

Interpretive Comments on the Pastor Salary Guidelines 2020-2021

I. Pastoral salary base and unit values

The base and unit values have been increased 1.8% from the previous year. This percentage change is taken from the average increase or decrease of the Consumer Price Index from the previous year. The base assumes a high school education only. Credit for post-high school education is included in the salary units for education (II.B).

II. Unit value for salary adjustment

A. Experience. One unit is given for each accumulating year (or full-time equivalent) of pastoral experience, up to a maximum of 30 years. One unit should be credited for each of the first 20 years of pastoral experience and one-half unit per year for years 21-30, for a maximum of 25 units.

In some situations, particularly where ministry is a second career or where other church-related years of experience have helped to prepare the person for pastoral ministry, it might be appropriate to award some units for experience other than ministry. When that is done, the maximum should be no more than one unit for each two years (or full-time equivalent) of relevant experience.

B. Education. Education units are awarded according to the table based on degree completion — not on years of study. The unit credit for S/CPE is for four full units of credit, not for the single unit but year-long extended unit of S/CPE. Graduate degrees other than seminary, while valuable for general preparation, are not designed for pastoral ministry preparation and should be granted only one unit per degree. The maximum for all accumulated education is eight units.

C. Responsibility. The premise is that different levels of complexity, various levels of intensity, and higher levels of risk in ministerial leadership should be reflected in the salary scales. These are kept at a minimum in the church compared with other vocations in our society. Where these guidelines might result in an equal or higher salary for an associate as compared to a lead pastor in that church, the committee may need to make adjustments that reflect the stated roles and responsibility.

The criteria are weekly worship attendance and pastoral role. In some cases, there may be other factors that should be considered in adding units for responsibility. The associate / assistant pastor role includes all pastors, ministers, or directors who report to a lead pastor in the church. It can include youth pastors, worship pastors, formation pastors, etc.

A conference or regional minister's responsibility units reflect the additional weight of being a pastor to pastors, and the complexity of overseeing a larger organizational system. Conference ministers are often required to balance pastoral, administrative and management functions similar to executives of comparable organizations. Additional responsibility units for conference ministers acknowledge this role.

D. Geography. There is considerable spread in the cost of living from county to county across the country, particularly related to housing costs. We have not found a true cost of living calculator that covers all of the counties in the U.S. As a proxy for these variations, the geographical units assigned are based on the 2020 “Effective Buying Income” index obtained from Claritas (formerly Nielsen Segmentation & Local Market Solutions.) “Effective Buying Income” reflects income after taxes as calculated by a proprietary formula and is not a cost of living index. These geographical units are updated every two years.

It cannot be stressed strongly enough that local data should be taken into consideration to adjust geographical units as needed. Specifically, we recommend taking into consideration the cost of living and/or the effective buying power in your county or the community where the majority of your members reside. You should also consider the median household income of your church. Checking with your local Chamber of Commerce or a similar organization will help inform your church decisions.

E. Optional additional salary. We recognize that the specific unit values identified on the worksheet may not meet the unique circumstances of every church or pastor. In cases where housing costs in a community are particularly high, additional salary may be needed to avoid undue financial burden on the pastor. Likewise, if a pastor has student debt for education related to preparing for pastoral ministry, it is helpful to add additional salary here.

III. Self-employment tax adjustment

We strongly support pastors’ participation in the Social Security system to provide long-term benefits for retirement, disability, survivor’s benefits in case of an untimely death, and Medicare benefits in retirement years.

Pastors are considered self-employed for purposes of figuring Social Security taxes, meaning that they are responsible to pay the self-employment tax (both the employee’s and the employer’s portion of Social Security, minus a somewhat discounted rate (approximately 2 percentage points) of the 15.3% total tax rate). (Remember that self-employment tax is paid on the housing allowance.)

This additional cost to the pastor for Social Security could be considered a trade-off for the unique housing deduction which pastors have on income tax (see section VII. A. “Housing Allowance”). However, many times, half of the self-employment tax still exceeds any special income tax deductions for housing which the pastor may receive.

The pastor should be granted additional income to cover the amount normally paid by the employer (7.65% of income or one-half of the usual rate of 15.3%). Any payment to the pastor to assist in payment of the self-employment tax becomes additional salary and must be included as taxable income on the W2 form for IRS.

IV. Housing adjustments

A. Parsonage adjustment. When the church provides housing through a parsonage, the value of such housing should be figured at a fair market value in the community and subtracted from the overall salary. This amount should be deducted from Total Salary before Housing Adjustments (line 12). Another guide for determining this parsonage adjustment is that it should not exceed 25% of line 12. The value of the housing is considered a taxable benefit.

