



COMPENSATION PLANNING

A GUIDE TO ASSIST CHURCH LEADERS
in compensation planning for ministry personnel



Servant Solutions
YOUR RETIREMENT & FINANCIAL PLANNING PARTNER

The Cost of a Minister vs The Cost of a Ministry

It is common to find congregations that lump together the "costs of a minister" with the "costs of ministry" in their budget. These are two very distinct concepts. For proper planning it is best to keep them separate.

Often ministers will ask Servant Solutions for help when a church extends a call and says to the new pastor something like this... "We have \$XX in our budget for the pastor. You decide how you want this broken down."

Servant Solutions strongly discourages this practice. The church has no idea whether compensation is adequate or not when these costs are commingled. Also, mixing the two may confuse or mislead church members as to the level of compensation the minister is receiving. It is a wise church board who will take the time and effort to gather the information and knowledge to make sound decisions. In the descriptions which follow, you will gain an idea of why it is important to separate administrative expenses from salary and benefit expenses.



COST OF MINISTRY - includes those costs related to the work of the minister and is properly a part of local church expenses. Among these are the expenses that will be incurred without regard to which minister is serving the congregation at a particular time. While they are important expenses in carrying out ministry, the minister does not personally accrue a financial benefit from the dollars expended in this area.

The expenses incident to the carrying out of ministry by the minister should be treated as business and professional expense reimbursements. This assures that the minister does not have to take these costs out of his or her pocket. Examples of these types of expenses are:

auto expense, continuing education, convention, hospitality, pastor's professional library, dues to professional organizations, church supplies (including postage, birthday cards, etc.)

COST OF THE MINISTER - relates to those items that are directly and indirectly related to compensating the particular pastor serving the church at the current time. These costs include the general categories of the minister's cash salary, housing allowance, and employee benefits.

Among the factors that should be considered in the process of providing the minister's compensation package are:

the job requirements, the individual's professional qualifications, educational background, personal experience and expertise, socioeconomic factors affecting pay in the local community, and such factors which merit pay for a job well done.

Several very helpful resources which can aid church leaders in compensation planning are listed at the back of this guide.

Compensation Factors to Consider

Ministry is a high calling. Most of our servant leaders could command a higher salary in the for-profit world, but they have chosen to use their gifts and talents to serve the Lord. The conviction to "call" and to service that they bring often makes ministry personnel reluctant to converse openly about compensation issues. It is up to the good leaders of the church to address these important issues. It is the church's obligation to provide proper salary and benefits to its employees.

What is proper compensation? The church setting is indeed unique, and often a helpful question for church leaders to ask is "What would persons carrying similar responsibilities in other vocations be paid?" In your community it might be appropriate to gather information on the salaries and benefits of teachers, administrators, CEOs, counselors, and service providers.

To the right you will find average annual salaries for a variety of occupations. These are general statistics gathered from the most recent national survey provided on the Bureau of Labor Statistics website.

These figures should be considered while referring to page 7 of this publication, which shows recent inflation figures.

Average Annual Salaries

\$ 139,900	Operations Manager
\$ 136,590	Human Resources Manager
\$ 102,650	Education Administrator
\$ 92,920	Physical Therapist
\$ 90,370	Police Detective
\$ 83,980	Accountant
\$ 82,750	Registered Nurse
\$ 81,120	Writer/Author
\$ 69,490	High School Teacher
\$ 67,030	Elementary Education Teacher
\$ 63,090	Vocational Counselor
\$ 55,290	Firefighter
\$ 53,950	Social Worker
\$ 50,550	Coach
\$ 45,250	Secretary/Admin. Assistant
\$ 32,640	Teacher Assistant
\$ 31,590	Custodian

National wage data from the Occupational Employment & Wages News Release - March, 2022

Intended for general comparative use only



On the Servant Solutions website you will find a number of compensation topics covered in the "Toolbox Series".

servantsolutions.org/treasurers-toolbox

Key Compensation Considerations

THE MINISTER'S HOUSING ALLOWANCE

The minister's housing allowance is a wonderful benefit which allows the church to stretch the value of compensation under Section 107 of the IRS code. The value of the minister's housing can be excluded from taxable income, and it is important for church leaders to help the minister take advantage of this benefit. Under the 2002 Clergy Housing Allowance Clarification Act a minister owning or renting a home can ask the church board to designate a housing allowance for the year, but the benefit cannot exceed the lowest of the following three measurements:

- the actual expenses attributable to housing
- the amount properly designated as housing allowance
- the fair rental market value of the home, fully furnished plus utility costs

Call Servant Solutions for more information.

TAXES AND SOCIAL SECURITY

For lay employees, congregations are required to pay the employer's portion of Social Security (7.65%) and withhold the employee's portion of Social Security (7.65%).

For ministers, the IRS generally considers them as employees of the church. Thus, ministers should receive a W-2 form just like lay employees of the church. In general, ministers must make quarterly tax and Social Security (SECA) payments out of their take-home pay and do not have withholding of taxes from their pay. While ministers can enter into a voluntary arrangement to have the church withhold for federal, state and local taxes, the church cannot withhold Social Security by law. However, ministers can cover their SECA obligation through voluntary withholding by requesting an "additional dollar amount to be withheld" from each paycheck in box 6 of Form W-4.

HOUSING ALLOWANCE GUIDE:

For Federal income tax purposes, ministers who own their homes can exclude the **LOWEST** of the following three amounts from taxable income:

HOUSING ALLOWANCE
as designated by his/her church
(this **MUST** be completed!)



ACTUAL HOUSING EXPENSES
(including mortgage payments, utilities,
property taxes, insurance,
furnishings, repairs and improvements)



FAIR RENTAL VALUE
(furnished, including utilities)



Q: CAN RETIRED MINISTERS ALSO REDUCE THEIR TAXABLE INCOME BY UTILIZING HOUSING ALLOWANCE?

