

# Appendix 11

## Pastor's Compensation

It is extremely important to analyze the components of the compensation and benefits received by an ordained minister. Frequently a compensation package is put together in such a way that it gives a false impression of the person's true pay, which may not be as high as it appears. The minister's pay package can better be understood when it is listed as a layperson's own income might be from his or her place of employment. Consider the overall compensation arrangement in three parts:

### 1. Cash Pay and Housing

- Salary
- Housing Allowance
- Social Security Offset (employer's share)

This component is the real equivalent of what others would be paid in their normal course of work with another employer. The salary and housing allowance are equivalent to gross income on a paycheck. The Social Security offset is added in to compensate for the ordained minister having to pay "both sides" of Social Security under the status of being self-employed. (The minister is an employee of the church for income tax purposes but self-employed for Social Security only.) The minister has to pay the full self-employment tax whereas nonministerial employees only have to cover half. If the church does not provide an offset, the minister's true compensation, as compared to the regular marketplace, is already diluted by that extra percentage.

The church should concentrate on the amount to be paid as salary and housing. Several factors—such as education, experience, responsibilities, degree of supervision, cost of living, and related items—should be taken into account. You can use church-related compensation surveys from the Louisiana Baptist Convention, compare similar positions in other churches in your area, or check with your Chamber of Commerce for salary data for management positions in the corporate environment. You may wish to determine the salary/housing figure as one amount, then allow the minister to determine the split between the two. Whatever amount is designated for housing must be accounted for in providing housing and/or repairs, taxes, etc. Also, the minister must include all three items in this grouping when figuring Social Security taxes.

Whatever source you use, keep in mind that this first section is the part that matters the most since it represents cash income for buying groceries, paying the rent, dressing the children, and going out to dinner.

### 2. Protection Benefits

- Health/Medical Insurance
- Disability Insurance
- Life Insurance
- Annuity/retirement

These items should be considered as "over and above" the base compensation. These are expenses to provide for the ordained minister and family in the event of medical emergency, death or disability. Yes, the premiums can be expensive. However, if the minister is not covered, your church will probably feel some kind of obligation to provide for the minister and/or family. The cost of this could significantly exceed the outlay for basic coverage.

Normal recommendations for coverage are as follows:

**Health/Medical**—Coverage for individual and entire family with reasonable deductible.

**Life**—At least four times the salary/housing level for minister plus coverage for spouse and children. Spouse coverage could be half that of pastor and \$5,000 for dependents. The church can provide \$50,000 of term coverage to the minister as a tax-sheltered benefit. The additional insurance premium is taxable income.

**Disability**—Usually based on income (salary/housing).

**Annuity**—Ten percent of salary/housing. You may want also to match the minister's voluntary contribution with an additional 5 percent. Also, if the church contributes \$1,260 per year, the Louisiana Baptist Convention will contribute another \$420 as long as the church is giving at least that minimum amount to the Cooperative Program.

These figures are recommended minimums and are pretty much in line with coverage offered to management personnel in most businesses. The Annuity Board offers all of these options and can help you with premium rates, or you may call the Annuity Board Office, Louisiana Baptist Convention. If the church pays these premiums and contributions directly to the carrier, they are nontaxable to the employee. The only exception is for term life insurance over \$50,000 for the employee and \$2,000 for the dependents. These premiums are taxable, and you need to add this onto the W-2 form as income to the employee based on IRS tables published annually. There is no additional cost to the church; it is just a reporting item for the employee's taxes.

### **3. Ministry-Related Expenses**

- **Travel/Automobile**
- **Conventions/Conferences**
- **Books, Periodicals, Counseling Supplies**
- **Continuing Education and Training**
- **Hospitality**

All of the above items should be considered church expenses and not items to be paid from the minister's pocket. They are the church's costs of doing church business and should be shared by all of the members through the church's budget. The items shown above are like the minister's tools—necessary to do an adequate job. Yes, the minister may benefit from education, books, etc., but it is the church that is really reaping the benefit in the long run by having a well-equipped pastor who is able to carry out church tasks effectively and efficiently.

The church should reimburse the minister for the above items by requiring that receipts be turned in on a monthly basis indicating the amount, type of expense, business purpose, and persons entertained (in the case of lunch, hospitality, etc.). The church should have a policy of reimbursing the minister at the IRS-approved rate per mile for church-related use of a personal automobile. Of course, commuting miles are excluded. The church may choose to obtain a credit card for the minister to charge certain budgeted items. In any case, expenditures for reimbursement should not be made unless approved receipts are provided to validate the expense and its business purpose.

To determine how much to allocate to these ministry-related items, the church should determine an estimate based on past experience plus projected need. The minister is in the best position to give direction on these projected costs.

When the above three areas have been considered, individual lines can be totaled to get a grand total. The question then arises as to what to do if the total does not seem to be an amount, which can be handled by the church budget. One alternative is to scale back certain lines. This might be effective on some of the ministry expense lines, but it will have a dramatic impact if it means cutting the cash pay or protection sections. Rather than have the minister be the one to bear the brunt of a "cut," perhaps this should be spread out over the entire budget. Challenge each person and family to increase their giving to provide adequately for their minister. This is much more equitable and healthy for the church.

### **Housing—Provide Housing or a Parsonage?**

There are obvious benefits to providing a parsonage for ministerial housing; however there are also major reasons not to provide a dwelling for the minister:

## **Benefits**

1. Minister has no need for concern about finding suitable housing.
2. Minister has no need for concern about selling house when leaving.
3. It may be initially more economical for the church but not in the long run.
4. Church members always know where the minister lives.

## **Detriments**

1. Minister builds no equity toward future retirement, and family has no guarantee of housing should death or disability occur.
2. Housing can be used as power ploy over minister when there is church conflict.
3. County (municipality) realizes no tax benefit from parsonage.
4. The church is responsible for maintenance and repairs.
5. Conflict can arise as to who can paint, landscape, or even hang pictures on walls of a parsonage.

## **Alternatives**

Churches are moving away from providing a parsonage for the minister and family. It is certainly not in the minister's best interest to live there; it is an ongoing financial burden on the church; and it prevents the ministerial family from having the pride of ownership.

When the church already has a parsonage, the congregation might consider selling the house to the minister at its current appraised value. This would mean, of course, increasing the housing allowance to cover the cost of making monthly housing payments. One possibility is to allow the church to finance the sell itself so that principal plus interest is paid back to the church. The minister would benefit by not having to pay a normally high down payment. When the pastor leaves the church, the church could agree to buy the house back at the then appraised value. Therefore, the church's "house" would remain ultimately under church control.

A second alternative is to provide a housing equity trust fund that would provide opportunity for money to accumulate for the ordained minister to use at some time in the future for a housing down payment. Ideally, it should be set up through the Baptist Foundation of the Louisiana Baptist Convention and, thereby, be portable when the minister moves.