

Definition of Compensation and Benefits for Rostered Ministers

Rocky Mountain Synod • Evangelical Lutheran Church in America

Now to one who works, wages are not reckoned as a gift but as something due. (Romans 4:4)
The laborer deserves to be paid. (1 Timothy 5:18)

PLEASE NOTE: The Rocky Mountain Synod cannot provide specific tax or legal advice to rostered ministers, congregations or specialized ministries. If you have questions about tax matters or legal issues, contact a qualified tax adviser or attorney who is knowledgeable about the unique tax and legal situations for rostered ministers, congregations and specialized ministries. Information provided by the IRS specifically for churches and religious organizations can be found at: <http://www.irs.gov/pub/irs-pdf/p1828.pdf>.

1. APPROPRIATE COMPENSATION

Rostered ministers (pastors and deacons) are not always paid what they should be paid. While that may seem harsh, it is true for many congregations of the Rocky Mountain Synod. Certainly, average compensation has increased over time, but there are still a number of rostered ministers who receive minimal pay for maximum workloads. By virtue of their educational requirements and expectation, rostered ministers are professionals. They bring to the church and specialized ministries their leadership gifts, skills and energy, and should be compensated according to their education, ability and responsibility, and in line with the incomes of professionals in comparable positions. [*Comparable defined by some synods as middle school/high school principals in one's area.*] They should be able to provide for their own economic needs and those of their families.

At the same time, a congregation or specialized ministry deserves to be served by its professional ministers in a manner consistent with the spirit and letter of the call. Just as the rostered minister ought to be paid a livable wage, compensation should not exceed the community's ability to give according to their own needs. The contributions of individuals and families in a congregation come from their own hard work, labor and time spent away from loved ones. All in the church need to find the appropriate balance in compensating rostered ministers and church professionals. Mission, ministry and expectations must be clearly articulated if rostered ministers are to be held accountable for their service. A Congregation Council or specialized ministry governing board is expected to annually review the joint ministry expectations of the congregation or ministry and its professional ministers. Constructive adjustments in expectations and/or direction can be made at this time. For the financial health of the community compensation packages ought to be annually reviewed as well. Realistic expectations and adequate compensation is critical to the future well being of the whole community.

Everyone must remember that the process for determining compensation must be open, honest and gracious. Both professional ministers and ministry representatives, (whether the Congregation Council, a staff support committee, or personnel committee), should articulate their expectations clearly and develop a regular **ministry** evaluation process to note changes as program directions shift or as the rostered minister's skills or needs change. Honest assessment leads to healthy ministry.

Though no guidelines, however carefully crafted, can give congregations or specialized ministries automatic, concise and simple answers to what are inherently complex issues, following the criteria set forth in the Rostered Minister Compensation Worksheet will be helpful in ministry assessment and compensation discussions.

While the focus of these guidelines apply only to rostered ministers, the principles apply to other church workers. Youth directors, secretaries, custodians, choir directors, organists, teachers and others also deserve fair compensation, and the responsibility of the congregation to these persons is no less than to the rostered minister.

SPECIAL NOTE: There are two distinctions in compensation between ordained pastors (Ministers of Word and Sacrament) and deacons (Ministers of Word and Service). Housing and Social Security allowances (Sections 2,3,and 4 below) are provided for ordained pastors only. All other recommended guidelines in this document apply to all rostered ministers (pastors and deacons). There are separate Compensation Worksheets to assist in calculation of compensation that includes these distinctions.

A **MINIMUM** guideline for defined compensation (salary + housing) is established in the annual Compensation Worksheets, in which the Baseline Compensation amount is established each year by action of the Office of the Bishop. This tool is intended to make it easier for congregations and specialized ministries to understand appropriate compensation for their rostered ministers. If your ministry provides a house, the baseline compensation amount should be reduced by 30%.

If current compensation is below a level agreed to be fair, moving to a level of adequate compensation may involve patience on the part of rostered ministers as a ministry works to achieve that goal. It will also involve a ministry's determined effort in stewardship and education to reach that level. Finally, adequate and fair compensation encourages good morale on the part of professional ministers and the congregation or specialized ministry as they work together to do ministry and mission in the name and spirit of Jesus Christ.

