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MINISTERIAL COMPENSATION GUIDELINES



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“NOW THERE ARE VARIETIES OF GIFTS, BUT THE SAME SPIRIT; AND THERE ARE VARIETIES OF SERVICE BUT THE SAME LORD; AND THERE ARE VARIETIES OF ACTIVITIES, BUT IT IS THE SAME GOD WHO ACTIVATES ALL OF THEM IN EVERYONE. TO EACH IS GIVEN THE MANIFESTATION OF THE SPIRIT FOR THE COMMON GOOD.” (I Corinthians 12:4-7 NRSV)

This booklet seeks to provide guidelines for all who work in the church and receive financial compensation.

WHAT SHOULD WE PAY OUR STAFF?

This question, asked each year in local churches throughout Vermont, is an important one. The answer, and the way the answer is reached, has a profound impact not only on the well-being of church workers and their families but also on morale, job performance, and the quality of the relationship between staff and congregation.

How Do We Decide?

How we decide is almost as important as *what* we decide. In every church, some process needs to be in place for the regular, annual review of employee compensation. Some group within the church needs to have responsibility for the process. A regular review of compensation for all church staff members is important.

LIVABLE WAGE FOR ALL EMPLOYEES

All paid staff members should be paid a livable wage. A livable wage is the hourly rate or annual income sufficient to meet a family’s basic needs plus all applicable federal and state taxes. Basic needs include food, housing, childcare, transportation, health care, household and personal expenses, insurance and 5% savings. \$16.41/hour is the most recent update (2009) of the defined average livable wage for a single person with no dependents based on methodology of the State of Vermont’s Joint Fiscal Office (see vtlivablewage.org). It is appropriate to be the basis for determining a fair minimum rate, taking cost of living increases since 2009 into consideration. Because a family’s livable wage depends on family size, and because there may be additional wage earners in a family, there is no one livable wage number.

CLERGY

The process for reviewing clergy compensation should be one in which the professional person is a full participant. Pastors have a right, and indeed an

obligation, to share with an appropriate designated body whatever feelings, hopes, and needs they may have with regard to compensation. Even in situations where resources are severely limited and the church is unable to pay what it might like to, the fact that the pastor has been consulted is very important in terms of clergy morale and open communication. We suggest that in each church, a small committee, such as the Pastoral Relations Committee, be given the task of initial negotiations with the pastor or pastors each year, several months before the next year’s budget is drafted. Recommendations for changes in compensation can then be forwarded from this group to be included in the budget-building process. Ideally, the same committee which initiates compensation recommendations will also be involved in defining and evaluating the pastor’s work on a regular basis.

What Factors Should We Consider?

This booklet includes a number of guidelines which the Vermont Conference has established for the compensation of pastors serving its churches. These include salary guidelines, and also recommendations with regard to housing and “fringe benefits” (also known as employer costs). **These guidelines are for all pastors, ordained and licensed. The work load and expectations of a licensed local pastor is the same as an ordained local pastor.**

In setting your pastor’s compensation for next year, several factors need to be kept in mind:

- 1 **The size of your church.** Smaller congregations generally pay less than larger ones (although there are significant exceptions to this pattern). The Conference guidelines recognize that church size does make a difference in a church’s ability to pay.
- 2 **The experience and skills of your pastor.** In general, a pastor who has served in ministry for several years will possess more developed skills than one just graduating from seminary. It is appropriate that acquired skills and advanced training be recognized with a higher salary. The Conference guidelines propose a salary “range” for each size church. The more experienced and skilled your pastor is, the higher in the range you should expect to set his or her salary.
- 3 **Your assessment of your pastor’s performance.** It is strongly suggested that the pastor and an appropriate committee establish some performance goals each year, and then determine how fully those goals are being met. This kind of evaluation, viewed as objectively as possible, provides an additional basis for locating your pastor’s salary within the suggested range.

4. The cost of living. Nearly every year, the cost of basic goods and services goes up. Clergy compensation needs to be adjusted accordingly. Otherwise, you will be reducing your pastor's salary simply by keeping it the same. Each year the Conference guidelines are examined and adjusted for inflation. The Vermont Conference utilizes the Consumer Price Index figure according to the Northeast Urban Index. For calendar year 2013, the Consumer Price Index increased by 1.3%. Therefore, we are recommending a 1.3% increase to cover cost of living increases.

