

Guide to Negotiating Pastor Compensation



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.

MMBB Financial Services is pleased to have the collaboration of the American Baptist Churches Ministers Council Professional Effectiveness Committee in the development of this material.

You can download additional copies of this guide—and other helpful materials—at [MMBB.org](https://www.mmbb.org)

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“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

A Guide for Ministers and Congregational Leaders

Ministers and congregational leaders routinely collaborate on matters of faith, spiritual health, and the day-to-day functioning of the congregation. Then—once a year—they address the sensitive issue of the minister’s compensation.

For 100 years, MMBB Financial Services has counseled churches and faith-based organizations on compensation and related matters. This guide offers you the benefit of that experience. It is intended for both churches and ministers, as well as for chaplains, pastoral counselors, and those in other forms of ministry.

This guide explains how the tax code treats different forms of compensation. It provides suggestions on how to design a fair compensation package and how churches and ministers can negotiate constructively and positively to reach a consensus. We believe that both benefit from a deliberative process that brings everyone to agreement on fair compensation.

The goals of a compensation package

You may find it helpful to begin by considering the goals of a compensation package. 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. It also helps your church attract and retain qualified pastoral leadership.

A good compensation package is the fair thing to do. It compensates pastoral leaders for their investment in education, as well as for their talent, experience, and effort. The benefits and insurance components protect both the minister and church from unexpected setbacks. They 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.

“Respect those who labor among you and have charge of you in the Lord and admonish you; esteem them very highly in love because of their work.”

I THESSALONIANS 5:12–13

Components of a Compensation Package

A compensation package has three components:

- **Cash compensation** includes the pastor's cash salary and housing allowance, plus cash equivalents such as the Social Security offset.
- **A benefits package** often includes a retirement savings plan, life insurance, plus disability and health insurance. It can also include a paid sabbatical. These contribute to an employee's feeling of security and well-being.
- **Reimbursement of job-related expenses** include reimbursement for work-related travel, books, and education. This helps ministers with the day-to-day costs of performing their responsibilities.

The way you allocate compensation between these three categories has a significant impact on the taxes your staff must pay. Read on as we describe each category in detail.

A sample \$50,000 compensation package

Cash Compensation	
Cash salary	\$15,000
Housing allowance	\$10,000
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:	\$50,000

Cash Compensation

Cash compensation can include the following four components. Consider the tax implications of each component as you design this part of the package.

1. Cash salary

A minister's cash salary can be subject to federal, state, and local income taxes. It also serves as the basis for calculating allowable retirement plan contributions.

- Increasing the cash portion of a compensation package will obligate the minister to pay more in taxes.
- Because employee-paid retirement plan contributions cannot exceed 100% 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. Few ministers set aside 100% of their salary for retirement, so this is a lesser concern.

Later in this guide, we explain how to determine a fair cash salary based on national averages and the minister's experience and qualifications.

2. Housing/parsonage allowance

Section 107 of the Internal Revenue Code allows ordained ministers to exclude from federally taxed income some or all of the cost of providing their principal residence. 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 considered taxable for federal income taxes.

This exclusion applies only to a minister's federal income tax. The implications:

- Designating a larger portion of salary as a housing allowance will reduce a minister's federal tax liability.
- But overestimating the housing allowance may cause a minister to underreport his or her taxable wages, which could lead to an underpayment of taxes.

3. Social Security-Medicare tax offset

While ministers are employees for federal income tax reporting purposes, they are self-employed for Social Security purposes with respect to services they perform in the exercise of their ministry. This "dual status" means they are not subject to withholding requirements for the employee's share of Social Security and Medicare taxes. Instead, they pay a Self-Employment Contributions Act (SECA) tax.

Churches are not permitted to pay the SECA tax for their pastors; however, most churches assist ministers by providing them with a Social Security/Medicare tax offset of at least 50% of the SECA tax. This provides an equivalent of Social Security/Medicare taxes that the church would pay on behalf of a lay church worker.

4. Equity allowance for ministers living in a parsonage

Unlike homeowners, ministers living in parsonages do not build equity in their homes. Many churches help compensate for that by paying an equity allowance that is not subject to federal income tax.

You can read more about the housing, parsonage, and equity allowances on the following pages.

