

Guidelines for Determining Pastoral Compensation

Prepared: October 2014 for estimating 2015 Compensation

How much should your pastor be paid? What other benefits should he receive? What peculiar professional expenses arise in connection with the ministry? Often, lay members are unaware of the special economic problems of their pastor. Yet they must answer these questions if they are to provide their pastor with a fair level of support. Similar considerations apply to other full-time church staff. Having been involved in this process of determining salaries for many years, we are acquainted with the frustration one can face due to the lack of certain basic data. We hope that this study will help you so that you can do this work more effectively.

Pastors do not just happen. They are called by the Lord. They receive considerable professional training at the seminary, including on-the-job training through vicarage. Then they express their commitment to the work of the Lord through ordination, and the expression of that commitment is given by regular service to a congregation.

A large part of the pastor's day-to-day effort is spent working with people in the congregation. It is here that the pastor is called upon to minister--administering the sacraments, preaching and teaching the Word, counseling, organizing congregational programs and visiting members, especially the elderly and the shut-ins. A pastor is normally "on-call" day and night, and his Call extends to being involved in, and providing caring for the people of the community. The immediate area of the community is the local mission field for outreach to the lost. The Pastor is usually the prime connection between the Congregation and the District and Synod to which both the Congregation and the Pastor belong. The checks and balances, and the work of oversight provided by District and Synod, are key factors in keeping the whole Church "on track" and consistent in word and deed. The District and Synod are partners with the Pastor and the Congregation in resources, planning, and joint efforts in the effective mission and ministry efforts on the local, national and international level. Congregations should encourage their Pastor to be actively involved in community, District and Synod activities.

Personal commitment and dedication, combined with professional training, help to make a ministry effective. There is also another element that must be taken into account: the amount of moral, volunteer and material support given by the congregation. Working independently and often alone, the minister has no lobby, no advocate, and no organization to plead his case. He depends on his congregation, acting through its boards, to be sensitive to his practical, personal and professional needs.

Few enter the ministry to make money. And most pastors deeply love their work. A recent study showed that only about four percent were considering a change that would involve leaving the parish ministry. To those who are called to it, the ministry can and should be a real labor of love. Blessed will be that congregation served by such a pastor. But how can a man throw himself into his work when he is pressed on every side by debt, or if his wife works solely because the family cannot exist on her husband's salary? What effect must such factors have on the pastor's morale, family life and ability to perform an effective ministry? Still, as one young man said, "While I am young, underpaid, frustrated sometimes with the problems in my church, I see a great future ahead. I believe God has called me to the ministry and since He called me, He will make the way possible."

It is our hope and prayer that this work may, in some small way, assist in developing a fuller and more joyful ministry for all.

I - Evaluation Procedures for Salary Determination

Implementation of these Guidelines, or any consideration of a pastor's compensation, may result in some feeling of embarrassment for both the pastor and the congregational officers. This should not be the case. Embarrassment can be minimized and eliminated by establishing appropriate congregational channels for regular reviews of salaries and allowances.

With proper pre-planning and appropriate communication, hesitancy to broach the subject of pastoral compensation should be eliminated. All concerned will know what is happening. The subject is one that would evolve naturally between an independent contractor (the pastor) and his employer (the congregation). Neither side should feel uneasy. This is a subject of mutual concern.

We would encourage each congregation to review its pastoral compensation policy and procedures. This review should emphasize the actual procedure, not what is supposed to be the procedure. To do this effectively, a measure of comparison is required. Consider that:

- a) A salary and allowance schedule should keep pace with the economy:

Review regularly.

- b) A salary adjustment should not be the result of an impromptu action:

Plan ahead.

- c) A pastor should not be required to ask for consideration:

Take the initiative.

- d) A pastor should not be required to air details of his financial circumstances in a public or semi-public meeting (voters' assembly):

Discuss basic needs and adjustments privately.

- e) A voters' assembly requires a concise package based on factual, well organized data.
(not personalized):

Be thorough and well prepared.

