

North Central Association Pastoral Search Financial Planning Resources

Clergy Housing Allowance

To comply with the Internal Revenue Service requirements, it is required that a church officially designate a portion of the compensation package of any pastor who is licensed or ordained AND has been credentialed by the North American Baptist Conference. The portion of that designated amount that is actually used may be excluded from taxable income. The pastor must keep a record of actual housing expenses accompanied by proof of payment. For specific IRS regulations, access <https://www.irs.gov/pub/irs-pdf/p517.pdf>. An example of a housing expense form is provided in Appendix A.

Benefits

Pension Plan payments

The church is encouraged to contribute toward the pastor's pension. It is advisable to consider basing the amount on a matching contribution of an equal amount by the pastor up to a stated percentage. As a starting point, calculate up to 5% of Adjusted Minimum Salary (Step 6) and deduct an equal percentage from the pastor's salary for a total of up to 10%. Contact North American Baptist Conference (916-797-6222) to enroll. This contribution may be made to the NAB Pastor's Group 403b with Aspire. If a minimum of \$500.00 is contributed in a given calendar year to the NAB Pastor's Group 403b the North American Baptist Conference will contribute an additional \$250.00.

Health Insurance

NOTE: IRS changes in the method used to treat health insurance provided a pastor by a church have changed. Previously, when a church reimbursed the pastor for health insurance, that amount could be excluded from taxable income. As it now stands, the amount provided for health insurance can be excludable only if the church carries a group health insurance plan. Since this is impossible (or at least improbable) for a one-employee church, most pastors will be able to deduct their health insurance premium cost, but not exclude it. This also applies to pastors receiving insurance via the Affordable Health Act. It is necessary for church leaders and pastors to receive accurate and official information from a tax consultant.

It is also important for the church to provide health insurance for the pastor and family. While the cost of health insurance is high, the potential cost of inadequate or no health insurance can be catastrophic. More than 1/5 of NCA pastors surveyed indicated that they carried NO health insurance. Providing a lump sum package and expecting a pastor to provide his own insurance has proven ineffective, in that many pastors will underinsure resulting in difficulty for both church and pastor in the case of significant illness. Church leaders should partner with the pastor to select an adequate health insurance. Typical annual costs for family health insurance plans (not counting major medical plans) range upwards of \$20,000 annually.

***NOTE:** A Health Reimbursements Arrangement may help you reduce your taxable liability on dollars spent on medical insurance and out-of-pocket expenses. Check carefully with a tax consultant regarding the rules and restrictions before subscribing to one.

Sick Leave

As a guideline, allow for 1½ days paid sick leave per month to a total of 18 days per year. To provide for their pastor in the event of an extended period of illness, a church is encouraged to adopt a sick leave policy. It is advisable for the church to provide as part of the pastor's benefit plan, a disability insurance policy.

Holidays / Days Off

Allowance for rest and time to take care of personal affairs is particularly important if pastors are to maintain long-term effectiveness and insight. Thus, churches should encourage pastors to take at least one and one-half days off per week, with additional allowances for holidays.

Vacation

The Church is encouraged to provide vacation each year based on a pastor's cumulative years of service as a Pastor and/or other ministry experience. The following guide for vacation is recommended: 1-5 years: 3 weeks; 6-15 years: 4 weeks; 16+ years: 5 weeks. Vacation should be pro-rated for the first year. While outstanding vacation pay is due upon termination, the church may place a limit on how much may be accrued. Pastors should be encouraged to use the bulk of their vacation annually.

Sabbatical Leave

While a Sabbatical leave policy is not in force in the North Central Association, the Northern Plains Region companion association, it is in the Manitoba Baptist Association and may soon be presented to NCA association delegates for a policy decision. To gain insight into a typical pastoral sabbatical leave approach, go to www.npreion.org//index.php?id=404. The terms of such leave should be negotiated between the pastor and the local church. In the 2010 NCA annual meeting, delegates approved a proposal that the NCA Executive Committee appoint a pastoral sabbatical study group in view of a sabbatical recommendation in the 2011 annual meeting.

Ministry Expenses

Certain expenses are incurred in effectively conducting the ministry of the church. The pastor should not pay such costs, nor should these costs be viewed as part of the compensation package *per se*.

Communication Assistance

An office telephone shall be provided. If the office is in the home, then a telephone may be provided without reduction from the benefit package.

Consideration should be given to provide the Pastor with a computer and internet/e-mail access (high speed if at all possible).

Hospitality Expenses

Many churches are recognizing the increased cost to a pastor for entertaining guests of the church, (e.g. in home or restaurants), and we suggest the church attempt to offset these costs for the pastor. This may be provided as an additional portion of salary or by securing church credit card(s) for the pastor(s) to use for such expenditures. A careful accounting of actual expenses must be kept in view of potential IRS audits.