There are also variations in the cost of living from one community to another. It is important that your pastor be paid adequately in terms of the cost of living in your community, and in comparison with the incomes of other members of the community with similar training and experience—for instance public school administrators. It should be noted that Vermont Conference Clergy Compensation figures are among the lowest in our denomination.

Employee v. Independent contractor

The IRS definitions of employees and independent contractors cover many pages on their website (www.irs.gov). If there is any question of the status of your pastor or any other employee, please refer to both that website and a tax consultant. Settled Pastors are considered employees by the IRS.

What about Housing?

Many clergy live in church-owned parsonages, and this makes it harder to compare clergy incomes with those of others in the community. A number of churches are now choosing to pay a housing allowance so that the pastor can own (or rent) a home.

The decision between paying a housing allowance and having a church owned parsonage is complicated. Home ownership normally benefits a pastor financially, and provides equity for retirement housing. There are also some tax advantages. For its part, a church which owns a parsonage also holds an appreciating asset, avoids property taxes, and once the parsonage is paid for, incurs no financing charges. The net cost to the church is often substantially less when a parsonage is provided, although there is the need for oversight and maintenance.

Equity Allowance

Some churches devise ways of sharing the benefits of home ownership with the pastor, whichever approach is taken. For a pastor living in a parsonage,

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an **equity allowance**, as part of the basic compensation, is only fair and just.

An equity allowance is not a housing allowance. The two different types of allowances should not be confused. In fairness, there is a need to enable parsonage dwellers to accumulate some equity that can eventually be used to provide housing, either owned or rented. After a lifetime spent in parsonages, the family may have no assets with which to provide housing. In other words, at death, disability, or retirement, the pastor's family is on its own. The mechanics for funding an equity allowance should be as simple as possible. An equity allowance is based on the changing value of the parsonage. For example, a 2% increase in the value on a \$125,000 parsonage would be a \$2500.00 equity allowance payment. Other churches estimate the typical payments on mortgage principal and set that aside. Still others set aside a percentage of salary, for example 7.5% as an equity allowance. A written statement outlining a plan, the funding and specific procedures, is crucial. On the other hand, a home owning pastor might agree to share a portion of equity appreciation with the church, perhaps in return for a reduced-rate mortgage from the church. The Conference staff is happy to consult with, or suggest other consultants to, churches and pastors on housing alternatives.

Church-provided housing, whether in the form of a **parsonage** or **housing allowance**, is a form of income. It is generally tax-free for income tax purposes, but subject to Social Security tax. Pastors who live in parsonages have the benefit of being able to exempt household costs from taxation through a budgeted parsonage allowance. The allowance may be used to purchase furniture, carpets, window coverings, furnishings, and household cleaning supplies. The church's official board must vote what part of the pastor's salary is to be treated as a parsonage allowance prior to that allowance taking effect. Any unused allowance becomes taxable income for the pastor; the parsonage allowance is fully taxable for Social Security purposes.

In addition, for those clergy purchasing homes, both mortgage interest and property taxes are tax-deductible.

How much is a parsonage worth? And what is a fair housing allowance?

In either case, the Pension Boards of the U.C.C. use a figure of 40% of cash salary to compute the rental value of a parsonage, or the average amount of a housing allowance.

In cases where a housing allowance is paid, we suggest that a fair salary first be set, using the Conference guidelines and taking into account the various factors mentioned above. Then add 40% to that figure, to arrive at a total for salary and housing taken together. It is important to remember that the IRS has limited the exclusion from income taxes of a housing allowance to the lesser of the fair rental value of a similar local property (plus utilities) or the pastor's actual housing expenses.

In some cases, it will be to a pastor's advantage to take a housing allowance of more than 40% of cash salary, by shifting money from salary to housing allowance, so as to protect the maximum amount from income tax.

The amount of pastor's housing allowance must be voted by the governing body of the church prior to the period for which the allowance is paid.

