

Compensation basics

Compensation is always a challenging subject for church leaders, but even more so right now as they and their congregations struggle through the pandemic.

Here's some great advice from MMBB Financial Services (New York, NY), financial experts and pastors alike on how to approach the compensation equation (and discussion) right now.



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When we talk about "compensation," what components are involved, beyond salary?

Louis P. Barbarin, CPA®: Beyond salary (which includes a cash component, a housing allowance or parsonage allowance, and perhaps a Social Security and Medicare offset), MMBB believes that the church, on behalf of the minister of the gospel, should pay premiums to his or her retirement account and pay premiums for life, disability insurance and health insurance. Periodic and regular renewal is also important.

The church should also consider providing the minister with paid time off on an annual basis.

While there are churches that include ministry-related expenses — such as travel, continuing education and attendance at conventions — it's more helpful to the minister, from a tax perspective, for the church to account for such expenses using an accountable plan.

James R. Cook, CFP®, RICP®: It's common for pastors and churches to think of "compensation" as including every dollar in the budget specifically allocated to the ministry of a pastor or staff person. A better model is to think of the costs associated in three distinct categories: *Salary & Housing Allowance; Employer Paid Benefits; and Reimbursable Business.*

Rev. Anne Scalfaro, M.Div.: At my church, in 2020, the salary (including housing allowance) for the senior pastor is approximately 71% of the senior pastor's total compensation package.

For other full-time pastoral staff, salary (including housing allowance) ranges from 66% to 68% of their total compensation packages.

As someone concerned with the financial wellness of pastors and churches, what are you seeing or hearing about COVID-19's financial impact?

Cook: What I hear anecdotally is those churches that previously put in place options for electronic or automatic giving have seen the least amount of giving disruption.

Perry J. Hopper, MBA: Some churches are on the brink financially; some have merged; and some have even closed. Having said that, there are churches that are finding this pandemic time to be a creative time and are thriving in this environment. Those churches that are best at using technology to their advantage are discovering new opportunities to reach their members and expand their ministries. Among the new opportunities are increased platforms for stewardship and giving through giving Apps; such as Givelify, CashApp, etc.

Ania Norori, MBA, ChFC®: The pastoral leaders and families that are part of our financial wellness initiatives have, in large part, gone into this season in stable financial standing. Program participants say they're continuing to analyze their budgets, cut unnecessary spending, pay down their debt, and save for specific goals.

Barbarin: Some churches have continued to pay the pastor his or her compensation; some have reduced compensation; some aren't paying the pastor at all. These responses have typically been consistent with the church's financial capacity.

MMBB is certainly concerned about church staff who have lost their ability to support their families. Affected plan members have been provided with emergency assistance when appropriate.

Pastors: how has COVID-19 financially affected your churches?

Rev. Anthony L. Riley, M.Div. God has been faithful. Our financial health is strong. We're able to save money, pay down debt, and increase reserves while feeding the underserved, shifting worship and ministry activities to virtual, and launching new ministry initiatives.

Scalfaro: From mid-March through mid-May, we experienced an increase in generosity via special financial gifts to our operating budget and to outreach ministries that help people experiencing homelessness or food shortages. We also saw an increase in special gifts to a special fund to help members and friends within our own church experiencing short-term financial difficulty.

This summer, giving leveled off a bit. But we were just a hair behind where we planned to be and were actually in a better financial position than we've been in recent memory, for mid-summer, thanks to increased generosity and decreased spending / expenses.

All that said, our church *has* felt the effects of COVID-19 in terms of members losing their jobs, collecting unemployment, or being temporarily suspended from work. As the pandemic continues, we expect this to continue and intensify and recognize this could eventually affect our financial position. ☞

To reward devotion and commitment now — when it's needed most — what alternatives to salary reductions should a church consider?

Hopper: Basically, your question is about advocacy.

For MMBB, the focus is on helping churches avoid shortsightedness. Pastors are working harder than ever. They're being called to hold congregations together and will need to bring congregations back together as in-person services are allowed and reinstated. All this requires special skill and visionary, dedicated leadership. We, at MMBB, believe that dedicated leadership should be rewarded accordingly and compensation is one way for churches to honor its leaders. When establishing a church budget, churches should view compensation from the perspective of how best to honor and reward good leadership. So, compensation reductions shouldn't be the first place where cuts are made.

Cook: I agree and encourage churches to commit to making salary reductions a last option. It's not uncommon to institute an across-the-board percentage cut in the budget, but not everything in the budget is of equal value.

With most churches not meeting in person and staff working from home, many churches are seeing lower utility bills. Start by going line-by-line through the budget and identifying areas where the church is already experiencing savings during the crisis. Look for opportunities to incur additional savings without negatively impacting overall ministry.

