

Northern Illinois Synod, ELCA
2008 Congregational Guidelines
for Determining a Pastor's Compensation

Creating and updating a compensation package for your pastor can be a lengthy and confusing process. The following document has been created for the purpose of providing guidelines to congregations for use in determining the compensation of their pastors. These guidelines have been divided into the following sections: compensation, benefits, reimbursable expenses, and a worksheet.

I. COMPENSATION

A. Cash Salary -- the following guidelines are considered appropriate for a called and ordained minister of the ELCA serving in a congregational setting.

- 1. Salary Level with Experience** - Congregations are encouraged to reward their pastor for the knowledge and experience gained through years of service since ordination. It is recommended that a length of service amount be added to the pastor's base salary. The length of service amount may be calculated by selecting a percentage within a 2-4% range. Once a percentage has been chosen, multiply it by the minimum base salary of \$30,122. The percentage dollar figure should fall within a range of \$602 - 1205. This dollar figure should then be multiplied by the number of years of service (up to 20 years).
- 2. Annual Merit Increase** – An annual salary increase for merit is encouraged. A merit increase in the range of 1-10% of the base salary plus housing is recommended. To help decide this, your congregation may perform an evaluation, such as the one found in the *Assessment of Staff and Congregational Ministry* professional evaluation forms available from the NIS office. For clergy in one position more than 20 years, a consideration may be to give a 'bonus' equivalent to a merit increase; this would not increase the base salary nor impact on fringe benefits.
- 3. Entry Level Base Salary** - The suggested entry-level cash salary in 2008 is \$30,122. Compensation for part-time clergy positions should be pro-rated according to time contracted with the congregation. For instance, a pastor working one-half time with a congregation should be paid one-half the appropriate base salary.
- 4. Previous Career Experience** - As more and more "second career" people enter this ministry, the question of a fair and equitable salary takes on new ramifications. In many cases, the previous experience may be relevant to the work of the ministry. Pastors who enter the rostered ministry after years of work in other occupations should not be compensated at the beginning of the scale, but rather at a rate that recognizes the value of their work experience and maturity. Congregations are urged to consider giving experience credit for previous work. It is recommended for purposes of calculating cash salary, that for every two years of professional experience in another field, the minister be credited with one year of professional experience in the ministry.

(Cost of living varies widely within our synod and these guidelines may not reflect the economic conditions of your congregation. Additional information on establishing salaries can be found in the "Compensation Planning" guidebook available through the ELCA Division for Ministry, 8765 W. Higgins Road, Chicago, IL 60631.)

B. Housing

1. Pastor as Homeowner - If a pastor owns his/her own home, it is recommended that the congregation grant a **Housing Allowance**. The housing allowance may be applied to the home's mortgage, taxes, insurance, and utilities. As of January 1, 1991, use of a housing allowance is governed by the IRS. Housing allowances are tax excludable up to the amount expended for actual costs.

a. Setting the amount of the allowance - When a pastor owns his or her own home, the congregation should allow the pastor to recommend a housing allowance amount to the council based on actual expenses (mortgage, taxes, insurance, utilities) or the fair market value of their home (computed on the basis of the average value of homes in the community). A good guide for this recommendation is whether the housing allowance amount is at least 30% of the pastor's total annual cash salary. A recommendation based on actual expenses, fair market value, or a percentage of cash salary is acceptable. The pastor has the responsibility for justification of the allowable portion for tax purposes.

b. A housing allowance must be stated in a written agreement with the congregation - A housing allowance is exempted from 1040 income, but not exempted from social security income. The interest paid on a mortgage is deductible on Schedule A. Pastors who own or rent their homes must have an agreement on file clearly stipulating the amount of the housing allowance before receiving housing allowance income. This is an IRS requirement. The housing allowance, recommended by the pastor, should be adopted by a congregational council resolution at the December meeting and must be set before the new calendar year.

2. Parsonage provided by the congregation - If the pastor lives in a parsonage, it is recommended that the congregation determine the value of this non-cash compensation. The congregation should determine a fair rental value of the parsonage considering actual costs. The congregation may choose to pay a **Utilities Allowance**, reflecting a fair estimate of costs, directly to the pastor. Costs of the utilities are tax deductible up to the actual amount expended. Congregations providing a parsonage may also designate a **Furnishings Allowance**. The housing allowance is limited to the fair market rental value of the house, including furnishings and appurtenances (such as a garage), plus the cost of utilities. When the parsonage is provided, it is recommended that the congregation use, as the non-cash compensation amount, the larger of either the actual estimated tax-deductible housing expenses **or** 30% of the pastor's annual cash salary.

