

**Part 1—Making It on a Pastor’s Pay: Six Terms Everyone Needs to Learn**  
**By Dr. Franklin R. Dumond, director of congregational ministries**

Every fall thousands of committed believers serving on the finance teams and budget committees of Bible believing churches wrestle with plans for the next year’s budget. Salary for church personnel is a large factor in most of these discussions since the combined salary line items can easily account for 40%-65% of the total budget. Pastor search teams confront similar issues as they work on behalf of the church to present not only a prospective new pastor but to also explain the salary package.

**Learning some vocabulary.**

**1. Base salary.** This would be similar to the regular income of an employee. In our society this is often computed on an hourly rate.

**2. Housing.** Currently, IRS regulations allow pastors to exclude housing costs from income that is subject to federal income tax. Housing may be a housing allowance or the rental value of a parsonage. However, housing is subject to self-employment tax.

**3. Self-employment Tax.** For Social Security purposes pastors are considered self-employed. This means that their income, including housing, is subject to self-employment tax at the rate of 15.3%. Computed on a separate form as part of the 1040 income tax return, a small credit is allowed to offset some of the costs of self-employment tax.

**4. Professional Expenses.** Pastors generally incur some costs to undertake their ministry. These would often include the cost of a cell phone plan, travel on behalf of the church, office expenses, professional dues and continuing education. Since full time pastors are employees of the church, not contract employees, these are actually costs of the church not personal costs of the pastor.

**5. Matching Contribution.** Employers in the United States are required to contribute 7.65% of each employee’s salary to their individual Social Security accounts. Employees are also required to contribute 7.65% of their salaries to their individual Social Security accounts. Churches may provide an extra salary line item to address Social Security taxes. When this is done, it increases the pastor’s taxable income but is a fair approach in our culture. A church may not withhold self-employment/social security taxes from the pastor but may, as a courtesy, withhold additional income taxes to offset the self-employment tax if requested by the pastor on his W-4.

**6. Take-home Pay.** This is the amount left after deductions for federal, state and local income taxes have been made. Other deductions for retirement and health care may also be included here. **As most of us know take-home pay is much lower than total income!**

Jesus reminded his hearers of the importance of careful planning. “Is there anyone here who, planning to build a new house, doesn’t first sit down and figure the cost so you’ll know if you can complete it? If you only get the foundation laid and then run out of money, you’re going to look pretty foolish. Everyone passing by will poke fun at you: ‘He started something he couldn’t finish.’ Or can you imagine a king going into battle against another king without first deciding whether it is possible with his ten thousand troops to face the twenty thousand troops of the other? And if he decides he can’t, won’t he send an emissary and work out a truce?” Luke 14:28-32 The Message

Church budgets and pastor’s salaries demand the same care.

## Part 2—Making it on a Pastor's Pay: Four Factors in a Salary Package

By Dr. Franklin R. Dumond, director of congregational ministries

One of the major costs in a church's budget is the cost of employees. Since most churches only have one employee the major costs in most church budgets will be the cost of the pastor's salary package. As a rule of thumb 40-65% of a church budget should be spent on employees. These percentages will seem entirely too high for many businessmen who keep employee costs to 10-20% of operations. These percentages will seem too low for many school administrators since education budgets often spend 80-90% of total budgets on employees.

At the heart of the matter is a basic question that, when answered, will guide the process to a fair conclusion. How do you compute a salary package?

**1. Is the pastor a self-employed, independent contractor or an employee of the church?** An interim pastor, a guest speaker or an evangelist function as self-employed contractors with limited oversight from the church and a great deal of flexibility about scheduling their limited services. A permanent pastor—whether bi-vocational or fully funded—is an employee of the church by all the standard descriptions of employees. Self-employed contractors receive a 1099 report of payments made to them. Pastors as employees receive a W-2 with a detailed list of income, tax payments, retirement contributions and housing benefits.

**2. What benefits will the church provide?** In the United States some benefits paid on behalf of employees are legally required of the employer. Others have become cultural expectations. Still others have been developed to attract and hold quality employees.

