

Guide to Negotiating Pastor Compensation



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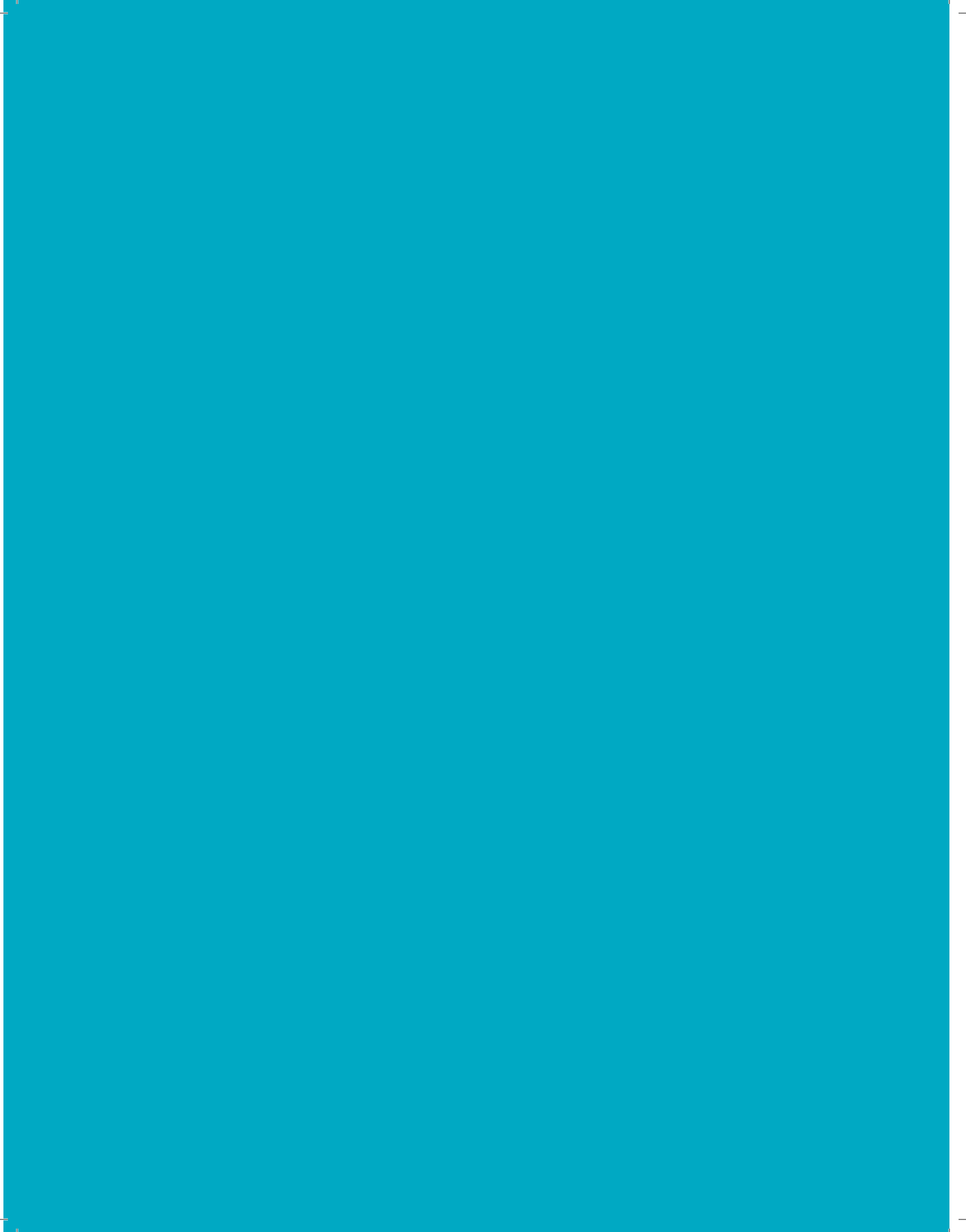


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A Guide for Pastors

Many ministers have devoted their lives to matters of faith and spiritual health. But your experience dealing with salaries and benefits packages may be limited. If you're a lay church leader, you must determine the staff's compensation. Talking about money can be a difficult conversation for anyone, but it can be even harder for people who serve God.

MMBB Financial Services understands the importance of fair compensation. It's not simply a matter of pastors being paid for their work. Fair compensation is a matter of justice and good stewardship by congregational leaders.

MMBB has over 100 years of experience working with clergy, as well as churches and faith-based organizations. This guide offers you the benefit of that expertise. This publication is intended for both churches and ministers, as well as for chaplains, pastoral counselors and those in other forms of ministry. The booklet will focus on three areas:

- Compensation 101 (The Basics) including salaries, benefits and reimbursable expenses
- Understanding and Achieving Fair Compensation including how to develop negotiating strategies
- What Compensation Means for Future Financial Wellness including reaching your financial goals

The guide will help you understand:

- what is compensation?
 - Salaries
 - Benefits
 - Reimbursable expenses
- clergy dual tax status
- how to determine "fair" compensation
- how to develop negotiating strategies

"Let the elders who rule well be considered worthy of double honor, especially those who labor in preaching and teaching; for the scripture says, '... the laborer deserves to be paid.'"

