

Compensation Planning for 2012

A guide to assist church leaders
in compensation planning for
ministry personnel of the Church of God



Board of Pensions of the Church of God

www.cogpension.org

800-844-8983

The Board of Pensions...Improving Financial Security for Servants of the Church of God



From One Lay Leader to Another

Since 1949, the Board of Pensions of the Church of God has endeavored to "serve those who serve" by providing the Retirement Plan, financial services, and guidance to ministers, missionaries, and layworkers serving the Church.

It is our prayer that this Compensation Planning Guide will help lay leaders, ministers and other interested persons with the important task of assuring proper compensation and benefits for those who serve the Church.

Please read the following message to lay leaders in the Church from our President, Jeff Jenness....

As a layman called to serve the Church at the Board of Pensions, I am often blessed by what I see the Church doing collectively. We cooperatively work together to minister in ways that none of us could do by ourselves. Our joint efforts across the Church through World Ministry Advance, for example, have world-wide implications for the cause of Christ. It is these wonderful ways that we share responsibility for Kingdom work.

But there are also responsibilities that each church congregation bears alone. Each church calls a pastor, for example. Members pray, choose a pastor, vote to extend a call and the pastor accepts that call agreeing to serve for an indefinite time. One of the beautiful heritage traits of the Church of God Reformation Movement is the importance we place on the freedom of the local congregation to act in obedience to God. We have freedom to make decisions that affect our local church and its ministry outreach. Each Church of God congregation is free and independent of hierarchical structure which might inhibit its following of the Lord's leading in local ministry.

It is a unique and treasured part of our heritage! But with freedom comes additional responsibility.

When you call a pastor or other full-time staff member you, as a church, are solely responsible for that person's financial needs and ministry expenses. Pastoral and staff support are part of the cost of doing the business of the local church.

When our men and women in the armed services venture out around the world to protect our country and the freedom of others, we all bear the cost collectively as citizens. The Apostle Paul wrote to the church at Corinth about paying the preacher and used a military example to make his point: "Do soldiers pay their own salaries?" It is hard to ignore Paul's admonition in I Timothy 5:17 where he pointedly says, "Church leaders who do their job well deserve to be paid twice as much, especially if they work hard at preaching and teaching."

As one layperson to another, I simply am speaking from my heart and experience. Nobody would ever enter the ministry because of its potential for wealth. But nobody ought to serve in financial despair either.

The freedom we all enjoy in calling our leaders carries the God-ordained responsibility to address with integrity the needs of your minister. Too often the last items considered in preparation of the church budget are salaries and benefits. Let's make a change!

The Church of God is a wonderful fellowship of Christians, and we should set an example for the world in the way we treat our pastors and workers.

Every church should see that the pastor and any other full-time staff member has adequate salary, a church-funded medical plan, life and disability protection, and payment into the Church of God Retirement Plan. And frankly, it is very important not to confuse church-related ministry expenses as part of the minister's pay. Otherwise, people will believe the pastor is being paid more than he or she actually is receiving. These items should be budgeted separately and recognized as part of doing ministry.

Each of us as lay-leaders is responsible to see that our church leaders are cared for properly. Scripture demands this of us. I encourage you to think and pray about this important area in the life of the church and to use this Compensation Planning Guide to foster positive dialogue and action within the leadership of your congregation. God bless you in your service to Him.

A handwritten signature in black ink that reads "Jeff Jenness". The signature is written in a cursive, flowing style.

Jeff Jenness
President, Board of Pensions of the Church of God

The Co\$ of a Minister vs. The Co\$ of a Ministry

It is common to find Church of God congregations that lump together the "costs of a minister" with the "costs of ministry" in their budget. These are two very distinct concepts. For proper planning it is best to keep them separate.

Often ministers will ask the Board of Pensions for help when a church extends a call and says to the new pastor something like this... "We have \$XX in our budget for the pastor. You decide how you want this broken down."

The Board of Pensions strongly discourages this practice. The church has no idea whether compensation is adequate or not when these costs are commingled. Also, mixing the two may confuse or mislead church members as to the level of compensation the minister is receiving. It is a wise church board who will take the time and effort to gather the information and knowledge to make sound decisions. In the descriptions which follow, you will gain an idea of why it is important to separate administrative expenses from salary and benefit expenses.

Cost of Ministry - includes those costs related to the work of the minister and is properly a part of local church expenses. Among these are the expenses that will be incurred without regard to which minister is serving the congregation at a particular time. While they are important expenses in carrying out ministry, the minister does not personally accrue a financial benefit from the dollars expended in this area.

