

# *Compensation Planning for Pastors*

When a church chooses or elects a pastor, it is their sole responsibility to provide some type of compensation for that pastor. The Bible is very clear in instructing the church to provide for those called into service. Many of our churches struggle in determining ways to compensate their pastor. Most do not have an organized plan to help assist church leaders in determining a fair compensation package, leaving them guessing or comparing their own personal package to what a minister might make. This point of view is a dysfunctional way of providing for the needs of a pastor. There are many reasons why this approach cannot work:

- This does not take in account of what a pastor needs. What are his/her obligations? Does it take in account of the years of service they have provided? Enclosed is a Ministry Needs Form that will help a minister and church determine an amount the pastor actually needs.
- 90% of the pastors work between 55-75 hours a week. Some compare a 40 hour work week salary to what a minister should make. How dysfunctional is this? Is the church saying it is perfectly normal for one to work almost twice as many hours as they would for the same pay? For those people who think this way, let them live on a 20-24 hour paycheck but continue to work a 40 hour work week. All of a sudden, they realize this way of thinking is not exactly fair.
- Most salaried people never travel outside their intended area, does not manage a business, does not deal with hundreds of different opinions, only has to deal a specific task or skill, comes home after work to retire and rest, is able to take vacations without interruption, and does not have to worry about being voted by a popularity contest every year or every few years.
- Older leaders may compare their income and benefits to what they believe their pastor should make. Should they compare their social security income to what a regular wage earner should make? Should they compare the premium of Medicare and giving the same dollar amount to a pastor with 4 children as a medical premium benefit? The premiums of a pastor and their family are much higher than that of Medicare and so are their needs.
- In comparing salaries, are the church leaders comparing the highest wage earners in the church or are they trying to bring an average comparison? Some may be unemployed or be on a very limited income. Is the church saying that their pastors should live in poverty? The way the church approaches this speaks volumes of how a church loves and appreciates God and their pastor. If a church truly wants to seek God's blessings, it will choose the largest incomes and build on top of them! One cannot out give God!

These are just a few reasons why a church and pastor need to have some sort of plan before and during the course of employment. Without a plan, one plans to fail. Effective and proper planning will pay dividends for all parties involved. Our goal is to provide information that will assist the church and pastor in determining a fair compensation package.

### *Why is Compensation Planning Important?*

1. **That God's Word May Be Honored.** The New Testament provides a basis for all churches to pay their pastors. 1 Corinthians 9:14, Galatians 6:6, Luke 10:7, 1 Timothy 5:17,18)
2. **To Reduce Confusion and Bring a Smoother Transition.** A clearly written policy can help expedite the hiring process. It allows a minister to understand that the church has spent time in preparing an outline that can then be negotiated or reviewed.
3. **It is a Demonstration of Love and Care to the Pastor and Family.** Having a workable compensation plan shows the pastor and their family that the church cares enough for the health and well-being of their pastors.
4. **A Compensation Plan Helps Maintain Stability and Tenure of a Pastor.** If a church loves their pastor, they should adequately review and compensate them on a regular basis. A compensation plan will outline reviews. Too many pastors have left a church for greener pastures due to a lack of appreciation or having their needs looked at.
5. **To Reduce Tax Liability.** How a church pays its pastor is very important. Many churches "package" a salary plus benefits. These are attractive in acquiring a pastor as well as retaining one. Turnover of ministers and staff can weaken a church's ministry. Many pastors want to "shelter" as many items that are legally possible but of course, not violate their tax liability. Some of these will be outlined in a later section.
6. **To Ensure Accountability to the Church.** Written plans outline benefits and salary to their pastor. Congregations are very interested in making sure their pastor is paid properly. Planning also eliminates a tax liability to the minister and church if compensation is not paid correctly.
7. **To Ensure Protection of the Pastor and Church.** By providing a benefits package of life insurance, medical, or disability insurance, a minister can protect their family from financial ruin as well as protect the church from inconsistent service. A minister is not as likely to put off a medical procedure if they have medical coverage. Ministers without medical coverage often wait until it is too late and costly, which can be a burden to the church.
8. **A Plan Will Determine Whether a Pastor is an Employee or Self Employed.** Tax-wise, it could make a big difference to the pastor and church. Pastors are usually considered for Federal tax purposes if they are ordained, licensed, or commissioned.