Benefits and Reimbursable Business Expenses

Like other employees, pastors normally receive certain other benefits of employment besides direct cash compensations. These other benefits include:

A. Retirement plan. The U.C.C. Annuity Fund is a fully vested "defined contribution" retirement program for our pastors. Dues are paid by the church at the annual rate of 14% of the total of salary and housing allowance, or 14% of 140% of salary, if the pastor lives in a parsonage. An employee of the church must work 15 hours/week or more to qualify for the Annuity Fund.

The UCC Annuity Fund allows members to make personal retirement savings through a voluntary salary redirection deposit. Where a pastor elects such a salary redirection deposit the amount contributed is not included for federal tax purposes but is included in the church's basis for determining the amount of Annuity Fund dues and as the basis for participation in the Life Insurance and Disability Income Plan.

B. Health Benefit Plans. The U.C.C. offers a comprehensive health plan including prescription insurance as well as dental and vision plans for pastors and lay employees. Premiums are normally paid by the church. To participate, an employee must work 20 hours/week or more. A church should expect to pay the cost of health and dental insurance through the UCC plan for its pastor(s) and lay employees who work full-time and on a prorated basis for less than full-time but at least 20 hours per week. Pastors and lay employees with a spouse/partner and/or children should receive coverage for all eligible family members. Churches with part-time pastors and/or lay employees might wish to consider paying for full health coverage.

Caution: Withdrawal from the denomination's Health program and Life Insurance and Disability Income plan, could mean that the pastor may be denied entrance into the program at a later date.

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Through the Pension Boards, local churches participating in the U.C.C. Health Benefit Plans may establish a **Flexible Spending Account**. Aside from a modest initial set-up fee, making the Account available does not entail a cost

to the local church. The Plan provides participants with tax-savings because a portion of the salary is voluntarily redirected into the participant's account and then withdrawn to cover child care and medical expenses.

Where a pastor elects such a salary redirection deposit the amount contributed is not included for federal tax purposes but is included in the church's basis for determining the amount of Annuity Fund dues and as the basis for participation in the Life Insurance and Disability Income Plan.

It is recommended that the church assume the cost of the Pension Boards **Medicare Supplement Plan** when a pastor reaches the age of 65 and is not retired.

C. Life Insurance and Disability Income Plan. This combined group life and disability insurance plan is offered by the UCC Pension Boards at a cost of 1.5% of the total of salary plus **housing** and any salary redirection amounts under the UCC Annuity Fund and Flexible Spending Account. The plan includes (a) life insurance program; (b) short-term disability program that, after 30 days of disability, can replace a portion of income for up to five months; and (c) long-term disability program that can replace a portion of income when a disability continues beyond six months. To participate, an employee must work 20 hours/week or more.

If a Pastor was enrolled in a program called **Group Life Insurance Plan** prior to December 31, 2002 (it has not been available since that date to new enrollees), the cost is \$50 a year in addition to the Life Insurance and Disability Income Plan.

C-1. Disability and Sick Leave. A Church needs to have an understanding with the pastor as to how extended periods of illness and/or disability will be handled. A church should be in contact with its disability insurance provider to understand the provisions of short-term and long-term disability as well as the length of the waiting period before the beginning of disability payments. If a disability is about to move into the long-term stage, an understanding about occupancy of the parsonage should be reached.

C-2. Compassionate Leave. A compassionate leave could be considered to address the circumstance when something out of the ordinary happens, such as a death of a family member, sickness or personal crisis. Thirty to ninety days is recommended with the approval of the appropriate church body. Normally such leave does not accrue and is not payable if unused.

Note: (Other than at the beginning of one's career, opportunity for enrollment in plans B and C above is limited and requires proof of insurability)

D. Social Security Allowance. Clergy are treated as self-employed for social security purposes. Pastors must pay the current 15.3% (Schedule SE) on the cash salary plus housing allowance or fair market rental value of the parsonage. The Conference urges churches to pay 7.65% of the pastor's salary and housing allowance (or 7.65% of 140% of the base salary if a parsonage is provided) for social security, as it must do for regular FICA employees. This should be paid directly to the pastor and listed in the budget as a Social Security Allowance or Offset. This is taxable income and must be included on the W-2 form given to the pastor and reported on the clergy person's tax return. Pastors should apprise themselves of the most recent IRS regulations.

