

Interpretive Comments on the Guidelines for Pastors' Salaries and Benefits 2009-2010

I. Pastoral Salary Base

This base as well as the unit value has not been increased due to the current economic recession. The base assumes a high school education only. Credit for post-high school education is included in the salary units for education (II.B).

II. Unit Value for Salary Adjustment

A. Experience. The assumption here is that one unit is given for each accumulating year of pastoral experience, up to a maximum of 30 years. One unit should be credited for each of the first 20 years of pastoral experience; one-half unit per year for 21-30 years of experience for a maximum of 25 units. For pastors with more than 20 years experience, congregations may decide to phase in the additional units over several years. In some situations, particularly where ministry is a second career or where other church related years of experience have helped to prepare the person for pastoral ministry, it might be appropriate to award some units for experience other than ministry. When that is done the maximum should be no more than one unit for each two years of relevant experience. For new pastors, it would also be appropriate to give one year of experience for each year of full-time pastoral education.

B. Education. The basic principle is to award one unit for each year of college and seminary education. This formula parallels the credit for each year of pastoral experience. The exception to the rule is an undergraduate pastoral ministry degree for which one unit should be added. When any degree program is extended for more than the normal number of years for degree completion, the maximum allowed is for the years assumed as common for degree completion rather than actual years enrolled in the program. The unit credit for S/CPE is for four full units of credit, not for the single but year-long extended unit of S/CPE.

Graduate degrees other than seminary, while valuable for general preparation, are not designed for pastoral ministry preparation, should be granted only one unit per degree. The maximum units for all accumulated education are eight.

C. Responsibility. The premise is that some settings in ministerial leadership involve different levels of complexity, various levels of intensity, and higher levels of risk, which ought to be reflected in the salary scales. These are kept at a minimum in the church compared to other vocations in our society. In any case where these guidelines might result in an equal or higher salary for an associate as compared to a lead pastor in that congregation, the committee may need to make appropriate adjustments that reflect the stated roles and responsibility. The criterion used in the worksheet is Sunday morning attendance. In some cases, there may be other factors that should also be considered in adding units for responsibility, e.g. outreach ministries. For purposes of these guidelines, we consider a youth minister to be an associate pastor.

D. Geography. Across the country there is considerable spread in the cost of living, particularly related to housing costs. The geographical units assigned are primarily based on the *2008 Demographics USA County Edition* in which there are Mennonite congregations.

It cannot be stressed strongly enough that local data should be taken into consideration to adjust geographical units as needed. Specifically, we recommend taking into consideration the cost of living and/or the effective buying power in your county or the community where the majority of your members

reside. You should also consider the median household income of your congregation.

Do not rely only upon subjective guesses. Consult your local Chamber of Commerce or a similar organization for local information.

- E. **Optional other units.** We recognize that for a variety of reasons the specific unit values identified on the worksheet may not meet the unique circumstances of every congregation. In some cases where the cost of living and especially the cost of housing is particularly high, a congregation may want to add additional units. There may also be other local considerations that would suggest additional units.

III. Self-Employment Tax Adjustment

We strongly support pastors' participation in the Social Security system to provide long-term benefits for retirement, disability, survivor's benefits in case of an untimely death, and Medicare benefits in retirement years.

Pastors are considered self-employed for purposes of figuring social security taxes, meaning that they are responsible to pay this as the self-employment tax, both the employee's and the employer's portion of social security, minus a somewhat discounted rate (approximately 2 percentage points) of the 15.3 percent total tax rate.

This additional cost to the pastor for social security could be considered a trade-off for the unique housing deduction which pastors have on income tax (see section VII. A. "Housing Allowance"). However, many times, half of the self-employment tax still exceeds any special income tax deductions for housing which the pastor may receive.

The pastor should be granted additional income to cover the amount normally paid by the employer (7.65 percent of income or one-half of the current rate of 15.3 percent). Any payment to the pastor to assist in payment of the self-employment tax becomes additional salary (Total Base Salary) and must be included as taxable income on the W2 form for IRS.

IV. Housing Adjustments

A. **Parsonage adjustment.** When the congregation provides housing through a parsonage, the value of such housing should be figured at a fair market value in the community and subtracted from the overall salary. This amount should be deducted from Total Base Salary. Another guide for determining this parsonage adjustment is that it should not exceed 25 percent of the Total Base Salary. The value of the housing is considered a taxable benefit.