(A complete supplemental guideline for use of a parsonage is available from the synod office.)

When a congregation sells a parsonage, it is recommended that the assets be retained to assist in financing pastor-owned housing.

3. Equity Allowance - If the congregation provides a parsonage for the pastor, then they are encouraged to provide an **Equity Allowance**. An equity allowance is compensation for the loss of equity buildup associated with not owning a home. An equity allowance would help provide for a pastor and their family in the event of retirement, death, disability or pay for housing later in their ministry when a parsonage is no longer available. An annual

equity allowance in the range of 3-10% of the pastor's annual cash salary is recommended. Unless the equity allowance is invested in a tax-sheltered account for the individual, it becomes taxable income as received. The ELCA Optional Pension can receive such moneys and may be used to avoid direct payment to the pastor.

II. BENEFITS

A. Social Security Tax (SECA) - Providing for the retirement of a pastor is the responsibility of the congregation. Pastors are considered "self-employed" by the federal government. They must pay to the Social Security Administration, 15.3% of their total annual cash salary and housing allowance OR the fair rental value of the parsonage. A **Social Security Allowance** shares the burden of this tax by providing what most employers provide - half of the Social Security tax. Congregations are encouraged to reimburse at least 50% of their pastor's Social Security tax liability. Note: such reimbursable income may be taxable.

This information is based on 2006 data. Please contact the IRS for current information.

B. ELCA Pension Plan - The ELCA Board of Pensions uses **DEFINED COMPENSATION** to determine the amount of a congregation's required pension contribution. **Defined Compensation** is comprised of the pastor's actual cash salary, a housing allowance, and the Social Security Allowance. If housing is provided, then instead of a housing allowance amount, the calculation requires that the congregation take a minimum of 30% of the combined total of pastor's annual cash salary plus Social Security Allowance and then add any furnishings and/or utility allowances paid directly to the pastor. A worksheet for the **Defined Compensation** formula follows:

- | | | |
|----|---|-------------|
| 1. | Annual Cash Salary (includes salary reduction) | \$ _____ |
| 2. | Housing | |
| | a. Cash housing allowance | \$ _____ 2a |
| | or | |
| | b. If housing is provided, then enter the Fair Rental Value of the parsonage (this can be determined by calling Real Estate Agents in your area, describing your housing and they will let you know a range that they could rent it for). | \$ _____ 2b |
| | c. Household furnishings and Utility Allowance (only if parsonage is provided and the allowance is paid directly to you) | \$ _____ 2c |
| 3. | Total of (2a) or (2b + 2c) | \$ _____ 3 |
| 4. | Social Security Allowance | |
| | a. Total compensation on which social security tax is owed. (Add line 1 + Line 3) | \$ _____ 4a |
| | b. Congregation's Social Security Allowance (It is recommended that the congregation pay at least one-half of tax owed or 7.65% of Line 4a) | \$ _____ 4b |
| | c. Social Security tax owed by pastor (15.3% of line 4a+4b) | \$ _____ 4c |
| 5. | Use only if Housing is provided. Parsonage BOP (Board of Pension) value is the greater of line 2b or 30% of line 1 + 4b. | \$ _____ 5 |
| 6. | Annual defined compensation | |
| | a. If you own your own home, add 1 + 3 + 4b | \$ _____ 6a |
| | b. If housing is provided, add (1 + 2c + 4b + 5) or if 2b is greater than 5 then add (1 + 3 + 4b) | \$ _____ 6b |

Example A (Housing Provided\Parsonage)

(Example uses base salary and value of provided housing @ 30% of base. Fair market value of housing may vary based on your location and type of housing provided).

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|----|---|---------------------|
| 1. | Annual Cash Salary (includes salary reduction) | \$ <u>30,122</u> 1 |
| 2. | Housing | |
| | a. Cash Housing Allowance | \$ _____ 2a |
| | Or | |
| | b. If housing is provided, then enter the Fair Rental Value of the parsonage (this can be determined by calling Real Estate Agents in your area, describing your housing and they will let you know a range that they could rent it for.) | \$ <u>9,037</u> 2b |
| | c. Household Furnishings and Utility Allowance (only if parsonage is provided and the allowance is paid directly to you.) | \$ <u>0</u> 2c |
| 3. | Total of (2a) OR (2b + 2c) | \$ <u>9,037</u> 3 |
| 4. | Social Security Allowance | |
| | a. Total compensation on which social security tax is owed. (Add line 1 + line 3) | \$ <u>39,159</u> 4a |
| | b. Congregations Social Security Allowance (It is recommended that the congregation pay at least one-half of tax owed or 7.65% of line 4a) | \$ <u>2,996</u> 4b |
| | c. Social Security Tax owed by Pastor (15.3% of line 4a+4b) | \$ <u>5,991</u> 4c |
| 5. | (Use only if housing is provided.) Parsonage Board of Pension Value is the greater of line 2b or 30% of line (1 + 4b). | \$ <u>9,935</u> 5 |
| 6. | Annual Defined Compensation | |
| | a. If you own your own home add (1 + 3 + 4b). | \$ _____ |
| | b. If housing is provided add (1 + 2c + 4b + 5) or if 2b is greater than 5 then add (1 + 3 + 4b). | \$ <u>43,053</u> |