Professional Development – Continuing Education

Setting aside a period of time annually for the pastor's continuing education benefits both the pastor and the church. Consider allocating up to ten days annually (Typical intensive seminary/graduate classes last two weeks). The church should encourage its pastor to take at least one such study leave in any two-year period. Time set aside for study may be cumulative, to 20 days in two years. The church should make available, annually, at least \$500 for continuing education and book allowance, cumulative up to at least \$1,000 in two years. Another option would be to allocate 2% of salary for this purpose. Consideration should be given for the pastor and spouse to attend an annual pastors' conference to be chosen in cooperation with church leadership.

Denominational Responsibilities

The church should reimburse the costs associated with the pastor and spouse attending and representing the church at association and triennial conferences. This includes registration, travel, lodging, and meals.

Transportation costs

The Internal Revenue Agency will allow the church as an employer to reimburse the pastor for car expenses up to 54.5 cents per mile (in 2019) while driving in the service of the church. A church may pay travel costs at any rate it wishes. However, if the church pays less than the IRS suggested amount, the difference between any reimbursement and that

amount will constitute an income tax deduction for the pastor. The amount agreed upon by the church and the pastor should reflect the true cost of operating the vehicle, including insurance, depreciation, interest costs, fuel, etc. The pastor must maintain a detailed log of miles traveled and purpose of each trip. It is ultimately advantageous for the church to pay the full amount, as it constitutes an income advantage to the pastor equal to the income tax rate.

Insurances (other than medical)

Several types of insurance are recommended. The pastor and church leaders should confirm that the following items are covered:

- Personal library of books
- Computer and other electronic equipment
- Liability connected with pastoral counseling

Some of these may be already covered in personal or church insurance. Generally, a special rider is required for pastoral liability.

Clergy Tax Issues

Clergy tax laws are different than those for most other occupations. While a pastor is considered self-employed, there are significant IRS regulations specifically designed for this occupation. For specific technical information regarding clergy tax laws, access current IRS documents or talk with your tax consultant. The following statements are unqualified observations and should be confirmed or adjusted in consultation with a qualified clergy tax consultant.

Some items to consider when forming the pastor's compensation package are:

*Since the pastor is considered self-employed with regard to Social Security taxes, he is liable for the full amount, in contrast to most employment situations where the employer is required to pay one-half of the tax. Churches may elect to reimburse the pastor for portions of the Social Security tax; under some circumstances a clergy tax expert should be consulted to determine proper procedure and implications.

*Housing allowance used is excludable for income tax purposes, **but NOT for Social Security purposes. Also, the fair rental value of a parsonage provided by the church must be added to the total Social Security taxable income.**

Projected personal pastoral Ministry Expenses can be withheld from the salary at the pastor's request in a specified church account. However, any unused Ministry Expense money CANNOT be returned to the pastor at the end of the year, necessitating good planning and under-estimating.

*An Auto expense reimbursement policy should be strongly considered for church-related driving, especially in the case of significant mileage for hospital or shut-in visitation, approved conference or association activities, visitation of active church attendees who live a significant distance from the church facility or in the case of travel between churches that share a pastor. This is a hard expense and should be considered church expense; NOT a part of the pastor's salary.

Considerations for smaller churches

In this time of decline in rural communities, it is important to address pastoral employment issues. When unable to meet minimum compensation recommendation levels, a church may consider the following suggestions:

*Calculate the percentage of the recommended compensation package that the church can provide, defining the pastoral position by that percentage. For instance, if the recommendation is \$44,600, and the church can supply a \$36,000 package, the position should be described as $\frac{3}{4}$ time.

*When a church cannot supply full compensation, the following reasonable remedies may be considered:

--Clearly communicate in writing the level of employment and resulting adjusted job description expectations when hiring a pastor or planning for the next compensation period.

--Clearly communicate in writing the expectations and guidelines for the pastor to supplement or compensate (additional job, extra time off, etc.) for a position less than full time.

--Clearly communicate in writing any expectation that the pastor's spouse find employment.

--To expand hiring or retention possibilities, strongly consider sharing the pastor with another congregation. The following should be considered:

- *A clear, written definition of the division of time and financial responsibilities.
- *Regular (at least quarterly) meetings between key church leaders to maintain the inter-church relationship.
- *Three-, six-, and 12-month pastoral performance and inter-church relationship evaluations in the first year, with annual evaluations thereafter.
- *Discussion of the possibility of merging church organizations in order to streamline administration and decision-making (maintenance of more than one worship facility may continue to be an option).

Note: While the above suggestions may seem drastic, present trends indicate that a growing number of smaller rural churches are unable to sustain a full-time pastor. Such churches often under-pay pastors often resulting in stress and short tenures. A growing number turn to Sunday-only pulpit supply, losing pastoral presence and care while experiencing further decline. The above items are suggestions. The church may design other creative approaches, especially in areas where ministry opportunities remain, but financial capacity limits pastoral compensation. Please contact the Regional Minister for consultation in these matters. The most important focus must be that of making disciples of Jesus Christ.