Norori: I encourage pastors to research local and state programs that offer funding, as these opportunities often aren't publicized or marketed.

Barbarin: Before considering reducing compensation, a church should determine whether it's providing opportunities for its members to contribute.

In addition, are there opportunities to reduce non-compensation expenses? Can ministry-related programs and other activities be suspended? Can building repairs wait? Can current contracts be negotiated for more favorable terms?

How does the Coronavirus Aid, Relief and Economic Security (CARES) Act / Paycheck Protection Plan (PPP) deal with church staff compensation?

Hopper: The PPP component allows churches to continue to pay staff costs, which helps to stabilize churches. While a welcome financial relief for many churches and church related organizations, some churches have refused to take advantage of this opportunity. Some have expressed concern about encroachment by the government on their activities.

Norori: The PPP loan is available to most businesses with fewer than 500 employees. 501c3 nonprofit organizations, including churches, may qualify.

Barbarin: There are loan provisions within the CARES Act for eligible nonprofits, including churches. Key components of such a provision include:

- 1) If conditions are met, a loan may be obtained at low interest rates so that they can meet payroll obligations during the pandemic.
- 2) Borrowers can defer repayment of the loan for six months from disbursement.
- 3) Loans are eligible to be forgiven if at least 60% of the funds are used to cover payroll costs.
- 4) To have the loan forgiven, the nonprofit must meet certain requirements with staff retention and related payroll costs. This is a useful tool for maintaining staff during a very critical time.

It is important to remember that clergy are treated as self-employed for payroll tax purposes and pay the full 12.4% social security payroll

tax (both the employer's half and the employee's half). The CARES Act allows employers and self-employed individuals which include clergy to delay the payment of the employer portion (6.2%) of 2020 payroll taxes until 2021 and 2022. *This applies only to social security tax on wages paid from March 27, 2020 to December 31, 2020. One-half of the postponed payments are due by December 31, 2021, and the remaining half is due by December 31, 2022.* MMBB advises that any minister who has taken advantage of this provision consult his or her tax advisor.

Pastors: did your churches apply for and / or receive PPP assistance?

Riley: Yes, Central Baptist Church applied for and received the PPP forgivable loan. We haven't contemplated, nor have we implemented, salary cuts. All staff roles have been maximized or reimaged.

Scalfaro: Yes, we applied for and received assistance from the PPP in June. That, along with the congregation's generosity, have meant we haven't contemplated salary cuts. In fact, we've continued to pay our contract workers, even though they're not working right now. We feel this is the right thing to do and will continue to do so for as long as possible.

For the long term, churches seeking to fill positions amid COVID-19 should continue to prioritize a highly competitive compensation package. How can MMBB help?

Barbarin: Church leadership should ensure that their knowledge about compensation trends is current and, to the extent possible, compensate the pastoral leader in a manner consistent with his or her educational attainment and other achievements. If a minister is considering a call to a church in this current environment, consider adding flexibility to any agreement that allows the parties to revisit the contract when conditions improve.

Hopper: Churches should seek to be competitive in their compensation packages if they expect to obtain and retain good talent. Use every available tool — through MMBB and beyond — to structure a fair and adequate compensation so you can attract capable, visionary leaders.

Norori: Fair compensation is a clear indicator of a church's commitment to financial stewardship. Generally, it's good practice for the church leadership to research compensation for a comparable role outside of the church, within the same community. Focus on roles that require a similar level of preparation and responsibility.

Riley: Right. At our church, we compare our compensation against similar churches by checking church salary surveys through available national databases and denominational metrics.

Cook: Beyond this, I encourage churches to plan for and hire new staff with the faith that things will return to normal at some point. If you really don't feel you can support a new staff person at the level you should, hold off; fill it with temporary or interim staff for now, or use volunteers if appropriate.

For a church leader negotiating his or her own compensation package, what advice can you offer?

Hopper: Do your research; obtain as much information as you can about compensation for pastoral leaders. MMBB has multiple resources on clergy compensation (developed regionally) as well as other written and online materials at its website, www.mmbb.org. You might also ask to review the church's financial statements to determine the financial health of the church before deciding to accept the call to pastoral

leadership. A lot of this is public information. Come prepared so that it's a two-way conversation. MMBB also has written resources on strategies for negotiating fair and adequate compensation.

If you're uncomfortable negotiating on your own, MMBB staff can be a resource.

Norori: I agree: being prepared is key. Investigate fair compensation in your area, and examine your needs given your specific circumstances. Be prepared to confidently explain your qualifications and why you're the right fit for the role.

Ask what has been allocated in the church budget for pastoral compensation over a specific period to get a sense of how the church views compensation as an investment in pastoral leadership.

Keep in mind that employment is an engagement into which both parties enter for mutual benefit.