A church would be wise to develop benefits for its employees that address:

a. self-employment tax. This can be an added line item in the budget but remember it is not part of the pastor's take-home pay!

b. vacation schedule. Should additional days of vacation be earned by employees based on length of tenure?

c. health insurance. This is a very BIG issue in light of the affordable care act. Individual health insurance is increasingly expensive. Many pastoral spouses subsidize the church by providing family coverage through the work place. As a rule of thumb health insurance premiums are not taxable income if the church pays the insurance company directly. However, if the same premiums are paid directly to the pastor they are probably taxable income.

d. professional expenses. What the church will and will not cover as professional expenses must be determined in advance and in writing to avoid misunderstanding, conflict and tax problems.

e. retirement. The General Baptist Pension Program provides a strategy of employee contributions with employer contributions in a self-managed portfolio that is available to all General Baptist church employees.

**3. Will housing be part of the package?** Many churches provide a parsonage. Others use a housing allowance. Each has its benefits and its pitfalls. Housing in rural communities or small towns is often at

a premium. In those cases a parsonage is advantageous. On the other hand, every year spent in a parsonage is one less year's equity in a home!

**4. What about continuing education?** Although it could be included in the benefit list above, Continuing Education merits a separate paragraph. Currently General Baptist Ministries provides conference and event packages that provide quality continuing education through the Mission & Ministry Summit and the General Baptist Minister's Conference. Additionally young leaders have access to the GenNext/Leverage Conference and Youth Pastors can find specialized training opportunities and networking through the National Youth Conference.

The built-in difficulty for most oversight committees that develop church salary packages is that they have never seen the true cost of having an employee. The weekly pay stub received by most employees will have a list of tax deductions and other contributions but it will not include a behind-the-scenes look at what an employer contributes.

Unfortunately church budgets often look only at the bottom line of total cost for an employee to determine if that is a fair wage when in actual fact salary package is very different from take home pay.

The New Testament is pretty clear about salary packages for teaching pastors:

**The elders who do good work as leaders should be considered worthy of receiving double pay, especially those who work hard at preaching and teaching.**

**-- 1 Timothy 5:17 (GNT)**

### **Part 3—Making it on a Pastor's Pay: Four Attempts at Fairness**

**By Dr. Franklin R. Dumond, director of congregational ministries**

A prayer on behalf of a pastor was short and direct, "Lord you keep him humble; we'll keep him poor."

Even if this prayer was never prayed the result in the local church has often been the same. Sometimes the result was never intended but the method to determine fairness was itself the culprit. I have seen four attempts at fairness when it comes to pastor's salaries. Some are more fair than others.

1. What is the average income for the church? On the surface this seems the most fair since it is based on incomes for the families in the church. Beneath the surface, however, the fairness may be lost if:
  - a. the salary package does not properly account for benefits that are also given to wage earners in the congregation,
  - b. the report from the congregation is incomplete,
  - c. the congregation includes a large number of retirees who have a smaller, retirement income that is adequate to their status as mortgage-free home owners,

- d. the pastor is an entry level pastor but the average income is substantially above entry level income. (Here the fairness to the church is lost since they would be paying more than necessary. In the other cases the fairness to the pastor is lost since he is being paid less that should be expected.)

2. What does it cost to live in our community? What a church needs to do to make this method work is to find the value of a respectable middle-class home in their area, factor in the pastor's student debt, loan on the mini-van, etc. and then figure out what kind of salary he needs to make to qualify for the mortgage on that home.

3. What can we afford? While this may be the actual bottom line issue for most churches "What do we choose to afford?" may be the real question. Church budgets should generally allocate 40-65% of income to employee costs.

4. What is the professional equivalency in our community? The suggestion is that a church look at a secular profession that is most similar to pastoral work and pay accordingly. Most of the time this will be the high school classroom teacher. Local school districts will have salary scales developed based on educational level and tenure. So when the church looks up the education level of its pastor along with his years of experience in full time ministry a community-based standard of pay will be in hand.

If the pastor manages a number of staff, then pay him as a building principal using the school district salary schedule.

Of all the systems reviewed this one seems most fair to all concerned. All pastors (not just senior pastors) receive a decent middle-class salary that directly compares to salaries being paid in their community. All pastors are compensated in accord with their education and experience with proper benefit packages. Those pastors who pastor larger churches are compensated in line with their expanded responsibilities.

