

COMPENSATION GUIDELINES

FOR PASTORS AND LAY ROSTERED LEADERS

2008

**NEW ENGLAND SYNOD
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

Developed by the New England Synod Compensation Guidelines Team
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INTRODUCTION

These guidelines are intended to be used by congregations to determine fair levels of compensation for pastors and lay rostered leaders (associates in ministry, deaconesses, and diaconal ministers; hereafter referred to as “leaders”). They may be updated each year.

Congregations are expected to establish the level of compensation for their pastors and leaders after a period of discussion, research, and evaluation. These guidelines provide one tool that should be utilized during this process to insure that the pastor’s/leader’s compensation is fair and equitable.

When compensation is appropriate and adequate, pastors and leaders will have their basic needs cared for so they can focus their attention on the ministry to which they are called. Conversely, inadequate compensation can have the effect of de-energizing pastors and leaders, which could then undermine their efforts to serve. In addition, underpaid pastors and leaders will likely have financial difficulties and tend to leave their congregations sooner than their more adequately compensated colleagues. In such situations, the congregation may discover that replacement candidates may not be willing to accept a call that might place them in financial difficulty.

Our Synod strongly encourages each congregation to maintain an active Mutual Ministry Committee. Such a committee can discuss compensation with the pastor/leader and serve as a conduit for discussion between the pastor/leader and the finance committee, Congregation Council, and congregation.

A congregation that finds it cannot meet the compensation amount called for in these guidelines and, therefore, cannot compensate its pastor fairly and adequately, must consider alternatives such as merging with another congregation, a shared pastorate, a part-time pastorate, etc. Cutting back a full-time pastor’s hours to part-time hours invalidates the original letter of call and requires negotiating a new call. Congregations facing any of these situations must contact the Office of the Bishop for advice and assistance.

DETERMINATION OF A PASTOR’S COMPENSATION

A. Defined Compensation. Compensation guidelines for pastors are outlined in Appendix A and are based on a value called “defined compensation,” which consists of:

- cash salary, social security allowance, and the Pastor’s TSA contribution (if provided);
- value of housing (for pastors provided a parsonage); and
- housing allowance and/or expenses.

This definition of defined compensation is identical to that used by the Board of Pensions. Further details regarding the calculation of defined compensation may be found at the Board of Pensions web site.

Two levels are provided: lower guidelines and upper guidelines. They represent a band in which most pastors’ defined compensation should lie. However, there is a difference in their import. The lower guidelines are to be considered minimum amounts. Congregations who are calling a new full-time pastor must meet the lower guidelines in order to have their call approved by the Bishop (except those in very specific and unusual circumstances). Congregations who already have a full-time pastor and who do not meet the lower guidelines are strongly encouraged to achieve a compensation level at or above the lower guidelines as quickly as possible. On the other hand, the upper guidelines are listed as examples of appropriate compensation and are not limits.

1. Years of Experience/Additional Education. A pastor who entered ministry later in life should be given additional credit for experience gained in another profession. Education beyond a Master of Divinity degree also

should be considered. One option is to equate the advanced degree or training to a specific number of years of experience and add that amount to the pastor's years of experience in the ministry.

2. Responsibilities/Merit. When performing an annual evaluation of a pastor's compensation, additional factors should be considered. First, have the pastor's responsibilities changed? Additional staff, larger congregation size, the assumption of an internship program, and the addition of a second pastor are factors which would indicate a higher level of responsibility for the pastor. Second, has the pastor met the expectations of the congregation? Performance is a critical consideration when evaluating compensation. A pastor who is exceeding the expectations of the congregation should be rewarded through what commonly is referred to as "merit increases." A model for an annual ministry review and performance evaluation can be found in *Pastor and People: Making Mutual Ministry Work* (Augsburg Fortress).

3. Cost of Living/Community Life Style. Cost of living adjustments based on the local economy also are appropriate for consideration. In addition, the pastor's defined compensation should be considered to be representative of the salary that the pastor would be making if employed as a professional in some related occupation. In areas where the majority of the congregation and/or community is made up of highly paid professionals, a defined compensation level near or above the upper guidelines might be appropriate.

