



How Much Do We Pay the Minister?

by J. David McClung

Scripture specifically speaks about the importance of caring for and supporting pastors. In fact, the relationship between pastor and flock is intended to be one where each cares for the other. The pastor is called to preach the Word and shepherd the flock, while the congregation's role is to provide material support and encouragement for its shepherd. Consider the words of Jesus to Peter after the resurrection:

When they had finished eating, Jesus said to Simon Peter, "Simon son of John, do you truly love me more than these?" "Yes, Lord," he said, "you know that I love you." Jesus said, "Feed my lambs."

Again Jesus said, "Simon son of John, do you truly love me?" He answered, "Yes, Lord, you know that I love you." Jesus said, "Take care of my sheep."

The third time he said to him, "Simon son of John, do you love me?" Peter was hurt because Jesus asked him the third time, "Do you love me?" He said, "Lord, you know all things; you know that I love you." Jesus said, "Feed my sheep." (John 21:15-17).

In his letter to the church at Rome, Paul speaks of the role of the pastor when he says:

How, then, can they call on the one they have not believed in?
And how can they believe in the one of whom they have not heard?
And how can they hear without someone preaching to them? (Romans 10:14).

Scripture also addresses how the pastor is dependent on the church for support:

Jesus instructed those whom he had just appointed to go into every city and place, and to "stay in that house, eating and drinking whatever they give you, for the worker deserves his wages" (Luke 10:7).

Paul wrote to the churches of Galatia:

Anyone who receives instruction in the word must share all good things with his instructor" (Galatians 6:6).

Again, in 1 Corinthians 9:14, Paul addresses the issue of support for the pastor:

The Lord has commanded that those who preach the gospel should receive their living from the gospel.



Remember!

The Scriptures offer guidance about paying the minister.

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This particular Memo was created at the request of the Board of Pensions and Benefits USA.

**See:**

Memos #1, #4, and #13 for additional housing and compensation information.

Pensions and Benefits USA receives many questions regarding the care and compensation of pastors. In response, we have prepared resources that include: Memo #4: *Strategies for Structuring Ministerial Compensation*, which examines the issue of the cost of a ministry versus the cost of a minister. Related issues, such as whether a church should provide housing or a housing allowance and how to determine a minister's housing allowance, may be found in Memo #1: *Housing for Your Pastor: Parsonage or Housing Allowance?* and in Memo #13: *The Minister's Housing Allowance*.

This particular memo, however, focuses on how a church and a minister may work together to determine the amount of compensation the pastor should receive and how that compensation can be allocated to best benefit both the church and the minister.

While there are no hard and fast guidelines, there are some basic areas that should be covered in the financial relationship between a minister and congregation if they are to bond and work together to advance Christlikeness in their local community.

Compensation should be based on several factors. These include:

- Educational background;
- Experience;
- Responsibilities;
- Qualifications, and requirements of the position; and
- A church's ability to provide at a given point in time.

Compensation should *not* be influenced by the minister's:

- Family size;
- Personality;
- Existing financial resources; or
- Age, etc., (as long as they are not part of the written job qualifications or requirements).

**Remember!**

Family size, personality, financial resources, and age should not influence the minister's compensation.

Who is responsible for determining pastoral compensation?

The *Manual* of the Church of the Nazarene assigns to the church board the responsibility of determining the compensation of the pastor and of reviewing it at least once a year.

Paragraph 129.8: [The business of the church board shall be:] To determine the amount of remuneration and benefits, including retirement benefits, the pastor shall receive, and to review them at least once a year.

(See also paragraphs 115.4 and 129.9.)

What are the objectives of a compensation policy?

Typical objectives of a compensation policy are:

- To attract a well-qualified pastor;
- To encourage a pastor to stay or discourage one from leaving;
- To reward performance, responsibility, and loyalty;
- To maintain equity when compared to churches of similar size;
- To maintain equity when compared to other jobs;
- To adjust compensation for increases in the cost of living;
- To comply with legal requirements;
- To meet denominational expectations; and
- To control costs.

**Remember!**

Compensation policies that are entirely appropriate in a "for-profit" situation are *not* appropriate for a church.

Many board members are tempted to bring compensation policies from their own places of employment into the church. However, compensation policies

that are entirely appropriate in a “for-profit” situation are *not* appropriate for a church. For example, in a construction company, compensation policy is established by the law of supply and demand. If the company pays too much, the company won’t be competitive when bidding for work. If the business doesn’t get new projects, it will have to cut jobs. And, if the company doesn’t pay enough, it won’t be able to hire and keep skilled employees to do the work.