Congregations or specialized ministries that are **BELOW** the appropriate compensation guideline should intentionally plan to reach the guideline within a set period of time. For example, if the compensation is 10% below the guideline, the ministry might make the commitment to increase the rostered minister's salary by 6% - 8% per year for three years to reach the appropriate compensation guideline three years hence. Other compensation options may include:

- Extra vacation time, including extra Sundays
- Payments to Pension (see below)
- And other non-financial benefits as a congregation may see fit.

An annual review of the joint ministry of the pastoral minister and the community will help to determine if the covenantal relationship continues to be life-giving and sustainable. When a congregation is unable to meet compensation guidelines, they should consider paying to the Pension Fund on the basis of the guidelines for the appropriate number of years of service.

If the congregation or specialized ministry is already **ABOVE** the appropriate compensation guideline, a cost of living increase equivalent to the CPI-W for the West Urban United States should be considered (<http://www.bls.gov/news.release/cpi.t06.htm>), since the failure to provide a cost of living salary increase is, in effect, a salary cut. In addition, merit increases should be considered for all rostered ministers.

2. HOUSING ALLOWANCE FOR PASTOR

(Adapted from ELCA Churchwide Human Resources)

Please note: Portico Benefit Services (formerly ELCA Board of Pensions) provides helpful information on Housing Allowance at:

<https://employerlink.porticobenefits.org/Home/Resources/ClergyHousingAllowance.aspx>

Ordained ELCA ministers called to congregational or specialized ministries may designate a portion of their compensation as a "housing allowance."

This is a significant tax advantage giving pastors the ability to exclude from federally taxable income that part of compensation that is used to provide a home (Internal Revenue Code section 107). Please remember that this is not an exclusion for income used in determining Social Security or SECA tax obligations.

What kind of expenses can be used when calculating the housing allowance exclusion?

- Mortgage or rent payments
- Real estate taxes
- Property Insurance
- Down Payment on a home
- Utilities
- Furnishings & Appliances (purchase & repair)
- Remodeling & repairs
- Yard maintenance & improvements

How much of a pastor's compensation can be used as the Housing Exclusion?

Only the **lowest** of the following can be used when the pastor files his or her federal income tax return:

- The fair rental value of the home
- The amount actually spent to provide a home
- The amount officially designated as the housing allowance

How is the Housing Allowance declared?

- It should be authorized in writing every year by the Congregation Council or governing board of a specialized ministry, **prior** to the payment of the housing allowance
- It should be in advance of the calendar year or in advance of a new pastor starting employment (if a pastor fails to designate an allowance in advance of a calendar year, he or she should do so as soon as possible in the new year; the allowance will operate prospectively, never retroactively)
- The form below can be used to designate the housing allowance

How is the Housing Allowance handled on the W-2?

The housing allowance amount is always excluded from federal income. This means that the congregation or specialized ministry excludes this amount from Box 1 of the W-2. The amount will, however, be entered in Box 14 of the W-2, which is merely an information item. A pastor should always check with her or his own tax advisor for personal questions or concerns about the housing allowance or other tax issues.

Designation of Housing and/or Furnishings Allowance by Congregation Council

Upon motion duly made and seconded, it was voted to designate \$_____ of the cash salary for 20__ to be paid to the Rev. _____ as a housing/furnishings allowance in response to the pastor's request and acknowledgment that the allowance so designated does not exceed the fair rental value of his/her home, furnished, plus the cost of utilities (or the fair rental value of the furnishings where a parsonage is provided). Therefore, cash salary shall be \$_____ and the housing allowance shall be \$_____.

Signed by an officer of the Congregation:

Signature Title Date: _____

Signed by the pastor:

Signature Date: _____

(This resolution should be included in the minutes of the Congregation Council each year as soon as possible and compensation changes are approved/enacted. A copy should be made, signed and titled by the President or Secretary of the Congregation. If this agreement is amended during the year for any reason, it should be so noted in Congregation Council minutes.)

3. MINISTRY-PROVIDED HOUSING (PARSONAGES)

Where a congregation provides a parsonage, the congregation should assume all costs for maintenance, heat and utilities. The congregation may pay these costs directly or give an allowance to the pastor sufficient to cover the expenses. In addition to these costs, the congregation should provide and maintain major appliances in the parsonage.