4. Avoiding a Trap. Congregations are encouraged to not fall into the trap of giving "what we can" as such an attitude does a disservice to both the pastor and the congregation. The Congregation Council should use these guidelines and the above factors to arrive at a defined compensation figure that truly represents the value of the pastor to the congregation. The congregation should then be challenged to meet the defined compensation rather than the other way around.

B. Social Security Allowance. While most employers directly pay half of an employee's social security tax, churches are not allowed to do this for ordained clergy because of separation of church and state. However, pastors should be on a par with other employees and be given a social security allowance to pay at least half of the social security obligation. It is suggested that the allowance should be more than half since this allowance will be taxed at the self-employment rate. The pastor will pay 15.3% social security tax on income, housing, TSA, and the social security allowance. The congregation or agency is encouraged to pay half (7.65%) in order to offset this tax burden.

C. Housing. The Internal Revenue Service permits congregations to designate a portion of the pastor's compensation as a housing allowance (for congregations without parsonages) or a housing expenses and furnishings allowance (for congregations with a parsonage) which may be excluded from federal income tax.

All congregations should take advantage of this tax benefit because it provides the pastor with an effective increase in compensation equal to the tax that would be paid on that amount of income. This is a benefit that the pastor qualifies for, and it should be used.

1. Determining Housing Expenses. It is the responsibility of the pastor to provide the Congregation Council with an estimate of housing expenses. Appendix B (for congregations without a parsonage) and Appendix C (for congregations with a parsonage) provide worksheets which may be used to establish housing expenses. Designation of such expenses must be made prior to the tax year in which the allowance is to be provided. Designation of the allowance should be in the form of a letter or memo by Congregation Council action and recorded in its minutes. The Council should approve the amount requested for housing expenses unless that amount clearly is excessive. The allowance for a given year is not subject to change once approved by the Congregation Council. Any amount exceeding actual housing expenses should be reported as taxable income by the pastor.

2. Housing Allowance (for congregations without a parsonage). The amount that can be excluded from taxable income as housing allowance is always the smallest of the:

- amount officially designated in advance as "housing allowance" by the Congregation Council or
- amount spent for the pastor's primary residence (mortgage principal and interest, utilities, taxes, insurance, furnishings, appliances, maintenance, etc.) or
- fair rental value of the pastor's home, including furnishings and cost of utilities and maintenance (whether owned or rented).

3. Housing Expenses and Furnishings Allowance (for congregations with a parsonage). When a congregation provides a parsonage, the congregation should assume all costs for maintenance and utilities. Designating a portion of the pastor's salary as a furnishings allowance allows the pastor to utilize non-taxable monies to pay for furniture and appliance purchases, wallpaper and rugs, cleaning supplies, etc. The amount that can be excluded from taxable income as a furnishings allowance is always the smallest of the three amounts indicated in C.2., above. The Board of Pensions uses 30 percent of a pastor's cash salary as the value of the parsonage to determine the contributions to the ELCA pension and other benefits program, but this calculation is not considered an expense and furnishings allowance. Furthermore, the furnishings allowance must be included in total income by the pastor when the pastor calculates social security tax.

D. Benefits through the ELCA Board of Pensions. The congregation is expected to make required contributions for each eligible employee whom the employer enrolls in the plans administered by the Board of Pensions. The amount of the required contributions is determined as a percent of defined compensation, which includes cash salary, social security allowance, 30% for housing if a parsonage is provided, and the actual housing allowance if that is provided. This amount is multiplied by the appropriate percentage to determine the cost of participation in the plan. Historically, the Board of Pensions has published its rates for the coming year during the month of August—later than the revision of these *Compensation Guidelines*, which are presented to the Synod Assembly in June of each year. Accordingly, pastors, finance committees, and Congregation Councils are encouraged to visit the Board of Pensions web site (www.elcabop.org) for current rates, calculators, other tools, and information. The Board also can be contacted by phone at 800-352-2876.

1. Medical and Dental Plans. Congregational contributions toward health coverage are based on the number of dependents. They are calculated as a percentage of defined compensation. Contributions are subject to minimums and maximums, which are provided on the Board of Pensions' schedule for contributions. Required health coverage may be waived if the pastor or spouse has other employer-provided group health coverage.

