

A GUIDE TO NEGOTIATING PASTORAL COMPENSATION

FOR PASTOR'S AND PASTOR NOMINATING COMMITTEES

The Presbytery of Los Ranchos

Because of IRS regulations with substantial tax implications for ordained ministers (including the handling of vouchered, reimbursable expenses), along with the coverage provided by the Board of Pensions program, it is important that ministers and pastor nominating committees have a basic understanding of how to get to the best possible compensation package for each party. The following is intended as a guide to facilitate negotiations in hopes that when Terms of Call reach the Committee on Ministry, they include all critical elements of a Call in a form that is agreeable to all parties. [A detailed analysis is provided at the presbytery website, "Instructions and Definitions" for use with reporting Minister's Terms of Call—a 5 page guide for Treasurers and Sessions.]

EFFECTIVE SALARY:

This is the Board of Pensions term which we also employ to refer to the following elements of a compensation package:

- Cash Salary
- Housing Allowance/Value of Manse
- Utilities/Furnishings
- Deferred Income (403b, Annuities, etc; Deductions from Cash Salary)
- Social Security offset greater than 50%.
- "Other" Income (Severance; Church paid "gifts", unvouchered allowances)

"Effective Salary" is the figure used for calculating Board of Pensions dues. This is the mandatory amount, paid by the church, for coverage for ministers for

- Medical coverage
- Pension (defined benefit)
- Disability
- Life Insurance
- Salary Continuation

For 2010, this figure is 31.5% of Effective Salary.

MINIMUM SALARY: Presbytery establishes a "minimum salary" for all full-time, ordained ministers in the presbytery. It is presently \$48,500 and is adjust annually. This is an "Effective Salary" figure and no church may pay less than this amount without specific exception from the presbytery.

HOUSING

The most substantial tax benefit available to ordained ministers is that the amount designated by the church for "housing" is not subject to income tax. [It is for Social Security taxes—see below.] The amount actually spent for obtaining and maintaining a home is not included as income when filing for taxes. Payments, insurance, taxes, maintenance, improvements, upkeep,

utilities, are all eligible to be included as “housing”. Always make sure the Call includes more income designated “housing” than will actually be spent: the excess simply becomes additional income—but if you under estimate, you cannot switch “cash salary” to “housing”.

However, ordained ministers, who are considered “employees” for income tax purposes (and thus subject to a W-2), are considered “self-employed” for Social Security purposes and must pay 7.65% of adjusted income (including housing) for Social Security. [Board of Pensions allows church to provide up to 7.65% SS offset without it being considered “effective salary”—but IRS considers the offset “income” for tax purposes.]

DEFERRED INCOME

The Board of Pensions provides an excellent 403b program with Fidelity Investments. Ministers are encouraged to participate—and churches are encouraged to provide matching funds. It is one of the critical financial tools for insuring adequate income in retirement. Ministers can designate “cash salary” go to 403b; church pays that amount as part of Pension billing, and the amount is not taxable.

In addition, certain life insurance and annuity programs can be sheltered from taxes. An insurance agent or financial advisor/planner can assist with these programs.

OTHER INCOME

Please consult the presbytery regarding tax and Board of Pension implications and consequences for other forms of income—especially “gifts” to the pastor—to insure minimum tax exposure.

Note that below market loans result in “imputed income” which must be treated as income.

“Allowances” (expenses covered by other than vouchered, reimbursable process) are income.

OTHER BENEFITS:

Presbytery mandates that ordained ministers receive one month’s vacation and two weeks of professional study leave per year. [The study leave can accumulate—if not used—up to six weeks.]. Pastors with long tenures and who have been ordained a long period of time often will seek an additional week of vacation.

Professional Study Leave: Presbytery mandates Calls include \$1000 for Study Leave. As this barely covers costs of travel, housing, and registration for a one week program, many pastors seek a high amount and many churches offer a high amount to attract the best candidates. This should be set up as a vouchered, reimbursable arrangement.

Travel Reimbursement: Churches are expected to have a vouchered, reimbursable program that covers the cost of all “business related” travel by pastors. An amount can be included in budgets—but if actual costs exceed budget, the church is responsible for paying the actual amount..

Medical/Dental Supplement: Many pastors will seek, and many churches will provide, a medical /dental supplement to offset the cost of Pension plan deductibles or non coverage. Technically, this should only be done as part of an FSA 105 or 125 program for all employees. Consult a professional tax advisor before entering into such an arrangement.

Professional Expenses/Book Allowance/Conferences. Many pastors will seek, and many churches will provide, budget items for the following kinds of expenses (preferably as vouchered, reimbursable accounts):

Professional: meals with parishners, robe upkeep, professional organization dues, etc.

Books and Journals: cost of books, magazines, journals, electronic media necessary to remain current in profession.

Conferences: the cost of one day or short term events directly related to professional competence or expectations for upgrading specific knowledge or skills.

Moving Expenses: The Presbytery's Personnel Policies provide clear guidelines for the cost and reimbursement for travel expenses. The negotiated details of such an agreement must be spelled out in the Terms of Call Form so that all parties have written verification of agreements.

NEGOTIATIONS

Pastors and pastor nominating committees are responsible for negotiating final terms of call. Any coverage that exceeds the maximums authorized by Session must be resubmitted to Session for review. [Note: The Pastor Nominating Committee, as a committee of the congregation, does not have to have Session approval of the Terms of Call—only the congregation can approve those terms. However, to avoid an embarrassing disagreement at a congregational meeting between a PNC saying it must have this amount and the Session arguing the church can't afford that amount—it is best to have Session's approval of amounts exceeding what was approved.] If necessary, an amendment to the Call Form can be attached, spelling out any unusual details to figures included in the Call Form. And remember that the terms must be approved by the presbytery (through its COM) for the Call to become official/legal; so keep presbytery informed of the negotiating process so that potential difficulties can be recognized and dealt with early in the process.

And remember: HOW the Call is set up can have thousands of dollars of consequences for the pastor and the church. The presbytery always stands ready to consult in the negotiating process to make sure that the final terms provide maximum advantages to all parties.