E. Malpractice Insurance. The Conference recommends that each church purchase liability coverage for malpractice, included in the UCC Insurance Program.

F. Paid Vacation. Vacation time should be a minimum of one month per year, including Sundays. This time should be exclusive of denominational meetings or professional training. Supply pastors are paid by the church while the pastor is away.

G. Days Off. The equivalent of two days off per week is recommended.

H. Continuing Education Time and Allowance. In order to have their minds renewed and their spirits refreshed, pastors need time for study and professional growth. A wide variety of short-term courses, retreats, etc. are available. We urge churches to provide 2 weeks of paid time annually for this purpose, and to consider allowing for limited accumulation of unused time to allow for a more extended study leave. At least \$500 should be budgeted for continuing education cost each year. Resources on study leave and sabbaticals are available from the Conference Office.

I. Maternity/Paternity Leave. Churches need to provide for paid time off at the time a child is born or adopted into the pastor's family.

J. Sabbatical. Sabbatical leave for study, travel or personal renewal Adopted 4/26/14 9

is an important part of a pastor's continued development. Sabbaticals are normally three months at full compensation, every five years, exclusive of vacation. Pastors are encouraged to participate financially by setting aside

funds each year to cover the cost of sabbatical programs, studies, etc. Congregations are encouraged to also set aside funds each year in anticipation of the cost for services during the absence of their pastors. The value of a sabbatical, both to pastor and to congregation is significant.

K. Travel and Other Reimbursable Business Expenses. The church provides an auto allowance or reimbursement equal to the IRS deduction (56 cents at the time of this publication, which is subject to change) for miles driven on church business. The church pays directly or reimburses all job-related costs for supplies, books, subscriptions, etc. The church pays for business telephone expenses. The church pays for the cost of the pastor's attendance at Ministers' Convocation and the Conference Annual Meeting. These costs are not in the category of "benefits" to the pastor, but rather should be regarded as operating costs for the church in carrying out its ministry. *Note: We recommend checking the IRS website periodically for updates to the approved mileage reimbursement rate.*

HOW SHOULD WE PRESENT THE PASTOR'S COMPENSATION IN THE CHURCH BUDGET?

Given the fact that people inevitably make comparisons between their own earnings and those of the pastor, thought needs to be given to the way this information is presented in the church budget. Some budgets present the compensation of all church employees together as one lump sum, thereby concealing the individual amounts. However, at the time the budget is adopted in most churches, members are accustomed to having more information about what their pastor or pastors are to be paid.

In view of this, we recommend that a budget format be used which clearly distinguishes between those line items which are in the category of "compensation" (salary, housing and Social Security offset) and those benefits which are reimbursable business expenses. A Social Security offset is equivalent to the employer's share paid on behalf of other employees.

We recommend that all other compensation items be listed as "reimbursable business expenses," because they are the equivalent of items regarded that way outside the church. Auto and other expense allowances also have their equivalents in the secular world, where they are regarded as basic costs of doing business.

FINANCING A HOME PURCHASE

In situations where a church pays a housing allowance and a pastor wishes to purchase a home, the church sometimes loans the pastor money, either in the form of a first mortgage, or a second mortgage toward a down payment. Some of these arrangements have worked out well, but others have turned out less happily. Problems arise when too much debt is carried in relation to the potential sale value of the home. These problems are compounded when market conditions prevent the timely sale of the home. The result is that the church may be unable to recover some or all of the money it has loaned. For this reason, we recommend the following:

1. that churches not enter into financing arrangements in which the total debt is at or near the full appraised value of the home. It is important, for pastors as for anyone else, that the party buying a house have some of its own money invested as a down payment.
2. that any loan arrangements between a church and a pastor be stated clearly as to the rate of interest, the terms of repayment, and the status of the loan when the pastor leaves the employment of the church. We recommend that any loan agreement be examined by a lawyer before it is entered into.

WHERE CAN WE GET MORE HELP?

If you feel that your church would benefit from direct consultation with an outside resource person, the Department of Church and Ministry Council and Conference staff stand ready to assist you. Simply call the Conference office at 802-728-4999 or 1-800-286-0248 and let us know how we may help.