2. Retirement Plan. The cost of participation in the pension plan is determined by the pastor's age at the time the ELCA began (January 1, 1988): 12% for pastors 55 and over, 11% for pastors 45 to 54; and 10% for pastors under 45 as well as those entering the plan January 1, 1988, and later. However, **congregations strongly are encouraged to designate a 12% contribution rate regardless of age or years of service.**

3. Disability Insurance. Generally, the disability plan will pay 66 2/3% of defined compensation less any amounts received from social security and worker's compensation disability benefits after two months of disability. The congregation is expected to provide full compensation including housing for the first two months of disability on a self-insured basis. The congregation also is expected to pay the medical, dental, and survivors insurance contributions during the first three months of disability.

4. Other Benefits. Survivor insurance and administrative costs are included.

E. Additional Benefits.

1. Housing Equity Allowance. When a congregation provides a parsonage, its pastor does not gain any benefit of the equity growth that the congregation may realize from its parsonage. This situation becomes particularly important when the pastor requires a significant loan for large expenses (such as payments for college tuition for children) and an equity loan cannot be obtained. Furthermore, the pastor did not gain equity through ownership of a house that can be used for retirement. Therefore, it is recommended that congregations that provide a parsonage establish a housing equity allowance for the pastor based on a minimum of 5% of cash salary, to compensate for the loss of equity growth that would be realized if the pastor owned a house. Contributions to such an allowance should be placed in an escrow account or in an optional pension fund and not provided directly to the pastor until the pastor's call is ended. Placement of the funds should be carefully examined, especially if the pastor desires to have the option of taking a loan against the accrued funds, similar to an equity loan on a house. Upon the pastor's resignation and acceptance of another call, the balance of this fund shall be transferred to the new congregation or paid to the pastor, as the pastor may direct. The fund shall be paid in full to the pastor or survivors in the event of the pastor's disability, retirement, or death.

2. Employer Contribution to TSA. Many employers provide matching contributions to investment plans and/or retirement plans such as the 401(k) plans. Congregations may consider matching a percentage of the pastor's contribution to a TSA (403B) or establishing a TSA for the pastor if no deductions from salary are elected.

3. Days Off. Full-time pastors should take two days off per week.

4. Vacation. The congregation is to provide four weeks of vacation (encompassing four Sundays) per year with full pay. The congregation should consider granting additional vacation time based on the length of service in the ministry.

5. Sick Leave. Sick leave is up to eight weeks per year with full salary, housing, and benefits. This is not a cumulative benefit. Sick leave thus is coordinated with the ELCA disability plan. When there is extended illness, contact should be made with the Office of the Bishop to coordinate benefits.

6. Disability Leave. When there is disability, full salary, housing, and benefits are to be paid by the congregation until the ELCA disability benefit plan takes effect (two months).

7. Family/Parental Leave. Family leave is paid time off to care for a seriously ill child, spouse, or parent. Congregations should carefully consider developing a family leave policy. Congregations are expected to provide for a paid parental leave of up to six weeks for the birth, adoption, or pre-adoption placement of a child with full salary, housing, and benefits.

8. Sabbatical Leave. Congregations and other organizations are strongly encouraged to provide for and grant their pastors and other full-time rostered and/or professional workers a sabbatical or renewal leave of three consecutive months after every four years of service in that setting. Details regarding policy, rationale, suggested procedures, and additional resources can be found in the document *Sabbatical—Renewal for the Future*, which was adopted by the 2003 Synod Assembly and which is available from the Office of the Bishop.

F. Professional Expenses. It is recommended that the congregation adopt the policy that all professional expenses incurred by the pastor(s) are reimbursed in full. These costs are not benefits and should not be considered compensation to the pastor.

1. Automobile Expenses. Each congregation should address the transportation needs of the pastor as required by its unique situation. The following list provides some examples of how transportation costs might be addressed. It is not a complete listing, and it is not meant to address every situation. Regardless of the method used in each congregation, accurate records are a must. A detailed log, together with a way to record costs for parking and tolls must be kept. (Names need not be included in the record.)