- f) A congregation should clearly outline its responsibilities to its pastor and procedural actions for its elected officers:

Plan a review and needed adjustments.

These points should be considered goals. The specific needs of your congregation would evolve from a self-appraisal of your actual salary review procedures.

The following are a set of suggestions that could be used to implement the goals above. They are general and broad in scope. They are not intended to be used verbatim, but to provide ideas. Adapt them or modify them to meet your specific needs and mode of operation.

- a) Review **pastoral compensation at least annually**.
- b) Correlate this review **with** your annual **budget planning**.
- c) The **Elders** should **conduct** the annual **review**. It can be accomplished by other officers but the Elders are traditionally responsible for the pastor's well being.
- d) Annual adjustments in pastoral compensation recommended by the Elders **should be handled Administratively** just as any other program or budget item. The Elders should present and substantiate their recommendations to the Voters.

Procedures such as these will (a) establish appropriate channels of communication, (b) provide for a concerned, initially private, frank discussion of all pastoral needs in a proper Biblical setting, (c) eliminate embarrassment, and (d) insure appropriate consideration and adequate compensation.

II. * Guidelines for Determining Direct Salary

As of October 1, 2014, the U.S. Government's projected inflation rate is reported as 1.7%. The SELC Board of Directors is recommending for 2015 Congregational Budgets a minimum 2.5% raise in the monthly base salary, to keep pace with inflation, plus a modest increase in salary.

A *- Minimum Monthly Base Salary	<u>2014 (+2% of 2013)</u>	<u>2015 (+2.5% of 2014)</u>
Fewer than 250 communicants	\$3,180	\$3,260
250 to 500 communicants	\$3,810	\$3,905
500 or more communicants	\$4,157	\$4,260

B *- Location –

An urban or suburban congregation should add: **\$114 / month.**

C - Increment for Experience –

For each year of full-time ordained (or previously commissioned service) in the church in any locale since graduation from the seminary add:

\$21 / month for each year of service.

D *- Increment For Education –

For formal academic work beyond graduation from the seminary:

\$45 / month for a second earned Master's degree,

or

\$83 / month for an earned Doctorate (PhD, ThD, or DMin)

A + B + C + D = BASIC CASH SALARY - for which the Pastor is required to pay BOTH income tax and "self-employment tax" (FICA)

E * - Housing –

Throughout the history of the Church, the “provided Parsonage” has been the norm. Over the past 30 years, more and more Congregations have allowed their Pastors to purchase their own homes in the area, assuming that such a practice allows for the Pastor to build financial equity and to encourage longevity in the area. In the long run, the “provided Parsonage” is still the most economical path for most Congregations, since once the Church-owned parsonage is purchased, there are few annual large-cash requirements, other than normal maintenance and “wear and tear”. Monthly housing allowances provided to Pastors “never stop” and therefore, require a larger long term, annual financial commitment on the Congregation.

If housing **is provided** - - the pastor, in effect, becomes a renter, exchanging a portion of his services for the use of the parsonage. The imputed rent “value” is the difference between the cash salary he receives while living in a provided parsonage, compared to the cash salary, plus housing and utility allowance, he would receive, if no parsonage were provided. The taxing authorities (IRS) consider this imputed “rental value” as a part of the pastor’s income and, therefore, the pastor must pay the “self-employment” FICA tax on the “rental value”, even though no cash is received by the Pastor as a “housing allowance”.

Renting has advantages in certain circumstances. If a congregation is located in an area where affordable housing is not otherwise obtainable, or very expensive, a parsonage may be both necessary and desirable. Likewise, if the pastor is young and / or lacks financial reserves, either a parsonage must be provided or else the congregation may have to assist their pastor in arranging a housing loan.

Rental, however, also has some drawbacks. If a pastor has lived in a parsonage and comes to retirement, he has no place to live. So at a time when his income is dropping, he is faced with the added expense and effort of finding affordable housing. In addition, the pastor builds up no equity through his rental payments. For most of us, the equity we build up in our home is a large part of our net worth, and this equity is relatively inflation proof. The pastor who is forced to rent is denied this protection.