The New Testament calls for fairness in pastoral salaries by insisting that **"The worker deserves his wages." (I Timothy 5:17 NIV)**

#### **Part 4—Making it on a Pastor's Pay: Bi-vocational Salaries**

**By Dr. Franklin R. Dumond, director of congregational ministries**

The bi-vocational pastor serves the church while also working as a business owner or as an employee in the secular world. This New Testament pattern of tent-making ministry remains a fact of life for many small to mid-sized churches in the 21<sup>st</sup> century. Nevertheless, the bi-vocational pastor faces the tension of balancing company time with church time while being fair to both.

A number of variables determine how much time a bi-vocational pastor may give to the church.

- Some bi-vocational pastors are, for all practical purposes, full-time since their business or professional life offers broad discretion in their time usage. They are able to give extended periods of time to the

church or to easily and quickly adjust their work schedules to meet the emergency demands of the congregation.

- Many congregations with bi-vocational pastors only offer programs and ministries that are connected to the stated worship times of the church. For many of them the church building is empty most of the time. This generally reduces the time demands placed on the pastor. These pastors work a full time job and still easily meet the limited demands of the church since most of those time demands are 'church' times.

National trends for bi-vocational pastor compensation are difficult to determine. In one study when compensation for part-time senior pastors was reported the average compensation came to a salary of \$15.13 per hour with benefits worth an additional \$6.88 per hour. The total cost to the church then was \$22.01 per hour. These bi-vocational pastors worked at least 15 but not more than 29 hours per week in their ministry assignments providing a range of average salaries of \$226 to \$441 per week.

A similar 2014 study by the Southern Baptist Convention found that bi-vocational pastors averaged \$19,527 in direct compensation (salary and housing). This national average may be discovered on a state by state level by using the tables provided at [www.compstudy.lifeway.com](http://www.compstudy.lifeway.com).

Many bi-vocational pastors work with their churches to designate the bulk of salary as housing in keeping with the IRS guidelines by which housing allowances are not subject to federal income tax but are subject to self-employment tax.

To ensure that expectations and responsibilities are stated fairly it would be wise for the church to state in the terms of their call what the usual time allocations would be for the part-time or bi-vocational minister. This allows the church to know how time is being used and also protects the pastor from being expected to do full-time ministry on a part-time salary and a part-time schedule.

### **Part 5—Making it on a Pastor's Pay: 5 dangers of a reimbursable plan**

**By Dr. Franklin R. Dumond, director of congregational ministries**

A reimbursable plan for the pastor's salary package is simple to compute but dangerous in its use.

In a reimbursable plan the available salary for the pastor's family is reduced by paying for the costs of ministry first then leaving the residue for the take home salary. In the not too distant past this strategy was used to reduce the pastor's tax burden. The dangers are five-fold if the plan is not computed from the proper starting point.

A reimbursable plan would state, "We are providing a salary package of \$50,000." What that statement does not identify is that from this plan the pastor will be reimbursed for items like health insurance, travel, continuing education and phone that would normally be considered costs to the employer. Thus a \$50,000 package computed may result in only \$20,000 to \$25,000 in actual take-home pay.

There are five dangers of these kinds of reimbursable plans.

1. Costs are unfairly shifted from the employer to the employee. In the United States employers are required to match Social Security contributions. Shouldn't the church at least do the same? Health insurance, despite the complications imposed by the federal government, is tied in our country to employment. Shouldn't the church do the same?
2. Unrealistic assumptions are at work. One motivation for these kinds of reimbursable plans is the drive to reduce taxes that are owed. While everyone should take every legal tax break possible, the net result of these plans is that taxes are reduced because income is reduced. For many years I listened to my mother-in-law complain about paying extra income taxes every year. I offered to let her have my reduced tax burden if she would give me her level of income. She never made the trade!
3. Unbiblical standards are being used. The Bible calls for fairness and generosity for those who labor hard to teach and preach. Enough said.
4. Unskilled bookkeepers don't deal well with the IRS. Financial reports and W-2s for this type of system must be carefully maintained. It does little good to have gone through the pain of careful reimbursement if the financial report or the quarterly 941 misstates what was done. The complications of this system lead to mistakes on both the church and the pastor.
5. These plans are unfocused on the future. The reimbursable plan deals only with the moment. Reduced taxable income is reduced available income. Reduced taxable income is reduced retirement benefits. A plan that provides easy solutions for the church treasure today may not provide the management systems necessary to maintain credibility in the 21<sup>st</sup> century.