Other considerations to determine whether a pastor is an employee include whether a minister is eligible for a church designed housing allowance, whether a person has management responsibilities of the church, and do they conduct religious worship.

Most ministers have a “dual-tax” status, which means that ministers are considered as self-employed for Social Security purposes but are usually employees for income tax purposes. For more information, please consult your accountant or IRS.

9. A written policy will outline expectations a church may have for its ministers, such as work hours, office hours, outside speaking engagements, hiring practices within the church, pay periods, etc. A written outline will eliminate misunderstandings from what a minister or board may seem normal. Both could have different expectations.

### ***Establishing A Written Compensation Policy***

Someone once wrote, “If it is not in writing, it does not exist”. That is true in business as well as the church. To avoid confusion, hurt, misinterpretation, and division, a church should consider placing considerations for compensation in a written document. Some denominations have them written in their constitution and By-laws. These policies form an objective standard for the church board, committee, or church body to consider.

#### ***Ministry Related Expenses:***

- An adequate compensation for salary. Some churches pay a percentage of the income received in the church. If this is the case, there should be a clear distinction of the percentage given as well as where it comes from. Some churches have separated the total income into designated accounts or tithes and offerings. The problem with this method is that some people have avoided paying tithes so that their minister won't receive income. In our opinion, this is manipulation and should be avoided at all costs. Church leaders should intervene and discipline such people.

Some churches provide a monthly base income for their ministers as well as provide incentives for growth. Most churches that provide compensation by this method places a consistent salary base plus provide a bonus of 15% above a certain dollar amount of what the church brings in on a monthly basis, such as \$10,000 or \$20,000. This is a win-win situation because the church and pastor both benefit.

Most churches provide a salary for their ministers. This salary should take in consideration of the pastor's needs, the financial condition of the church, education and

experience, and be compared to the higher salaries of the church, not the least, since the demands made of him/her are above and beyond that of an average wage earner.

**\*\*\*Please consider Example 1 and Summary Illustrations.**

- Travel reimbursement. These include mileage, motels, and meals on behalf of doing business for the church or attending seminars.
- Expenses covered for conferences and conventions. Many pastors are required to attend denominational meetings every year.
- Purchase of books, periodicals, and other media items for education. One note to consider is who will own these materials, the pastor or church?
- Business use of pagers or cell phones. This will also include reimbursement for long distant calls for business made on the pastor's personal phone.
- Any other negotiated allowance that can be used on an expected business expense.

\*\*Note: all reimbursements should be filed on a church expense form and submitted to the secretary or bookkeeper for reimbursement.

In considering proper compensation, the church should consider, "What would other persons carrying similar responsibilities in other vocations be paid"? Please consider the following example:

**EXAMPLE 1.**

- \$82,408 Educational Administrator
- \$73,460 Human Resource manager
- \$60,937 Registered Nurse
- \$57,757 Accountant
- \$56,636 Police Detective
- \$51,613 Firefighter
- \$50,075 High School Teacher (some only work 9 months a year)
- \$37,035 Secretary/Admin. Assistant
- \$24,435 Custodian

Please note that most of these individuals work only a 40 hour work week, never being on call, never assuming the responsibilities and demands that pastors go through, and not being voted in by popularity.