Provided Parsonage -

In a provided parsonage, all reasonable up-keep and utility costs (heating, electricity, water, sewer, and basic phone service) should be covered. Cable, the Internet, or Cell Phone service may be partially or fully provided at the discretion of the Congregation, based upon how these items are connected to the necessary duties of the ministry (for example: Will the Pastor’s office be the home?).

If a parsonage is provided, then the Concordia Plans figure the value to be 25% of the Pastor’s salary “package” when they compute retirement and disability coverages and costs. The Pastor must also pay “self-employment tax” on this computed value.

If a parsonage is provided, the Pastor does not gain any “normal equity” during his ministry, so some manner of equity provision is recommended. It is **no longer legal** for a Congregation to set aside “present” money in a Congregational account on the Pastor’s behalf for a “future” housing benefit. It is possible, however, to increase

the Pastor's salary by an agreed upon amount, to be an equalizing benefit for the equity lost in not being a homeowner. If this benefit is extended to the Pastor, the full amount is taxable and subject to FICA. The Congregation should consult with its Tax Advisor on these issues.

The following is a suggested minimum amount to provide for an equity equalization.

<u>Years in the Ministry</u>	<u>Amount per month</u>
0 – 5	\$250
6 – 10	\$300
11 – 15	\$350
16 – 20	\$400
21 – 25	\$450
26 – 30	\$450
31 and over	\$500

Another “method” of estimating a housing equity, is to discover the AVERAGE HOUSE VALUE for your area, and divide it by “30” (the average home mortgage length) and use that figure for an annual housing equalization.

Example: Average Home	= \$120,000. Divide by 30 years = \$4,000 / year. (\$334 per month)
	= \$150,000 = \$5,000 / year. (\$417 per month)
	= \$180,000 = \$6,000 / year. (\$500 per month)
	= \$225,000 = \$7,500 / year. (\$625 per month)

Housing Allowance – in the purchase of his own home:

When the Pastor has the option to purchase his own home, or if it is necessary to purchase, then the MINIMUM Housing Allowance should be equal to at least what a monthly rental, plus utilities, would cost.

To be sure, it is not the obligation of the Congregation to pay for a full mortgage, plus utilities of a self-purchased home, however, the Housing Allowance amount should be adequate to provide for similar housing compared with the majority of the Congregational members. This amount may normally be equal to one-quarter of the Basic Cash Salary. Utility costs should be covered in the same fashion as if a Parsonage was provided.

The Government allows some special considerations to Clergy. The Government allows the Clergy to “declare” portions of his Total Cash Package as “housing allowance” – even up to one-half of his total compensation - but he must prove that he has used the full amount for “housing”. **The Pastor does not have to pay income tax on Housing Allowance, but he must pay the “self employment tax” on the Housing Allowance.** Please check with your tax consultant for answers to any questions you may have.

F – Social Security

Clergy are subject to Social Security (FICA) payments. (Only under very specific conditions is it possible to “opt out” of Social Security). The Government “considers” Clergy to be self-employed. This means that the Congregation does not have to pay the “employers portion” for FICA; the Pastor must pay the full amount.

The Pastor may request the Congregation to withhold some of his pay in order to provide for the required quarterly payments, but the Pastor is not to be placed in the same category as others employed by the Congregation.

If the Congregation desires to assist in providing any funds to offset the “self-employment tax”, this amount would need to be added to the Pastor’s Basic Cash Salary, and is subject to full taxation.

G - Merit Increase –

"The laborer is worthy of his hire." Many pastors work long hours serving God's people, going not one, but many extra miles. Congregations are blessed by the efforts of such dedicated and conscientious servants. Is your pastor's salary based only on what you think he needs, or are there other considerations that enter into your determinations?

H - Vacation / Days off / Sick Days

Most Pastors consider 50 – 60 hours per week, 6 days a week, to be “normal”. The Congregation will be very wise to ensure that the Pastor receives enough “time off” to “rest and recuperate” in order to be able to provide for the Gospel Ministry among the members and in the Community; and that the Pastor is able to provide adequate attention to the needs of his Family.