APPENDIX A

20__ Housing Allowance Form

Date _____

Church Name and Address:

RE: Annual Housing Allowance

Church Board:

I have thoroughly reviewed past amounts expended for rent and/or other costs of providing a home. During _____ I expect to spend the following amounts:

- | | Year | |
|----|---|----------|
| 1. | Rent or house payments
(Principal and interest) | \$ _____ |
| 2. | Property taxes on home
(Includes personal property tax) | \$ _____ |
| 3. | Special assessments
(I.e. water, sewer, etc. not included above) | \$ _____ |
| 4. | Insurance on home | \$ _____ |

- 5. Utilities \$ _____
- 6. Repairs and maintenance to home \$ _____
- 7. Other expense (detail on separate page) \$ _____

The total is equal to the fair annual rental value of my home, including furnishings and appurtenances plus cost of utilities. I respectfully request that the church board take formal action to designate the amount indicated above as my "housing allowance" for _____.

I was ordained/licensed as a Minister of the Gospel on _____, _____ at _____ Church located in _____. Rev. _____ was the host pastor at the ordination service. I was credentialed by the North American Baptist Conference on _____, _____, such records held at North American Baptist Conference, 1219 Pleasant Grove Blvd., Roseville, CA 95678

Respectfully yours,

Printed Name

Date

Signature

APPENDIX B

The following article is located at: <http://www.christianitytoday.com/ct/2008/august/1.14.html>

Christianity Today, August, 2008 (Note basic information is accurate regarding trends in spite of old numbers.)

Blessed Insurance

Many pastors lack access to adequate health benefits.

Sarah Eekhoff Zylstra | posted 7/07/2008 08:39AM

An informal May survey by the National Association of Evangelicals (NAE) confirmed what many pastors and denominational leaders have long known: many churches offer inadequate health care to their shepherds. The majority of denominations that responded to the survey offered little or no health insurance to pastors or other fulltime church staff.

"It's really a crisis," NAE president Leith Anderson said. "If things stay as they are, there is going to be a significant loss of pastors from the ministry."

Many denominations, like the Evangelical Free Church of America (EFCA), formerly offered health insurance benefits to their pastors, but ceased when insurance costs increased. According to the Kaiser Family Foundation, health premiums increased 78 percent between 2001 and 2007.

"We had to close our plan eight years ago," said John Herman, executive director of pastoral care ministries for the EFCA. "It is hard, because unless you have forced participation, you experience adverse selection."

The term "adverse selection" refers to potential program beneficiaries — often young, healthy pastors — who choose to find less expensive health insurance on their own. When they opt out of a denomination's plan, the denomination is left with a pool of pastors who are older or ill. This causes rates to rise, which in turn prompts more pastors to seek cheaper rates elsewhere.

The rates for the small pool that is left eventually become so high that a denomination cannot afford to keep its program going, Herman said. Denominations that require pastors' participation may have a large enough group to keep rates down, he said, but many loosely affiliated denominations cannot require such involvement.

"The inability of local churches to provide health care is equal to the difficulty of all small businesses to provide health care," Herman said. "So until the culture at large or the government comes up with a better system, we're as stuck as any small business."

The Kaiser Family Foundation reported that 240,000 small businesses dropped health insurance coverage between 2000 and 2005. Without a denominational health plan, some pastors get health insurance through their spouse's place of employment, or take a second job. Some move to bigger churches, where the staff can work together to get more affordable insurance. Many others go without, joining the 16 percent of Americans — about 47 million people — without health coverage.

Don Shaw is a regional director of the Conservative Baptist Association of America, another denomination that has ceased offering health insurance benefits.

"The church gave us a dollar amount and we could divide our [benefit] package up any way we wanted," he said. "When I hit 55, my premiums went from \$500 a month to \$750 a month. I applied to Blue Cross Blue Shield, but I had had basal cell skin cancer, and they used that as a basis for denial. I looked into getting it through the state of Wisconsin, but it would have been \$1,300 a month for a \$5,000 deductible."

Shaw eventually got benefits through Veterans Affairs. "In smaller churches, especially with guys who get into their 50s, [health insurance] costs a huge amount," he said. "There are only limited resources, so it makes it difficult. My package is fairly decent, but if I start paying medical out of it, I'd have to reduce my retirement fund."

The Christian Reformed Church allows churches to opt into the denomination's plan, but premiums have increased about 9 percent each year, said Becky Gonzalez, the benefits database manager. "As health care costs increase, our premiums have no choice but to go up as well," she said. "Ten years from now, if the government hasn't done anything, I don't know how people will afford it."

Hoping for a government solution often poses another dilemma for pastors, NAE president Anderson said. "Pastors are sitting around in social conversations where people are opposed to changes in federal health care, and the pastor is listening to this conversation without any insurance for his sick daughter. It sounds like a political statement, but it's a personal crisis."

For many pastors, having inadequate health insurance is embarrassing, Anderson said. It's a personal problem that they try to keep secret.

Yet denominations continue to face a bottom-line choice that often pits health insurance against fiscal feasibility.

"We have attempted in every way we know how [to provide health insurance]," said Teri Beyer, secretary treasurer for Open Bible Churches. "We feel terrible about it. It's not that we don't want to do this. But in today's insurance market, it's become impossible for us."