### ***Employee Benefits:***

- What levels of coverage can the church provide for medical, life, and disability income insurance. If the church cannot afford to provide this coverage, please allow the minister to purchase these through payroll deduction from the church and have them paid before taxes (Section 125 of the Internal Revenue Code), which will save the pastor between 25% to 35%. Affordable healthcare is found on our website.
- Housing allowances. Even though this is not a true paid benefit from the church, the pastors nevertheless still benefit from having this option. A housing benefit form is included later on in this section. **\*\*See Example 2.**
- Social Security. Again, this is usually the responsibility of the minister but the church can pay the matching part that is usually paid by the employer.
- Retirement contributions. This is something that a church can start off slow and increase or have the minister match dollar for dollar. 403 (b) plans are very popular. See our retirement section on our website.
- Incentives on education. This account will pay for the pastor's tuition and books to further their education.
- Car allowance. This is not a reimbursement for mileage but provides a vehicle for their pastor as long as they are their pastor. Some churches will reimburse their pastor on a car payment so that the vehicle will remain in the pastor's name. If this is done, please consult your church accountant to see tax implications for the minister, if any.
- Medical Reimbursement Accounts. These are usually tied to the Section 125 of the Internal Revenue Code and will allow ministers to set aside monies for medical, dental, and vision that will be considered paid before taxes. Again, can save the minister 25% to 35 %. Check out our retirement section on our website for information on Section 125 or consult [irs.gov](http://irs.gov).
- Vacation Time. Many churches start their ministers out with a 2 week vacation, increasing with years of service but further consideration should be given. The ministry is physically, emotionally and spiritually challenging. It is in the best interest of the pastor and church to make certain that pastors have time away for family rest and renewal.
- Sabbatical/Renewal Time. Many churches will attempt to send their pastors off for a spiritual renewal every 5-7 years. This is an opportunity for a pastor to rest, study, and reflect upon their call and the direction of the church.

**NOTE:** Some church board/committee members often exclude benefits and seem to think they are unimportant. But ask that member whether they have benefits. Most of the time, people in the church expect their employers to provide such benefits and would be upset if they didn't. Are our pastors any different? Are they and their families super spiritual, loving to sacrifice, and doing without? If a board member feels like it is important for them and their family, pastors should be given the same consideration.

## ***Bi-Vocational Pastors***

Bi-vocational ministry has becoming a fact of life for many pastors. In 1996, 3 out of 10 Nazarene pastors were bi-vocational. In 2005, the Southern Baptist reports that over 18,000 of their churches have an attendance lower than 60 people and 11,000 of their pastors are bi-vocational. With the increased financial strain upon our society and churches, it is inevitable that many of our pastors will have to seek outside employment in order to “make ends meet” and take care of their family’s needs.

There are frustrations associated in making this decision.

### **Frustrations for the pastor:**

- Pastors often wrestle over their call to minister full time but agonize over their families not having their basic economic necessities.
- Some salaries are such that pastors barely meet minimum wage and qualify for food stamps.
- They are most vulnerable to forced termination due to the demands the church may serve.
- If moving from a parsonage and losing any form of income, poverty levels increase with thoughts of leaving the ministry altogether.
- Lower income levels for a pastor means that the spouse will have to work, which will also bring about a change in the harmony in the home and church.
- Frustrations of level of service to the church, especially when a member needs the pastor but the pastor is working for an unwilling employer to accommodate flexibility.

### **Frustrations to the church:**

- Unrealistic expectations. Many churches can only afford a part-time pay but want a pastor doing full-time duties. This is very dysfunctional and frustrating for the church and pastor. Education and reality therapy is needed for the church.
- The pastor is a key person in the lives of a Christian. When tragedy or death occurs, the pastor is the first one usually called, outside of immediate family members. The pastor is the one who comforts and helps the families through difficult times. Frustrations and disappointments occur if a pastor is unavailable.
- There is a negative concept that the growth of the church could be compromised. Most studies reveal that there are no differences in churches that have full-time or bi-vocational pastors.
- By having a part-time pastor, the church members will have to assume some of the responsibilities of the church.