The expenses incident to the carrying out of ministry by the minister should be treated as business and professional expense reimbursements. This assures that the minister does not have to take these costs out of his or her pocket. Examples of these types of expenses are:

auto expense, continuing education, convention, hospitality, pastor's professional library, dues to professional organizations, church supplies (including postage, birthday cards, etc.)

Cost of the Minister - relates to those items that are directly and indirectly related to compensating the particular pastor serving the church at the current time. These costs include the general categories of the minister's cash salary, housing allowance, and employee benefits.

Among the factors that should be considered in the process of providing the minister's compensation package are:

the job requirements, the individual's professional qualifications, educational background, personal experience and expertise, socioeconomic factors affecting pay in the local community, and such factors which merit pay for a job well done.

Several very helpful resources which can aid church leaders in compensation planning are listed at the back of this guide.

Compensation Factors to Consider

Ministry is a high calling. Most of our servant leaders could command a higher salary in the for-profit world, but they have chosen to use their gifts and talents to serve the Lord. The conviction to "call" and to service that they bring often makes ministry personnel reluctant to converse openly about compensation issues. It is up to the good leaders of the church to address these important issues. It is the church's obligation to provide proper salary and benefits to its employees.

What is proper compensation? The church setting is indeed unique, and often a helpful question for church leaders to ask is "What would persons carrying similar responsibilities in other vocations be paid?" In your community it might be appropriate to gather information on the salaries and benefits of teachers, administrators, CEOs, counselors, and service providers.

To the right you will find average annual salaries* for a variety of occupations. These are general statistics gathered from the most recent national survey provided on the Bureau of Labor Statistics website.

AVERAGE ANNUAL SALARIES

\$105,198	Operations Manager
\$ 88,813	Human Resources Manager
\$ 86,494	Education Administrator
\$ 70,730	Physical Therapist
\$ 64,662	Registered Nurse
\$ 60,878	Police Detective
\$ 60,845	Accountant
\$ 56,368	Firefighter
\$ 55,133	Writer/Author
\$ 54,374	High School Teacher
\$ 54,374	Vocational Counselor
\$ 53,831	Elementary Education Teacher
\$ 53,242	Coach
\$ 44,502	Social Worker
\$ 39,584	Secretary/Admin. Assistant
\$ 26,457	Custodian
\$ 19,597	Teacher Assistant

*Occupational Wages in the U.S., Occupational Earnings Tables: United States, December 2009 –January 2011 (average reference date July 2010)
<http://www.bls.gov/ncs/ocs/sp/nctb1477.pdf>
Intended for general comparative use only

These figures should be considered while referring to page 6 of this publication, which shows recent inflation figures.

On the Board of Pensions website you will find a number of compensation topics covered in the "MEMO Series".

www.cogpension.org

Key Compensation Considerations

Taxes and Social Security

For lay employees, congregations are required to pay the employer's portion of Social Security (7.65%) and withhold the employee's portion of Social Security (7.65%).

For ministers, the IRS generally considers them as employees of the church. Thus, ministers should receive a W-2 form just like lay employees of the church. In general, ministers must make quarterly tax and Social Security payments out of their take-home pay and do not have withholding of taxes from their pay. While ministers can enter into a voluntary arrangement to have the church withhold for federal state and local taxes, by law they cannot withhold Social Security.

Ministers are required to pay Social Security taxes at the self-employed rate (currently 13.3%). It is important to note that Social Security is to be paid on both the base salary and the value of the housing allowance. In that ministers are considered employees of the church in the eyes of the IRS, yet the rules covering ministers classify them as self-employed for Social Security payments, it creates a hardship on the minister often not recognized or understood by church leaders. It is recommended by the Board of Pensions that the church provide an offset benefit to relieve this burden on a minister. Since the normal employer portion of the Social Security payment is 7.65% of salary and housing allowance, the offset benefit should be at least this amount. The amount of the offset must be treated as taxable income to the minister.

The Minister's Housing Allowance

The minister's housing allowance is a wonderful benefit which allows the church to stretch the value of compensation under Section 107 of the IRS code. The value of the minister's housing can be excluded from taxable income, and it is important for church leaders to help the minister take advantage of this benefit. Under the 2002 Clergy Housing Allowance Clarification Act a minister owning or renting a home can ask the church board to designate a housing allowance for the year, but the benefit cannot exceed the lowest of the following three measurements:

- the actual expenses attributable to housing
- the amount properly designated as housing allowance
- the fair rental market value of the home, fully furnished plus utility costs

Call the Board of Pensions for more information on the housing allowance.