Admittedly, there is some competition between local churches for pastors, but most ministers are more motivated by their call than by their compensation package. If the principle of supply and demand is applied in a church, the pastor is likely to be underpaid in most situations.

The *central* objective of a church compensation policy should be to enable the pastor to be effective. This means being able to do the unique work of a minister without having to worry about providing for his or her family.

Full time or Bivocational?

It is a reality of life that many local congregations don’t have the resources to compensate pastors at a level that enables them to be fully effective. If that is the case, a church should consider calling a bivocational pastor (one who has employment in another trade or profession in addition to the church). When a church calls a bivocational pastor, compensation is based on what the church can pay. It is a matter of agreement between the pastor and the church (*Manual* 115.4).

If a church calls a full-time pastor, it is ethically obligated to compensate the pastor for full-time employment.

Is There a Minimum Compensation Adjustment at the Time of Review?

While the *Manual* does not require a salary adjustment each time a pastor’s compensation is reviewed, most churches consider a correction for the annual rate of inflation to be the minimum increase.

How Much is Enough?

When serving on a board, it may be difficult to know if the church is paying enough. The easiest thing to do is to give the pastor a raise without really knowing if the minister is being paid fairly. It’s also a good idea to compare your pastor’s compensation package with comparable objective data.

The first comparison should be with what other churches of similar size are paying. In most cases, your district superintendent can provide information for the salary range of similar size Nazarene churches in your area.

If you are interested in what other denominations pay, you may consult Richard R. Hammar’s *Compensation Handbook for Church Staff*. Updated annually, this resource is available in book form and as a CD or PDF. It contains compensation breakdowns for most categories of church employees based on part-time, full-time, church size, income budget, and geographical setting. Pensions and Benefits USA and some district offices have copies of this resource. Or, you may secure a copy at churchlawtoday.com.

Another source for comparison of salaries of those with similar responsibilities in the community where the church is located may be found at salary.com. This resource provides a complete report for a fee. It is also possible to obtain salary scales from school districts, government agencies and, sometimes, from businesses or chambers of commerce in a community. As a rule of thumb, no full-time pastor should be paid less than a public school teacher.



See:

pbusa.org for comparative compensation information for pastors.

Some board members tend to compare a pastor's compensation to their own. That may be fair *if* the board member's job qualifications and responsibilities are comparable. Of course, the goal of comparing the pastor's compensation with objective standards is to assure that the church is being equitable.

What Should Be Included in a Pastor's Compensation?

It is helpful to establish an initial total for the minister's compensation package, then to work with the pastor to determine how the money in that package should be allocated for tax purposes. The amounts in total compensation *should include* salary, housing, and benefits. It *should not* include reimbursable business expenses, such as business meals, conference fees, dues and subscriptions, travel or car allowance, etc. (see Memo #4: *Strategies for Structuring Ministerial Compensation*).

Things that should be considered in defining the pastor's compensation package are:

Housing – There are pros and cons for a church providing a parsonage (see Memo #1: *Housing for Your Pastor: Parsonage or Housing Allowance?*). If a parsonage is included, the reasonable rental value of the parsonage should be considered as part of the pastor's compensation. Those who have grown up in parsonages know some churches are good landlords, while others are not so good. It isn't fair to charge the pastor first-class rent when the parsonage family lives in third-class accommodations. If the church requires the pastor to live in a parsonage, it is obligated to take care of the property.

If a church does not provide a parsonage, then it should invite the pastor to designate as minister's housing allowance as much of the total compensation as he or she desires. A person who prepares the minister's tax return may be able to advise the pastor concerning how much housing allowance is appropriate, or see Memo #13: *The Minister's Housing Allowance*.

Nazarene 403(b) Retirement Savings Plan – The Nazarene 403(b) Retirement Savings Plan provides a convenient, tax-favored way for Nazarene ministers to save for the future. Voluntary contributions are deducted from the employee's salary and thus avoid income taxes. Upon retirement, funds usually may be withdrawn by clergy as housing allowance, thus avoiding further federal taxation subject to IRS limits.

Most Nazarene ministers are enrolled automatically in this program and are usually eligible to receive an Annual Pension Supplement (APS) from the Pensions and Benefits Fund into their personal accounts.

Pensions and Benefits USA encourages all church employers to match contributions of their employees to help them prepare for a more comfortable retirement. Get more information on this important benefit at pbusa.org.

Self-Employment Tax (SECA) – Social Security tax rules are different for ministers than for most other employees. Board members are often shocked at the amount of the tax paid by ministers in this category. When comparing the total compensation of a pastor to the compensation of someone who is an employee, it is appropriate to add to the employee's total compensation the amount of Social Security tax paid by the employer. This increases the employee's compensation by 7.65 percent in most cases.