Cash Compensation: Example	
A Cash salary	\$15,000
B Housing allowance	\$10,000
C Social Security offset	\$3,800
D Equity allowance	\$5,000
Amount subject to federal tax:	\$18,800 (A+C)
Amount subject to state, local, and SECA taxes:	\$38,800 (A+B+C+D)

Housing/Parsonage Allowance

Housing allowance

The housing allowance lets ordained staff deduct the cost of housing from income subject to federal taxes. The amount of the allowance should cover the cost of maintaining a home: mortgage or rent payments, taxes, repairs, insurance, furnishings, utilities, etc. For federal income tax purposes, the excludable amount of a housing allowance is limited to the lesser of:

1. The amount designated by the church, or
2. The amount actually spent on housing by the minister for the year, or
3. The fair rental value of a furnished house, plus utilities such as gas, electricity, oil, telephone and water.

A minister cannot exclude more than his or her church designates, so the designated amount must at least be enough to cover items 2 or 3 above. If the designated amount exceeds the lesser of item 2 or 3, the minister must report the excess as taxable income.

A church must designate the housing allowance portion of a minister’s salary in advance of when that salary takes effect. The minister is responsible for documenting actual housing expenses.

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 real estate agent’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 minister added up 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 deduct \$17,600 from her federally taxable income.

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 minister must count the parsonage rental value, utilities, and parsonage allowance as income when calculating his or her 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 you determine this. Alternatively, your church can use 1% 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.

Your church's accurate report of parsonage value helps MMBB determine death, disability, and retirement benefits

An accurate parsonage rental value does more than help a pastor save on taxes. Your 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 underreporting (45-year-old member)

Compensation	Death Benefit (4 times reported compensation)
Actual: \$50,000	\$200,000
Underreported: \$45,000	\$180,000 (\$20,000 less)

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 purchased by the minister to maintain a home in the parsonage, such as furnishings 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.

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 ministers 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 minister to the Retirement Only Plan, available from MMBB. Retirement Only Plan contributions and earnings are not taxable to the minister until withdrawn in retirement.
- A minister may choose to supplement the equity allowance by starting or increasing contributions to The Annuity Supplement (TAS). Contributions are excluded from Social Security/Medicare taxes for ordained ministers.

Benefits

There are four general categories of benefits:

A good benefits program is essential for maintaining employee health and morale. There are also tax advantages for employees. Employers generally offer four categories of benefits:

- Retirement savings
- Life insurance
- Disability insurance
- Health insurance

A church should offer all four benefits to protect the institution in case the unexpected occurs. You also want to protect ordained staff so that they can fulfill their ministry knowing that they and their family will be cared for.

Retirement savings

By helping your staff build assets for the future, a retirement savings plan gives them confidence that helps them better fulfill their ministry. It also assures you that they will not have to work beyond the point where they—or you—want them to.

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

- According to data compiled by the Social Security Administration, a man retiring today at age 65 can expect to live to age 83. A woman can expect to live to age 85. And those are just averages – one in ten 65-year-olds can expect live past age 95. That means their retirement savings must last 18 to 30 years.
- Financial advisors generally assume that a retiree will need 70-80% of his or her pre-retirement income. So a pastor earning \$50,000 a year at retirement may need \$35,000-\$40,000 a year ... for 18 to 30 years.
- A rough rule of thumb recommends that retirees in their mid-60s should have 20 times their targeted income in savings . The pastor in the above example would need \$700,000-\$800,000.

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.

¹ <http://www.ssa.gov/planners/lifeexpectancy.htm>

² http://www.cbsnews.com/8301-505146_162-39940107/how-much-retirement-savings-do-you-need/

Once you have decided to offer a retirement savings plan, usually a 403(b) plan for churches, you must decide how to structure it. Will your church contribute a percentage of each employee's salary? Will you have a matching plan to encourage employees to save? A good benefit plan provider can help you with these decisions.

Life insurance

The death of a loved one is traumatic enough without the added anguish of not knowing how surviving family members will meet their expenses. A life insurance plan offers vital protection against economic catastrophe. It also makes it easier for your church to support the family without undermining the church's ministry.

Your church can provide up to \$50,000 worth of life insurance coverage without tax consequences to the employee.³ The value of church-paid life insurance over \$50,000 does have to be reported as taxable income.

Most employer-provided insurance is offered as group term life. When insurance is purchased through a group plan, the premium is almost always lower than what an individual would pay for a private policy.

Disability insurance

People often think that only older workers become disabled. But even young and healthy workers are at risk of becoming disabled from a car accident, sports injury, or other occurrence.