1 Timothy 5:17-18 (NKSV)

1.Compensation 101 - The Basics

Leading a community of faith requires many skills, such as compassion, vision, education and experience. Compensation reflects a minister's value to your church, and it should take these skills into account. Managing faith-based communities necessitates equitable compensation for all staff.

A fair compensation package is a win-win situation for all parties. A church should provide its staff with adequate income so that they can fulfill their roles without undue concern about current and future financial needs. Freedom from financial anxiety lets a pastor focus on his or her service and provide joyful stewardship. It also helps a church attract and retain qualified pastoral leadership.

Consider benefits and insurance components of compensation as risk management. They protect both the pastor and church from unexpected setbacks. These components ensure that pastors receive support, even if they are unable to fully carry out the church's ministry. Finally, a compensation package serves a managerial and motivational function. It can reward staff for meeting agreed-upon goals.

What Is in a Compensation Package?

Compensation has three parts: salary, benefits and reimbursable expenses

- A.** Salary or cash compensation includes:
 - Cash
 - Housing, Parsonage or Equity Allowance
 - Social Security/Medicare Tax Offset
- B.** Benefits
 - Retirement; life insurance, disability insurance and health insurance; and paid sabbatical, which contributes to a staff member's feeling of security and well-being
- C.** Reimbursable ministry-related expenses help ministers with the day-to-day costs of performing their duties. They include:
 - Work-related travel
 - Books
 - Education

A Sample \$75,000 Compensation Package	
Cash Compensation	
Cash salary	\$30,000
Housing allowance	20,000
Social Security offset	3,800
Equity allowance	5,000
Benefits	
Retirement, plus life and disability insurance	4,400
Health insurance	10,000
Reimbursement for Job-Related Expenses	
Auto allowance	650
Conventions	400
Hospitality	250
Subscriptions/books	200
Continuing education	300
TOTAL:	\$75,000

Let's take a closer look at each of the three parts of a compensation package.

Salary or Cash Compensation

A. Cash Salary

Ministers' salaries are straightforward. It's how much they're paid—whether they receive a paycheck every week, every other week, or monthly. Their salaries are subject to employment taxes, which can come as a surprise to many clergy. Even if they work for a tax-exempt organization, they still have to pay employment taxes.

Cash compensation also serves as the basis for calculating allowable retirement plan contributions.

- Increasing the cash portion of a compensation package could mean that the pastor has to pay more in taxes.
- Employee-paid retirement plan contributions cannot exceed 100 percent of includable compensation (plus any age 50 catch-up contributions). Reducing cash salary can potentially limit a minister's contribution to his or her retirement plan. As a matter of note, few pastors set aside 100 percent of their salary for retirement, so this is a lesser concern.

B. Social Security and Medicare Tax Offset

Churches can help clergy with their self-employment taxes by providing an “offset,” which is a kind of allowance that typically is the equivalent of an employer’s portion of Social Security and Medicare taxes.

Tax planning for ministers is very different from tax planning for lay church employees or other workers. Employees typically have to pay three different types of federal taxes: income tax, Social Security tax and Medicare tax. With most non-ministerial employment, an employee pays one half of Social Security and Medicare taxes and the employer pays the other half. Total Social Security/Medicare tax is 15.3 percent of all eligible income with the employer paying 7.65 percent of the total amount.

Ministers who are ordained and self-employed, however, have to cover the entire amount of employment taxes on their own. That’s because they basically serve as both employer and employee. This “dual tax status” means that, for federal income tax purposes, the minister is considered a W2 employee. For Social Security and Medicare, he or she is classified as self-employed—and the employer cannot pay those taxes for the pastor.

Your church can provide an allowance to help the minister “offset” the cost of paying employment taxes entirely on his or her own—hence the terms Social Security and Medicare tax offset. But remember: that extra offset counts as income and must be included as income and reported to the Internal Revenue Service by the minister. With the U.S. tax code constantly changing, it’s a smart idea for a pastor to work with a professional who understands clergy taxes.



Making Sense of Your Taxes

If you’re a minister, it’s important to find a qualified tax professional experienced in clergy taxes. You might want to ask other pastors in your community for recommendations. A pastor or minister needs to look at his or her entire tax situation—not just deductions. Most important, clergy should find out if their compensation is structured to help them lower their taxes and increase their earnings. A knowledgeable professional with clergy tax experience can help ministers stay up to date on the latest rules to create a tax plan for individual situations.

You can also contact MMBB for a free copy of our annual *Clergy Tax Return Preparation Guide*. It’s an invaluable resource for anyone trying to navigate the world of clergy taxes.

C. Housing Allowance

The housing allowance allows eligible clergy to exclude the cost of housing from their income for federal income taxes only. The allowance should cover the cost of maintaining a home: mortgage or rent payments, taxes, repairs, insurance, furnishings, utilities, etc.

The church must designate the housing allowance in advance of the tax year and ahead of when a salary adjustment takes effect. For example, a minister receiving a cash salary of \$30,000 might have \$5,000 of the cash amount designated as a housing or parsonage allowance. Only \$25,000 would be subject to federal income taxes.