While living in a parsonage has many advantages, it does not build home equity for retirement. If a parsonage is provided, the congregation is encouraged to provide the pastor an annuity for future housing needs. For this purpose, the congregation may want to establish a "Housing Equity Account." It is helpful for the congregation to pay directly to a tax deferred plan which delays the income tax due until the funds are actually withdrawn for use; this can be done by making additional employer contributions to the ELCA Optional Pension Plan. However, the congregation may choose another annuity vehicle, in which case the form below can be used. It is recommended that these contributions total at least 3% of the defined compensation (Salary & Cash Value of Parsonage).

When housing is provided for a pastor couple, a 30% housing allowance for each spouse must be included when calculating defined compensation for Portico Benefit. This will ensure sufficient retirement contributions are made to each spouse's account

Housing Equity Allowance Agreement

(Use this form when the congregation does not make contributions to a housing equity allowance to the member's ELCA optional pension plan. When payments are made to the ELCA optional pension plan, the congregation uses the forms presented by the fund custodians.)

At a properly called meeting of the congregation of _____ Lutheran Church, held on _____ and with a quorum present, it was moved, seconded and voted to establish a housing equity allowance for the Rev. _____ with (1) an initial contribution of \$ _____ for the year 20 ____, and (2) with subsequent contributions to be determined each year thereafter by vote of the congregation.

The conditions of this agreement are as follows:

1. The annual contribution shall be placed in an interest-bearing account in the name of the congregation.
2. The fund shall not be available for use by the congregation or by the pastor except for the purchase of a house by the pastor or the pastor's spouse.
3. The fund shall be paid in full to the pastor or survivors in the event of the pastor's disability, retirement or death.
4. Upon resignation as pastor from this congregation and acceptance of a call to another congregation or organization, the fund balance shall be transferred to the new employer or paid to the pastor, as the pastor may direct.
5. The funds shall be payable to the pastor's estate if there is no surviving spouse.

Signed by an officer of the Congregation:

Signature Title Date: _____

Signed by the pastor:

Signature Date: _____

4. SOCIAL SECURITY ALLOWANCE for PASTORS

While most pastors are employees for federal income tax reporting purposes, they all are self-employed for social security purposes (with respect to services they perform in the exercise of their ministry). This means that pastors are not subject to "FICA" taxes, even though they report their income taxes as employees and receive a W-2 from their church. Rather, they pay the "self-employment tax" of 15.30% of their salary and housing allowance. Since congregations are required to pay 7.65% of a lay employee's salary for social security benefits, it is fair and recommended to pay this amount as a Social Security allowance to the pastor. Many congregations provide an allowance for all or part of this expense. This allowance, if provided, is part of the taxable income for the pastor.

Lay rostered ministers (deacons) are considered to be employees of the congregation and congregations are required to pay Social Security taxes and file federal tax W2 forms for all lay employees.

5. ELCA PENSION AND OTHER BENEFITS PLAN

The congregation should provide for the minister's participation in the Pension and Other Benefits Plan of the Evangelical Lutheran Church in America. This plan includes coverage for Retirement Pension Benefits, Medical and Dental Benefits, Disability Benefits, and Death Benefits for the rostered minister. Coverage for dependents (spouses and children) is now optional only to the extent that it is provided by the employer of the spouse. In other words, *if*

coverage is not provided for dependents by another employer, the congregation is **expected to provide coverage as part of the rostered minister's benefits package.**

(The following is adapted from information provided by Portico Benefit Services)

The Patient Protection and Affordable Care Act, signed into law in 2010, is bringing change to the ELCA health plan in 2014. Guided by the revised ELCA Philosophy of Benefits, Portico is leading the ELCA through this change to enable our church-sponsored plan to continue to deliver the benefits that support our shared ministry. [Download the revised ELCA Philosophy of Benefits: <https://employerlink.porticobenefits.org/NewsEvents/HealthcareReform.aspx>]

Health care reform changes the way health insurance is purchased in the United States. Some people will be able to buy insurance on state or federally run "exchanges," sometimes called "marketplaces." Due to this change, Portico offers options that are comparable to the health care exchange plans while preserving the unique benefits of a church-sponsored plan.

Beginning in 2014, Portico is expanding ELCA-Primary health benefits from one to four options and introducing new pricing. All four options offer the same large network of medical providers and wellness-focused benefits, similar to today's ELCA-Primary benefits. The options differ in contribution amounts for sponsoring employers and costs for plan members.

