

# Total pastoral compensation

by Crown Financial Ministries

Many congregations today make a big mistake in committing funds to buildings and programs that should go to pastoral leadership.

God does not cause growth through bigger buildings or more programs but rather through highly motivated individuals who are loved and appreciated by their people.

Faithfulness to God's Word and the effective labors of His servants are the keys to church growth.

## Compensation package

In creating a pastoral compensation package, church leaders should make every attempt to stretch the dollars as far as they will go.

Pastoral compensation should be divided into four parts: *salary*, *housing*, *expense reimbursements*, and *fringe benefits*.

- *Salary*—This is gross income, not necessarily taxable income. From this gross income, housing allowance and voluntary tax-sheltered annuity (TSA) or 401(k) and 403(b) contributions many times can be excluded because they generally are not considered taxable income. If churches pay a portion of the pastors' Social Security and Medicaid obligations, pastors must report this as part of their gross salary.
- *Housing*—a portion of pastoral salary should be designated as housing allowance. This amount should not exceed the actual amount spent on housing. This amount can generally be excluded from the gross salary.
- *Expense reimbursements*—An adequate expense reimbursement plan should be the first compensation element to consider. This could include a car allowance, professional dues, and traveling expenses.
- *Fringe benefits*—A portion of pastoral compensation can be legally sheltered as tax-free fringe benefits, such as church-provided health insurance, medical reimbursement plan, sick pay, group-term life insurance, and a church or denominational pension plan. The church also should provide vacation time and a convention or seminar allowance. Other fringe benefits should be optional at the discretion of the church board and/or the congregation.

## Reporting salary

In reporting to the congregation, many churches include the pastor's expense reimbursements and fringe benefits with gross pay and report the total on one line of the church financial report labeled "pastor's salary."

This is very unfair to the pastor and is inaccurate. Professional expense allowances and reimbursements and fringe benefits should be stated on a non-salary line and not shown as ministerial salary.

## Housing for pastors

Because pastors can take advantage of the double deduction on housing, which allows nontaxed housing allowance and deduction of interest payments on the mortgage loan, they should seriously consider buying their homes, if they can afford it.

The housing allowance for the pastor's family budget should be about 32 percent of Net Spendable Income (the remaining income after tithes and taxes have been paid from the gross) and no more than 45 percent—without any other debts.

Pastors who own their own homes are generally better off at retirement age than pastors who live in free housing.

Unfortunately, many Christians feel that pastors should not purchase their own homes. This reflects a serious lack of confidence in spiritual leadership.

However, as long as pastors have the right priorities and balance in their lives, they should be encouraged by the church to purchase their own homes.

## Conclusion

The Bible exhorts us to "*Appreciate those who diligently labor among you, and have charge over you...that you esteem them very highly in love because of their work*" (1 Thessalonians 5:12-13).

Although some churches provide adequate compensation for their pastors, a great many other churches do not. To these churches, the Word of God speaks very plainly.

Because of the leadership positions they hold, pastors need not only to be loved and honored, but they also must receive adequate remuneration from their churches.