Example B (Pastor as Homeowner)

(Example uses base salary and housing allowance @ 30% of base. Fair market value of housing may vary based on your location).

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|----|---|--------------------|
| 1. | Annual Cash Salary (includes salary reduction) | \$ <u>30,122</u> 1 |
| 2. | Housing | |
| | a. Cash Housing Allowance | \$ <u>9,037</u> 2a |
| | Or | |
| | b. If housing is provided, then enter the Fair Rental Value of the parsonage (this can be determined by calling Real Estate Agents in your area, describing your housing and they will let you know a range that they could rent it for.) | \$ _____ 2b |
| | c. Household Furnishings and Utility Allowance (only if parsonage is provided and the allowance is paid directly to you.) | \$ _____ 2c |
| 3. | Total of (2a) OR (2b + 2c) | \$ <u>9,037</u> 3 |

4. Social Security Allowance		
a. Total compensation on which social security tax is owed. (Add line 1 + line 3)	\$	<u>39,159</u> 4a
b. Congregations Social Security Allowance (It is recommended that the congregation pay at least one-half of tax owed or 7.65% of line 4a)	\$	<u>2996</u> 4b
c. Social Security Tax owed by Pastor (15.3% of line 4a+4b)	\$	<u>5991</u> 5
5. (Use only if housing is provided.) Parsonage Board of Pension Value is the greater of line 2b or 30% of line (1 + 4b).	\$	<u> </u> 5
6. Annual Defined Compensation		
a. If you own you own home add (1 + 3 + 4b).	\$	<u>42,155</u>
b. If housing is provided add (1 + 2c + 4b + 5) or if 2b is greater than 5 then add (1 + 3 + 4b).	\$	<u> </u>

Pension Contributions

If a pastor participated in a predecessor church plan on December 31, 1987, was at least age 45 on that date, has continuously been a sponsored member of an ELCA retirement plan since January 1, 1988, the total employer retirement contribution must be at least 11%.

The current ELCA rates are:

55 or older	12%
45-54	11%
<45 and all other members	10%

(These rates are subject to change, Please consult the latest Board of Pensions mailing.) (As a footnote to the above chart, please note that former LCA pastors serving in the same call issued prior to January 1, 1988 remain at the 12% rate regardless of age.)

The Northern Illinois Synod **strongly encourages** a minimum pension contribution of 12% for all pastors. Congregations may also choose to remit contributions above the 12% level. (If a congregation decides to do so, the Board of Pensions must be advised.) Congregations should consider the retirement needs of the pastor when settling on a pension contribution percentage. Also, the ELCA Optional Pension Plan may be used by the pastor to defer tax liability on further retirement savings' money: e.g. an equity allowance from the congregation, certificates of deposits, inheritance, etc. Financial planning by the pastor, so that retirement needs will be met, is recommended.

C. ELCA Medical, Dental, Disability and Survivor Benefits

The ELCA Board of Pensions uses the same **Defined Compensation** figure for determining the rate of contribution for a pastor's health benefit package. Each year the Board of Pensions sets the percentage a congregation should contribute for its pastor's health benefits package. The percentage is based upon its expectation of the cost of the plan. The percentages for 2008, as set by the Board of Pensions, are as follows:

Medical and Dental Plan	Contribution Rate as a % of Defined Compensation	Minimum Monthly Contribution	Maximum Monthly Contribution
<i>Health Benefits</i>			
Member Only	12.7%	\$480	\$649
Member and Spouse	22.2%	\$840	\$1,135
Member and Children	22.2%	\$840	\$1,135
Member, Spouse and Children	31.8%	\$1,200	\$1,622

Disability Benefits: Contributions by the congregation for disability benefits and administration costs are a percentage of **Defined Compensation**. In 2008, this percentage rate is 2.7 %, which included a percentage for administrative expenses for the pension/health benefits plan. The Survivor Benefits Plan remains suspended.

