

Guidelines for Determining Pastoral Compensation

May 2005

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.

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 organization to plead his case. He depends on his congregation, acting through its board, 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; 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 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

A *- Minimum Base Salary	USA	Canada
Fewer than 250 communicants	\$2625	\$2650
250 to 500 communicants	\$3144	\$3171
500 or more communicants	\$3432	\$3467

B *- Location - An urban or suburban congregation should add \$102/month in the USA, \$107/month in Canada.

C - Increment for Experience - For each year of full-time ordained or commissioned service in the church in any locale since graduation from the seminary add:

\$20/month for each year of service.

D *- Increment For Education - For formal academic work beyond graduation from the seminary:

\$44/month for a second earned Master's degree, or
\$80/month for an earned Doctorate

E * - Housing Allowance

a) If housing is not provided – It is important to provide funds to your pastor for fair rental value of suitable housing. Community costs of housing can easily be derived from Internet sources. This is one area where there is considerable variation from community to community, costs being four times greater in some places than in others. Web Sites: AOL (House and Home), Yahoo (Real Estate), Excite (Home/Real Estate)

If a congregation gives their pastor a housing allowance, it behooves them to make it as large as possible, since such an allowance does not appear to be taxable. If there are questions on this point, consult an attorney who is familiar with tax law as it applies to pastors, or else consult with Synod's legal counsel.

b) 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 is the difference between the salary he receives and the salary he would receive if no parsonage were provided. The taxing authorities consider this imputed income a part of the pastor's income and the pastor pays income tax on it even though no money changes hands.

Renting has advantages in certain circumstances. Thus, if a congregation is located in an area where affordable housing is not otherwise obtainable, a parsonage may be a necessity. Likewise, if the pastor is young and lacking in financial reserves, either a parsonage must be provided or else the congregation will have to assist their pastor in arranging a housing loan.

Rental 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.

In order to correct this inequity, the congregation should set up a fund of some sort to be turned over to the pastor, along with all accrued interest, when the pastor purchases a house, or leaves the congregation. The following scale is suggested:

<u>Years in the Ministry</u>	<u>Amount per month</u>	
	<u>USA</u>	<u>Canada</u>
0 – 5	\$ 92	\$ 91
6 – 10	\$210	\$196
11 – 15	\$235	\$223
16 – 20	\$259	\$241
21 – 25	\$287	\$267
26 – 30	\$310	\$285
31 and over	\$333	\$314

It has been suggested that since this is a fund that is intended as a gift to the pastor when certain conditions are met, such as the pastor's retirement, that the fund be labeled Pastor's Gift Fund since this may have certain tax advantages.

F - Utilities - These should include heat, light, water, sanitation and telephone (pastor to pay cost of own personal long distance calls). Normal practice is to give the pastor's bills to the treasurer to be paid directly. However if a utility allowance is used, it should be a fair and accurate estimate paid monthly. See if your local utility has a budget billing plan and get their estimate, or look at the bills for the past few years and then allow for any projected increases in rates.

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 * - 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	\$2625
Experience, 19x20	380

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

Base Salary	\$3171
Urban differential	107
Experience, 9x20	180

A pastor with a suburban US congregation of 650 communicants who has 23 years of experience and a second earned master's degree would receive:

Base Salary	\$3432
Urban differential	102
Education allowance	44
Experience, 23x20	460

b) Assistant/Associate Pastors - It is recommended that this schedule 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	\$3144
Urban Differential	102
Experience, 8x19	160

III * - Guidelines for Determining Benefits

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.

A * - Health and Welfare - The Worker Benefit Plans of The Lutheran Church - Missouri Synod offers four plans for church workers. We strongly urge that every congregation provide their pastor with coverage under the **Concordia Disability and Survivor Plan** and the **Concordia Retirement Plan**.