B. Housing equity fund. If the fair market value of housing is deducted from salary because of a parsonage, then a housing equity fund may be established for the minister. This fund helps to offset the loss to the minister of the amount which normally would

go to pay on the principal of the mortgage, the gain in value which may come to the property due to inflation and the gain which may be realized through improvements using the minister's own labor. The recommended amount to be placed annually in an account is 5% of line 12 or 2% of the assessed parsonage value. It is recommended that these funds be deposited in a separate investment account. This is taxable income in the year the minister receives and controls these funds as is the interest or dividends earned.

V. Benefits

- A. Medical health plan.** We strongly recommend that a health plan be provided for the pastor and the pastor's family through the denomination's or church's health plan and is paid for by the church. Participation helps provide health coverage for pastors and church employees, some of whom would otherwise find it difficult or impossible to obtain adequate health coverage elsewhere. Because of the continuing escalation of health plan costs, some churches are moving to higher deductible plans and/or limiting coverage for families. Such changes result in a pay cut to pastors! Where this is deemed necessary, we urge churches to phase in these changes over a period of years. If the health plan is not a QHDHP or if preferred, churches may instead provide a medical Flexible Savings Account (FSA) benefit as part of the church's Section 125 plan to help pastors manage out-of-pocket medical expenses for pastors. Employee HSA contributions can be made on a pre-tax basis, which will reduce taxable income if this benefit is part of the church's Section 125 plan. For more information on HSAs, contact Everence or your current health plan. Because the rules around employee compensation for health plans and taxes are frequently changing, we recommend consulting your accountant or tax professional regarding the tax implications of health plans.
- B. Pension plan/retirement fund.** We recommend that an amount equal to 8% to 10% of the Total Salary (line 12) be contributed by the church for retirement purposes into a tax-deferred instrument on behalf of the pastor. We encourage the pastor to make personal investments/savings toward retirement. Contributions from both the employer and pastor can be up to 100% of taxable compensation or \$57,000, whichever is lower. Keep in mind that contributions to retirement plans cannot exceed the pastor's income minus the amount designated as housing allowance. We encourage you to consult with a financial consultant, tax consultant, or lawyer.
- C. Life and disability insurance.** The church may provide some other life insurance and/or disability insurance for the pastor if it is not included in their health plan benefits. Churches are encouraged to consider Short Term Disability for their staff as well.
- D. Continuing education and spiritual direction/retreats.** The church should provide funds for pastoral growth and continuing education, such as an annual seminary pastors week. We are suggesting a range from \$600 - \$1,000 per year. In addition, one to two weeks' annual study leave time should be provided. These may be accumulated over three years within the church being served to permit participation in something such as the seminary inter-term or summer school. Churches may also wish to encourage pastors to seek out opportunities for spiritual direction and/or retreats.
- E. Other benefits.** Churches may want to contribute to an employee's Health Savings Account (HSA). This can help offset deductible expenses for the pastors/staff. Other special benefits can be recorded on line 21.

VI. Expense allowances

- A. Auto expense.** Auto expense for church related travel should be reimbursed at 57.5 cents per mile, the 2020 level of allowance by IRS. This should be paid monthly based upon an itemized record of miles actually driven and reported by the pastor. The rate should be updated on Jan. 1, 2021, to the current IRS rate or at any other time that IRS adjusts the rate.
- B. Conference expense.** The pastor's attendance at area and denominational conference sessions, as well as area ministers meetings, is part of the pastor's professional responsibility. It is strongly recommended that the church pay for registration, travel, lodging, and food costs for the pastor.

Sometimes pastoral families vacation in connection with conference attendance. In such cases, it is recommended that the church reimburse the round-trip costs of the least expensive mode of transportation to get the pastor to the conference, realizing this may be flying, renting a car or paying mileage on a personal car. The costs and the method for the trip should be agreed upon prior to the trip.

- C. Professional expenses.** Dues of professional associations and costs incurred on behalf of the church such as church-related lunch meetings or visits should be reimbursed.
- D. Other expenses.** Moving arrangements and expenses are negotiable between the pastor and the church. It is common practice that the receiving church assumes the basic costs of moving, such as payment for a rental truck and fuel. Such negotiations should occur as part of the hiring contract and be part of the offer to the pastoral candidate prior to the candidate accepting the invitation.

