

2009 Clergy Compensation Guidelines

**Southwestern Washington Synod
Evangelical Lutheran Church in America**

MEMORANDUM

To: Congregation Councils and Rostered Persons

From: Rev. Don Fossum, SW WA Synod Staff

Date: September 2008

Re: 2009 Rostered Compensation Guidelines

Compensation Guidelines and Cost of Living Adjustments (COLA)

Many congregations begin their next budget planning process prior to the Synod Council meeting in late September to approve the annual COLA increase for the synod's Compensation Guidelines. Therefore, our Synod Council has approved a Continuing Resolution to use the previous year's U.S. Congress COLA recommendation.

This action permits the synod staff to prepare the next year's Compensation Guidelines as soon as the ELCA Board of Pension's medical/dental and administration rates are approved by the ELCA Board of Pension's Council, usually in early September.

The Synod Council approved a 3% increase for the 2008 Compensation Guidelines. The 2009 Compensation Guidelines reflects a 2.3% increase which is the 2008 U.S. Congress' recommended COLA.

This policy change will permit the synod staff to prepare the Rostered Compensation in a timely manner for congregations.

Some years the COLA will be less than the U.S. Congress approved COLA for the current year and other years the COLA will be higher than the U.S. Congress Approved COLA.

Clergy Compensation Worksheet

(Please complete using the instructions and figures on the following pages 5-12 to include on the ELCA "Definition of Compensation" Form.)

A. Clergy Compensation (pages 5-6 of this guide)

The total of section A is the "Defined Compensation"- salary, housing, Social Security: **line 1, 2, 3 or lines 1, 2, 4)**

- | | |
|--|----------|
| 1. Base Salary (table on page 5) | \$ _____ |
| 2. Housing Allowance (if provided) | \$ _____ |
| 3. Self-employed Social Security payment allowance (table on page 6) | \$ _____ |
| 4. If Parsonage, then compute the following: | |
| Utilities allowed \$ _____ | |
| Furnishings Allowance \$ _____ | |
| Housing equity allowance \$ _____ (page 7) | \$ _____ |

B. Pension and Other Benefits (tables on pages 7-9)

- | | |
|---|----------|
| 1. ELCA medical and Dental Insurance | |
| __ a. Member only __ b. Member and Spouse __ c. Member and Children | |
| __ d. Member, spouse and children __ e. Coverage waived | \$ _____ |
| 2. ELCA Disability & Administration (pages 7 & 8) | \$ _____ |
| 3. ELCA pension at ___% of Defined Compensation (pages 8 & 9) | \$ _____ |
| 4. Other insurance or benefits _____ (pages 13-15) | \$ _____ |

C. Expenses

- | | |
|--|----------|
| 1. Automobile and travel allowance (pages 9 -10) | \$ _____ |
| 2. Other professional expenses (page 14) | \$ _____ |
| 3. Expenses for official meetings of the synod, as reimburse | \$ _____ |
| 4. Continuing Education (pg.10) (\$1,000 recommended; minimum \$700 from calling source) | \$ _____ |
| 5. Other _____ (pages 10-12) | \$ _____ |
| 6. Pay the moving expenses to this field of service as follows _____ | \$ _____ |
| | \$ _____ |

D. Agreement

1. Annual Vacation (page 11) _____ weeks/yr. including _____ Sundays
2. Continuing Education time of _____ weeks per year.
3. Participation in a First-Call Theological Education program, where applicable
4. Ongoing care through a Mutual Ministry Committee.
5. Up to two months of continued salary, housing and contributions to the ELCA Pension and other benefits program in a 12-month period in the event that the pastor is physically or mentally disabled.
6. Parental Leave of ___ weeks with full salary, housing and benefits
7. Sabbatical of _____ weeks every _____ years of fulltime service

E. Administrative Costs

- | | |
|---|----------|
| 1. Worker's Compensation for clergy employee (page 12)..... | \$ _____ |
| 2. Payment to Supply Clergy (page 12)..... | \$ _____ |

Sample Clergy Compensation Worksheet

(Please complete using the instructions and figures on the following pages 5-12 to include on the ELCA "Definition of Compensation" Form.)

SAMPLE OF CLERGYPERSON WITH 10 YEARS OF EXPERIENCE

A. Clergy Compensation (pages 5-6 of this guide)

The total of section A is the "**Defined Compensation**"- salary, housing, Social Security: lines 1, 2, 3))

- | | |
|---|-----------------|
| 1. Base Salary (table on page 5) (\$52,919-\$24,000= \$28,919) | <u>\$28,919</u> |
| 2. Housing Allowance (if provided) (Amount determine by clergyperson) | <u>\$24,000</u> |
| 3. Self-employed Social Security payment allowance (table on page 6) | <u>\$4,098</u> |
| 4. If Parsonage, then compute the following: | |
| Utilities allowed \$__NA_____ | |
| Furnishings Allowance \$ __NA_____ | |
| Housing equity allowance \$ __NA_____ | |