To maintain the current level of health benefits for the Rocky Mountain Synod rostered ministers and lay church workers, we recommend that the congregations and parishes offer to provide the Gold+ ELCA health plan option. The Gold + option most closely resembles the 2013 ELCA Primary health coverage. Having all congregations choose the Gold + health plan option will both continue to care for the health of all who serve under call or terms of employment and eliminate many of the variables facing congregations and rostered ministers and lay church workers in the midst of change.

Online calculators are available on the Portico web site to help with your budget process. [<https://employerlink.porticobenefits.org/Resources/Calculators/BenefitsCostCalculator.aspx>]

6. VACATION

A paid vacation of at least four weeks, including four Sundays, shall be granted to the rostered minister and the cost of pulpit supply for these absences shall be borne by the congregation. Time spent in outdoor ministries or retreats with congregational youth, adults, or family groups should not be considered as vacation time when it is part of the church program or a job-related activity. Congregations may wish to provide an additional 2 Sundays per year in order to allow rostered ministers the opportunity to take a "3 day weekend."

7. HOLIDAYS

When a Federal Holiday falls on a rostered minister's regular day off, the rostered minister, in consultation with the Congregation Council, may schedule additional time off during that week.

8. SPIRITUAL RENEWAL

Per the Continuing Resolution adopted at the 2013 Synod assembly, it is recommended that pastors be allowed 1 day a month (paid time) for prayer and spiritual renewal.

9. MEDICAL LEAVE

Congregations are to provide medical leave up to 60 days with full salary, housing and benefits, and provision for partial disability thereafter as agreed upon, as coordinated with ELCA pension and benefit guidelines.

10. DISABILITY LEAVE

In order to avoid awkward and hardship situations, both for rostered ministers and their families, and for the ministry, it is recommended that each congregation or specialized ministry develop an explicit written policy relating to disability.

- In case of disability, it is expected that the congregation will continue to pay full salary, housing and benefits contributions for the first 60 days of disability, until the disability benefits of the ELCA Pension and Other Benefits Plan go into effect.
- Any period of disability (beginning date, length, and return to active duty) should be based on a physician's recommendation.
- Ministries may wish to consult with an insurance company to arrange coverage for the first 60 days at a minimal annual cost rather than being faced with major expenses should disability occur.

11. FAMILY LEAVE

It is the responsibility of the congregation or specialized ministry to develop a family leave policy. Caring for children and parents is a high priority. Where applicable, when a child is born or adopted, parental (maternity/paternity) leave of up to six weeks, with full salary, housing, and benefits, is standard ELCA policy.

In the event of a difficult pregnancy or birth, refer to the sick leave and disability policies herein.

In the event of a medical emergency or death within the pastor's family, up to three weeks of paid leave is recommended. When the specified leave period is exhausted, an unpaid leave of absence may be granted.

12. CONTINUING EDUCATION

A minimum of 50 contact hours per year of continuing education is required of every rostered minister of the ELCA. This time should be considered as necessary for improving and building ministry – it is not vacation time. Two weeks of continuing education time should be provided for rostered ministers for updating skills and for professional growth, in order to strengthen their ministries. In addition, the ministry should budget at least \$1,000 per year to provide part of the cost for tuition, travel, and books. The rostered minister is expected to contribute at least \$200 annually for continuing education.

A contact hour is defined as a typical 50-minute classroom instructional session or the equivalent. Continuing education may be courses, seminary classes, workshops, or independent study (when directed toward a specific goal). Each year the rostered minister's continuing education plan should be developed in consultation with the Congregation Council or appropriate ministry team. It is expected that every rostered minister will have a completed Continuing Education Covenant. If you need assistance in developing a Covenant, contact the Office of the Bishop. During the rostered minister's absence for continuing education, the congregation continues to pay salary and allowances, and is responsible for pulpit supply and other regular expenses for rostered minister services.