Keep in mind the following:

- Designating a larger portion of salary as a housing allowance will reduce a minister's federal tax liability; however, overestimating the housing allowance may cause a pastor to under report his or her taxable wages. This could lead to an underpaying of taxes by the minister.
- A guideline for deciding what to exclude from taxable income **for the year** is the lesser of the fair market value of the furnished home plus utilities; **the amount designated for housing by the ordained minister the church or employer**; or the amount actually spent on housing. The minister is responsible for documenting actual housing expenses.
- A pastor cannot exclude more than his or her church designates, so the designated amount must at least be enough to cover the fair rental value of the dwelling, including utilities, etc., or the actual amount spent by the minister on housing in a year.
- If the designated amount exceeds the lesser of the fair rental value and the actual yearly housing expenses, the pastor must report the excess as taxable income.

Housing Allowance Example	
Designated by the church	\$22,000
Fair rental value of a furnished house, plus utilities	\$19,000
Actually spent on housing by the minister for the year	\$17,600

In this example, the church designated \$22,000 of its minister's salary as a housing allowance. A realtor's estimate of the rental value for a similarly furnished house came to \$19,000, so the church's designation was too high.

But when the pastor added up his or her actual mortgage payments, utility, and maintenance costs for the year, the total was even lower: \$17,600. Since that is the least of the three amounts, the minister can only exclude \$17,600 from federally taxable income.

C1. Rental Value of a Parsonage

For a minister living in a parsonage, the church does not report the rental value or any utility costs paid or reimbursed by the church as income for federal income tax purposes. However, the pastor must count the parsonage rental value, utilities and parsonage allowance as income when calculating his or her Self Employment Contributions Act (SECA) tax.

A church should base the rental value on what the parsonage could be rented for in the community. A local real estate agent can help determine this. Alternatively, a church can use 1 percent of the market value of the parsonage. For example, if the parsonage market value is \$100,000, the monthly rental value would be \$1,000. Consider annual adjustments to the parsonage rental value based on market data.

C2. Parsonage Allowance

In addition to determining the parsonage rental value, your church can also designate a part of a minister's cash salary as a parsonage allowance. The parsonage allowance covers anything bought by the pastor to maintain a home in the parsonage, such as furniture or renter's insurance. The amount of this allowance is excluded from the minister's taxable income to the extent that it can be justified by actual housing costs.

C3. Equity Allowance for Ministers Living in a Parsonage

Unlike homeowners, ministers who live in parsonages usually do not have equity in their homes. This puts them at a disadvantage when they approach retirement. They must seek housing while not having built up equity over the years.

Churches can help such pastors by providing an equity allowance in addition to the minister's compensation. There are several tax-advantaged ways to do this:

- The church can make contributions on behalf of the pastor to the Retirement Only Plan, available from MMBB. Retirement Only Plan contributions and earnings are not taxable to the minister until withdrawn in retirement (see page 15 for more plan information).
- A pastor may choose to supplement the equity allowance by starting or increasing contributions to the Member Contribution Plan, also known as the Annuity Supplement (TAS). Contributions are excluded from Social Security/Medicare taxes for ordained ministers.

Now that we've shed light on what compensation is, let's examine benefits.

Why Benefits Matter

A good benefits program adds value to an overall employment package and is essential for maintaining employee health and morale. There are also tax advantages for employees. Employers generally offer four types of benefits:

- A.** Retirement savings
- B.** Life insurance
- C.** Disability insurance
- D.** Health insurance

A church should offer all four benefits to protect the institution in case the unexpected happens. Churches should protect ordained staff so that they can fulfill their ministry knowing that they and their family will be cared for – now and in the future. That’s why clergy should examine their entire compensation package when considering a call to ministry and lay leaders should use the same consideration when setting salaries for staff. Let’s focus on the four types of benefits.

A. Retirement Savings

A strong retirement plan—plus a commitment to saving—can help a minister build assets for the future. At MMBB, we offer our members several retirement plans and encourage all eligible employees to enroll as soon as possible. Starting early is key because it gives your money time to grow. Here’s an example. If a pastor started investing \$250 a month at age 25—and earned a 6 percent annual return on their investments—he or she would have nearly half a million dollars by the time he or she turned 65. If the minister waited until age 35—and invested the same \$250 each month and earned the same 6 percent return on his or her investments—the pastor would have only about \$250,000 (about half the money) at age 65.

But don’t worry. It’s never too late to start saving for your retirement. Remember to contact MMBB to learn more about our flexible retirement plans that work with any budget (see the MMBB Benefit Plans at a Glance sidebar on page 14).

When churches help their staff build retirement assets for the future, pastors gain confidence that helps them better fulfill their ministry. It also assures that they will not have to serve beyond the point where they—or the church—want them to work.