If your church needs help organizing and conducting a more effective Stewardship promotion to raise needed funds for the total ministry of your church, this help is also available.

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VERMONT COMPENSATION GUIDELINES

FOR 2015

Each Annual Meeting of the Vermont Conference adopts guidelines for compensation of pastors serving Vermont UCC church during the following year.

Cash Salary for Full Time Ministers.

Membership	Salary Range	Midpoint:
Up to 100	\$31,174 – 42,906	\$37,040
100-200	\$35,197 – 47,162	\$41,179
200-400	\$39,153 – 50,802	\$44,978
400-600	\$42,960 – 55,060	\$49,010
600-800	\$46,937 – 58,980	\$52,959
Over 800	\$50,914 – 63,041	\$56,978
Responsibility		Units Per Week

A pastor with 10 years or more

experience should be at or above the midpoint of the salary range after 3 years in a pastorate. Other factors suggesting a higher-than-average salary are: exceptional achievement of objectives, special training or skills, higher-than-normal living costs or income levels in your community.

At minimum a pastor’s salary should be increased each year by the percentage of increase in the cost of living. Larger increases are appropriate when achievement is to be recognized or when present salary is low in relation to the Conference guidelines.

In churches with salaries substantially below these guidelines, plans should be made to raise salary to guideline levels over 2 - 3 years. Churches unable to meet these guidelines should seek assistance from the Conference staff in order to consider constructive alternatives.

Housing

The church will provide an adequate parsonage with all utilities paid, or a housing allowance adequate to cover the cost of renting or purchasing a home. If a housing allowance is paid, the total of salary plus housing allowance should be at least 140% of the salary recommended in the guidelines, subject to limits imposed by the IRS. It is important to remember that the IRS has

limited the housing allowance to the lesser of the fair rental value of a similar local property or the pastor's actual housing expenses.

Associate Pastor

A full-time associate pastor, depending on his or her experience, training, professional competence and level of responsibility, should receive a salary of no less than 70% of the applicable salary guideline for a full-time pastor indicated above. When determining salaries in a multi-staff situation, it is important to consider comparative length of tenure and service and varieties of experience - plus any other factors unique to the specific church.

Full or Part-time Service

Full-time service is 12 units per week (a unit being one 3-4 hour block of time morning, afternoon, evening). Part-time service should be compensated on a pro-rata basis using these Conference guidelines, based on the number of days or units worked. Part-time pastors are entitled to non-salary benefits on a pro-rated basis as well.

The following information from the Maine Conference website suggests unit assignments for the most common clergy responsibilities:

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Guest Preachers

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200-400	\$39,153 – 50,802	\$44,978
400-600	\$42,960 – 55,060	\$49,010
600-800	\$46,937 – 58,980	\$52,959
Over 800	\$50,914 – 63,041	\$56,978
Responsibility	Units Per Week	
Worship Preparation	2-4	
Sunday Worship/Coffee Hour	1	
Visitation of those in need (shut-ins, hospitalized, etc.)	2-3	
Administration	1-2	
Meetings	2-3	
UCC Association, Conference, etc.	1-2	
Counseling, Weddings, Funerals	1	
Preparing and Teaching Bible Study	1-2	

recommended that guest preachers be paid at least \$150 plus mileage at the IRS rate (56 cents/ per mile at the time of this publication).

Implementation

We urge each local church to designate a small committee such as the Pastoral Relations Committee to meet with the pastor or pastors to review their compensation, and then to originate compensation proposals to be included in the church budget. This annual review should take place well in advance of the preparation of the church’s budget.

Christian Educators

Salary guidelines for Christian Educator can be found at www.auce.org.

Organist/Church Musicians

We encourage you to refer to the guidelines established by the American Guild of Organists found on the AGO web site.

Other Staff Members

We encourage you to follow the Livable Wage guidelines, at least, when determining all pay rates. Those guidelines and a discussion of them appear on page three of this booklet.

The following web sites may be of value:

- pbucc.org
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- Pension Board Web Site ucc.org
- UCC Web Site vtucc.org
- Vt. Conference Web Site

vtlivablewage.org --- Vt. Livable Wage Web Site www.irs.gov --- IRS Web Site