According to the Council for Disability Awareness, a 35 year-old male office worker with some outdoor physical responsibilities faces a one-in-five chance of being disabled for 90 days or longer before he retires. A 35-year-old woman faces a one-in-four risk. For such workers, the average length of disability is six years and nine months.

A disability insurance policy provides replacement income. It allows your church to continue its ministry by freeing resources that might otherwise be required to support the disabled minister.

Employer-paid premiums for disability insurance are not taxable for employees. They only pay taxes on income paid by the policy after they are disabled.⁴ As with employer-sponsored life insurance, group disability coverage is usually less expensive than an individual policy.

Health insurance

Like it or not, our current health insurance system gives significant preference to employer-provided health insurance plans. For most employees, group health insurance costs less than a private policy.

Under Internal Revenue Code sections 105 and 106, employer-provided health benefits, including claims reimbursements and insurance, are generally excluded from taxable employee income.

As more provisions of the Affordable Care Act (healthcare reform) take effect, new limits and requirements apply. You can stay up to date by visiting MMBB.org and searching "healthcare reform." Or go to www.healthcare.gov.

³"The Benefit of Benefits," NACBA Ledger 31, Summer 2012

⁴"The Benefit of Benefits," NACBA Ledger 31, Summer 2012

Flexible Spending Account (FSA)

While technically not a form of compensation, a Flexible Spending Account lets your church offer tax savings to employees who must pay for health and dependent care expenses.

Each year, employees elect how much to set aside from their paychecks for the coming year, subject to IRS limits. The withheld funds are not reported as taxable income for federal income tax or Social Security/Medicare tax. In most states, FSA contributions are not reported for state income tax purposes either. When an employee incurs an eligible expense, he or she submits documentation to the employer and is reimbursed with tax-free funds.

Your church can set up FSAs for health care, dependent care, or both.

- A health care FSA can be used to pay for eligible medical, dental, vision and hearing expenses.
- A dependent care FSA can be used to pay for care for a dependent child or a dependent adult who is incapable of self-care.

Under IRS rules, unspent FSA funds cannot be carried over from year to year. Any funds not used to reimburse claims by the end of the following year's 2½ month⁵ grace period are forfeited and returned to the employer. That said, employees with even a modest level of predictable health care or dependent care spending can save a significant percentage by paying for it with pre-tax dollars.

An FSA must be established in writing. Contact MMBB at service@MMBB.org for a free FSA sample kit. Or call MMBB at 800.986.6222.

⁵ <http://orpebb.asiflex.com/graceperiod.htm>

MMBB Financial Services Benefit Offerings at a Glance

For more than 100 years, MMBB has specialized in providing retirement and health 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 outreach@MMBB.org, to arrange to speak with one of our Senior Benefits Consultants.

MMBB benefit offerings and support services

Comprehensive Plan

- Flexible investment options that provide lifetime income in retirement. The housing allowance is available for clergy in retirement. Based on a 2010 survey, MMBB members receive an average of 86% of pre-retirement when they annuitize, including Social Security.
- Disability insurance coverage includes an annual cost of living adjustment, continued retirement contributions and a monthly allowance for dependent children under 21.
- Term life insurance includes survivor income for spouses and child allowances for dependent children under 21.

Retirement Only Plan

- You—the employer—set the contribution rate as a percent of salary or fixed dollar amount. You can even make one-time contributions such as tax-deferred thank you gifts.
- You can create a matching plan to encourage your staff to participate. The plan can be changed over time.
- In most instances, you can provide different benefits to different classifications of employees.
- The housing allowance is available for clergy in retirement.

Employee Contribution Plan

- Employees 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.

Paid Leave

Paid leave is an employee benefit—but typically not given a dollar value.

Most compensation packages typically 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. You 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—The Forth of July, Labor Day, Thanksgiving Day, Christmas, New Year's Day, etc.. Pastors must often work on holidays and it is appropriate to allow them days off in lieu of the actual holiday date. It is recommended that unused paid holidays not be carried over from one year to the next. Such "comp" days should be used within one month of the holiday.

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. It is recommended that you limit the carryover of vacation time by establishing a bank of vacation leave that does not exceed 1½ years of accumulated vacation days at any time.

Additional paid days—Paid time for working with ministerial 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 of time post-sabbatical, or to share learnings from the sabbatical through special programs).reimbursement of job-related expenses.