The Church of God Retirement Plan

One of the most outstanding benefits that a church can provide for their pastor or staff member is participation in the Retirement Plan. The Board of Pensions operates a 403(b)(9) retirement plan that allows churches to pay in tax-deferred contributions as well as the opportunity for church employees to make tax-deferred contributions from their salary. The Plan provides a

high quality platform of investment options along with education and guidance from a highly trained staff.

For ministers, an incredible added benefit is the ability of the Church of God Retirement Plan to provide housing allowance in retirement for retirement distributions. This is a remarkable way for the church to increase the value of retirement income. Call the Board of Pensions at 800-844-8983 or check the website (www.cogpension.org) for more details.

Health Insurance and Health Savings Accounts

It is always a good employment practice to provide health care coverage for church employees. In the Church of God there are many ministers and employees who have substandard health coverage or have no coverage at all. Health insurance coverage continues to be one of the largest challenges in our churches today, and the responsible church will want to provide this coverage. When remitted by the congregation on behalf of the employee, health insurance premiums, just like retirement contributions are excluded from taxable income.

To find affordable coverage, it may help the congregation to evaluate a high-deductible policy along side a Health Savings Account (HSA). With a high-deductible insurance plan the premiums are often considerably less. Part or all of the savings can be placed in the HSA where out-of-pocket medical expenses can be taken from this tax-free pool. The beauty of the HSA is that if the employee does not spend all the money, it can be rolled over to the next year. The intention of the HSA is that an employee with discretion over health care dollars will be more discerning in the expenditure of those dollars. You can contact the Board of Pensions for more information on the use of an HSA with a high-deductible health insurance policy.

Accountable Reimbursement Arrangement

As earlier noted, church business expenses should not be considered part of compensation. It is recommended that expenses incident to ministry should be reimbursed to a church employee from an administrative line item in the church budget. Such expenses can be reimbursed without any negative tax impact on the minister or employee through an accountable plan. The IRS indicates that three criteria must be met to reimburse an expense:

1. The expense must have a business (ministry) connection.
2. The employee must return any excess reimbursement or allowance within 120 days of the expenditure.
3. The expense must be adequately substantiated by the employee within 60 days of the expenditure.

When substantiating an expense, the employee must document the amount with receipts, indicate the time/date and place, the business purpose and description of the expense. It is very appropriate for the church to permit ministerial business expenses such as pastoral calling auto expense, education and development, conventions, books and periodicals, office supplies, etc.

Other Key Components Related to Compensation

Vacation time should be provided commensurate with other vocations and other similar-sized congregations, while also considering length of service. Ministry is a physically, emotionally, and spiritually challenging endeavor. It is in the best interests of the minister and the church for

church leaders to make certain the minister has time away with family for rest and renewal.

Some of the resources suggested at the end of the guide can give further guidance on vacation benefits.

Sabbatical/Renewal time is in the long-term best interest of the congregation and can provide a return on investment when a minister has opportunity to rest, study, and reflect. A sabbatical policy can encourage longer tenures and renew the creativity needed for effective leadership. Suggestions and sample policies can be secured from Credentialing Services at Church of God Ministries (800-848-2464).

While evaluating compensation and benefits, it is a healthy exercise for church leaders to be mindful of the cost of living. Taking inventory on whether increases are covering the cost of living and, hopefully, adding additional value above will be a blessing to your faithful servant leaders.

We are always available by phone, fax, or email to assist you in your compensation planning work.

The Board of Pensions, as part of our ministry to the church, stands ready to help your congregation in any way possible. Occasionally, as a part of normal travel by the Board of Pensions representatives, we may be in your area and are always happy to meet with the church's board.

The following table shows recent history of the Consumer Price Index used to measure inflation.

AVERAGE PERCENTAGE INCREASE	
Year Ended December 31	Consumer Price Index
2011	3.39%
2010	1.64%
2009	-0.34%
2008	3.85%
2007	2.85%
2006	3.24%
2005	3.39%
2004	2.68%
2003	2.27%

(Source - InflationData.com)

The Ordained/Licensed/Commissioned Minister

The Internal Revenue Service

Generally considers Ministers
to be an EMPLOYEE of the Church

The Social Security System

Considers Ministers to be
SELF-EMPLOYED for Social Security tax

Resources to help your planning

(Recommended by the Board of Pensions)

- Preparing Tax Returns for Clergy and Reporting Procedures for Congregations
both by Dan Busby and are online at www.cogpension.org
- Compensation Handbook for Church Staff Call 800-222-1840
www.churchlawtoday.com
- Church & Clergy Tax Guide Call 800-222-1840
www.churchlawtoday.com

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