VII. Other items to consider

- A. Housing allowance.** Our salary guidelines include allowances for housing, utilities and appurtenances. For these to be tax-deductible items for the pastor, they must be identified by a specific amount prior to receiving them in an annual contract, the church budget, or specific minutes reflecting an action by the governing body of the church. When the minister provides his/her own housing, official boards of churches in the United States should designate annually a portion of the cash salary as a "housing allowance" or a "parsonage allowance," which under IRS rules may be excluded from taxable income. This action must be taken by the church prior to the time the income is received. Generally, the pastor, in consultation with her tax consultant, will recommend a housing allowance amount.

Current IRS rules (Publication 517) stipulate that only the lowest of the following three factors can be taken as a housing allowance exclusion for income tax purposes: 1) the amount designated as housing allowance by the church; 2) the amount actually used for housing and related costs; or 3) the fair market rental value for equivalent housing in the community.

- B. Vacations, holidays and days off.** Below is a suggested schedule for a pastor's vacation time.

Years one through four -- two weeks
Years five through 11 -- three weeks
Years 12 and above -- four weeks

This is for cumulative years of full-time pastoral or church-related service and is transferred with the pastor. Vacation time should not be used for conference attendance or minister's workshop participation. Normally, vacation time is not taken until the pastor has been employed for a minimum of six months and then only on the basis of days earned.

Holidays normally observed by society will be time off with compensatory days for those religious holidays which call for pastoral duty. The pastor can normally be expected to work 45-50 hours per week. There should also be provision for regular days and evenings where the pastor is free of pastoral responsibilities. There should be a policy for personal days off for special circumstances. A normal range is 3-5 days per year.

- C. Sabbaticals.** To encourage growth in ministry and the likelihood of longer pastoral tenure, consider establishing a sabbatical policy, such as the following. For each year of completed service to this church (other than the year in which a sabbatical leave is received), one month of sabbatical leave may be granted. The leave is not to be used until the fourth year of ministry in that location. Subsequent sabbatical leaves would occur during the eighth and twelfth, etc., years of ministry. During the sabbatical,

the pastor will receive full salary and benefits. Sabbatical plans, submitted by the pastor, shall be approved by the governing body of the church. Following a sabbatical, the pastor agrees to provide a minimum of one year of service to the church with the understanding that repayment of sabbatical salary and benefits will be made for failure to do so. Accumulated sabbatical time is not transferable from prior church locations, nor is a terminal sabbatical normally acceptable. Churches are urged to budget for sabbatical support every year to help provide for pastoral leadership during the time when the pastor is actually gone on sabbatical.

D. Parental/family and medical leave. We believe that, in principle, pastors minimally should be given the rights generally accorded to employees under the Family and Medical Leave Act of 1993, even though technically they may not qualify as employed by an agency with 50 or more employees.

We recommend that the church grant one day per month for health-related leave, which may accumulate up to a total of 90 days. A total of up to 45 days may be accumulated and transferred from prior pastoral locations; this must be established at the time of beginning employment. This provision will only be applicable upon documented records which have been carefully and accurately maintained.

An unpaid, job-protected leave of up to 12 weeks will be granted for any of the following reasons:

1. To care for the employee's child after birth, or placement for adoption, or foster care.
2. To care for the employee's spouse, son or daughter, or parent who has a serious health condition.
3. For a serious health condition that makes the employee unable to perform pastoral responsibilities.

By their mutual agreement, the church may grant a paid leave for a portion of these 12 weeks based upon accumulated health leave and/or accumulated vacation time. The church may also pay for additional leave regardless of whether there is accumulated health leave and/or accumulated vacation time. Otherwise, the leave or the remainder of the leave will be unpaid. We further recommend that the church maintain health care coverage and retirement benefits during this leave. It is understood that the pastor will assist the church in planning for the needed interim ministry required during the leave.

E. Special situations. In situations where the pastor will not be able to return to pastoral duties, alternative arrangements will be put in place. Churches are encouraged to be both creative and generous, as well as to look out for the whole of the church. In these special situations, the church leaders will want to contact their regional denominational leadership for counsel.

F. Part-time application of the guidelines. To apply these salary and benefit guidelines to persons in part-time employment, the guidelines should be figured as if full time. The part-time percentage should then be applied on line 10. Churches that cannot pay at the full-time level should allow the pastor to seek part-time employment elsewhere that is compatible with the pastoral role. If the church plans to make retirement contributions for a part-time minister, remember that the retirement contribution cannot exceed the pastor's salary minus the amount designated as housing allowance.

G. Copying these materials. You are encouraged to make copies of the Interpretive Comments and the Pastor Salary Guidelines (any or all of these materials) for those in your church who are responsible for working with the pastoral salary negotiation process.