13. FIRST CALL THEOLOGICAL EDUCATION (FCTE)

New seminary graduates are required to participate in First Call Theological Education, which means they must take at least 50 continuing education hours per year for the first three years of their ministry. The congregation that calls a new graduate will submit \$600 (of the \$1,000 total) annually to the Region 2 Office for the cost of the program, as well as grant the pastor the time for the two Core Events each year and Colleague Meetings (once every 4-6 weeks). This cost is a part of the continuing education money granted a minister when a Letter of Call is issued. In addition, the congregation is expected to provide for travel expenses for events occurring within Region 2.

14. SABBATICAL LEAVE

From time to time, a rostered minister may desire an extended period for in-depth study or personal growth. The ELCA recommends sabbatical leave at regular intervals. Rostered ministers who have served in an active professional ministry a minimum 6 years and who have served their current call or appointment for five or more years, may present proposals for sabbatical leaves.

A proposal should include:

- A rationale for the sabbatical, including personal goals and potential value for the ministry.
- A detailed outline of the intended courses of study and use of time.
- An outline of the financial implications of the sabbatical.

The following guidelines are suggested to assist rostered ministers and ministries in the consideration of sabbatical leaves:

- Rostered ministers and ministries contemplating sabbatical leaves should consult with the Office of the Bishop early in the process.
- Sabbatical leaves are intended for in-depth study or personal growth related to the regular call of the rostered minister, and should include time for personal and familial reflection. Sabbatical leaves will normally be for a period of not less than three months and not more than twelve months.
- The sabbatical leave may be split into two blocks of time, which do not have to be consecutive, but shall be taken within a twelve-month period from the beginning of the first block of time.
- The following is an indication of the use of vacation time during the sabbatical leave: for sabbatical leaves of 3-6 months at least one-half of the period normally granted as annual vacation leave shall be so designated in sabbatical leaves of 3-6 months. Sabbatical leaves of 7-12 months should include the entire annual vacation.
- Realizing that the congregation will be without the services of its rostered minister during the sabbatical, the rostered minister should seek the counsel and consent of the Office of the Bishop before finalizing the agreement. In addition, the Office of the Bishop may be a valuable resource in identifying available rostered ministers to provide pastoral services during the time of the sabbatical.
- Proposals for sabbatical leaves should be presented to the Congregation Council or other governing body not less than six months prior to the beginning of the leave. Careful consideration should be given to all aspects of the proposal and implications for the ministry and the rostered minister.
- Normally, the financial considerations for the sabbatical should be negotiated by the rostered minister and the ministry. It is recommended, however, that salary, housing allowance and the ELCA Pension and Other Benefits Plan be maintained at the current level, with the rostered minister assuming responsibility for all other expenses.

- When a sabbatical leave is granted, the rostered minister should normally agree to serve the ministry for a minimum of one year following the completion of the leave. Within six weeks of the completion of the sabbatical leave, the rostered minister should present to the ministry and the Office of the Bishop a detailed reflection on the experiences of the leave.

15. AUTOMOBILE EXPENSE

Since the cost of operating an automobile or other vehicle on ministry business is a business expense, and a vehicle is required by the ministry for the performance of the rostered minister's duties, the ministry should be responsible for the full cost. It is important to understand that the cost of operating an automobile **is not compensation**; it is merely reimbursement for the expenses of doing the ministry of the congregation or specialized ministry. The automobile reimbursement is an administrative expense of the ministry.

The preferred manner of automobile expense reimbursement involves the ministry reimbursing the rostered minister for actual business miles traveled at a specified rate per mile, based upon the current IRS automobile mileage allowance (www.irs.gov; search for "mileage rates"). In order for this reimbursement not to be considered as income, a record of mileage driven must be submitted for reimbursement.

Another method requires that the rostered minister keep a detailed record of all costs associated with a personal car used for ministry business (including insurance and depreciation). The ministry can then reimburse these costs based on the mileage driven in the course of the rostered minister's duties.

16. PERIODICALS, BOOKS AND PUBLICATIONS

Expenses for periodicals, books and publications, which strengthen a rostered minister's ministry, should be shared by the congregation or specialized ministry. It is recommended that a minimum of \$250 be provided annually.

17. PROFESSIONAL EXPENSES

The congregation or specialized ministry should provide for professional expenses incurred in the performance of the duties of the rostered minister. It is recommended that a minimum of \$200 be provided annually. In addition, the ministry should pay all expenses incurred by the rostered minister for attending required meetings and events (e.g., Synod Assembly, Professional Ministers Conference).