Reimbursement of Job-Related Expenses

Church staff are often expected to make home visits, represent your church at conferences, entertain guests, and develop professionally through continuing education. It is important that you budget for and reimburse these items separately from compensation. Otherwise, your staff will have to pay taxes on the reimbursed amounts.

The key is to reimburse business expenses through an accountable plan. Under this arrangement, ministry-related expenses are not reported as taxable income on the employee's Form W-2 or Form 1040. At the same time, the employee cannot claim these expenses as tax deductions.

Requirements for an accountable plan

- Expenses must be incurred while performing services as an employee of the organization.
- The employee must provide documentary evidence of the expense. This can be an auto mileage recording work-related use of a personal car or receipts to verify expense amounts, plus a notation of the time, place, and professional purpose for each expense.
- Expenses must be reported and substantiated within 60 days of when they occurred.
- An accountable plan cannot be funded through salary reduction. The reimbursements must be over and above any salary paid to employee, from a spending category that is listed in your church budget.
- Excess reimbursement not spent 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. 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.

Allowable reimbursable expenses

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

Steps for Agreeing on a Compensation Package

CHURCH

Begin by forming a Pastoral Relations Committee

A crucial first step in developing a compensation package is forming a Pastoral Relations Committee (PRC). This committee provides a channel for your minister or pastoral staff to communicate openly about their needs. The committee can then conduct the necessary research, work with the minister to design an acceptable package, and advocate for fair compensation.

Size of the PRC

A PRC should be relatively small, three to seven people. This is large enough to foster group interaction and small enough to encourage wide participation. Another reason to have a small group is the importance of maintaining a high trust level and ensuring confidentiality.

Selecting PRC members

Given the sensitive nature of the PRC, it is better to select its members by appointment rather than through formal nominating and election processes. You might ask the minister to provide a suggested list of names to the chairperson of the board. Then, in mutual consultation between the minister and chairperson of the board, make your final selections.

Member qualifications

First and foremost, PRC members are people with whom the pastor has a good relationship. Important characteristics include:

- People who are supportive of the minister and sensitive to the feelings and needs of both the congregation and minister
- Good listeners
- People skilled in human relations and communication
- People who have integrity with regard to maintaining confidentiality
- Both men and women of mixed ages

It is best not to have the current chair of the board on the PRC. Nor is it desirable to include members of other committees or church departments simply because they represent those groups. You are not attempting to represent the entire church in this small committee. If input is needed from other groups, the PRC can invite representatives to its meeting and excuse them after a particular topic has been covered.

Steps for Agreeing on a Compensation Package

MINISTER

As the Pastoral Relations Committee conducts its research, give some thought to your expectations regarding a fair compensation package. Refer to the Compensation Handbook for Church Staff (described earlier) and other findings of the PRC. Make sure the PRC is aware of factors that might justify increases beyond the average salary for a pastor in your situation:

- Additional experience or degrees acquired since the last salary negotiations
- Performance goals that have been met
- Additional responsibilities that have been assumed
- History of past raises, if those have been limited due to budget constraints

Steps for Agreeing on a Compensation Package

CHURCH AND MINISTER

Once the Pastoral Relations Committee (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. Also see the sections that follow on how to approach negotiations with a constructive frame of mind.

Now is also a good time to agree upon severance compensation. The church and minister can discuss the matter objectively, free of passions that may arise when actual departure is imminent. 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.

How to Determine a “Fair” Wage

Earlier in this guide, we discussed the components a compensation package should include. How do you know if the package you’ve designed is reasonable and fair? Compare it with those of thousands of other church workers nationwide.

Based on a national survey and updated each year, The Compensation Handbook for Church Staff 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. Compensation profiles are broken down by categories so that you can compare:

- Salary
 - Retirement benefits
 - Health insurance coverage
 - Housing/parsonage allowance
 - Life insurance benefits
 - Continuing education
 - Senior Pastor
 - Associate Pastor
 - Executive/Administrative Pastor
 - Youth Pastor
 - Adult Ministry Director
 - Non-ordained
- The profiled positions include, but are not limited to:

You’ll find compensation levels based on personnel characteristics that include years employed, denomination, region, and education level. This lets you compare your plan to other churches that have similar attributes and demographics.

The Compensation Handbook for Church Staff is updated annually and can be ordered at YourChurchResources.com.