To fully appreciate the importance of saving for retirement, consider the following facts:

- According to data compiled by the Social Security Administration, a man retiring today at age 65 can expect to live to age 84. A woman can expect to live to age 86. And those are just averages – one in seven 65-year-olds can expect to live past age 95. That means their retirement savings must last 19 to 31 years.
- Financial advisors generally assume that a retiree will need 70 to 80 percent of his or her pre-retirement income. So a pastor earning \$50,000 a year at retirement may need \$35,000 to \$40,000 a year for 19 to 31 years.

A well-structured retirement plan can help build up the necessary savings. The tax advantages of 401(k) plans, 403(b) plans and traditional IRAs are similar. Amounts contributed today are excluded from current taxable income. Taxes on the invested amount, along with any investment growth, are deferred until the funds are withdrawn during retirement years.

Once a church has decided to offer a retirement savings plan, usually a 403(b) plan for churches, it must decide how to structure it. The church may consider contributing a percentage of each staff member's salary or offering a matching plan to encourage staff to save.

B. Life Insurance

The death of a loved one is traumatic, and it can be even more devastating if surviving family members can't meet their ongoing expenses. A life insurance plan helps take away some of that stress by providing protection against lost wages and future financial needs. A life insurance plan not only offers vital protection against economic catastrophe, but it also makes it easier for a church to support the family without undermining the church's ministry.

A church can provide up to \$50,000 worth of life insurance coverage without tax consequences to the staff member. Church-paid life insurance over \$50,000 has to be reported to the Internal Revenue Service as taxable income.

Many churches offer group term life insurance to their pastors and lay staff—such as the one offered in the MMBB Comprehensive Plan. Typically, group term life insurance is less expensive than most other insurance coverages individuals purchase.

C. Disability

People often think that only older workers become disabled. But even young and healthy staff members can get hurt in a car accident or other mishap and be unable to work for several weeks or more.

Disability insurance helps replace lost income during that time. It allows your church to continue its ministry by freeing resources that might otherwise be required to support the disabled minister. And like life insurance, disability insurance is often cheaper for the pastor to buy through an employer than on his or her own. Employer-paid premiums for disability insurance are not taxable for staff. They only pay taxes on income paid by the policy after they are disabled.



D. Health Insurance

Health insurance is one of the most important benefits an employer can offer. A medical emergency can cost tens of thousands of dollars if a minister doesn't have insurance coverage. That's why it's critical that you and your family have some form of health insurance. MMBB recommends that your church or employer provide you with health insurance. Doing so helps them retain talented workers—and frees you from having to shop for coverage on your own.

Paid Leave

- **Paid leave** is an employee benefit, but it is typically not given a dollar value. Most compensation packages usually specify how much paid leave a minister can take. Since this doesn't increase or reduce the pastor's salary, the dollar value is generally not stated. Still, you can increase or reduce this part of the compensation package as part of your negotiations.
- **Paid sick leave** – Most churches establish a certain number of days per year for sick leave. Ten days per year is a common option. Most pastors work more than enough hours to compensate for any days off due to illness. A church may or may not include the option to carry over unused sick days from one year to the next. If you do, we recommend limiting that to no more than one year's worth of accumulated sick days.
- **Paid holidays** – July 4th, Labor Day, Thanksgiving Day, Christmas and New Year's Day are examples of paid holidays. Pastors must often work on holidays and it is appropriate to allow them days off instead of the actual commemoration date. We suggest using such "comp" days within one month of the holiday rather than carrying comp days over from one year to the next.
- **Paid vacations** – Generally negotiated by the Pastoral Search Committee or other church board in the hiring process. A typical starting point would be three weeks in the first year of service. For a 10-day-per-year paid vacation rate, use an accumulation rate of 6.67 hours per month.
- **Extra paid days** – Paid time for working with pastoral organizations, jury duty, military training, bereavement and advanced education are all items to consider. Establish a limit of paid days to limit church liability.
- **Paid sabbatical** – This benefit can be tailored to ensure value to the church (e.g., requiring the pastor to remain with the church for a certain period post-sabbatical, or to share learnings from the sabbatical through special programs, workshops and seminars).

Reimbursement of Ministry-Related Expenses

The last part of a pastor's overall compensation package deals with ministry-related expenses. Church staff can incur out-of-pocket business expenses for travel, lodging, education and more.

A minister can be reimbursed for these costs by setting up an Accountable Reimbursement Plan through his or her church. These plans allow you to be reimbursed for qualified expenses—and not have those costs count as additional income that could be subject to tax. Be sure to document all of your costs and submit your receipts within 60 days.

What Are the Requirements for an Accountable Plan?

- Expenses must be incurred while performing services as a church staff member.
- The staff member must provide documentary evidence of the expense. This can be a record of auto mileage for work-related use of a personal car or receipts, plus a notation of the time, place and professional purpose for each expense.
- Expenses must be reported and substantiated within 60 days of their occurrence.
- An accountable plan cannot be funded through salary reduction. The reimbursements must be over and above any salary paid to the staff member, from a spending category that is listed in the church budget.
- Excess reimbursement that the pastor does not spend must be returned. Otherwise, it becomes taxable income.

Your church must pass a resolution establishing an accountable plan.

