

Recommendations to Churches for Pastoral Compensation

by Dr. R. Peter Mason (August, 2002)

Introduction

The Scriptures tell us that “the elders who direct the affairs of the church well are worthy of double honor, especially those whose work is preaching and teaching . . . ‘Do not muzzle the ox while it is treading out the grain’” (1 Timothy 5:17-18).

It is in the best interest of a church family to care for their pastor so that he can give attention to the needs of the church. Although each church does not have the same resources, all have *the responsibility is to give joyfully and generously* (2 Corinthians 8-9).

The most important responsibility of a church family is to give their pastor respect (1 Thessalonians 5:12-13). Then, we are to provide for the pastor and his family in terms of their financial needs.

Financial Remuneration

General Principles

The pastor's compensation should be recognized as having two major categories: personal compensation and ministry reimbursement. Reimbursement for ministry expenses is the church's responsibility. Ministry expenses should not be confused with personal compensation. The pastor's giving to the church should come through the offerings just as every member of the church gives “as the Lord prospers.” His personal compensation should not be expected to cover the church ministry expenses.

Ministry expenses that the church pays should include:

Automobile reimbursement: When the pastor uses his personal vehicle for church ministry he should submit his mileage and purpose for travel to the treasurer to be reimbursed at the current rate (34.5 cents per mile in 2001). The church should budget an annual amount based upon the amount of home and hospital visitation they plan for the pastor to do.

Phone: If the pastor is expected to provide a phone in his home and to receive church ministry calls on that phone, the church should pay the cost of the phone. The pastor should reimburse the church for personal long distance calls.

Office: If the church office is in the pastor's home, the church should pay all utility expenses for that office. The “rental value” of the parsonage should be kept very low for Social Security purposes considering that the home is used for church activity and business, and in many cases the pastor is required to live in that home. Remember that the pastor must pay FICA tax on the value the trustees place on the home's use.

Conferences: When the pastor travels to association meetings or obtains specific training for ministry, that is a church expense. The church should budget an annual amount for this area.

Books and periodicals: It is helpful for a church to provide money for the pastor to buy quality tools he needs for preaching and teaching. Even budgeting a minimum amount in this area is helpful.

Personal Compensation

Personal Compensation should be divided into several areas to reduce the taxes a pastor needs to pay and to maximize the value of the church's compensation for their pastor:

Social Security: A pastor is treated as self-employed for Social Security purposes in most cases. He must pay 15.3% in Social Security taxes. The church should pay one-half of the Social Security on a quarterly basis similar to a business setting. The Social Security “offset” is taxable for income tax purposes.

Social security payment is based on the salary, the fair rental value of the parsonage or housing allowance, and the Social security offset itself. For example, if the salary is \$15,000. and the fair rental value is \$3,000 then you would add these together (\$18,000.) and multiply it times .153. Divide that result by two to find the approximate responsibility of the church. The fair rental value must be set before the fiscal year. Remember that whatever figure is set will influence the amount of Social Security tax both the pastor and the church should pay. One should consider a low figure based on the location and requirements of the parsonage. For example, if the parsonage is used for church purposes such as prayer meeting or office space then the value of the parsonage should be reduced according to what is used exclusively for the pastor's family use.

To reduce taxable income there are several key points:

Designate a portion of the salary as housing allowance that the pastor will use for expenses related to furnishing or in rare cases paying the utilities for the parsonage. If the pastor does not use all of the housing allowance for his housing he must report it as income for tax purposes. The housing allowance should not be reported on the W-2 form. The housing allowance must be set by the trustees prior to the fiscal year and the amount recorded in their minutes.

In addition to providing a health insurance plan, designate a portion of the salary for medical reimbursement. This is called an MSA (Archer's Medical Savings Account). If the pastor does not use all of this account for medical purposes he cannot receive it. It is use it or lose it.

Other benefits:

The easiest and least expensive compensation a church can provide for a pastor is vacation time. The standard vacation allotted for pastors is four weeks per year. Remember a pastor does not get “weekends off” like many of us do! He should also receive one week for conferences/education. Both vacation and education are good investments to encourage a refreshed pastor!

If a pastor is required to live in a parsonage he is losing the opportunity to gain equity in a home and is also losing a tax advantage. Many churches are setting aside an “equity loss” account for the pastor that he would receive when he leaves the church and goes to another ministry. If this is a new concept one could begin with a small annual contribution, placing the money in a joint account with the pastor.

However, many churches are moving away from parsonage ownership and encouraging the pastor to own his home. Home ownership is a significant tax advantage for the pastor and encourages him to enjoy a long-term ministry in the community. Home ownership also helps him to build equity and care for the future needs of his wife and family.

A retirement plan is important. Some of our pastors cannot retire and even overstay their ministry because they have no retirement plan. A certified financial planner could assist you in establishing a plan. These plans are tax-exempt. At least begin with a small regular contribution.

It is important to provide for the insurance needs of the pastor's family including health insurance, group term life insurance and disability insurance.

Is your pastoral compensation package generous and provided with joy?

If the church cannot provide full-time compensation so a pastor can provide for his family, the pastor is free to pursue part-time employment. There is a truism that says, "You get what you pay for." If a church cannot pay for a full-time pastor, he still has the obligation before God to provide for his family's needs otherwise "he is worse than an infidel!"

Full-time compensation depends on the area and the needs of each pastoral family. A simple figure to work with is to find the salary of a principal in the local school. If that figure is \$40,000. and your pastor is paid \$30,000. then you are paying 3/4 salary. He will need to find work to earn the additional \$10,000. This church family should understand this agreement.

A bi-vocational pastoral ministry can be enriching giving the pastor opportunities to meet people in the community. However, the church family must be understanding of the limitations this will place on the pastor's availability to them. The church family not the pastor's family should "pay the price" of part-time compensation.

Conclusion

Pastoral compensation should be reviewed on an annual basis. A "pastoral care" committee consisting of at least one deacon/elder and one deacon/trustee should meet with the pastor to inquire concerning his family's financial needs for the coming year. This committee should propose at least a cost-of-living increase each year. Most importantly this committee serves as an advocate for the pastor and his family in terms of their needs.

The way we care for our pastor's needs reflects how much we value the work he does in bringing us God's Word.

Pastoral Compensation Agreement

Housing

We will provide a parsonage that is valued at _____ per month. With that parsonage we will provide the following:

_____ basic phone service (pastor reimburses personal long distance calls)
_____ utilities for the following amount (dollars) per year _____

Salary

We will provide the following salary _____ (dollars) per year.

We will designate _____ (dollars) of the salary as housing allowance.

We will provide a cost of living increase each year, as the Lord enables.

We understand that this compensation will need to be supplemented with outside employment. _____ Yes _____ No

We will pay 1/2 of the Self-employment tax which is based on housing and salary and the self-employment tax offset. That is 1/2 times .153 times (housing+salary+offset).

Benefits

We will provide _____ (dollars) toward health insurance.

We will provide _____ (dollars) for medical reimbursement.

We will provide \$50,000. in group life insurance.

The pastor will receive _____ weeks paid vacation per year and _____ week for conferences/education.

We will provide _____ (dollars) per year for home equity loss.

We will provide _____ (dollars) per year toward a retirement plan.

Ministry Expenses (Reimbursement)

We will provide _____ (dollars) per year at .345 (for 2001) cents per mile for automobile travel reimbursement based on the pastor submitting his travel records each month.

We will provide _____ (dollars) per year for pastoral hospitality expenses on a reimbursement basis.

We will provide a W-2 form each year for tax purposes. The form will not include the housing allowance.