### **Advantages to the church and pastor:**

- By having a bi-vocational minister will help keep the doors of the churches open. Last year, America had over 7,000 churches close their doors.
- By having a bi-vocational pastor can relieve the financial pressures of the church.
- By having a bi-vocational pastor, everyone in the church is more aware of the “real” issues within the ministry and works in a cooperative effort to see the ministry going forward.
- By having a bi-vocational pastor, it will open other opportunities for “future pastors” to share in the preaching duties or visiting those in the hospital. Many churches rotate the 5<sup>th</sup> week service to allow “called” ministers to gain experience of sharing the Word.
- Many of our members love their pastors and truly want to bless them accordingly but do not have the finances to do so. A bi-vocational pastor will relieve the stress within the membership.
- A bi-vocational pastor can work freely in the workforce as a way to relieve stress within the ministry and earn benefits/paid vacations that will help with their family’s need.

### **Salary Consideration:**

Most boards will look at what a church will pay for a full-time minister and divide that number by the amount of time a bi-vocational pastor will allocate to the ministry. But figures are misleading. Full-time Baptist ministers have an average package compensation of around \$49,952 in 2004, which includes housing, compared to \$17,385 for part-time pastors, which also includes housing.

This statistic does not take in consideration of what is considered part-time and the hours represented. If the pastor is devoting half-time to the ministry, he should be given half-pay consideration. The above illustration may generate greater frustrations for the church and pastor to have “unrealistic” expectations of a pastor to maintain full-time or half-time duties but not be given the same consideration of a fair compensated salary (half of \$49,952+\$24,976).

To eliminate frustrations, confusion, and stress, it is wise to outline a clear written compensation policy as early outlined, which will include compensation, duties, expectations, expenses, etc.

## *Determining the Needs of a Pastor*

This form is to be completed by the pastor and turned into the pulpit committee or board. It should be helpful in determining a pastor's needs and compensation package. Some churches may not be able to provide all the benefits a minister may need but this outline can be helpful for future budgeting and planning.

**Minister's Name:** \_\_\_\_\_

**Please complete and return to the committee/church board by:** \_\_\_\_/\_\_\_\_/\_\_\_\_

### **Part 1—Personal Income Needed**

How much salary did your last church pay you? \$ \_\_\_\_\_  
Did you receive a cost of living or merit increase last year? \_\_\_\_ Yes \_\_\_\_ No  
If you received a housing allowance, how much did you receive? \$ \_\_\_\_\_  
Were you considered an employee at your last church or self-employed? \_\_\_\_\_  
Did you pay all of your self-employment tax last year? \_\_\_\_ Yes \_\_\_\_ No  
How much money did the church pay for these expenses? \$ \_\_\_\_\_

### **Part 2—Benefits**

Do you and your family have medical coverage? \_\_\_\_ Yes \_\_\_\_ No  
What was the cost of your medical insurance last year? \$ \_\_\_\_\_  
How much did your church pay towards your medical coverage? \$ \_\_\_\_\_  
What do you anticipate your cost for medical coverage will be this year? \$ \_\_\_\_\_

Do you have life insurance? \_\_\_\_ Yes \_\_\_\_ No  
Do you have life insurance coverage on your spouse? \_\_\_\_ Yes \_\_\_\_ No  
How much were your premiums last year? \$ \_\_\_\_\_  
How much money did your church provide for this coverage? \$ \_\_\_\_\_

Do you have disability income insurance? \_\_\_\_ Yes \_\_\_\_ No  
What was your cost for that coverage? \$ \_\_\_\_\_  
How much money did your church provide for this coverage? \$ \_\_\_\_\_

Do you have a retirement account? \_\_\_\_ Yes \_\_\_\_ No  
Did your church contribute money into a personal retirement annuity? \_\_\_\_ Yes \_\_\_\_ No  
How much money did your church provide for this account? \$ \_\_\_\_\_

### **Part 3—Ministry Related Expenses**

Did your last church furnish a vehicle for your business use? \_\_\_\_ Yes \_\_\_\_ No  
Did your last church reimburse you for mileage? \_\_\_\_ Yes \_\_\_\_ No  
How many miles did you claim as mileage expense last year? \_\_\_\_\_