The IRS requires the church board to pass a formal resolution creating an accountable plan. The plan policy should be in writing and clearly specify which expenses the church will reimburse. The policy should also state the documentation and reporting requirements. You may use the following sample wording:

RESOLVED, That, in addition to compensation paid to our (pastor/staff), we will reimburse (him/her/them) for automobile and other ministry-related expenses considered ordinary and necessary to carry out (his/her/their) responsibilities. Expenses must be substantiated as to the date, amount and purpose within 60 days after they are incurred, or they will not be reimbursed. Any excess reimbursements must be refunded to the church within 120 days after expenses are paid or incurred.

What are allowable reimbursement expenses? They include:

- Business-related travel and automobile use
- Hospitality
- Conference attendance
- Continuing education
- Subscriptions/books/periodicals
- Fees and dues for professional associations, such as Ministers Council or clergy association dues
- Work-related cellphone use

Now that we've explained what benefits are, let's examine the benefits MMBB provides.

MMBB Financial Services Benefits Plans at a Glance

For more than 100 years, MMBB has specialized in providing retirement benefits to faith-based organizations. We work with your church to tailor a flexible benefits package that fits your budget. Call 800.986.6222, or send an email to service@mmbb.org, to arrange to speak with one of our retirement benefits consultants.

MMBB BENEFIT OFFERINGS AND SUPPORT SERVICES

Comprehensive Plan

- Retirement contributions that provide lifetime annuity benefits. Flexible investment options that provide lifetime income in retirement. A housing allowance on these annuity benefits is available for clergy in retirement.
- Disability insurance coverage includes monthly income replacement, an annual cost of living adjustment, continued retirement contributions and a monthly allowance for dependent children under 21.
- Term life insurance includes a lump sum death benefit payment to the survivor. In addition, there is survivorship income from the retirement account for spouses and child allowances for dependent children under age 21.

Retirement Only Plan

- The employer can set the contribution rate as a percentage of salary or a fixed dollar amount. You can even make one-time contributions such as tax-deferred thank you gifts.
- An employer can create a matching plan to encourage staff to participate. The plan can be changed over time.
- In most instances, employers can provide different benefits to different classifications of staff.
- The housing allowance on annuity payments from contributions made to the Retirement Only Plan is available for clergy in retirement.

Employee Contribution Plan

- Staff can contribute on a pre-tax basis through easy payroll deduction.
- Pre-tax saving defers federal income taxes on your contributions until you begin receiving benefits in retirement.



MMBB Plan Comparison			
	Comprehensive Plan	Retirement Only Plan	Member Contribution Plan
Retirement Savings	●	●	●
Life Insurance Benefits	●	●	●
Disability Coverage	●	●	●
Funding	Monthly employer premium contributions	Employer contributions	Employee contributions



2. Understanding and Achieving Fair Compensation

The next part of understanding compensation is knowing what constitutes fair compensation and how to attain it. Your first step? Do your homework. The more information a minister has, the better off he or she will be when it comes time to negotiate an employment package. Start your research with MMBB's annual compensation study, which gathers reported church salaries around the country. You can also check online resources such as ChurchSalary.com or Indeed.com to find out what people with similar education and experience earn. Taking a look at what professionals with the same level of education and experience earn is a barometer for fair compensation for a pastor. An example of a comparable profession would be a school principal or school district superintendent.

Whether for ordained ministers or lay staff, generally speaking, the more education, experience and responsibilities someone has, the more he or she is likely to earn. But church leaders need to take into account several other factors, too, like:

- The local cost of living.
- How much similar-sized churches in their region are paying their employees.
- The level of management responsibilities and staff supervision.
- And what people with similar skills earn in non-church employment.

Compensation packages for lay staff should be based on educational background, responsibilities, experience and the financial capacity of the church. Once you've settled on compensation, remember to review it annually and make adjustments for inflation, performance and increased workload.

TIPS FOR CLERGY

Preparing for the Conversation

Effective communication is crucial when you're talking about salaries and benefit packages. You want to make sure everyone is on the same page and working toward the same goals. One of the best ways to do this is through Pastoral Relations Committees (PRC). These committees allow ministers and pastoral staff to talk openly about their needs and maintain a strong relationship with their congregation. On issues of compensation, the committee conducts research, works closely with the pastor to design an acceptable package, and advocates for fair compensation.

If your church doesn't have a Pastoral Relations Committee (PRC), you can help create one. Here are some helpful tips:

- The committee should be relatively small—about three to six people. That's large enough to create an open dialogue, but small enough to encourage everyone to take part.

- The pastor and congregation should work together to choose the committee members. This ensures that all sides are represented in any discussions.
- So...who would make a good committee member? You're looking for men and women who:
 - Have a good relationship with the minister
 - Can work on confidential agreements
 - Are good listeners
 - Balance the needs of the pastor with the needs of the congregation
 - Understand finance and compensation
 - Represent diverse points of view



Starting Negotiations

When it comes time to negotiate your compensation, if you're a minister you'll want to keep these tips in mind.