B. Pension and Other Benefits (tables on pages 7-9)

- | | |
|--|-----------------|
| 1. ELCA medical and Dental Insurance (page 7) $\$57,017 \times 31.1\% =$ <u>\$17,733</u> | |
| __a. Member only __b. Member and Spouse __c. Member and Children | |
| __X__ d. Member, spouse and children __e. Coverage waived | <u>\$17,733</u> |
| 2. ELCA Disability & Administration 2.7% of " Defined Compensation " (pg. 8) | <u>\$1,540</u> |
| 3. ELCA pension at 10% of " Defined Compensation " (pages-8 9) | <u>\$5,702</u> |
| 3. Other insurance or benefits: _____ Life Insurance Policy (pages 13-15) | <u>\$2,000</u> |
| | \$ _____ |

C. Expenses

- | | |
|---|----------------|
| 1. Automobile and travel allowance (pages 9-10) | <u>\$5,000</u> |
| 2. Other professional expenses (page 14) | <u>\$1,000</u> |
| 3. Expenses for official meetings of the synod, as reimburse | <u>\$1,000</u> |
| 4. Continuing Education (pg. 10) (\$1,000 recommended; minimum \$700 from calling source) | <u>\$700</u> |
| 5. Other Sabbatical costs for supply (pages 10-12) (set aside per year) | <u>\$4,000</u> |
| 6. Pay the moving expenses to this field of service as follows __NA_____ | \$ __NA_____ |

D. Agreement

- Annual Vacation (see page 11) **4** weeks/yr. including **4** Sundays
- Continuing Education time of **2** weeks per year.
- Participation in a First-Call Theological Education program, where applicable
- Ongoing care through a Mutual Ministry Committee.
- Up to **two** months of continued salary, housing and contributions to the ELCA Pension and other benefits program in a 12-month period in the event that the pastor is physically or mentally disabled.
- Parental Leave of **6** weeks with full salary, housing and benefits
- Sabbatical of **12** weeks every **5** years of full time service

E. Administrative Costs

- | | |
|---|----------------|
| 1. Worker's Compensation for clergy employee (see page 12)..... | <u>\$?</u> |
| 2. Payment to Supply Clergy (see page 12)..... | <u>\$1,000</u> |

A. Salary and Housing Allowance

The 2009 guidelines for clergy compensation below reflects a 2.3% Cost of Living Adjustment (COLA)¹ over the 2008 guidelines. The percentage incremental increases between each year of experience remain the same².

Compensation for Clergy					
Yrs.	w/o	w/	Yrs.	w/o	w/
<u>Exprnc.</u>	<u>parsonage</u>	<u>parsonage</u>	<u>Exprnc.</u>	<u>parsonage</u>	<u>parsonage</u>
0	41,108	31,623	21	68,113	52,394
1	42,238	32,492	22	68,881	52,984
2	43,508	33,385	23	69,654	53,579
3	44,593	34,302	24	70,438	54,182
4	45,813	35,248	25	71,231	54,793
5	47,081	36,215	26	72,032	55,409
6	48,376	37,212	27	72,934	56,084
7	49,704	38,234	28	73,661	56,664
8	51,072	39,286	29	74,490	57,299
9	52,476	40,367	30	75,328	57,946
10	53,919	41,477	31	76,082	58,508
11	55,133	42,420	32	76,850	59,110
12	56,371	43,364	33	77,618	59,702
13	57,641	44,339	34	78,396	60,299
14	58,938	45,338	35	79,179	60,901
15	60,264	46,357	36	79,971	61,510
16	61,619	47,443	37	80,771	62,125
17	63,007	48,467	38	81,581	62,749
18	64,425	49,557	39	82,396	63,374
19	65,874	50,671	40	83,220	64,008
20	67,355	51,812			

The figures above are guidelines and are not to be used as ceilings. They reflect the minimum level of compensation recognized by the Southwestern Washington Synod as fair compensation for clergy serving in full-time positions.

The figures above do not take into account merit raises, which go beyond the COLA and minimum year-to-year incremental increase based on years of experience. The synod recommends consultation with your Staff Support Committee to determine an appropriate merit increase.

*Enter your pastor's salary and housing allowance based on years of experience Section A, line 1 & 2 of the Clergy Compensation Worksheet. **Please see page 13, subtitled paragraph "Maximize Housing Allowance" for developments regarding the allowable amount that may be designated as Housing Allowance.***

¹ The annual COLA for the year 2008 was 2.3% (October 2008). Source: US Federal Congress Budget Office. The synod executive committee is recommending 2.3% for 2009. (Explanation on page 2)

² The incremental percent increases in the Southwestern Washington Synod Clergy Guideline schedule is:

<u>year's</u>	<u>increment</u>
0-10	2.75%
11-20	2.25%
21-30	1.125%
31-40	1.0%

These percentages have remained constant since the inception of the ELCA and of the Southwestern Washington Synod.

