



*Caring for Those
who
Care for You*

A Guide for Compensating Pastors

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The American Association of Lutheran Churches
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Caring for God's People

We who are God's people find our comfort and strength in God's promises. "Cast all your cares on Him," Peter says, "for He cares for you" (1 Peter 5:6). And rightly so. God's promises are sure for they have been signed and sealed for us by his completed work on our behalf in the person of Jesus Christ, our Savior and Lord, and delivered to us through His means of grace, the Word and the Sacraments.

In fact, all that God has promised belongs to His people who are called by the Gospel of Jesus Christ. They are the priesthood of all believers, "a chosen race, a royal priesthood, a holy nation, God's own people, that you may proclaim the excellencies of Him who called you out of darkness into His marvelous light" (1 Peter 2:9). They are the called whom God cares for and who in turn care for one another, love one another, serve one another and support one another, just as Jesus came, "not to be served, but to serve, and to give His life as a ransom for many" (Matthew 20:28).

While God calls all of us to comfort and care for one another, He has designed a unique way in which that is to be carried out. He has designed the Office of the Holy Ministry into which men are called by God publicly (from the Latin, *publice*, which means "on behalf of") to comfort and care for His people. These are the pastors whom God gives to His church, the body of Christ – shepherds under Christ, "the Great Shepherd of the sheep through the blood of the eternal covenant, even Jesus our Lord" (Hebrews 13:20). And to these pastors God says, "Be on guard for yourselves and for all the flock, among which the Spirit has made you overseers, to shepherd the church of God which He purchased with His own blood" (Acts 20:28).

As Lutheran Christians, we believe, teach, and confess that this is by God's design, not by the determinations of people. It is, therefore, essential to the church. God has ordained this Office of Ministry. Your pastor is called to this office to comfort and care for them, feed and lead them, as he preaches and teaches the Word and administers the Sacraments of Holy Baptism and Holy Communion.

Caring for Pastors

It has been rightly observed that being a pastor is one of the most difficult of all career fields. The stresses, the number of hours worked, the “24/7” atmosphere, the pressures on his family, all add up to the fact that being a pastor is one of the most difficult and demanding of all vocations.

It is with good reason, then, that the Scriptures would also be concerned about caring for pastors. That is especially the case when it comes to how pastors are compensated. So the apostle Paul tells us in 1 Timothy 5:17-18,

Let the elders [i.e., the pastors who preside over their flocks] who rule well be considered worthy of double honor, especially those who work hard at preaching and teaching. For the Scripture says, “You shall not muzzle the ox while he is threshing,” and “the laborer is worthy of his wages.”

To be sure, The AALC has been blessed with many men whom God has called to this most arduous task of ministry. They, too, are worthy of the proper consideration, even to the point of “double honor,” for how pastors are compensated.

Just how a congregation goes about determining what compensation is fitting depends on several factors, such as:

- 1) the number of years the pastor has served in the ministry, an allowance for measuring merit increases, how the pastor compares to his peers and whether or not he has attained an advanced degree;
- 2) the geographic location of the congregation;
- 3) the setting and size of the congregation (i.e., urban, rural, number of communicant members, etc.);
- 4) the housing arrangement for the pastor (parsonage, parsonage plus equity allowance, or housing allowance);
- 5) the method for handling car allowances (a fixed sum or a per mile reimbursement).

In addition, the pastor’s compensation will also reflect other determinations. Elements such as vacation time and benefit plan coverage must be added to the mix. Keep in mind that it is not the purpose of this document to advise congregations or pastors on what to do. Both pastors and congregations are urged to seek counsel from tax professionals before making their decisions.

A Suggested Starting Point

Using the above background information, a congregation and/or pastor might employ a procedure which provides a starting point. Such a point would be for congregations and pastors to compare their situations to clergy in the LC-MS and to schoolteachers in their area with at least a Master's degree.

For guidelines from the LC-MS, go to www.lcms.org. In the 'About' pull-down menu, select 'Directories' and the sub-menu, "Districts Offices." Select the appropriate District related to your area of the country from the map. Follow the link to the District web site.

Once at the particular LC-MS District website, you want to look for the 'Congregations' tab. Click on 'Financial Resources' and there you will find a document called 'Compensation Guidelines.' You will find that this will be a valuable resource and guide for you.

You may also want to consider other Lutheran Church websites as additional resources in your search for information and guidance.

A Suggested Procedure

Once comparable information has been retrieved, the following suggestions are offered to guide you in this process.