Did your last church reimburse you for travel expenses?  Yes  No

Did they allow you to travel to conventions and conferences?  Yes  No

Did your church reimburse you with lodging, food, transportation, etc?  Yes  No

How much money was provided by the church to offset this expense last year? \$ \_\_\_\_\_

How much money did you spend on materials (Books, periodicals, CDs, etc)? \$ \_\_\_\_\_

Did your church reimburse you for these materials?  Yes  No

Did you or the church keep these materials? \_\_\_\_\_

How much money did the church reimburse you for materials? \$ \_\_\_\_\_

How much money did you spend on continuing education? \$ \_\_\_\_\_

Did your last church provide reimbursement for tuition and books?  Yes  No

Did your last church reimburse you for entertaining evangelists and special speakers?  Yes  No

How much money did your church provide for this expense last year? \$ \_\_\_\_\_

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Pastor's Signature

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Date

**EXAMPLE 2—Housing Allowance Notification**

**Minister's Name:** \_\_\_\_\_ **Date:** \_\_\_/\_\_\_/\_\_\_

This letter is to advise you that at the business meeting of: \_\_\_\_\_  
Church, held on \_\_\_/\_\_\_/\_\_\_, (date), your housing allowance for the year \_\_\_\_\_  
was officially designated and fixed in the amount of \$\_\_\_\_\_. Accordingly, \$\_\_\_\_\_ of the total payments to you during the year \_\_\_\_\_ (and all future years until changed by official church action) will constitute your housing allowance.

(If a parsonage is provided, add:) You will also have rent-free use of the parsonage located at: \_\_\_\_\_  
for the year of \_\_\_\_\_. Utilities will be paid by: \_\_\_\_\_ Church \_\_\_\_\_ Minister

This action is recorded in the church minutes.

\*\*You should keep an accurate record of your eligible housing expenses to provide proof of any amounts excluded from income tax purposes. This form is for illustration purposes and should be reviewed by a legal and tax representative. You may be able to view the housing guidelines at [www.irs.gov/faqs/gaq/0,,id=199753,00.html](http://www.irs.gov/faqs/gaq/0,,id=199753,00.html).

Sincerely,

Board Secretary's Signature: \_\_\_\_\_ Date: \_\_\_/\_\_\_/\_\_\_

## *Financial Worksheet for the Church*

This is an overview of the items listed by the minister and can be used to budget the pastor's salary, expenses, and benefits.

### **Financial Support**

- A. Monthly Salary \$ \_\_\_\_\_
- B. Housing Allowance \$ \_\_\_\_\_

### **Benefits**

- A. Medical Insurance Coverage \$ \_\_\_\_\_
- B. Life Insurance Coverage \$ \_\_\_\_\_
- C. Disability Income Insurance Coverage \$ \_\_\_\_\_
- D. Retirement Contribution \$ \_\_\_\_\_
- E. Social Security \$ \_\_\_\_\_
- F. Other \$ \_\_\_\_\_
- G. Other \$ \_\_\_\_\_

### **Reimbursements**

- A. Automobile \$ \_\_\_\_\_
- B. Mileage Expenses \$ \_\_\_\_\_
- C. Conventions & Conferences \$ \_\_\_\_\_
- D. Books, periodicals, CDs, etc. \$ \_\_\_\_\_
- E. Education/Continuing Education \$ \_\_\_\_\_
- F. Hospitality \$ \_\_\_\_\_
- G. Benevolence \$ \_\_\_\_\_
- H. Phone/Long Distance \$ \_\_\_\_\_
- I. Other \$ \_\_\_\_\_
- J. Other \$ \_\_\_\_\_

**Total Contact Salary(salary plus benefits)** \$ \_\_\_\_\_

## Summary

Proper compensation for your pastor cannot be taken lightly. They are the ones God has chosen to lead the church. If a church neglects their pastor, they are basically showing disrespect to God. God always uses people for his work. We should honor and take care of our pastors the best way we can.