The following suggestions are minimum accumulative days of vacation per year based upon years in the Ministry. In business and industry, a 5 day / 40 hour work-week is normal, in which a “5 day vacation” means that the worker also receives the weekends, before and after the “5 day vacation”. In the District suggested guidelines, every day of a “vacation” should be “counted”; generally, with one Saturday / Sunday included with every 7 days (see below: i.e. 1 Sat. / Sun. during the first year; 2 Sat / Sun annually, years 1-5; etc) Consideration should also be given that Pastors “work” on many days that are known as “National Holidays” (Christmas, New Year’s Day, Easter, Memorial Day, 4th of July etc.) and therefore, additional “days off” should be offered "if the Pastor is asked to work on a day that all others are off". Please remember that District and Circuit Pastoral Conferences are **“required” Conferences**; and therefore, are not to be considered vacation time. The Congregation should also encourage their Pastor to avail himself of continuing education opportunities, and generally not “charge” these as vacation days.

Vacation Days:

During the first year	11 days	11-15 years	32 days
1 – 5 years	18 days	16 and over	39 days
6 – 10 years	25 days		

A vacation is given so that the pastor and his family may refresh themselves. So it is in the best interests of all concerned to insist that the pastor use his full vacation each year. But special situations can arise -- such as the opportunity for extended foreign travel -- where it would be desirable to allow carry-over of vacation days from one year to the next. In such cases it is recommended that:

- a) The Board of Elders or Congregation decide the number of days it is possible to carry-over, and
- b) In any case, a minimum of 11 days vacation be required to be taken in any calendar year, or be lost.

If circumstances arise so that the pastor cannot use his full vacation, or if he leaves the congregation before he has taken all the vacation he is entitled to, he should be compensated for the unused time.

CONCERNING DAYS OFF:

Because of the nature of the Ministry, a Pastor's schedule is very complex and often demanding. He should be "free" to establish a flexible schedule to include all Pastoral duties, giving primary focus on "people time". It would be easy for a Pastor to work 7 days per week, but it is strongly urged that the Pastor establish at least one "regular" day off per week; and it is urged that the congregation honor the pastor's day off. If ministerial duties fall on the regular day off, the Pastor would, of course, meet his Pastoral obligations, but then should be provided other time off.

CONFERENCES

Attendance at conferences or conventions should not be counted as days off, nor should a day off include attending meetings in the evening. As we have said before, time off is given the pastor both for his sake and for the sake of his family. Still, the pastor should try to be available in case of an emergency. Someone should always know how to contact him if he goes out of town.

SICK DAYS

As Pastors receive a salary, and usually have much freedom in their schedule, it is difficult to prepare a policy concerning "days off due to ill health". Generally a Congregation will show great care for a Pastor who becomes ill, and generally, not "dock his salary" for sickness. However, should the Pastor have a protracted illness, the Concordia Plan includes the benefit of "disability" on both the short term and long term basis. Please check with Concordia.

I * - Examples of Compensation – See worksheet for total compensation.

a) Pastors

A pastor serving a rural US congregation of 150 communicants who has 19 years in the ministry would receive:

Base Salary	\$3,260
Experience, 19x21	399

A pastor with an urban congregation of 300 communicants who has 9 years of experience would receive:

Base Salary	\$3,905
Urban differential	114
Experience, 9x21	189

A pastor with a suburban US congregation of 650 communicants who has 23 years of experience and a Dr. of Ministry (DMin) degree would receive:

Base Salary	\$4,260
Urban differential	114
Education allowance	83
Experience, 23x21	483

b) Assistant/Associate Pastors - It is recommended that the above standard minimum guideline be followed in determining the compensation for an assistant or an associate pastor, except that the base salary be that of a congregation of half the size.