D. Other Benefits for the “Wellness” of Pastor & Congregation

There are many other benefits to negotiate in the call process. Discussing the following items in advance can help pastors and congregations avoid conflict later in the call when it seems that the benefits are changing. A section on “Wellness” has been added to this category because of the importance of health to the life of a pastor and the congregation that she/he serves.

- 1. Workweek** – Because of the “On Call” nature of Ordained ministry, serious consideration needs to be given to pastor’s self-care. It is recommended that pastors be encouraged to set aside 1.5 – 2.0 days a week for personal time.
- 2. Vacation** - The need for annual vacation is self-evident. The congregation should provide four weeks per year (encompassing four Sundays) of vacation with full pay. This does not include continuing education. Time spent on continuing education, churchwide or synodical committees, congregational retreats or congregational camping programs is not to be considered as vacation time or time off. The congregation is encouraged to consider the tenure of the pastor and his/her individual needs in setting vacation limits. Additional vacation weeks may be negotiated.

a. Pulpit Supply – The congregation is to assume responsibility for a substitute pastor during vacation time. The following fee structure is offered as a minimum reimbursement:

1 service	\$125 plus mileage @ current IRS rate (\$0.485/mile for 2007)
2 services	\$150 “ “ “ “
3 services	\$175 “ “ “ “
Adult forum	\$ 50 “ “ “ “

- 3. Wellness** – It is important that leaders in our church take care of their physical and spiritual health. Please use the resources found at <http://www.elcaforwellness.org> and the following guidelines recommended by the Northern Illinois Synod Spiritual Formation Sub-Committee and the Ministry Support Committee.

a. Spiritual Renewal – It is recommended that all rostered leaders under call be given three days to one week or more per year for spiritual renewal which is not classified as vacation or educational leave. It is suggested that the rostered leader spend this time at a retreat center or facility where s/he is able to fully focus on "renewal." Therefore, the pastor should have a colleague cover emergencies during this time away.

b. *Spiritual Guidance* – It is recommended that all rostered leaders be encouraged to have a spiritual guide during their time of call. Resources for finding and selecting a Spiritual Guide can be found at <http://www.nisynod.org>.

4. Parental Leave - The church places a high value on family. These guidelines are offered to help congregations approach situations requiring parental leave in a caring manner.

a. *Parental leave following the birth of a child* - Six weeks of maternity leave should be available to mothers immediately following the birth of a child. The needs of each pastor and congregation may vary. It is recommended that the congregation pay full salary and benefits during this time. A two-week paid parental leave is recommended for a father immediately after the birth of a child. At a minimum, full benefits for the pastor should be maintained during a maternity or parental leave. Some factors that may be considered in determining salary and benefits during such a leave are the pastor's length of service with the congregation, vacation time available, housing costs, and the hardship to the pastor or the congregation.

b. *Parental leave following adoption* - The above guidelines apply to parents who are adopting children.

c. *Parental leave granted at other times* - Parental leave may be granted by the congregation at other times. For example, during times of severe illness, trauma, or death of a child. The length of the leave and the salary and benefits, which the congregation will provide the pastor, should be negotiated by the pastor and the congregation. It is recommended that the congregation, at a minimum, provide full benefits for the pastor during any parental leave granted.

d. *Pulpit supply* – During the leave period, a substitute pastor is to be paid by the congregation. See Pulpit Supply under II,D,2a (Vacation).

4. Temporary Disability

a. *Full compensation and benefits for the first 60 days* – In the event of the temporary disability of a full time pastor, it is recommended that the congregation continue to pay the individual's full compensation and benefits for the first 60 days of disability.

b. *Providing compensation to supplement the ELCA disability plan* – After the first 60 days of disability, the ELCA disability plan becomes effective and will pay 66 and 2/3% of *Monthly Defined Compensation*. Consideration should be given by the congregation to paying the remaining 33 and 1/3% of *Monthly Defined Compensation*.

c. *Pulpit supply* - The congregation is to assume responsibility for a substitute pastor during the term of disability. See Pulpit Supply under II,D,2a (Vacation).

d. *Other compensation* - If a full time pastor, as a result of the disability, receives compensation from some source other than the ELCA disability plan, such as Workman's Compensation, then the congregation and the recipient should negotiate compensation so that it shall not exceed the usual monthly compensation.

III. REIMBURSABLE EXPENSES

Reimbursable expenses are not compensation to the pastor, but are business expenses of the congregation. Special care should be given to document these expenses. Pastors should file expense reports* with their congregations (an IRS requirement).