A: Yes! Revenue Ruling 75-22 allows church pension boards such as Servant Solutions to designate a housing allowance for retired ministers receiving income from their 403(b)(9) retirement account. As a retired minister, you may be eligible for the housing allowance income exclusion in retirement. For additional information on housing allowance rules and limits, visit servantsolutions.org/ministers-toolbox and read *The Minister's Housing Allowance*.

Ministers are required to pay Social Security taxes at the self-employed rate (currently 15.3%). It is important to note that Social Security is to be paid on both the base salary and the value of the housing allowance. In that ministers are considered employees of the church in the eyes of the IRS, yet the rules covering ministers classify them as self-employed for Social Security payments, it creates a hardship on the minister often not recognized or understood by church leaders. It is recommended by Servant Solutions that the church provide an offset benefit to relieve this burden on a minister. Since the normal employer portion of the Social Security payment is 7.65% of salary and housing allowance, the offset benefit should be at least this amount. The amount of the offset must be treated as taxable income to the minister.

THE SERVANT SOLUTIONS RETIREMENT PLAN

One of the most outstanding benefits that a church can provide for their pastor or staff member is participation in the Retirement Plan. Servant Solutions operates a 403(b) (9) retirement plan that allows churches to pay in tax-deferred contributions as well as the opportunity for church employees to make tax-deferred contributions from their salary. The Plan provides a high quality platform of investment options along with education and guidance from a highly trained staff.

For ministers, an incredible added benefit is the ability of the Servant Solutions Retirement Plan to provide housing allowance in retirement for retirement distributions. This is a remarkable way for the church to increase the value of retirement income. Call Servant Solutions at 800-844-8983 or visit servantsolutions.org for more details.

HEALTH INSURANCE AND HEALTH SAVINGS ACCOUNTS

It is always a good employment practice to provide health care coverage for church employees. In some churches there are ministers and employees who have substandard health coverage or have no coverage at all. Health insurance coverage continues to be one of the largest

challenges in our churches today, and the responsible church will want to provide this coverage. When remitted by the congregation on behalf of the employee, health insurance premiums, just like retirement contributions are excluded from taxable income.

To find affordable coverage, it may help the congregation to evaluate a high-deductible policy along side a Health Savings Account (HSA). With a high-deductible insurance plan the premiums are often considerably less. Part or all of the savings can be placed in the HSA where out-of-pocket medical expenses can be taken from this tax-free pool. The beauty of the HSA is that if the employee does not spend all the money, it can be rolled over to the next year. The intention of the HSA is that an employee with discretion over health care dollars will be more discerning in the expenditure of those dollars. You can contact Servant Solutions for more information on the use of an HSA with a high-deductible health insurance policy.

ACCOUNTABLE REIMBURSEMENT ARRANGEMENT

As earlier noted, church business expenses should not be considered part of compensation. It is recommended that expenses incident to ministry should be reimbursed to a church employee from an administrative line item in the church budget. Such expenses can be reimbursed without any negative tax impact on the minister or employee through an accountable plan. The IRS indicates that three criteria must be met to reimburse an expense:

1. The expense must have a business (ministry) connection.
2. The employee must return any excess reimbursement or allowance within 120 days of the expenditure.
3. The expense must be adequately substantiated by the employee within 60 days of the expenditure.

When substantiating an expense, the employee must document the amount with receipts, indicate the time/date and place, the business purpose and description of

the expense. It is very appropriate for the church to permit ministerial business expenses such as pastoral calling auto expense, education and development, conventions, books and periodicals, office supplies, etc.

OTHER KEY COMPONENTS RELATED TO COMPENSATION

Vacation time should be provided commensurate with other vocations and other similar-sized congregations, while also considering length of service. Ministry is a physically, emotionally, and spiritually challenging endeavor. It is in the best interests of the minister and the church for church leaders to make certain the minister has time away with family for rest and renewal. Some of the resources suggested at the end of the guide can give further guidance on vacation benefits.



Sabbatical/Renewal time is in the long-term best interest of the congregation and can provide a return on investment when a minister has opportunity to rest, study, and reflect. A sabbatical policy can encourage longer tenures and renew the creativity needed for effective leadership.

While evaluating compensation and benefits, it is a healthy exercise for church leaders to be mindful of the cost of living. Taking inventory on whether increases are covering the cost of living and, hopefully, adding additional value above will be a blessing to your faithful servant leaders.

We are always available by phone, fax, or email to assist you in your compensation planning work.

The table below shows recent history of the Consumer Price Index used to measure inflation.

AVERAGE PERCENTAGE INCREASE	
Year Ended December 31	Annual Inflation Rate
2023	4.0*
2022	8
2021	4.7
2020	1.23
2019	1.81
2018	2.44
2017	2.13
2016	1.26
2015	0.12

(Source - usinflationcalculator.com)
*projected

Servant Solutions, as part of our ministry to the church, stands ready to help your congregation in any way possible. Occasionally, as a part of normal travel by the Servant Solutions representatives, we may be in your area and are always happy to meet with the church's board.





RESOURCES TO HELP YOUR PLANNING

(Recommended by Servant Solutions)

- **Ministers' Taxes Made Easy and Church Reporting Made Easy** by Dan Busby
[servantsolutions.org>educational resources>resources for treasurers/employers](http://servantsolutions.org/educational/resources/resources%20for%20treasurers/employers)
 - **Treasurer's Toolbox Series**
Helpful financial articles servantsolutions.org/employers-toolbox-2
 - **Pastoral Compensation**
Online resources specific to compensation planning servantsolutions.org/church-compensation-planning
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