B. **Housing equity fund.** If the fair market value of housing is deducted from salary because of a parsonage, then a housing equity fund may be established for the minister. This fund helps to offset the loss to the minister of the amount which normally would go to pay on the principal of the mortgage, the gain in value which may come to the property due to inflation and the gain which may be realized through improvements using the minister's own labor. The recommended amount to be placed annually in an account is five percent of base compensation or two percent of the assessed parsonage value. It is recommended that these funds be deposited in a separate account such as an MMA Praxis Mutual Fund or another type of investment of local choice. *This is taxable income in the year whenever the minister receives and controls these funds, as is also the interest or dividends earned.*

V. Benefits

A. Medical Health Plan. The Corinthian Plan envisions all Mennonite Church USA congregations participating in a plan to provide access to health care insurance for all Mennonite Church USA pastors. Details of this plan and a worksheet to determine cost are available at <http://www.mennoniteusa.org/Home/Leaders/TheCorinthianPlan/tabid/725/Default.aspx>. We strongly recommend that a family health insurance plan be provided for the pastor and the pastor's family through The Corinthian Plan, which is sponsored by Mennonite Church USA and administered by Mennonite Mutual Aid. Participation in The Corinthian Plan helps provide health insurance coverage for Mennonite pastors and church employees, some of whom would otherwise find it difficult or impossible to obtain adequate health insurance elsewhere. If the spouse has health insurance available through employment, the coverage the church provides may include only the pastor and eligible children. The Corinthian Plan is a comprehensive benefit plan including health, life and disability with optional dental and vision coverage. It is available to all Mennonite Church USA congregations.

Because of the continuing escalation of health insurance costs, some congregations are moving to providing higher deductible plans and/or limiting coverage for families. Where this is deemed necessary, we urge congregations to phase in these changes over a period of years. We also urge you to explore setting up a Health Savings Account (HSA) or a Flexible Savings Account (FSA), to help manage out of pocket expenses for pastors. HSA and FSA contributions can be made with pre-tax income and can reduce income tax. For information on HSA's contact Mennonite Mutual Aid or your current health insurance provider or www.healthcareshopper.com.

B. Pension Plan/Retirement Fund. We recommend that an amount equal to 8 percent to 10 percent of the Total Base Salary (I. + II. + III.) be contributed by the congregation for retirement purposes into Mennonite Retirement Trust (MMA) or another tax-deferred instrument on behalf of the pastor. The pastor is encouraged to make additional personal investments/savings toward retirement. Contributions can be up to 100 percent of taxable compensation or \$46,000 whichever is lower as long as there is income to support the contribution. See "Nine Statements about Ministers' Retirement Fund Investments" that is attached to these guidelines. You may also want to consult with a financial advisor, a tax consultant, or a lawyer.

C. Life and Disability Insurance. The congregation may choose to provide some life insurance and/or disability insurance for the pastor. In some area conferences, these insurances are provided for all pastors, but the congregation will be requested to pay the premium. Life and Disability are also now included as benefits in the Covenant Mutual Benefit Plan, sponsored by Mennonite Church USA.

D. Continuing Education and Spiritual Direction/Retreats. The congregation should provide funds for pastoral growth and continuing education such as the annual seminary pastors week. We are suggesting a range from \$600 - \$1000 per year; \$600 ought to be the minimum; \$1000 will barely cover costs of some professional development events. In addition to the financial allowances to support continuing education, one to two weeks annual study leave time should be provided. Congregations may also wish to encourage pastors to seek out opportunities for spiritual direction and/or retreats. Helping to cover the costs for such relationships and experiences will range from \$300 to \$600 per year.

E. Other Benefits. Congregations may want to contribute to an employee's HSA. Other special benefits can be recorded on this line.

VI. Expense Allowances

A. Auto Expense. Auto expense for church related travel should be reimbursed at 55 cents per mile, the 2009 level of allowance by IRS. This should be paid monthly based upon an itemized record of miles actually driven and reported by the pastor. The rate should be updated on January 1, 2010 to the current IRS rate.

B. Conference Expense. The pastor's attendance at area and denominational conference sessions as well as area ministers' meetings is part of the pastor's professional responsibility. It is strongly recommended that the congregation pay for registration, travel, lodging, and food costs for the pastor.

Sometimes pastoral families may vacation in connection with conference attendance; in such cases it is suggested that the pastor pay one way of the travel costs and the congregation pay one way.

C. Professional Expenses. Dues of professional associations and costs incurred on behalf of the congregation such as church related lunch meetings or visits should be reimbursed.

D. Other Expenses. Moving arrangements and expenses are negotiable between the pastor and the congregation. It is common practice that the receiving congregation assumes the basic costs of moving, such as payment for a rental truck and fuel. Such negotiations should occur as part of the "Covenant of Understanding" and be part of the offer to the pastoral candidate prior to the candidate accepting the invitation.

VII. Other items to consider

A. Housing Allowance. Our salary guidelines include allowances for housing, utilities and appurtenances. For these to be tax-deductible items for the pastor, they must be identified by a specific amount prior to receiving them, either in an annual contract, in the church budget, or in a specific minute reflecting an action by the governing body in the congregation. When the minister provides his/her own housing, official boards of congregations in the United States should designate annually a portion of the cash salary as a "housing allowance" or a "parsonage allowance," which under IRS rules may be excluded from taxable income. This action must be taken by the church prior to the time the income is received. Generally, the pastor, in consultation with her tax consultant will recommend a housing allowance amount.