- Purchase or lease a vehicle for church-related use only. All costs of operation (repairs, insurance, etc.) would be paid by the congregation. Any personal use by the pastor would be accounted for by a reimbursement plan or as an element of compensation. There may be a tax consideration for the pastor in this case.
- Mileage allowance to be reimbursed. The pastor would maintain an automobile for which he/she would submit a voucher. The congregation would pay a per-mile amount as previously agreed by the Council. None of the reimbursed funds would be taxable since they reflect an actual cost incurred. As a minimum, the IRS rate should be used for reimbursement.
- Monthly allowance for transportation. This is the most popular method for many congregations, but it is the least appropriate. Pastors are required to keep accurate records as to the number of miles traveled or the actual expenses incurred. Failure to do so exposes the pastor to the risk of having the entire amount of the allowance included as taxable income. In addition, the possibility exists that the actual mileage may exceed the allowance, decreasing the compensation paid to the pastor. Congregations using this method should remain aware of the actual cost of transportation, such as increasing fuel costs, and adjust the allowance.

2. Continuing Education. Continuing education time and funds should be provided for the pastor to update skills and for professional growth in order to strengthen his/her ministry. It is not vacation time. Congregations are encouraged to grant their pastor(s) two weeks and a recommended amount of \$1,000 per year (\$700 minimum). The annual cash amount may be accumulated up to three years. Note that the ELCA expects a minimum of 50 contact hours of continuing education annually. A contact hour is defined as a fifty-minute classroom instructional session or the equivalent. Continuing education may be courses, workshops, or independent study (when directed toward a specific goal). Each year the pastor's continuing education plan should be developed in consultation with the Congregation Council using a Continuing Education Covenant.

3. First Call Theological Education (FCTE). New seminary graduates are required to participate in First Call Theological Education for the first three years of their ministry. A congregation that calls a new graduate will be asked to underwrite the cost of this program (currently \$500 per year) and is expected to grant the pastor the time for this study.

4. Book and Periodical Expenses. Congregations may choose to provide an allowance for the purchase of books and/or subscriptions to periodicals.

5. Professional Meetings Expenses. A pastor's attendance at the Synod Assembly, the Bishop's Convocation, and clergy gatherings is a professional expense. The congregation is expected to provide funds to cover registration costs, lodging, meals, and travel for these activities.

G. W-2 or 1099: Which Is It? In almost every case, the congregation should be supplying the pastor with form W-2. The pastor is considered, for tax reporting purposes, a self-employed taxpayer. This means that the pastor must file appropriate returns throughout the year and remit taxes and social security contributions on a quarterly basis as if self-employed. However, the pastor is considered to be an employee for all other matters. For this reason, a form W-2 is required. Congregations that issue a form 1099 to their pastor could place an unduly high tax burden on the pastor that is not incurred when the form W-2 is used. In all situations, it is recommended that the pastor seek tax advice from a qualified professional.

DETERMINATION OF A LAY ROSTERED LEADER'S COMPENSATION

A. Defined Compensation. Compensation guidelines for lay rostered leaders (hereafter called "leaders") are outlined in Appendix F and are based on a value called "defined compensation." With the exception of an offset in the guidelines approximately equal to the additional amount that a pastor must pay in self-employment tax, the guidelines for leaders are essentially identical to those provided for pastors.

Two levels are provided: lower guidelines and upper guidelines. They represent a band in which most leaders' compensation should lie. However, there is a difference in their import. The lower guidelines are to be considered minimum amounts. Congregations who are calling a new full-time leader must meet the lower guidelines in order to have their call approved by the Bishop (except those in very specific and unusual circumstances). Congregations who already have a full-time leader and who do not meet the lower guidelines are strongly encouraged to achieve a compensation level at or above the lower guidelines as quickly as possible. On the other hand, the upper guidelines are listed as examples of appropriate compensation and are not limits.

1. Years of Experience/Additional Education. A leader who enters ministry later in life should be given additional credit for experience gained in another profession. Education beyond a master's degree also should be considered.

2. Responsibilities/Merit. When performing an evaluation of a leader's compensation, additional factors should be considered. First, has the leader's responsibilities changed? Second, has the leader met the expectations of the congregation? Performance is a critical consideration when evaluating compensation. A leader who is exceeding the expectations of the congregation should be rewarded through what commonly is referred to as "merit increases."