Some churches follow the practice of reimbursing the pastor for the full amount of the quarterly self-employment tax payment. This is a sound practice, and should be practiced if financially possible. Just remember, reimbursements are taxable compensation.

Health Insurance – Health insurance is a major issue, and most churches struggle financially with whether or not to provide it. Every church board should work with its pastor to resolve this matter. In cases where a pastor is



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Remember!

Pensions and Benefits USA encourages church employers to match employees' retirement plan contributions.

bivocational or the spouse is employed, health insurance may be available through the secular employer. However, in no case should it be acceptable to the congregation for the pastor and family to serve without health insurance coverage.

The Affordable Care Act (ACA) of 2010 added new rules regarding health care benefits. Non-compliance may cause a church to be liable for significant fines. Please refer to the *5 Roads for Health Care Reimbursement* brochure at pbusa.org for more information.

Disability Insurance – A church should seriously consider providing disability insurance for a pastor. More than a few churches have faced the need to pay a disabled pastor as well as a replacement pastor. Disability insurance protects both the church and the pastor. Basic disability insurance is provided for eligible ministers through the faithful payment of churches to the Pensions and Benefits Fund. Also, additional, affordable disability insurance is available from Pensions and Benefits USA.

Life Insurance – Pensions and Benefits USA provides basic life insurance for eligible ministers through the Pastors Life Insurance Plan. But your church may want to consider providing more. Supplemental Group Term Life Insurance also is available through P&B USA, and a portion, if not all, of the premium may be paid as a tax-free benefit by the church.

Accidental Death and Dismemberment Insurance – If life insurance is provided by the church, it may be appropriate to add an accidental death and dismemberment rider to the policy. Again, P&B makes available this protection for local congregations.

Vacation – While providing vacation time to a pastor does not increase the minister's total compensation, it is appropriate to look at vacation policy as part of the annual compensation review. Your district finance committee report may provide helpful guidelines in this area. One thing to consider when providing vacation is the total number of years of service the minister has as a pastor, not just the amount of service to the current congregation.

Education – Many pastors enter the ministry with significant educational debt. Others continue their education while serving as pastors. A church may want to assist its minister with repayment of educational debt or expenses. This can be a strong incentive for a pastor to serve and remain at a church.

Automobile – Some churches provide a vehicle for their pastors to use. Whether or not to include the cost of the vehicle in the total compensation package depends on how much the pastor uses it for personal matters. Certainly, the cost of providing a vehicle for church business should not be included in total compensation. If the use of a car is not provided, the church should, at least, cover the costs for the pastor's business mileage. See Memo #11: *Auto and Other Business Expense Reimbursements*.

On the following pages is a sample form developed by a church board. It may be used as a model to help a church and its pastor to develop a compensation package that is amenable to both parties.



Remember!

Pensions and Benefits USA provides basic life and disability insurance for eligible ministers. Additional coverage is available through P&B USA at favorable rates.

Compensation Memorandum of Understanding

This agreement is between <church name> Church of the Nazarene, (hereafter referenced as Church,) and <name of pastor or other staff member>, (hereafter referenced as Pastor), to record the understanding between the Church and Pastor as directed by Paragraph 121 of the *Manual* of the Church of the Nazarene (hereafter referenced as *Manual*). This agreement is intended to reduce the possibility of wrong assumptions and misunderstandings on the part of the Pastor of the Church. The goal is a healthy working relationship between Pastor and the congregation.

Starting Date

The pastoral relationship began <date of start> and will continue until terminated in accordance with the *Manual*.

Total Compensation

Pastor's total compensation has been established by the Church as <\$ amount>. The Church requires Pastor to submit <his/her> proposed categorical allocation of <his/her> proposed salary at or before the first board meeting of each new year. The allocation for <year> has been accepted as follows:

Cash Salary:	<\$ amount>	Payable on the <date or dates> of each month in the amount of <\$ amount>
Housing Allowance:	<\$ amount>	To be paid monthly. (In the event a parsonage is provided, a church may list the Fair Market Rental Value, plus utilities in this section.)
Education Loan:	<\$ amount>	Student loan debt to be paid monthly
Self-Employment Tax:	<\$ amount>	Reimbursable and paid quarterly.
Health Insurance:	\$0.00	Negotiable
Other Insurance:	\$0.00	Negotiable
Retirement Plan:	\$0.00	Negotiable

Should circumstances necessitate the shifting of amounts from one category to another, the Church treasurer is authorized to adjust the categories as long as the total compensation equals the amount agreed upon. Pastor will report any change in allocation to the board at the next meeting.