Barbarin: I encourage church leaders negotiating compensation to be aware:

- There might be increased headwinds due to a difficult health and economic environment.
- Many churches have been shuttered for more than four months and are experiencing reduced tithes and offerings.
- The financial markets have been volatile. For churches blessed with endowments, such assets might not be yielding returns required to fully sustain church ministry.
- The economy has suffered. As of this writing, there are approximately 16.3 million (10.2%) of Americans unemployed. Many of these people sit in the pews on Sunday.

Moreover, a pastor should be prepared to discuss:

- In an objective manner, individual and organization performance. *How did your ministry and that of the church impact the lives of those served?*
- What are other similarly situated pastors earning? Is he or she receiving minimum cost-of-living adjustments?
- What's the capacity of the church?

Cook: We can't ignore the present reality of COVID-19 — but we need to have a faith that "this too shall pass." If a church doesn't feel it can offer a prospective pastor what it would under normal circumstances, I encourage openness about this from all parties.

Additionally, spell out what an ideal employment package would look like and put in place a pledge and process to work toward that.

Making the opening conversations about money *healthy* ones will pay dividends later.

Pastors: have you recently negotiated your own compensation package?

Riley: As a part of my covenant with Central Baptist Church, my compensation is reviewed each year. We've focused on providing clarity regarding the way my compensation is structured to ensure my package is competitive with similar churches and honors my family obligations.

Scalfaro: I haven't. Annually, I'm a part of our church's budget development process and budget reconciliation decisions, which involve discussions around individual and collective staff compensation. That process will begin again this fall, and I imagine it will be different as ministry expenses are down during this season of virtual ministry, while the workload for many staff members is up.

I also feel a deep responsibility to ensure sustained (if not increased) financial support for our local, national, and global mission and advocacy partners / organizations who are relying on our financial support in these uncertain times. There are many factors to consider.

The uncertainty around how long COVID-19 restrictions will affect our in-person ministry will make 2021 budgeting a challenge, no doubt.

However, our Council has been very understanding around our budget since the pandemic began. Flexibility is key.

Has MMBB been a resource or advocate for helping you negotiate compensation?

Scalfaro: MMBB's website and newsletter both hold a wealth of helpful information for clergy and lay leadership.

A few years ago, our church was in a difficult season, and clergy compensation was reduced; this included reducing the amount that the church contributed to the MMBB Comprehensive Plan for full-time pastoral staff. At an annual gathering of the American Baptist Churches USA, an MMBB representative saw my church's name and location on my nametag and remembered this change. The rep explained to me the importance of fully participating in the MMBB plan. I passed the information along to the Chair of our Staff Relations Committee.

The following year, the amount of our MMBB contributions was fully restored. That was very helpful, as MMBB was able to explain to our lay leadership that the Comprehensive Plan includes retirement, disability, and life insurance and that by contributing less to the plan the church was giving less of a contribution to retirement benefits, than they most likely assumed.

The initiative MMBB took on this matter was very helpful; they truly understand how churches work and that lay leadership changes and rotates frequently! This means that clergy compensation matters can be inadvertently changed — not out of ill will, but simply because of a change in lay leadership where one might not fully understand the situation or know the reasoning behind the existing policy.

Riley: MMBB has been a tremendous asset in discussing benefits for the office of the senior pastor, as well as making a commitment to church staff. I've been honored to be accepted into the Strategic Pastoral Excellence Program to bring understanding around the long-term financial needs of the pastor and his or her family. (See "Pastors follow the path to financial wellness" at churchexecutive.com). A representative from MMBB met with our trustee ministry to discuss retirement and insurance options. We also plan to offer MMBB options to our church staff.

Great. And what negotiation strategies have been consistently effective for you, as pastors?

Riley: Understanding my needs while also being aware of the potential of the church. On the other hand, the church is invested in her pastor and desires to offer a competitive executive compensation package to retain the best for the ministry and allow for a singular focus on ministry from her leadership. Each ministry that God has blessed me to serve has done that. I believe that God blesses the church, who honors the ones whom God sends. It's my honor to serve.

Scalfaro: I haven't worked to negotiate my compensation higher in my tenure, although I do advocate for cost-of-living raises for staff whenever possible, as well as maintaining our expense accounts. On years where my salary was reduced, I didn't have to negotiate for the percentage to be reinstated; lay leadership brought that topic up on their own, and it was reinstated if we had the means to do so.

Were I to negotiate my compensation higher, my strategy would be to present my request to our staff relations committee and use information from other colleagues who have a similar tenure as mine at their churches, or present the committee with information that I receive from churches who ask me to apply for their pastorates — a helpful indicator of what one's experience is worth to others. **CB**

— Reporting by RaeAnn Slaybaugh