The *Compensation Handbook for Church Staff* provides a worksheet for each staff position. Enter your church's data in the first column. Then check the reference tables to find the highest/lowest, median/average compensation for comparable positions. Your goal is not to come up with a single number, but rather to identify a compensation range. Once that range is determined, a variety of factors will affect the final level of compensation.

Example: Senior Pastor Worksheet

	Enter Your Church Data below	The 2012-2013 Compensation Handbook for Church Staff		Enter Compensation Handbook Data Below			
				Highest 25%	Median	Lowest 25%	Average
Church Income	\$850,000	Table 4-1	Page 34	\$114,000	\$97,976	\$85,225	\$100,031
Worship Attendance	475	Table 4-2	Page 35	n/a	\$89,470	n/a	\$91,682
Church Settings (metro, suburban, small town, or farming area)	Suburb of a large city	Table 4-3	Page 36	n/a	\$89,000	n/a	\$93,450
Region	Pacific	Table 4-4	Page 37	n/a		n/a	\$89,428
Person's Education	Master's	Table 4-5	Page 38	n/a	\$78,631	n/a	\$82,250
Years Employed	10 years	Table 4-6	Page 39	n/a	\$79,000	n/a	\$80,077
Denomination (if applicable)	n/a	Table 4-7	Page 40	n/a	\$	n/a	\$

¹ Worksheets in *The Compensation Handbook for Church Staff* help you determine a median range of compensation plus benefits.

Determine how your pastor's compensation should fit within the range

After establishing a range for base compensation plus benefits, determine where your pastor's compensation should fit within that range. Refer to the tables and adjust for:

- Church income, worship attendance, and setting (urban/rural)
- Pastor's years of service, education

Plus additional circumstances such as:

- Cost of living in your area/local economy
- Pastoral performance, workload
- Goodwill
- History of previous raises for the pastor and other staff

¹ Pg. 17 of CompHandbook 2012-13_final_forcd.pdf

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% of the senior minister's compensation.
- Someone responsible for one or two aspects of congregational life and requiring minimal supervision might earn 70% to 80% of that base.
- Someone with entry-level skills requiring substantial supervision might receive 65% to 75% of a senior minister's compensation.

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

MMBB provides additional compensation information for ABC churches

For added perspective on national averages in the Compensation Handbook for Church Staff, MMBB provides annual updates on average and median compensation for each ABC region, as well as for the nation as a whole.

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 custom compensation analysis request form, call 800.986.6222 or email service@MMBB.org.

Alternative rules of thumb for determining a fair wage

If you and 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 school principal

Break a Pattern of Discriminatory Compensation

The average salary for female pastors tends to skew lower because more women than men serve small churches. Nevertheless, female pastors earn 19% less than male pastors with similar levels of education and years of employment. Their annual salary increases are 28% lower, on average.

As a center for teaching fairness and equality, your church should lead by example. Compensate your staff fairly, regardless of gender.

		Gender	
		Male	Female
	Data Distribution*		
Characteristics			
Average weekend worship attendance		401	232
Average church income		\$710,389	\$489,019
Average # of years employed		10	9
Average # of paid vacation days		22	25
% College graduate or higher		92%	94%
% Who receive auto reimbursement allowance		63%	56%
% Ordained		100%	100%
% Supervise one or more people		97%	100%
Average % salary increase (for those who had an increase) this year		4.3%	3.1%
Compensation			
Base Salary	Median	\$43,567	\$39,594
	Average	\$46,877	\$41,572
Housing	Median	\$25,000	\$17,000
	Average	\$27,025	\$22,921
Parsonage	Median	\$12,000	-
	Average	\$14,167	-
Total Compensation	Median	\$67,044	\$50,500
	Average	\$71,083	\$57,517

Source: The 2012-2013 Compensation Handbook for Church Staff

Report compensation changes to MMBB

Once a compensation change is approved, 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 by calling 800.986.6222. Submit the completed form to:

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

Or fax (Attn: Billing) to 800.986.6782

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

1st Quarter			2nd Quarter			3rd Quarter			4th 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 coming year, report to MMBB		

Approaching Negotiations with the Right Frame of Mind

Pastors must learn to be their own advocates

While it is hoped that concerned members of the congregation will be committed to providing you with fair and adequate compensation, you as a pastor must also advocate for yourself. Remember that you have a right and responsibility to negotiate your own compensation.