Self-Employment Tax

The Church shall reimburse Pastor's self-employment tax (Social Security) obligation up to <\$ amount> per quarter. If the actual tax payment due is more than <\$ amount> per quarter, Pastor is invited to present proof of payment to the Church. The Church will consider adjusting the total compensation and the amount of the self-employment tax reimbursement. According to the IRS, these reimbursements are taxable compensation.

Health Insurance

The Church does not provide health insurance for the Pastor since the Pastor and his family qualify for and are covered by health insurance provided by <name of entity providing health insurance coverage>.

OR

The Church provides health insurance for Pastor and will be responsible for <amount> percent of the premium. The balance, if any, will be paid by the Pastor as withholding from cash salary.

Disability Insurance

The Church <provides/does not provide> disability insurance for the pastor.

Life Insurance

The Church <provides/does not currently provide> life insurance. Nazarene Pensions and Benefits USA provides basic life insurance through the Pastors Life Insurance Plan as long as our Church and Pastor meet eligibility requirements as cited in the plan.

Long-Term Care

The Church <provides/does not provide> long-term care insurance. Nazarene Pensions and Benefits USA provides basic disability coverage through the Basic Long-Term Disability Insurance Plan as long as our Church and Pastor meet eligibility requirements as cited in the plan. The need for long-term care insurance will be addressed in future reviews of Pastor's compensation.

Accidental Death and Dismemberment Insurance

The Church <provides/does not provide> accidental death and dismemberment insurance for Pastor. The need for accidental death and dismemberment insurance will be addressed in future reviews of the Pastor's compensation.

Retirement Savings Plan (403b)

Pastor participates in the Nazarene 403(b) Retirement Savings Plan established by Nazarene Pensions and Benefits USA. In addition to any amounts provided by Pensions and Benefits USA, the Church agrees to match dollar-for-dollar any salary reduction contributions made to the plan by Pastor up to a maximum of <\$ amount/percentage> annually. (**Note: A Letter of Agreement for this Plan is available at pbusa.org.**)

Housing Allowance

The Church agrees to provide a housing allowance to the pastor of <\$ amount> per month. The Church will make payments directly to Pastor. The total of authorized payments shall not exceed the total of the Minister's Approved Housing Allowance. Pastor, as an individual taxpayer, is responsible for reporting and paying taxes related to the Minister's Approved Housing Allowance.

Utilities

Utility expenses (except for telephone services) for Pastor are included in Minister's Approved Housing Allowance. Because the Church requires Pastor to be available to the congregation by phone, the Church agrees to provide telephone service (including church business-related long distance) and a cell phone for Pastor. Personal long distance calls will be paid by Pastor.

Vacation

The Church agrees to provide paid vacation of <number> <weeks/days> per year. Pastor shall consult in advance with the Church Board to schedule vacation time and make arrangements for pulpit supply during the vacation. Pastor shall provide an

account of vacation time used and remaining time available in monthly pastoral report, and/or when requesting advanced approval of vacation schedule.

Education

The Church will make payments of <\$ amount> per month subject to IRS limits toward Pastor's continuing education.

Moving Expenses

Since Pastor is currently serving the Church, no additional moving expenses are anticipated by this agreement.

Travel Expenses

The Church will reimburse Pastor's Church-related travel expenses at the rate of <\$ amount> per mile (as determined by the IRS), upon presentation of proper documentation. Out of state trips and related expenses to be reimbursed, shall be approved in advance by the Church Board. Pastor is expected to manage travel expenses to stay within the approved budget of the Church.

Accountable Reimbursement Plan for Church Expenses

The Church will establish an accountable reimbursement plan to reimburse the Pastor for church-related out-of-pocket expenses. Pastor is required to manage Church-related expenses within the approved budget of the Church. Requests for reimbursement shall be in writing, include detailed documentation of the expense, and shall be submitted within 30 days of the date the expenses are incurred.

Annual Review of Salary and Benefits

The Church will review Pastor's salary and benefits at least once each year. Increases in compensation will depend on the financial condition of the church and the Church's evaluation of Pastor's performance.

This Compensation Memorandum of Understanding will be reviewed and updated at least once annually in accordance with the *Manual*.

This agreement was approved by Pastor <name> and the Church Board.

Board Secretary _____ Date _____

Pastor _____ Date _____

The information contained in this memo series is of a general nature reflecting USA Nazarene Church polity. It is **not** offered as specific legal or tax "advice." Each person, local church board, and district should evaluate their own unique situation in consultation with their local legal and tax advisors.