3. Cost of Living/Community Life Style. Cost of living adjustments based on the local economy also are appropriate for consideration. In addition, the leader's defined compensation should be considered to be representative of the salary that the leader would be making if employed as a professional in some related occupation. In areas where the majority of the congregation and/or community is made up of highly paid professionals, a defined compensation level near or above the upper guidelines might be appropriate.

4. Avoiding a Trap. Congregations are encouraged to not fall into the trap of giving "what we can" as such an attitude does a disservice to both the leader and the congregation. The Congregation Council should use the *Compensation Guidelines* and the above factors to arrive at a defined compensation figure that truly represents the value of the leader to the congregation. The congregation should then be challenged to meet the defined compensation rather than the other way around.

B. Social Security and Housing. Because leaders are not ordained, they and the congregation each pay half of the social security tax. The leader's half is deducted from his/her pay as is done for employees of other companies and organizations. For the same reason, the government does not grant any tax-free housing allowance for leaders. If housing is provided, the value of this housing, in terms of fair rental value, may be subtracted from the general compensation to arrive at a cash salary. However, the value of the housing must be reported as income for tax purposes.

C. Benefits through the ELCA Board of Pensions. A full-time leader is entitled to the same medical and dental plans, retirement plan, disability insurance, and survivor insurance as is a pastor. (See details earlier in this document.)

D. Additional Benefits. The same benefits and considerations given to a pastor should be given to a leader, except for an equity housing allowance. (See details earlier in this document.)

E. Professional Expenses. It is recommended that the congregation adopt a policy that all professional expenses incurred by a leader are reimbursed in full. These costs are not benefits and should not be considered compensation to the leader.

1. Automobile Expenses. The congregation should provide for the same automobile arrangements for the leader as they do the pastor. (See details earlier in this document.)

2. Continuing Education/Book and Periodical Expenses. Continuing education time and funds should be provided for the leader to update skills and for professional growth. It is not vacation time. Details should be negotiated annually, and a Continuing Education Covenant should be used. In addition, congregations may choose to provide an allowance for the purchase of books and/or subscriptions to periodicals related to the leader's ministry in the congregation.

3. Professional Meetings Expenses. A leader's attendance at the Synod Assembly, the Bishop's Convocation (if applicable), and related conferences is a professional expenses. The congregation is expected to provide funds to cover registration costs, lodging, meals, and travel for these activities.

RECOMMENDED HONORARIA FOR SUPPLY PASTORS

\$175 minimum for a single service, plus \$.485 per mile or current IRS rate.

\$75 for each additional service that week (same preparation).

APPENDIX A

2008 COMPENSATION GUIDELINES FOR FULL-TIME PASTORS

Years of Experience	Lower	Upper
0—5 Years	42,200	55,100
5—10 Years	44,800	62,800
10—15 Years	47,400	70,600
15—20 Years	50,500	77,800
20—25 Years	53,000	83,900
25—30 Years	55,600	90,600
Over 30 Years	58,000	97,000

APPENDIX B

HOUSING ALLOWANCE WORKSHEET

(For Pastors Who Own or Rent their Home)

Housing Expenses

Down payment on a home _____

Mortgage payments on a loan to purchase or improve your home (principal and interest) _____

Real estate taxes _____

Homeowner association dues _____

Rental Expenses

Rental payments _____

Housing or Rental Expenses

Property insurance _____

Utilities (electricity, gas, water, trash pickup, local telephone charges) _____

Furnishings and appliances (purchase and repair) _____

Structural repairs and remodeling _____

Yard maintenance and improvements _____

Maintenance items (household cleaners, light bulbs, pest control, etc.) _____

Miscellaneous _____

Total annual estimated expenses _____ **(A)**

Properly designated housing allowance _____ **(B)**

Fair rental value of comparably furnished home, plus utilities _____ **(C)**

The actual amount excludable from income for federal tax purposes is the lowest of A, B, or C above.

For more information, see the *Church & Clergy Tax Guide*, Christian Ministry Resources.

