

MINISTERIAL COMPENSATION IN THE EVANGELICAL COVENANT CHURCH

Objective: To develop recommended fair compensation packages for the Ministers of the Evangelical Covenant Church (ECC).

1. Factors to be considered in any compensation calculation:

- Annual Church Budget*
- Average Church Weekly Worship Attendance (children, youth, and adults)*
- Church Location (Urban, Suburban, Rural)*
- Staff Role*
- Educational Level*
- Years of experience in ministry*
- Local Cost-of-Living as a % of the national average (100%)
- Year over year review of compensation should also include evaluation of congregational growth, pastoral need, performance and retention incentives along with an annual ministry leadership development assessment.

2. Using Consistent Data

Any consistent compensation process relies upon accessible and reliable data at the local congregation level. The ECC recommends referencing both national and multi-denominational data as well as more local ECC-specific data.

3. National and Multi-Denominational Data: *Hammar Compensation Survey*

The ECC will annually provide copies of the *Compensation Handbook for Church Staff* by Richard R. Hammar to all Conference offices along with a Hammar-based compensation calculator to help craft fair and comparable compensation packages for base salary + housing. The National and Multi-Denominational factors that are considered to reach a fair compensation average for base salary + housing only are asterisked* in #1 above. Because the Hammar guide includes national survey data it is fully appropriate to review the cost-of-living (COL) estimates in your local area – using this as an additional data point in your evaluation. www.bestplaces.net is a good source for COL data.

4. Local ECC Data Set: ECC Lilly/Pension Team

With the national data in hand, you can send up to five (5) comparable local/regional ECC congregations (based on budget, attendance, staff composition, etc.) to dan.pietrzyk@covchurch.org. Dan will coordinate an internal review and respond with a tailored set of ECC compensation ranges for the comparable ECC churches identified. Individual compensation will not be shared – simply ranges of ECC compensation for comparable churches.

With National and Local/ECC data in hand, along with the COL trend in your local area, you will be in a good position to evaluate the fairness of your proposed or current compensation package.

5. Compensation Observations

- a. Compensation Package Elements Paid by the Church
 - i. Base Salary
 - ii. Housing Allowance (or parsonage)

- iii. (USA) 50% of the Ministers Self-employment tax (SECA). This is equal to 7.65% of base salary + housing allowance. Please note further tips about the self-employment tax below.
- iv. Medical Insurance – Bethany Benefit is recommended.
- v. Pension Contributions (required for ECC clergy and congregations). This is 12.5% of base salary + housing + SECA.
- vi. Vacation – the ECC standard is four weeks. There are additional pastoral care suggestions provided in the documents that follow.

6. Reimbursed Expenses

- a. Mileage reimbursement – IRS standard for the current calendar year, plus tolls and parking expenses;
- b. Appointment and meeting expenses (meals with parishioners, etc,)
- c. Cellular phone/data plan expense reimbursement for ministry usage

7. Ministerial Development

- a. Educational resource reimbursement.
- b. Provision for Minister to attend at least four ECC events per year.
 - i. Fall pastors retreat (it is recommended that the ministers spouse be given the opportunity to participate as well)
 - ii. Midwinter Conference
 - iii. Conference Annual Meeting
 - iv. Denominational Annual Meeting

These interactions give your minister a connection with what God is doing beyond the local context. Not only do these gatherings provide information, stories of transformation, identification of possibility, and the work of the local church become fused.

- v. Continuing Education. Encourage your minister to spend at least two weeks a year in growth opportunities.

8. Notes

Self-Employment Tax (U.S.)