Every member of the board/committee should use wisdom, prayer, and a thoughtful plan to honor their pastor. As you honor your pastor, you are also honoring God. **Please remember, if a church wants a blessing, be a blessing to your pastor.**

Listed below are additional information that may be helpful in determining salaries and other compensation for your pastor.

- Review the compensation/benefits package for your pastor every year. Most churches either use the pastor's anniversary date or fiscal year budgeting date. Consider cost of living increases and benefits.
- Place all decisions in writing so that it will be clear and easy to access. Outline policies, expectations, expenses, benefits, housing allowance, and reimbursements.
- Budget the ministry-related expenses separately from the pastor's benefit package.
- Establish a consistent reimbursement account plan that is consistent for all church employees.
- If paying taxes for the pastor, set up a separate account to bring an assurance that funds will not be co-mingled.
- Establish a policy to include pastor appreciation day.
- Review other church employee's job performances and provide a merit increase when available.

### SUMMARY 1a

Listed below are salary averages for different denominations (**includes benefits**):

<b>Baptist</b>	<b>\$67,057</b>
<b>Episcopal</b>	<b>\$65,995</b>
<b>Presbyterian</b>	<b>\$65,567</b>
<b>Methodist</b>	<b>\$64,940</b>
<b>Assemblies of God</b>	<b>\$62,343</b>
<b>Disciples of Christ</b>	<b>\$53,577</b>
<b>Lutheran</b>	<b>\$55,487</b>
<b>Nazarene</b>	<b>\$54,108</b>
<b>Other(Independents)</b>	<b>\$60,844</b>

Additional Salary information:

<b>Non-denominational/Independent</b>	<b>\$69,570</b>
<b>Roman Catholic Priest</b>	<b>\$21,580</b>

\*\*\*Both studies were done in 1998 and many report an increase of 16.5% on top of these salaries by mid 2000. Salaries may be completely accurate due to the sample used. This was a random sampling of 900 churches. Some small churches may not have participated. Larger churches are more apt to disclose actual figures.

### **SUMMARY 1b:**

According to another survey, the typical Protestant church budget was between \$750,000 and \$2 million and spends about 45% of its annual budget on personnel. This figure is much lower than the business world which spends close to 65% of its budget on personnel and benefits.

The average number of staff members for a church with 250-699 in worship attendance is 13, an average of one staff member for each 85 church members. That number includes full-time, part-time, ministerial, and support staff.

### **SUMMARY 1c:**

Another comparison salary study in 2000 (by *Clergy Salaries in Congregations*, Alban Institute, September/October 2002 issue, p.7) showed different salaries in relevance to the size of church. These include housing allowances:

	<b>Small (&lt;100)</b>	<b>\$36,000</b>
<b>Denominational Churches</b>	<b>Medium (101-350)</b>	<b>\$49,835</b>
	<b>Large (351-1,000)</b>	<b>\$66,003</b>
<b>Congregational Churches</b>	<b>Small (&lt;100)</b>	<b>\$22,300</b>
	<b>Medium (101-350)</b>	<b>\$41,051</b>
	<b>Large (351-1,000)</b>	<b>\$59,315</b>
	<b>Very Large (1,000+)</b>	<b>\$85,518</b>

\*\*Statistics can be misleading, especially from the study that was done in Summary 1a. This survey is closer to actual studies given. Note: Regular benefits are not included in this survey, only housing allowance.

## *Additional Interesting Facts*

According to the 2008 Compensation handbook for Church Staff, it reveals that female solo pastors earn 10.4% more than their counterparts.

The Pulpit Pew, the 2005 addition, reveals that clergy are leaving parishes in greater numbers and after a shorter time. The average pastor changed assignments every 3 years and has little opportunity to advance to larger and more prestigious positions because of fewer positions available.

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