APPENDIX C

HOUSING EXPENSES AND FURNISHINGS WORKSHEET (For Pastors Who Live in a Parsonage)

Housing Expenses (if paid by the pastor)

Personal property insurance	_____
Utilities (electricity, gas, water, trash pickup, local telephone charges)	_____
Furnishings and appliances (purchase and repair)	_____
Structural repairs and remodeling	_____
Yard maintenance and improvements	_____
Maintenance items (household cleaners, light bulbs, pest control, etc.)	_____
Miscellaneous	_____
Total annual estimated expenses	_____ (A)
Properly designated housing expenses and furnishings allowance	_____ (B)
Fair rental value of comparably furnished home, plus utilities	_____ (C)

The actual amount excludable from income for federal tax purposes is the lowest of A, B, or C above.

For more information, see the *Church & Clergy Tax Guide*, Christian Ministry Resources.

APPENDIX D

PASTOR'S COMPENSATION WORKSHEET (For Pastors Who Own or Rent their Home)

Pastor's salary (Include pastor's contribution to TSA, if designated)	_____
Social security allowance (if provided and not included in cash salary)	_____
Housing allowance (if not included in cash salary)	_____
Total defined compensation (add salary, social security allowance, and housing allowance)	_____
Years of experience: _____	
Defined compensation upper guideline (from Appendix A)	_____
Defined compensation lower guideline	_____

APPENDIX E

PASTOR'S COMPENSATION WORKSHEET (For Pastors Who Live in a Parsonage)

Pastor's salary (Include pastor's contribution to TSA, if designated)	_____
Social security allowance (if provided and not included in cash salary)	_____
Total cash salary	_____
Housing expenses and furnishings allowance (if not included in cash salary)	_____
Housing equity allowance (if not included in cash salary)	_____
Compensation without parsonage (add salary, furnishings allowance, and equity)	_____
Total defined compensation (Multiply compensation without parsonage by 1.3%) (30% housing)	_____
Years of experience: _____	
Defined compensation upper guideline (from Appendix A)	_____
Defined compensation lower guideline	_____

APPENDIX F

2007 COMPENSATION GUIDELINES FOR FULL-TIME LAY ROSTERED LEADERS

Years of Experience	Lower	Upper
0—5 Years	39,200	51,200
5—10 Years	41,700	58,400
10—15 Years	44,100	65,700
15—20 Years	47,000	72,400
20—25 Years	49,300	78,000
25—30 Years	51,700	84,300
Over 30 Years	53,900	90,200

APPENDIX G

LAY ROSTERED LEADER'S COMPENSATION WORKSHEET

Defined compensation (Cash salary)	_____
Years of experience: _____	
Defined compensation upper guideline (from Appendix F)	_____
Defined compensation lower guideline	_____

APPENDIX H

DEFINED COMPENSATION

What is defined compensation?

The sponsoring congregation or organization pays an amount based on the sponsored member's defined compensation.

Defined compensation is calculated as follows:

- (A) cash salary (before reductions for tax sheltered annuities or reimbursement accounts); *plus*
- (B) clergy social security allowance; *and*
- (C) if housing is provided, 30 percent of (A) + (B), plus housing expenses and furnishings allowance paid directly to the member, or if housing is not provided, the actual cash housing allowance paid to the member.

Defined compensation includes:

- housing equity contributions if the sponsoring congregation or organization pays them directly to the member (include in base salary);
- additional tax-sheltered annuity contributions made by way of a voluntary salary reduction agreement reached between the member and the sponsoring congregation or organization, including tax-sheltered contributions made to other financial institutions (include in base salary);
- social security tax allowance (if provided);
- housing expenses and furnishings allowance if the sponsoring congregation or organization pays it directly to the member.

Defined compensation does not include:

- housing equity contributions made on the member's behalf to the Optional Pension Plan or to another financial institution;
- housing expenses and furnishings allowance if the sponsoring congregation or organization pays these expenses directly;
- additional pension contributions (above the regular pension plan requirement) paid by the sponsoring congregation or organization on the member's behalf in addition to the member's salary;
- automobile allowance;
- continuing education allowance;
- books and periodicals allowance.

APPENDIX I

LINKS

Defined Compensation Calculator: <https://www.elcabop.org/Home/Calculators/DefinedCompensation.aspx>

Benefits Calculator: <https://www.elcabop.org/sitecore/content/Home/Calculators/ContributionAmounts.aspx>

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