and Vonna Laue (2009). How to strategize, organize, measure, communicate, protect and audit your church financials. Covers planning and budgeting, church financial reports, performance measurements and church audits. Visit the employment section of YourChurchResources.com.
- Getting to Yes: Negotiating Agreement Without Giving In, by Roger Fisher and William Ury (2011). Offers a proven, step-by-step strategy for coming to mutually acceptable agreements in every sort of conflict. Based on the work of the Harvard Negotiation Project, a group that deals with all levels of negotiation and conflict resolution.
- Difficult Conversations: How to Discuss What Matters Most, by Douglas Stone, Bruce Patton, and Sheila Heen (2010). From the Harvard Negotiation Project, a step-by-step approach to having tough conversations with less stress and more success. Learn how to understand the underlying structure of every difficult conversation, start a conversation without defensiveness, and move from emotion to productive problem-solving.

3. A Word to Employers About What Compensation Means for Future Financial Wellness

Once a compensation change is approved, an employer/church should report the change and its effective date to MMBB within one month. A member's retirement income, disability and death benefits are all based on reported compensation.

Failure to report changes could result in lower benefits to your minister and his or her family.

To report the change, complete MMBB's Compensation Change Request form, which you can obtain at www.mmbb.org/forms. Submit the completed form to:

Attn: Billing Department
MMBB
475 Riverside Drive, Suite 1700
New York, New York 10115

You can also fax your change notice to 800.986.6782 (Attn: Billing) or email it to forms@mmbb.org.



Recommended Timetable for Negotiating Compensation											
1 st Quarter			2 nd Quarter			3 rd Quarter			4 th Quarter		
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
↑ Set pastoral goals for the year			↗ Give pastor feedback on progress toward goals			↗ PRC gathers data in preparation for negotiating compensation			↑ Agree on compensation, incorporate into church budget for the coming year, report to MMBB		



How Reporting Compensation Affects MMBB Member Benefits

A member's reported compensation is used to determine monthly premiums and annual retirement plan contribution limits.

Compensation includes:

- Cash salary, including amounts you withhold for employee contributions to the Member Contribution Plan.
- The fair rental value of a parsonage, plus utilities and a parsonage allowance, or any cash housing allowance.
- If your church pays its minister a Social Security/Medicare tax offset, you may include this amount when reporting compensation for plan purposes. Your monthly premium will increase modestly as a result—but so will the pastor's death benefit and disability coverage.

Consequences of Underreporting Income

Let's look at an example of how underreporting income can lower benefits to a member and his or her family and adversely affect his or her future financial wellness. For Rev. Jones, the monthly Comprehensive Plan premium is 16 percent of reported compensation:

Reported Compensation			
Component	Full Amount: \$40,000	Reported Amount: \$35,000	Impact
Premium	\$6,400/yr.	\$5,600	Church pays \$800/yr. less
Contribution to Retirement Plan	\$5,200/yr.	\$4,550/yr.	Rev. Jones receives \$650/yr. less for retirement
Disability Income	\$26,668/yr.	\$23,334/yr.	Rev. Jones' benefit reduced by \$3,334/yr.
Death Benefit*	\$200,000	\$175,000	\$25,000 less for Rev. Jones' family

In the example above, underreporting Rev. Jones' annual income by \$5,000 reduces his organization's premium payments by \$800 a year. But the impact on Rev. Jones is potentially much greater than that—\$650 less contributed to Rev. Jones' retirement account and thousands of dollars less should Rev. Jones become disabled or die.

Your pastoral leaders deserve the full benefits for which they are eligible. It is helpful to provide a full and accurate report of their compensation to MMBB.

Consequences of Underreporting Parsonage Rental Value

Your church’s accurate report of parsonage rental value does more than help a pastor save on taxes. It also helps MMBB determine death, disability and retirement benefits. A church reports this value, along with cash salary and utilities, to MMBB for Comprehensive Plan premium purposes.

If the reported rental value is less than the actual value of the parsonage, the minister’s death, disability and retirement benefits will be lower. That can create considerable hardship if the member’s surviving family must find alternative housing.



The Impact of Under-Reporting (45-Year-Old Member)	
Compensation	Death Benefit (4 x Reported Compensation)
Actual: \$50,000	\$200,000
Under-reported: \$45,000	\$180,000 (\$20,000 less)

This publication discusses various forms of compensation and their federal tax implications only. It does not cover local tax regulations, which differ from state to state.

This guide is not intended as a substitute for legal, accounting or other professional advice. If legal, tax or other expert assistance is required, we recommend that you seek the services of a competent professional.

You can download additional copies of this guide—and other helpful materials—at www.MMBB.org



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