Self-Employment Taxes are 15.3% of Taxable Income. Churches are not required by the IRS to report and pay these taxes on the Form 941; however, the ECC recommends that churches reimburse the minister for 50% of these Self-Employment Taxes. If this 7.65% payment is made to a minister, that amount becomes income and is taxable to the minister on their Personal Tax Form. No ongoing adjustment should be made to this amount, even if a minister lowers his/her taxable income by deducting 403b contributions from payroll

Healthcare Benefits

The Bethany Benefit Plan for the minister and family costs more than some plans that are available on the market, and is benchmarked as a “platinum” level coverage. However, Premium Costs are not the only comparison – coverages need to be considered, as well as all out of pocket expenses. Please note that the Bethany Plan includes Health, Dental, Life, Disability Employee Assistance and Vision Insurance, and it is a great plan when a minister or a family member becomes ill. Since the ECC is “self-insured”, we also have leverage in making sure unique situations can be addressed to protect our insureds.

Premiums paid directly to Bethany as the Provider are not considered Taxable by the IRS. Note: If you choose not to utilize Bethany, please make sure that you are not directly reimbursing ministers for healthcare premiums paid. Income can be grossed-up to allow ministers to acquire their own coverage, but this income will be taxable.

Pension

The ECC Pension Plan is required for all credentialed ministers (other than BVL) and is 12.5 % of Taxable Income. Payments to the Plan are made directly by the Church andⁱ are not Taxable at the time of payment; however, they may be taxable at the time of withdrawal, subject to their qualification as clergy housing allowance.

Supplemental Retirement Savings

The ECC encourages churches to establish 403b plans for additional personal investments / retirement savings for all church staff. The ECC recommends the use of the Guidestone 403b9 associational program for payroll deduction. The plan can be established quickly and at little / no cost to the local church. Please call the finance team for more information, or visit the site at covchurch.org/finance.

Vacation Time

Given the fact that ministers never have a normal “weekend” with members of their family, never have 3-day weekends (unless they take a vacation day on the Sunday of the weekend), and are “on call” to his/her church 365 days per year, a vacation allotment of 4 weeks is reasonable.

Study Time

Providing a couple of weeks for your minister to do intensive study and/or ministry time away (at camps, retreats, other Covenant churches) is life-giving for clergy and good for his/her church.

Moving Expenses

The reimbursement of all necessary and reasonable expenses to relocate to the church area is normal, providing for a professional and insured moving of household goods and personal relocation expenses. Reimbursement of these expenses are not considered Taxable by the IRS as long as documentation is provided. The church should pay these directly or reimburse them promptly.

Mileage Reimbursements

The reimbursement of necessary and reasonable mileage and tolls for the conduct of ministerial functions is not considered Taxable by the IRS as long as records are kept, actual expense receipts are presented or a Driving Log is maintained. An Automobile Allowance that is not documented and justified by either receipts or Driving Log, are considered to be Personal Income and Taxable, and have only a limited deductibility (80%). Reimbursements are preferred over allowances for this reason.

Book/Professional Expenses Allowance

Bible scholars become mentors to our clergy. Ministers need to study commentaries and to read both deeply and broadly in a range of theological books in order to be fruitful in ministry. The ECC encourages a generous book allowance in order for the minister to build his/her library. Reimbursement of these expenses are not considered taxable by the IRS as long as documentation is provided. Establishment of a maximum amount for reimbursement per year (by the church) is recommended.

Housing Loans and Equity Sharing Agreements

In certain situations, congregations may desire to extend loans to clergy for providing/supplementing a down payment on a home for their minister. Extreme care needs to be taken in the formation of these agreements – especially with respect to who bears the risk of loss in a period of material housing market decline. State and local laws also need to be considered.

Generally, loans may be:

- A market rate loan amortized and repaid over a period of time;
- A market rate loan with “interest only” paid over time (with a balloon repayment at end of call);
- A below market loan (low, no interest – with potential taxable consequences);
- A loan forgiveness plan as a form of compensation over time (with taxable consequence);
- A shared equity arrangement in lieu of interest;

In all of these cases, it is essential to make the agreement in writing, to seek the counsel of an attorney for legal review and suitable documentation, and whether such a loan should be established as a promissory note, and subsequently secured as a mortgage lien against the property. In such cases it is helpful to identify the consequences of employment, loss of employment, disability, death, sale of property (while employed), insurance requirements, dispute resolution, negative equity scenarios, and positive equity scenarios.

¹ Effective January 11, 2017