An assistant/associate pastor in a suburban U.S. congregation of 800 members who has 8 years experience would receive:

Base Salary	\$3,905 (for a Congregation of 250-500)
Urban Differential	114
Experience, 8x21	168

III * - Guidelines for Determining Health, Retirement , Disability and Death Benefit Packages

The District cannot, nor does it desire to, give advice on tax matters. So, as a matter of good stewardship, each congregation should consult with an attorney or tax consultant on how to designate various portions of the pastor's total compensation package since this can have an impact on his total tax burden. This is particularly so because tax law as it applies to pastors is different than the law as it applies to other occupations.

Concordia Plan Services of The Lutheran Church - Missouri Synod offers a variety of benefit plans for church workers, and their families.

We strongly urge that every congregation provide their pastor with coverage under the ***Concordia Disability and Survivor Plan*** and the ***Concordia Retirement Savings Plan***. **Please note that Concordia RETIREMENT Plan in recent years has REQUIRED the Congregation to provide an increment of 3% to the Pastor's salary, if the Pastor is enrolled in the "regular or offset" retirement plan, to equalize the coverage compared to those on the "full" retirement plan. (Full = ordained 1981 or before; Regular or Offset = ordained after 1981). THIS IS NO LONGER A REQUIREMENT. However, the Concordia Plan strongly urges the Congregation to consider providing a "matching percentage portion of annual salary " to a 401(K) or similar investment vehicle.**

We strongly urge that every congregation provide medical-surgical coverage at least comparable to that available through the ***Concordia Health Plan***. Health care cost has become a great challenge to every church. **Concordia Plan Services** have responded to the requests of Churches to provide certain levels of cost connected with levels of "out of pocket costs". The medical coverage is the same at each level, but the plan levels are designed to turn more costs over to the worker. Size of church staff, age and health of the professional worker, and size of the family of the professional worker, should all be taken into consideration as

the levels are discussed with the professional church worker. The congregation should remember that certain agreements were established when the pastor accepted the Call to the congregation. Changes in these agreements should always be accomplished in negotiations with the pastor, and not decided unilaterally by the congregation.

Recognizing that many pastors continue to receive salaries that are at, or below, the SELC District's salary guidelines, the SELC District encourages the choice of the plan / level that places the smallest possible burden for out of pocket cost on the professional church worker. It is suggested that the highest level of coverage be provided whenever possible, since this has been the historic standard of coverage and requires the least out of pocket cost for the worker.

As the congregation and pastor consider the other optional levels, which would generally reduce the cost to the congregation, care needs to be taken that the passed-on medical costs will not become an undue burden upon the professional church worker and his family. If a lower level of coverage is chosen, with consultation between the congregation and the pastor, then some sort of offset compensation or reimbursement directly to the pastor for medical costs might be considered. Sometimes, simply increasing the pastor's salary for out of pocket costs can still provide savings to the congregation without burdening the pastor's personal budget (remembering that any additions to the Basic Cash Salary is fully taxable). **Concordia Plan Services** can assist in establishing a means of setting aside some funds to accomplish this. Congregations should also consider the tax implications involved in salary adjustments.

Brochures with current information about **Concordia Plan Services**, their rates and their coverage, are available from:

The Lutheran Church-Missouri Synod
Concordia Plan Services
1333 S. Kirkwood Rd.
St. Louis, MO 63122-9007

Phone: 1-888-927-7526, Email: Info@ConcordiaPlans.org
Web Site: www.ConcordiaPlans.org.

(SEE WORKSHEET FOR CALCULATING HEALTH AND WELFARE BENEFITS)

IV * - Guidelines for Determining Other Compensation

A * - Transportation Expense

Transportation expenses are the responsibility of the congregation as a business expense, and are not compensation to the Pastor. They should be paid monthly on a reimbursement basis and not as direct salary. Reimbursement should be made at the current rate of government allowances for business mileage.

IRS mileage rate for business – for 2014 = 56 cents per mile

The IRS change these rates regularly, and it is wise to check the IRS website for current information. The Congregation may choose to provide a vehicle for the Pastor, or to provide some fixed transportation allowance

– it is always the Pastor's responsibility to keep track and report expenses, and to pay any required taxes on excess allowances.