Your advocacy need not be combative, hostile, or demanding. Instead, approach negotiation as a positive activity to be done in a manner that encourages:

- A fair and adequate compensation plan
- A decision based on facts: your goals, achievements, education, and responsibilities, plus a comparison to national averages
- A healthy and candid pastor and church relationship
- A stronger witness and mission of your church

Don't leave decisions that affect your compensation to chance. Even well-meaning people need your input. Don't feel obligated to leave the room when your compensation is discussed. It is important to negotiate face-to-face so that everyone knows why the compensation decision is what it is.

“The Lord commanded that those who proclaim the gospel should get their living by the gospel.”

CORINTHIANS 9:14

Four common misconceptions when pastors negotiate their salary

“Congregants will dislike me if I request a higher salary.”

People appreciate honesty and would rather know how a pastoral leader is feeling than deal with unexpressed frustration. Ministers cannot have healthy relationships in a church when they carry a burden of undisclosed hostile feelings.

When money issues do emerge, they are usually not the root problem, but a symptom of other issues that should be investigated. People pay more attention to what you do than the salary you request.

“I’m a proclaimer of the gospel, I shouldn’t be preoccupied with such material concerns.”

The scripture acknowledges time and again that church leaders must be cared for and compensated for their labor. Paying a fair wage is one way your congregation acknowledges that it respects its own ordained leaders. While being silent and passive is a negotiating option, it can cause your feelings to emerge in defensive, ways that are counterproductive to doing God’s work.

“My church is poor. It can’t afford to do better.”

To test this theory, check *The Compensation Handbook for Church Staff* and see what churches like yours are currently paying. Congregants rarely openly discuss their personal finances. Your perception may not align with the reality.

“The church’s mission giving will go down if my salary goes up.”

It is better for a church to support its own ministry than to sacrifice the pastoral leader’s salary for wider mission giving. Your church’s first priority is to appropriately provide for its members and pastoral leaders. They are essential for church growth and effective mission giving. You can also test this theory by checking *The Compensation Handbook for Church Staff*.

Church leadership is responsible for paying a fair wage and retaining talented leadership

The Word of God is specific when it says that laborers are worthy of their hire. This means churches should give the maximum amount of support to their pastors, without jeopardizing the overall financial stability of the church. That is not always easy during difficult economic times. But the right thing isn't always the easiest. If church finances make it difficult to pay what you should, see the section later in this guide on "bridging the gap."

Three common misconceptions when churches negotiate pastors' salary

"We can pay less because the pastor's spouse is a high earner."

Nowhere else in the working world are employee salaries reduced to account for spousal earnings. Your minister's efforts are worth no less when his or her spouse earns a good income. A fair wage should be based on national averages reported in *The Compensation Handbook for Church Staff* and adjusted only for your church's environment and the pastor's qualifications.

"We can pay less because the pastor has modest needs."

Pastors who live modestly may still need to care for family members. They may have plans for travel or unpaid service during retirement. A church has no right to pay a less-than-fair wage simply because it does not know how the pastor will spend the money.

"We'll just offer a total compensation amount and let the pastor decide how to allocate it."

A common mistake that distorts the actual amount a pastor will have for living expenses is to propose a single large figure that covers salary, benefits, and expenses. This forces the pastor to choose between accepting lower take-home pay, waiving essential benefits, or paying expenses out of pocket.

As you have seen earlier, the various forms of compensation serve different purposes and have different tax implications. It takes considerable thought to develop an optimal mix. It is unfair to make ministers do this on their own.

Tips for Constructive Negotiations

Your church and minister will need to work together after the salary negotiations. Conduct them in a spirit of good will that avoids rancor and ensures a positive outcome.

Negotiation tips for a minister

Begin the session with a prayer. But don't make the prayer an opening statement of your position! Pray that God's spirit will lead all present in the discussion (rather than praying that God will open their eyes to the inadequacy of your previous compensation package).

Know what you want and what you absolutely need, and prioritize your requests. It is important to have thought through these matters before the negotiation begins. Seeming 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. Money and ministry are connected.

Three criteria for successful negotiations

- They should be efficient, stay on the subject, and not become sidetracked.
- They should improve, or at very least not damage, the relationship between parties.
- They should lead to a mutually acceptable win-win agreement.

Negotiation tips for all participants

Educate the decision makers on the components of a compensation package and the principle of basing salaries on national averages. Share your research on compensation comparisons and try to have objective discussions based on facts.