We also 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. The **Concordia Health Plans** 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 Level A 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 Level B, C, or D 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 should 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. The Concordia Plan 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 the Worker Benefit Plans, their rates and their coverage, are available from:

The Lutheran Church-Missouri Synod
Worker Benefit Plans
Box 229007
St. Louis, MO 63122-7295
Phone: 1-888-927-7526, Email: WBP-INFO@WBP.ORG
Web Site: WWW.WBP.ORG

(SEE WORKSHEET FOR CALCULATING HEALTH AND WELFARE BENEFITS)

If your pastor were to die before retirement, who will pay for his funeral? Many congregations elect to self-insure in this area. If this is your decision, be sure that it is spelled out in your minutes **before** the need arises. Further, if a parsonage is provided, spell out how long his family can remain in the parsonage after his death. Failure to do this has led to some very unfortunate situations. In addition, we would recommend providing the maximum social security coverage. The Worker Benefit Plans also offer an Accident Insurance Program.

IV * - Guidelines for Determining Other Compensation

A * - Transportation Expense

For the next year the rates are:

USA - 40.5¢/mile
Canada - 45.0¢/km first 5,000; 39.0¢/km over 5,000

Examples: A pastor in the USA who drives 16,000 miles of church related driving in a year would receive \$540/month. A Canadian pastor who drives 24,000 kilometers per year of church related driving would receive \$805/month. Transportation expenses should be on a reimbursement basis and not as direct salary.

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 make their pastor an allowance to help defray the cost of such materials and meetings. This allowance should be on a reimbursement basis and not as direct salary.

C - Vacation

Years in the Ministry	Days of Vacation			
First year	11 days including Saturdays and Sundays			
1 - 5 years	18 days	"	"	"
6 - 10 years	25 days	"	"	"
11-15 years	32 days	"	"	"
16 and over	39 days	"	"	"

The average worker has eight paid holidays in addition to his vacation, most of these falling either on Monday or Friday. Since the pastor usually has either Monday or Friday as his day off, we have included in our recommendation four additional days of vacation to compensate for the holidays not provided.

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. But special situations can arise--such as the opportunity for extended foreign travel--where it would be desirable to allow carry-over of vacation from one year to the next. In such cases it is recommended that:

- a) The congregation decide whether it wants to allow such a carry-over, and
- b) In any case, a minimum of 11 days vacation be required to be taken in any calendar year.

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.

It is strongly urged that the congregation honor the pastor's day off. 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.

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 shortly, 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 1.9% decrease in salary. So the final step in any review of compensation should be a review of the increase required to allow for inflation.

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 base year, the base year depending on which particular series we are using. Since we are only concerned with the percentage change since the last year, the base year does not affect us. A listing of the percentage changes for the past year for most of the areas where this district has congregations follows:

A * – Overall Rate of Inflation

	<u>Region</u>	<u>% Increase</u>
USA:	Chicago	2.2
	Cleveland	3.1
	New York City,	
	Northern N. J. and Conn.	3.5
	Philadelphia and Southern N. J.	4.1
	Pittsburgh	3.1
	St. Louis	4.0
	Florida	2.5
	Milwaukee – Racine	1.4
	Average of Above	3.0
Canada:	Quebec	1.9
	Toronto	1.7
	Ontario Province	1.9
	Average of Above	1.8

B * - Housing Inflation

USA:	2.5
Canada:	2.6

C -* Transportation

USA: (IRS)	40.5¢/mile
Canada: (similar to USA IRS mileage)	45.0¢/km first 5,000
	39.0¢/km over 5,000

WORKSHEET FOR DETERMINING PASTORAL COMPENSATION

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		\$ _____	\$ _____

Benefits (Section III)

A – Health and Welfare:

Concordia Disability and Survivor Plan

* _____ % X Total Direct Salary \$ _____ =

Concordia Retirement Plan

* _____ % X Total Direct Salary \$ _____ =

Concordia Health Plan

\$ Amount obtained from LCMS Worker Benefits
(Based on number in family and ZIP Code)

Social Security

** _____ % X Total Direct Salary \$ _____ =

Accident Insurance Program

\$ Amount obtained from LCMS Worker Benefits

(*% Obtained from LCMS Worker Benefits)

(**% Established by Congregation. **Amount paid** **TOTAL BENEFITS**
to the Pastor is to be included in Box #1 on the W-2.)

\$ _____ \$ _____

Other Compensation (Section IV)

A – Transportation Expenses Reimbursed _____ X _____ =
miles/km rate per mile/km

B – Library and Continuing Education Expenses Reimbursed _____

C – Vacation:

TOTAL OTHER COMPENSATION \$ _____ \$ _____

GRAND TOTAL \$ _____ \$ _____