B - Library and Continuing Education –

A pastor, like any other professional, must continue to study and develop professionally. This is done in several ways. The first way is through studying professional journals and books. Secondly, there are a number of short courses, workshops and seminars available through Synod and District. Each pastor should try to attend one of these each year. Since these normally operate on a 12 to 14 hour per day schedule, they should not be confused by either pastor or congregation with his vacation. We recommend that each congregation provide their pastor an allowance to help defray the cost of such materials and classes. This allowance should be on a reimbursement basis, and not as direct salary. Since the Congregation generally benefits from continuing education courses, consideration should be given in reference to attending even longer-term classes or conferences, while continuing to receive full regular financial compensation. No deduction should be made for short term (e.g.: one or two day conferences), while longer classes (e.g.: one or more weeks) may call for some financial re-considerations.

V * - Adjustment for Inflation

Inflation is a pervasive fact of modern life; no honest discussion of compensation can evade it or ignore it. To put matters succinctly, if prices rise by a certain percentage and compensation does not rise by at least the same percentage, then a decline in real salary has taken place. If prices rose 5% and the pastor's salary only rises 3%, then he has experienced a 2.0% decrease in his "purchase power" salary. So the final step in any review of compensation should be a consideration of the inflation effect.

There are several methods used to measure the rate of inflation. One of the most commonly used in both the USA and in Canada is based on the Consumer Price Index (CPI). This index is prepared in the USA by the Bureau of Labor Statistics of the Department of Labor, in Canada by Statistics Canada. It seeks to measure what it would cost today to purchase certain goods and services that cost \$100 in the established base year. Since we are only concerned with the percentage change since the last year, the base year does not affect us.

Estimated national inflation rate for 2014 (as of October) = 1.7%

WORKSHEET for DETERMINING PASTORAL COMPENSATION for 2015

FOR: _____

PASTOR ASSOC. PASTOR ASST. PASTOR

(Using SELC Guidelines for Determining Pastoral Compensation Dated: _____)
MONTH YEAR

<u>Direct Salary (Section II)</u>	<u>Factors Used in Determining Compensation</u>	<u>Amount</u>	<u>Monthly</u>	<u>Annual</u>
A – Minimum Base Salary	_____		_____	_____
B – Location	_____		_____	_____
C – Increment for Experience	_____		_____	_____
D – Increment for Education	_____		_____	_____
E – Housing Allowance	_____		_____	_____
F – Utilities	_____		_____	_____
G – Merit Increase	_____		_____	_____
	TOTAL DIRECT SALARY		\$ _____	\$ _____
<u>Benefits (Section III)</u>				
A – Health and Welfare:				
<u>Concordia Disability and Survivor Plan</u>				
* _____ % X Total Direct Salary \$ _____ =			_____	_____
<u>Concordia Retirement Plan, including <i>suggested</i> Salary increment** for “offset / regular” plan</u>				
* _____ % X Total Direct Salary \$ _____ =			_____	_____
<u>Concordia Health Plan</u>				
\$ Amount obtained from LCMS Worker Benefits (Based on number in family and ZIP Code)			_____	_____
<u>Accident Insurance Program</u>				
\$ Amount obtained from LCMS Worker Benefits			_____	_____
(* Obtained from LCMS Worker Benefits)				
(** Established by Congregation. Amounts paid	TOTAL BENEFITS		\$ _____	\$ _____
to the Pastor are to be included in Box #1 on the W-2.)				
<u>Other Costs (Section IV)</u>				
A – Transportation Expenses Reimbursed _____ X _____ =	miles	rate per mile		
B – Library and Continuing Education Expenses Reimbursed			_____	_____
C – Vacation:				
_____	_____			
Years in the Ministry	Days of Vacation			
	TOTAL OTHER COSTS		\$ _____	\$ _____
	GRAND TOTAL		\$ _____	\$ _____