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. ("You might let your family live in a house like that, but I'd never do it to anyone I loved!") It prevents people from listening and encourages them to dig in rather than admit wrongdoing or guilt. Instead, state your position in objective terms. ("The parsonage is lovely in the summer. But the uninsulated walls and 40-year-old heating system make it hard to keep the temperature in the winter above 65 degrees.") Be hard on the problem; be soft on people.

Be realistic in your expectations. You may not be able to achieve all your goals all 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 good will before they will soften their position.

You'll find additional resources for successful negotiation at the end of this guide.

"Those who are taught the word must share in all good things with their teacher."

GALATIANS 6:6

Bridging the Gap: When Your Church Cannot Afford to Pay a “Fair” Wage

It may happen that your church determines a fair wage—based on its situation and the minister’s qualifications – but church finances are such that it cannot afford to pay that. Here are some suggestions of creative ways to “bridge the gap.”

Increase the proportion of tax-advantaged compensation

Without increasing the total compensation amount, your church may be able to increase the minister’s take-home pay. Consider shifting compensation to such tax-advantaged forms as retirement plan contributions, a housing allowance, or an increased expense allowance.

Realize that each side has multiple interests

You’ve seen that compensation takes many forms. Take time to understand the other side’s multiple interests and you may find other ways to help even the balance. For example, you might say, “Our church cannot afford the annual increase you requested. But since one of your problems is cash flow early in the year until you’ve paid your medical insurance deductible, can we restructure your salary schedule so that 60% is paid during the first half of the year?” Or, “In lieu of the higher salary increase, how about the lower amount, plus covering medical deductibles?”

Supplement the minister’s salary with other forms of compensation

Cash is not the only solution. You can enrich your compensation package by adding such non-cash elements as:

- A paid sabbatical
- Church payment of the minister’s continuing education
- More paid leave

The dollar value of the package won’t necessarily be a lot higher. But it may be a better arrangement overall.

Agree on a catch-up schedule

If you’re confident that your church is only experiencing a temporary setback, consider specifying—in writing—how you will make it up to your pastor with future salary increases. Just be sure that you can follow through on this promise. Failing to deliver in the future will add feelings of betrayal on top of a salary grievance. (If at any point the amount paid exceeds what was reported to MMBB, contact MMBB to make up back payments of Comprehensive Plan premiums.)

Reconsider the pastor's responsibilities

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

Myth: "Part-time pastors aren't real pastors."

Churches concerned 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 remote, establish a vision and mission for further development. If your church does not really want to change, then the pastor should be told this before responding to a call.

Additional Resources

Online

- **MMBB Church Finances & Administration.** Your online guide to church finances and benefits administration, including descriptions of MMBB benefits offerings. **[MMBB.org/Church-Finances-Administration](https://www.mmbb.org/Church-Finances-Administration)**
- ***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](https://www.ucc.org/Ministers/PDFs/prc.pdf)**
- ***Suggested Minister Church Agreement***. A “covenant making” tool for American Baptist 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.aspx](https://www.ministerscouncil.com/ClergyCongregationalRelationships/SuggestedMinisterChurchAgreement.aspx)**
- ***Federal Reporting Requirements for Churches***, by Richard R. Hammar, J.D., LL.M., CPA. These payroll reporting requirements apply, in whole or in part, to almost every church. Yet many churches do not fully comply with them. **Visit [MMBB.org](https://www.mmbb.org) and search “reporting requirements.”**
- Website of the **Program on Negotiation at Harvard Law School**. Click on “Browse Topics” for succinct posts covering various aspects of negotiation and conflict resolution. **[PoN.Harvard.edu](https://www.pon.harvard.edu)**

Print

- ***The Compensation Handbook for Church Staff***, by Richard R. Hammar, J.D., LL.M., CPA, published by Christianity Today International (updated annually). Based on survey data from more than 4,600 churches representing nearly 8,000 staff members, this guide provides reliable compensation breakdowns for part-time and full-time church staff. **Visit the employment section of YourChurchResources.com.**
- ***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 decipher the underlying structure of every difficult conversation, start a conversation without defensiveness, and move from emotion to productive problem-solving.

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Christianity Today International

465 Gundersen Drive
Carol Stream, IL 60188
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ChristianityToday.com

YourChurchResources.com

National Association of Church Business Administration

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