1. Determine the pastor's "defined compensation."

"Defined compensation" is the sum of the pastor's base salary plus housing allowance. You will need this number to help calculate the costs of the benefit plan and social security.

- a. Use the variables above to arrive at the base salary. Also include the following in arriving at a base salary figure:
 - 1) If the pastor has experience in a career field outside the ministry and that experience translates into skills appropriate to the ministry, count each year of experience as a half a year in the ministry. A person with ten years outside experience would be eligible for an equivalent five years of experience in the ministry.
 - 2) Add \$500 to \$1,000 a year for an advanced earned degree beyond an M. Div.
 - 3) If the pastor supervises a staff, add in \$500.00 for the first staff member and \$250.00 for each staff member thereafter.
 - 4) Merit increases may also be considered in determining base salary. Care must be taken to make certain that the basis for appraising the pastor's performance has been agreed upon by the pastor and the congregation. A suggestion such as, "*Our congregation isn't growing,*" is not indicative of a proper performance appraisal.
 - 5) The following salary ranges are indicative of base full-time salaries among some Lutheran pastors. These are only a guide and may not reflect experience in all geographic areas. These figures do not include anything but salary (i.e., no housing allowance or benefits).

| YEARS IN SERVICE | SALARY RANGE |
|-------------------------|---------------------|
| Start of Ministry | \$42,000 – \$43,260 |
| 1 – 5 years | \$43,260 – \$48,300 |
| 5 – 10 years | \$48,300 – \$54,600 |
| 10 – 15 years | \$54,600 – \$56,700 |
| 15 – 20 years | \$56,700 – \$58,800 |
| 20 – 25 years | \$58,800 – \$60,900 |
| 25 – 30 years | \$60,900 – \$63,000 |

- 6) For pastors with base full-time salaries above the preceding ranges, congregations are encouraged to use merit increases or other incentives to increase the base salary figure.
- 7) Each year salaries should be reviewed for possible “cost-of-living” (COLA) adjustment. Over the years, the cost of living can vary from 1% to 4%. Not including a cost of living adjustment means that the pastor’s base salary will continue to fall behind economically.
- 8) The size of the congregation is also a factor in arriving at a base salary figure. Rather than use number of baptized or communicant members, one method is to use average worship attendance (to include shut-ins visited) to determine the “size of the congregation” for purposes of base salary calculation. To factor in the “size of the congregation,” we suggest that the base salary be multiplied by the following factors:

| SIZE OF CONGREGATION | MULTIPLIER |
|-----------------------------|-------------------|
| 0 – 75 | 0.9 |
| 76 – 125 | 0.95 |
| 126 – 250 | 1.0 |
| 251 – 400 | 1.1 |
| 400 – 500 | 1.15 |
| over 500 | 1.2 |

EXAMPLE: A pastor receiving a call with 6 years of ordained experience could expect his remuneration to be between \$48,300 and \$54,600 in an ‘average sized’ congregation. A divine call is extended to him from a congregation of 115, so their multiplier is .95. Thus this same pastor should expect the salary portion of his compensation to be between (48,300 x .95) and (54,600 x .95). Or more simply stated: \$45,885 and \$51,870.

- 9) If the pastor receives a housing allowance (in lieu of living in a parsonage), it should be established at the beginning of the tax year. Typically housing allowances are 30% of the pastor’s base salary. Note that base salary plus housing allowance is then multiplied times .153 to calculate the pastor’s social security allowance for tax purposes.
- 10) If the congregation provides the pastor with a parsonage, the congregation should absorb all costs for maintaining the parsonage and paying the utilities.
- 11) Should the pastor live in a parsonage, it is recommended that congregations set aside an “equity allowance” (equal to 3% of the pastor’s defined compensation).

Rules need to be agreed upon between the pastor and the congregation when and how monies in an equity fund should be paid to the pastor. Monies should be paid into this fund each year by the congregation and invested in a manner agreed upon by both the pastor and the congregation.

2. Determine the appropriate automobile allowance.

Monies paid to the pastor as an allowance for automobile usage are considered to be income to the pastor by the IRS. Rather than increase his tax liability by increasing his income, it is recommended that pastors be reimbursed for their miles driven at the current IRS rate per mile. As of this printing, the IRS rate is \$.55 per mile. The pastor simply records his business mileage and submits a request to the congregation for reimbursement. The IRS allows the “cents per mile” reimbursed to be deducted from income. It covers the pastor’s costs to replace, insure and operate his automobile.