- Be efficient and stay focused on what you want and don't become sidetracked by other topics.
- Negotiations should improve, or at the very least not damage, the relationship between parties.
- Work toward a win-win agreement. Negotiations are a lot easier if both sides can walk away feeling like they came to an amicable solution.
- Educate the decision makers on the components of a compensation package and the principles of benchmarking such packages. Share your research on compensation comparisons and try to have objective discussions based on facts.
- Know what you want and what you absolutely need and prioritize your requests. It is important to think about these matters before the negotiation begins. Being unprepared diminishes your credibility. ("How important can this be? He didn't even know what he wanted.")
- Whenever possible, point out the positive impact your requests will have on you and the church's ministry. We are all partners in ministry. Fair compensation, finance and ministry are connected.

Being Your Own Advocate

As a pastor, it can be hard to talk about yourself and your accomplishments. But you need to set those concerns aside and be your own advocate when negotiating. Make sure the PRC is aware of all your responsibilities—and anything else that shows your worth to the church. This includes:

- Additional experience or degrees you've earned or any new responsibilities you've taken on.
- Your history of raises—and if those were limited due to budget constraints—and any performance goals that you've met.
- Keeping track of your accomplishments—and telling the committee about them—will help everyone see your true value at your church.

Steps for Agreeing on a Compensation Package

As the PRC conducts its research, give some thought to your expectations about a fair compensation package. Refer to ChurchSalary.com and findings of the PRC. Based on a national survey, ChurchSalary.com provides reliable compensation breakdowns for part-time, bi-vocational and full-time church staff. It presents survey data from more than 4,600 churches representing nearly 8,000 staff members. It also adjusts for church size, budget and geographical setting.

TIPS FOR EMPLOYERS/CHURCHES & MINISTERS

When negotiating:

- Be an active listener and try to understand the logic of others' positions. Many negotiations have broken down over minor points because people simply didn't understand what their negotiating partners wanted or needed. Restate your understanding of your counterpart's position. It will help you gain added credibility.
- Try not to put your negotiating partners on the defensive. It prevents people from listening and encourages them to dig in rather than being open to your position. Instead, state your position in objective terms. Be hard on the problem; be soft on people.
- Be realistic in your expectations. You may not be able to achieve all your goals at once. Expect to give up on some requests and compromise on others.
- Be willing to take a leap of faith. Sometimes the other side needs to see a gesture of goodwill before they will soften their position.

Once the PRC has conducted its research, it should work with the minister to design a fair and viable compensation package. See the previous sections of this guide for tips on optimizing the mix of taxable and tax-advantaged compensation.

Now is also a good time to agree on severance compensation. The church and pastor can discuss the matter objectively, free of passions that may arise when actual departure is at hand. Here are two possible formulas:

- One to two weeks of pay for each year of service, up to a maximum of 26 weeks
- Half a month of salary for each year of service (e.g., 5 years of service = 2.5 months of severance pay)

Once a compensation package is agreed upon, present it to the finance committee and/or to the congregation. Then incorporate it into your church's annual budget.

Break a Pattern of Discriminatory Compensation

The average salary for female pastors tends to skew lower (see the chart below). As a center for teaching fairness and equality, your church should lead by example. Compensate your staff fairly, regardless of gender.



		Gender	
	Data Distribution	Male	Female
Characteristics			
Average weekend worship attendance		192	132
Average church income		\$334,372	\$194,251
Average # of years employed		10	6
Average # of paid vacation days		20	23
% College graduate or higher		93%	93%
% Who receive auto reimbursement allowance		61%	63%
% Ordained		99%	96%
% Supervise one or more people		79%	91%
Average % salary increase (for those who had an increase) this year		4.2%	3.8%
Compensation			
Base Salary	Median	\$44,413	\$38,890
	Average	\$47,282	\$38,083
Housing	Median	\$20,000	\$19,500
	Average	\$20,727	\$18,307
Parsonage	Median	\$14,200	\$8,425
	Average	\$13,940	\$9,506
Total Compensation	Median	\$55,550	\$40,000
	Average	\$58,585	\$41,040

Source: The 2016-2017 Compensation Handbook for Church Staff

How to Compare a Minister's Salary to Other Church Workers' Salaries

Earlier in this guide, we talked about the components a compensation package should include. How do you know your church's package is reasonable and fair? Compare it with those of thousands of other church workers nationwide.

ChurchSalary.com provides compensation profiles that are broken down by categories so that you can compare:

- Salary
- Retirement benefits
- Health insurance coverage
- Housing/parsonage allowance
- Life insurance benefits
- Continuing education

Some of the profiled positions on the site include:

- Senior Pastor
- Associate Pastor
- Executive/Administrative Pastor
- Youth Pastor
- Adult Ministry Director
- Non-ordained Ministers

A pastor or church administrator can find compensation levels based on personnel characteristics that include years employed, region and educational attainment. This lets you compare your plan or your compensation to other churches that have similar attributes and demographics. An annual subscription can be ordered to receive a salary report. If you are a minister, you may also find the worksheet provided with your salary report useful (see next page).

Preparing For a Church Call or Compensation Increase (WORKSHEET)

This worksheet is designed to help you gather relevant information needed for your initial offer or raise conversation. It is not exhaustive, but it will help you prepare—using your Church Salary report and your own reflections—so that you can have an honest and informed conversation about an initial offer or compensation increase. In addition to the elements below, keep in mind the figures from previous pages highlighting averages, ranges, comparable jobs, and costs and incomes for your area.