The advice from Scripture regarding compensation for pastors and staff ministers has not always been taken seriously. Congregations and their leaders often want to be fair, or even generous, but information about what is being done in other churches along with guidelines and suggestions for implementation have not been readily available. On the other hand, the very nature of ministry often finds pastors hesitant to ask for adequate salaries. Indeed many pastors would find a means to do ministry even without a salary.

### **Part 6—Making it on a Pastor's Pay: 4 Reasons Salaries Are Low**

**By Dr. Franklin R. Dumond, director of congregational ministries**

Honest discussion of the salary and benefit needs of the pastor should not be an uncomfortable discussion. The Scripture is very direct: pastors are expected to work hard; churches are expected to offer fair compensation.

The pastor's salary should be reviewed on an annual basis. The finance committee should review the entire salary package as each annual budget is prepared. Years of experience, educational level, and cost of living adjustments should all be part of the discussion. Support staff such as secretaries and custodians should also have salary packages reviewed annually, but they should be evaluated and paid in comparison to their skills and their positions not in comparison to the pastor or staff ministers.

Salaries paid by churches have historically been lower than the average salary paid in most communities. Too often the old adage “Lord you keep him humble; we’ll keep him poor!” has been an actual fact. The scandal generated by a few notorious preachers has sometimes reinforced the tendency toward lower salaries.

A few reasons for lower church salaries are:

**1. Unbiblical priorities.** The New Testament is very clear that pastors are to be respected, treated with dignity, and paid fairly. The Apostle Paul instructs, “Let him that is taught in the Word communicate unto him that teacheth in all good things. Be not deceived; God is not mocked: for whatsoever a man soweth, that shall he also reap.” Galatians 6:6-7

**2. Unrealistic expectations.** While all believers are expected to trust God not man, members may expect their pastor to live on less as an example to the flock while the flock lives on more despite the noble example of the underpaid pastor.

**3. Untrained lay leaders.** Many lay leaders who serve on finance and budget committees simply have never been trained to develop a pastoral compensation plan. For example, the specialized tax status of pastors is often a mystery to lay leaders and even those who are self-employed businessmen do not always understand the special dual status of the pastor who is an employee for income tax purposes but self-employed for Social Security purposes.

**4. Unfair models.** The salary model that is often used in churches is based on the net or take home pay of the average church member. While this can be a fair approach to compensation, this approach generally does not take into consideration that the gross salary of the average worker is substantially greater than the net pay. Most workers benefit from having an employer who provides health insurance, job training, and retirement benefits in addition to the matching share of Social Security paid by the employer. Yet all too often the total package for a pastor is based on the take home net pay of an average worker not on the total package paid directly and indirectly to that worker by his/her employer.

Personnel committees, finance committees, and pastor-search committees do well to avoid two perilous pitfalls in planning for pastoral compensation. First, it is never appropriate to use an average of church member’s income to determine the pastor’s salary unless an honest study is done of actual member’s income. Best guesses about average income will always understate the income levels. Census data on average household income in any census tract will provide surprising insights into actual household income within the congregation.

Second, it is important to consider the long term implications of a parsonage to the pastor who is more than 30 years of age. Home ownership in our society is a keystone to retirement. The general practice of a 30 year mortgage means that if a pastor does not purchase his own home by his early 30’s he will not have it paid for by the usual retirement age. While the parsonage is convenient for the church and may be necessary for the

pastor due to lack of housing, it should be used sparingly in the long term pastorate. Churches sometimes rent their parsonage to provide housing allowance for the pastor. To encourage a long term pastorate some churches provide a down payment in the form of a loan or grant to the pastor which is forgiven over a period of a few years. Other churches use the parsonage for second or third staff members as the church grows and develops.

Every salary package should address three broad areas: base salary, fringe benefits, and professional expenses.