Current IRS rules (Publication 517) stipulate that only the lowest of the following three factors can be taken as a salary exclusion for income tax purposes: 1) the amount designated as housing allowance by the church; 2) the amount actually used for housing and related costs; or 3) the fair market rental for equivalent housing in the community. In 2000, the US Tax Court rejected the fair market rental test. IRS appealed this ruling. In the meantime new questions were raised about the constitutionality of the housing allowance. In May 2002, in Public Law 107-181, the US Congress "reinstated the fair rental value limitation as their intent." (*Worth's Income Tax Guide for Ministers*, 2004). Worth concludes that the "parsonage allowance is really not changed, just strengthened, and is still limited by the Fair Rental Value computation." As far as we can tell, nothing has changed on this from last year. Check with a qualified tax accountant or Mennonite Church USA Denominational Ministry for more information.

B. Vacations, Holidays and Days Off. Congregations may wish to consider the following schedule for arranging vacation time with their pastor.

Years one through four -- two weeks

Years five through eleven -- three weeks

Years twelve and above -- four weeks

This is for cumulative years of full-time pastoral or church-related service and should be transferred with the pastor. Vacation time should not be used for conference attendance or minister's workshop participation. Normally vacation time is not taken until the pastor has been employed for a minimum of six months and then only on the basis of days earned.

Holidays normally observed by society will be time off, with compensatory days for those religious holidays, which call for pastoral duty. The pastor can normally be expected to work 45-50 hours per week. There should also be provision for regular days and evenings where the pastor is free of pastoral responsibilities.

- C. Sabbaticals.** In order to encourage growth in ministry and to increase the likelihood of longer pastoral tenure, the congregation is encouraged to establish the following sabbatical policy. For each year of completed service to this congregation (other than the year in which a sabbatical leave is received), one month of sabbatical leave may be granted, not to be used until the fourth year of ministry in that location, with subsequent sabbatical leaves during the eighth and twelfth, etc., years of ministry. During the sabbatical, the pastor will receive full salary and benefits as exist in the then current "Covenant of Understanding." Sabbatical plans, submitted by the pastor, shall be approved by the governing body of the congregation. Following a sabbatical, the pastor agrees to provide a minimum of one year of service to the congregation, with the understanding that repayment of sabbatical salary and benefits will be made for failure to do so. Accumulated sabbatical time is not transferable from prior congregational locations, nor are terminal sabbaticals normally acceptable. Congregations are urged to budget for sabbatical support every year to help provide for pastoral leadership during the time when the pastor is actually gone on sabbatical.
- D. Parental/Family and Medical Leave.** We believe that in principle pastors should be given the rights generally accorded to employees under the Family and Medical Leave Act of 1993, even though technically they may not qualify as employed by an agency with 50 or more employees. We recommend that the congregation grant one day per month for health-related leave, which may accumulate up to a total of 90 days. A total of up to 45 days may be accumulated and transferred from prior pastoral locations; this must be established at the time of beginning employment. This provision will only be applicable upon documented records, which have been carefully and accurately maintained.

Pastors are eligible for the provision of the Family and Medical Leave Act if they have been employed in their present position for at least one year and for a minimum of half-time employment during the previous 12 months. An unpaid, job-protected leave of up to 12 weeks will be granted for any of the following reasons:

1. to care for the employee's child after birth, or placement for adoption, or foster care.
2. to care for the employee's spouse, son or daughter, or parent who has a serious health condition.
3. for a serious health condition that makes the employee unable to perform the pastoral responsibilities.

By their mutual agreement, the congregation may grant a paid leave for a portion of these 12 weeks based upon accumulated health leave and/or accumulated vacation time. Otherwise the leave or the remainder of the leave will be unpaid. We further recommend that the congregation maintain health care coverage and retirement benefits. It is understood that the pastor will assist the congregation in planning for the needed interim ministry required during the leave.

- E. Part-Time Application of the Guidelines.** To apply these salary and benefit guidelines to persons in part-time employment, the guidelines should be figured as if full-time. The part-time percentage should then be

applied. Congregations that cannot pay at the full-time level should allow the pastor to seek part-time employment elsewhere that is compatible with the pastoral role.

- F. **Copying these Materials.** You are encouraged to make copies of the Interpretive Comments and the Salary Guidelines (any or all of these materials) for those in your congregation who are responsible for working with the pastoral salary negotiation process.

VIII. Other Resources

- A. **Special considerations for compensation for Interim Ministry** (available upon request from Denominational Ministry of Mennonite Church USA.) Generally, compensation for an interim pastor follows the Pastors' Salary Guidelines.
- B. **Negotiating the Pastor's Salary** (Available in the Pastor Congregation Relations packet. This packet is available upon request from Denominational Ministry of Mennonite Church USA and at www.mennoniteusa.org or from your area conference office.
- C. **All of the materials** related to the Guidelines for Pastors' Salaries and Benefits are available on the Mennonite Church USA web page at www.mennoniteusa.org under "other resources."
- D. Software for calculating pastoral compensation according to these guidelines is available at www.manygifts.org/salaryguidelines.

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