In ADVANCE	Projected Salary Range (from this report)	\$	-	\$
	Non-Salary Benefits I (Will) Receive			
	Church's Financial Health	<input type="radio"/> 1 <input type="radio"/> 2 <input type="radio"/> 3 <input type="radio"/> 4 <input type="radio"/> 5 <input type="radio"/> 6 <input type="radio"/> 7 <input type="radio"/> 8 <input type="radio"/> 9 <input type="radio"/> 10	Use a scale of 1 to 10 (1 being terrible, 10 being exemplary)	
	Person I'll Speak to (who is in a position to negotiate my salary or raise)			
	Pay I Think is Fair (based on this report, my qualifications, my professional performance, etc.)	\$		
In the CONVERSATION	Personal Strengths (my skills, expertise and relevant experience)			
	Ministry Impact and Personal Development (In the last year)			
	Timing I Will Choose (to ask for a conversation—either immediately for a job offer OR before or during budgeting season for a raise)			
What I will ask for		What I will accept (the minimum)		
\$		\$		

Alternative Rules of Thumb for Determining a Fair Wage

If you or your pastor want an alternative to basing compensation on national averages, some churches base their pastor's salary on the average wage in their community for:

- The CEO of a non-profit organization
- A religious education director

TIPS FOR EMPLOYERS

If your church is multi-staffed, you may want to set compensation as a percentage of the senior minister's pay. For example:

- A staff person responsible for planning, developing and leading ministries across a broad spectrum of congregational life might receive 75 to 85 percent of the senior minister's compensation.
- Someone responsible for one or two aspects of congregational life and needing little supervision might earn 70 to 80 percent of that base.
- Someone with entry-level skills requiring substantial supervision might receive 65 to 75 percent of a senior pastor's compensation.

After conducting its research and making the appropriate adjustments, the PRC should share its information with the pastor(s).

In addition, MMBB recommends you see other published resources such as the Compensation Handbook for Church Staff; a publication of Christianity Today or ChurchSalary; or a publication of the Church Law and Tax Report in setting staff compensation. MMBB recognizes that there are situations where data is not readily available. We invite you to consult with your regional denominational office for guidance on relevant salary and compensation data for your geographic area.

Bi-vocational Ministers

If your church cannot compensate a pastor fairly for all his or her work, you may want to consider reducing the minister's responsibilities. Many smaller churches can manage with a part-time or bi-vocational pastor. Or they reduce the pastor's workload by providing lay volunteer assistance with certain tasks.

Churches who believe that they can only afford a part-time pastor should realize that this is a perfectly viable option. Christian ministry has a long and rich history of implementation by part-time leadership. The early Christian church grew out of multi-vocational leaders.

While multi-vocational ministry can be fulfilling and challenging, it is best to begin by setting clear guidelines:

1. Write a letter of understanding that clearly describes:
 - Ministry expectations and the number of days per week for service

- Supplemental pay when circumstances require service beyond the agreed-upon days per week
 - Financial arrangements
 - Accommodations, if there is no parsonage
2. Do not change the arrangements midstream without mutual agreement.
 3. Ensure that there is a clear plan for growth.

No pastor or church should settle for a non-growth environment. Even if the possibility of a full-time position seems unlikely, establish a vision and mission for more development. If your church does not really want to change, then the pastor should be told this before responding to a call.

More Compensation Information from MMBB

For added perspective on national averages in the *Compensation Handbook for Church Staff*, MMBB provides annual updates on average and median compensation for each region, as well as for the nation as a whole within the context of American Baptist Churches USA. Your church can also ask MMBB to conduct a customized compensation study of pastors at churches like yours within your region. The report will list the high, low, median and average compensation. For a copy of the annual update, or a customized compensation analysis request form, call 800.986.6222 or email service@MMBB.org.



Additional Resources for Churches and Ministers

Online:

- MMBB Website Section on Church Finances & Administration. Your online guide to church finances and benefits administration, including descriptions of MMBB benefits offerings (MMBB.org/managing-church-finance/).
- The Pastoral Relations Committee, prepared and published by the United Church of Christ Parish Life and Leadership Ministry Team. Suggested policies, principles and procedures that may enhance the work of the Pastoral Relations Committee (UCC.org/Ministers/PDFs/prc.pdf).
- Suggested Minister Church Agreement. A "covenant making" tool for congregations and ministerial leaders to use during the process of extending a call of ministry to a new leader. Helps establish and maintain a healthy relationship between the congregation and leader by making clear and specific the terms and benefits of employment (MinistersCouncil.com/ClergyCongregationalRelationships/SuggestedMinisterChurchAgreement).
- *Federal Reporting Requirements for Churches*, by Richard R. Hammar, J.D., C.M., CPA. These payroll reporting requirements apply, in whole or in part, to almost every church. Churches should fully comply with them. Visit MMBB.org and search "reporting requirements."