3. Budget Funds for Professional Ministry.

Congregations are encouraged to establish funds and recommended procedures for advancing the pastor’s professional ministry. That would include an amount set aside for the pastor’s continuing education. The figure of \$500.00 is common among our congregations. The pastor’s vacation time is not to be used for this purpose.

In addition, costs incurred by the pastor for taking care of church business and attending conventions should be covered by the congregation. That would include travel, lodging, meals, and any registration costs. It is also common for the congregation to cover the same costs for the pastor’s wife if she is able to attend such events.

In some cases, it may also be a good idea for pastors to be given the opportunity to take a study leave of absence. For example, after five years in the ministry, a congregation might consider granting the pastor a two to three-month study leave with defined compensation paid by the congregation. Funding this leave by setting aside money in an escrow account can ease the burden for a pastor who could make good use of this type of leave. Once he returns from leave, the pastor would be expected to make some kind of report to the congregation detailing how he made use of the time.

It should also be noted that pastors providing pulpit supply for the congregation in the pastor’s absence should be compensated. A figure of \$150.00 per Sunday for one service is a commonly used figure. For two services on a Sunday, the recommended total rate is \$175. Pastors should receive payment for their services on or about the day they have served in this capacity so that no one has to ask for money at a later date.

4. Calculate Benefit Plan Costs

While costs of providing benefits for the pastor and his family may seem sizable, these elements are not to be considered as part of the pastor’s compensation. In fact, companies which provide for employee benefits regularly calculate that it costs them at least 33% of the employee’s salary as a cost of doing business. The same applies to congregations. While the benefit package is usually considered a part of the pastor’s compensation, it should also be viewed as an expense of the church.

For your budgeting purposes it is necessary that you accurately calculate what it will cost the congregation to provide benefits for the pastor. These benefits would include life insurance, long-term disability coverage, dental/optical coverage, and funds for pensions. To arrive at an accurate figure, please contact our Benefit Administrator, Mr. Bryan Marker (Pinnacle Planning, 1-800-236-0955). He will walk you through the calculation of these costs. It is also important for the congregation to provide funding for the pastor's (and his family) health insurance. See 'healthcare.gov' for more information.

5. Provide for Time Off and Vacation Time.

Congregations should set a policy for how much time off the pastor should receive. One to two days off per week is normal. The days off should be publicized so that the pastor's time can be respected. Emergencies are obviously an exception.

In addition to weekly time off, congregations are encouraged to provide for the pastor to have at least two to three Sundays off per year. This gives the pastor and his family the opportunity to attend special events, visit other churches and enjoy personal time off that can best be used on a Sunday. Pulpit Supply pastors can be used to cover the Sundays the pastor is absent.

While there is no set amount of vacation time allowed, vacation time is often connected to a pastor's number of years in service. The following guide is common among other church bodies:

- a. 1-10 Total Years in Service: 21 days of vacation, including 3 Sundays.
- b. 11-25 Total Years in Service: 28 days of vacation, including 4 Sundays.
- c. Over 25 Total Years in Service: 35 days of vacation, including 5 Sundays.

6. Social Security Tax

With regards to Social Security taxes, Pastors are considered self-employed by the IRS. As such, they are required to pay a 15.3% self-employment tax rather than the employee's share of Social Security and Medicare taxes. Congregations are encouraged to include additional monies (up to 100%) of this payment of the Federal Social Security Tax to help cover this required payment.¹

Churches should not treat clergy as employees for Social Security reasons even if they treat them as employees for Federal income tax reporting. Unfortunately, some churches withhold the employee's share of Social Security and Medicare taxes from the pastor's compensation and then pay the employer's share. **Such reporting is incorrect.** Please seek a tax professional for advice and consultation.

¹ Churches often voluntarily pay half or all of their minister's self-employment tax. Any amount paid by the church under such an arrangement constitutes taxable income (in computing both income taxes and self-employment taxes). In addition, any amount paid to a minister to help pay the higher self-employment tax must be reported as additional compensation on the minister's form W-2 and on the minister's form 1040. Excerpts taken from: *2016 Church & Clergy Tax Guide*, by Richard R. Hammar, 156-157.

Conclusion

This information is presented to you as only a guide. Obviously, situations differ from setting to setting. And that makes it difficult to make any hard and fast judgments as to how pastors might be compensated.

Using this information in a spirit of love for one another will bring the best results from using this guide. As the Apostle Paul tells us, “Do good to all men, and especially to those who are of the household of faith.” (Galatians 6:10).

In that spirit, may God bless you as you care for those who care for you for Jesus’ sake.