(* Congregations need to have on file a congregational “Accountable Reimbursement Policy”; there is one available through the ELCA Division for Ministry, 8765 W. Higgins Road, Chicago, IL 60631.)

A. Automobile - Reimbursement of automobile expenses for congregational business can be handled in one of three ways.

- 1. Reimbursement of miles driven** - Reimbursement for actual business miles driven at the IRS established rate. The IRS standard for 2007 was \$.485 cents per mile.
- 2. Payment of a lump sum** - The congregation may choose to pay the pastor a lump sum per year, pro-rated to a monthly basis. The pastor must maintain accurate records of actual business mileage and provide that documentation to the IRS. Under this method, the entire lump sum, minus expenses, is taxable.
- 3. Congregation purchases or leases a car** – Congregations may consider the purchase or lease of an automobile for use by the pastor. Often the cost to the congregation is no greater than a fair cents-per-mile reimbursement. Pastors will assume some IRS liability for non-business use of the vehicle. The congregation may also choose to have the pastor reimburse the congregation for personal use of the vehicle at a rate comparable with the above IRS standard.

B. Continuing Education - The 1997 Churchwide Assembly affirmed the importance of lifelong learning for healthy and effective leaders of the church. Each pastor, in consultation with his/her congregation, is strongly encouraged to annually prepare and submit a continuing education covenant to the synod office.

- 1. Continuing education reimbursement** - The ELCA recommends \$1,500 per year as an appropriate amount to be spent for the continuing education of a pastor. The pastor is encouraged to provide 1/3 of this amount, with the congregation providing 2/3. Therefore, it is recommended that the congregation budget \$1,000 annually for the continuing education of its pastor.
- 2. First Call Theological Education (FCTE)** - FCTE is a requirement of the ELCA for a pastor in his/her first three years of ministry. This program helps pastors make the transition from seminary to congregational ministry. Partial reimbursement for continuing education is therefore critical for first call pastors. The \$1,500 amount recommended above for continuing education should be sufficient to cover FCTE expenses. The pastor is encouraged to pay 1/3 of this amount.
- 3. Time for continuing education** - It is recommended that the congregation allow 14 days (including two Sundays) for continuing education. The congregation and the pastor should negotiate the way to handle congregational ministry during the pastor’s absence.
- 4. Resource reimbursement** - Congregations are also encouraged to provide reimbursement of books and resource materials up to \$700 per year. Straight reimbursement of costs for these items is not taxable. (Use of an allowance or lump sum amount not tied to actual expenses is taxable.)

5. Sabbatical leave - It is recommended that each congregation develop a sabbatical leave policy for their pastor.

a. A sabbatical leave is encouraged after 6 years - When a pastor has served longer than 6 years in a given congregation, the congregation is encouraged to grant sabbatical leave to permit participation in a longer program of continuing education. The pastor should be encouraged to take not less than two months sabbatical leave for study, every 6 years of service without reduction in salary.

b. A program of study should be planned - In all study situations, it is important that the pastor be expected to plan a program of study and present a detailed plan to the congregation council for approval. The nature of the sabbatical is ultimately a matter of agreement between the pastor and the council. The synod office is available to assist in planning. It is recommended that the program of study be submitted to the synod office.

c. Responsibility to remain - A pastor is expected to remain with a congregation for one year, or an appropriate time agreed upon by the pastor and congregation, after completion of the sabbatical leave.

6. Pulpit Supply – During Continuing Education time away, a substitute pastor is to be paid by the congregation. See II,D,2a (Vacation).

C. Conference Expenses - All pastors under call are required to attend meetings of the Synod Assembly and other meetings called by the bishop. Attendance of the pastor at the Synod Professional Leadership Conference is also normally a part of the business of the congregation. Expenses for attendance at these events should be budgeted and paid by the congregation, unless the expenses are reimbursed by the agency or group calling the meeting.

D. Expenses of employment for a pastor's accompanying spouse – Congregations are encouraged to be sensitive to the employment needs of a relocating pastor's accompanying spouse. Recognizing that two income families are now the norm, the congregation may choose to aid an accompanying spouse's employment by negotiating payment of re-certification or re-licensing. The congregation may also aid the accompanying spouse in other non-monetary ways, such as offering to connect the spouse with local employment agencies or even potential employers.

E. Other expenses - Congregations are encouraged to reimburse the pastor for other expenses incurred if they are related to the ministry of the congregation.

Approved by the Northern Illinois Synod Ministry Support Committee

(with revisions 4/07, 4/06, 4/05, 3/04, 3/03)

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