- Website of the Program on Negotiation at Harvard Law School. Click on “Blog,” then “Browse Topics” for succinct posts covering various aspects of negotiation and conflict resolution (PoN.Harvard.edu).
- ChurchSalary.com, a website from Christianity Today International (updated annually). Based on survey data from more than 4,600 churches representing nearly 8,000 staff members, this site provides reliable compensation breakdowns for part-time and full-time church staff.

Print:

- *The Essential Guide to Church Finances*, by Richard J. Vargo and Vonna Laue (2009). How to strategize, organize, measure, communicate, protect and audit your church financials. Covers planning and budgeting, church financial reports, performance measurements and church audits. Visit the employment section of YourChurchResources.com.
- *Getting to Yes: Negotiating Agreement Without Giving In*, by Roger Fisher and William Ury (2011). Offers a proven, step-by-step strategy for coming to mutually acceptable agreements in every sort of conflict. Based on the work of the Harvard Negotiation Project, a group that deals with all levels of negotiation and conflict resolution.
- *Difficult Conversations: How to Discuss What Matters Most*, by Douglas Stone, Bruce Patton, and Sheila Heen (2010). From the Harvard Negotiation Project, a step-by-step approach to having tough conversations with less stress and more success. Learn how to understand the underlying structure of every difficult conversation, start a conversation without defensiveness, and move from emotion to productive problem-solving.

3. A Word to Employers About What Compensation Means for Future Financial Wellness

Once a compensation change is approved, an employer/church should report the change and its effective date to MMBB within one month. A member's retirement income, disability and death benefits are all based on reported compensation.

Failure to report changes could result in lower benefits to your minister and his or her family.

To report the change, complete MMBB's Compensation Change Request form, which you can obtain at www.mmbb.org (type the word Forms in the Search bar). Submit the completed form to:

Attn: Billing Department
MMBB
475 Riverside Drive, Suite 1700
New York, New York 10115

You can also fax your change notice to 800.986.6782 (Attn: Billing) or email it to billing@MMBB.org.

Recommended Timetable for Negotiating Compensation											
1 st Quarter			2 nd Quarter			3 rd Quarter			4 th Quarter		
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
↑ Set pastoral goals for the year			↗ Give pastor feedback on progress toward goals			↗ PRC gathers data in preparation for negotiating compensation			↑ Agree on compensation, incorporate into church budget for the coming year, report to MMBB		

How Reporting Compensation Affects MMBB Member Benefits

A member's reported compensation is used to determine monthly premiums and annual retirement plan contribution limits.

Compensation includes:

- Cash salary, including amounts you withhold for employee contributions to the Member Contribution Plan.
- The fair rental value of a parsonage, plus utilities and a parsonage allowance, or any cash housing allowance.
- If your church pays its minister a Social Security/Medicare tax offset, you may include this amount when reporting compensation for plan purposes. Your monthly premium will increase modestly as a result—but so will the pastor's death benefit and disability coverage.

Consequences of Underreporting Income

Let's look at an example of how underreporting income can lower benefits to a member and his or her family and adversely affect his or her future financial wellness. For Rev. Jones, the monthly Comprehensive Plan premium is 16 percent of reported compensation:

Reported Compensation			
Component	Full Amount: \$40,000	Reported Amount: \$35,000	Impact
Premium	\$6,400/yr.	\$5,600	Church pays \$800/yr. less
Contribution to Retirement Plan	\$5,200/yr.	\$4,550/yr.	Rev. Jones receives \$650/yr. less for retirement
Disability Income	\$26,668/yr.	\$23,334/yr.	Rev. Jones' benefit reduced by \$3,334/yr.
Death Benefit*	\$200,000	\$175,000	\$25,000 less for Rev. Jones' family

In the example above, underreporting Rev. Jones' annual income by \$5,000 reduces his organization's premium payments by \$800 a year. But the impact on Rev. Jones is potentially much greater than that—\$650 less contributed to Rev. Jones' retirement account and thousands of dollars less should Rev. Jones become disabled or die.

Your pastoral leaders deserve the full benefits for which they are eligible. It is helpful to provide a full and accurate report of their compensation to MMBB.

Consequences of Underreporting Parsonage Rental Value

Your church's accurate report of parsonage rental value does more than help a pastor save on taxes. It also helps MMBB determine death, disability and retirement benefits. A church reports this value, along with cash salary and utilities, to MMBB for Comprehensive Plan premium purposes.

If the reported rental value is less than the actual value of the parsonage, the minister's death, disability and retirement benefits will be lower. That can create considerable hardship if the member's surviving family must find alternative housing.

The Impact of Under-Reporting (45-Year-Old Member)	
Compensation	Death Benefit (4 x Reported Compensation)
Actual: \$50,000	\$200,000
Under-reported: \$45,000	\$180,000 (\$20,000 less)

This publication discusses various forms of compensation and their federal tax implications only. It does not cover local tax regulations, which differ from state to state.

This guide is not intended as a substitute for legal, accounting or other professional advice. If legal, tax or other expert assistance is required, we recommend that you seek the services of a competent professional.

You can download additional copies of this guide—and other helpful materials—at www.MMBB.org



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