Social Security Allowance

The IRS has ruled that clergy are self-employed for purposes of paying social security taxes. This means that they must pay both the employee and the employer share of social security tax under the Self-Employed Contribution Act (SECA).

Congregations are prohibited from paying social security tax for clergy. Congregations can, however, include an allowance for their pastor, which offsets the social security burden.

It is the synod's expectation that every congregation assume at least 50% of its pastor's Social Security burden by providing a Social Security Allowance to him or her. This is 7.601827%* of cash salary and housing, regardless of whether the housing is provided in the form of a housing allowance or in the form of a parsonage with utilities and taxes paid by the church. The social security allowance is considered taxable salary when reporting income to the IRS on W-2 or 1099-MISC forms and is also considered part of "Defined Compensation" when computing payments to the ELCA Board of Pensions.

If a pastor resides in a church parsonage, the annual monetary value of that benefit (fair rental value, plus all utilities, maintenance, and applicable taxes) is considered "taxable" for purposes of computing social security (SECA) contributions. The ELCA assigns a figure of 30% of "Defined Compensation" (Defined Comp. = salary + house and/or furnishings allowance + SECA allowance) to determine the annual monetary benefit of living in a parsonage. *Since the guideline figures in this document already reflect a 30% reduction in base salary (see page 5) for clergy living in a church parsonage, there is no difference in the Social Security Allowance for pastors with the same years of experience whether they receive a housing allowance or live in a church owned parsonage (see table below).*

Social Security Allowance for pastors based on synod guidelines

Years Exp.	S.S. Allwnc.	Years Exp.	S.S. Allwnc.	Years Exp.	S.S. Allwnc.	Years Exp.	S.S. Allwnc.
0.....	3,125	11.....	4,190	21.....	5,177	31.....	5,783
1.....	3,210	12.....	4,284	22.....	5,235	32.....	5,841
2.....	3,307	13.....	4,381	23.....	5,294	33.....	5,899
3.....	3,389	14.....	4,480	24.....	5,354	34.....	5,958
4.....	3,482	15.....	4,580	25.....	5,414	35.....	6,018
5.....	3,579	16.....	4,683	26.....	5,475	36.....	6,078
6.....	3,677	17.....	4,789	27.....	5,543	37.....	6,139
7.....	3,778	18.....	4,897	28.....	5,599	38.....	6,200
8.....	3,882	19.....	5,007	29.....	5,662	39.....	6,262
9.....	3,988	20.....	5,119	30.....	5,725	40.....	6,325
10.....	4,098						

Enter your pastor's Social Security Allowance figure on Section A, line 3 of the Clergy Compensation Worksheet.

- The use of 7.601827% may seem odd since the normal employer contribution to FICA is 7.65%. The factor used here accounts for both the fact that the social security allowance is itself taxed for SECA and that in filing his or her Schedule SE, a self-employed person is allowed to discount his or her actual salary by a modest percentage. The use of 7.601827% insures that the SECA liability is precisely equal between pastor and congregation.

Housing Equity for Clergy Living in a Church-Provided Parsonage

When a congregation or church agency provides a parsonage, the congregation or agency should assume all costs for maintenance, utilities and applicable taxes on that property.

When the pastor has to live in a church owned parsonage, he/she has no opportunity or option to own a home and therefore to build equity for retirement housing. The synod urges congregations that provide a parsonage to establish a Housing Equity Fund on behalf of its pastor that lives in the parsonage.

The Southwestern Washington Synod suggests a minimum annual contribution of \$500. into a Housing Equity Fund. The ELCA Board of Pensions provides an Optional Pension account for such contributions that has unique tax advantages, though other investment vehicles may be used. A significantly larger tax-free contribution can be made annually into such a fund. Housing Equity contributions are not considered part of “Defined Compensation” by the Board of Pensions and therefore do not increase the cost of Board of Pensions benefits.

To determine the maximum annual housing equity contribution, write to: Member Services Department of the ELCA, Board of Pensions Office, 800 Marquette Ave., Suite 1050, Minneapolis, MN, 55402

If your clergy is required to live in church owned parsonage, determine a Housing Equity Contribution of no less than \$500 and enter it in Section A, line 4 of the Clergy Compensation Worksheet.

B. Medical/Dental, Disability & Survivor Benefits Medical & Dental Plan.

The congregation/agency is responsible for paying a set percentage of its pastor’s “Defined Compensation” to the ELCA Board of Pensions for medical, dental, disability and survivor benefits. The actual total of this percentage contribution is determined by the “bundling” option selected by the pastor, i.e., whether spouse and/or other family members are covered under the medical and dental portion of the plan or, in rare cases, whether the pastor elects to waive medical and dental coverage altogether.

The following are the 2009 Medical and Dental benefit rates established by the Board of Pensions of the ELCA.

2009 Medical/Dental Plan Rates

<u>Coverage</u>	<u>Contribution rate (as % of Defined Compensation)</u>	<u>Minimum Annual Contribution</u>	<u>Maximum Annual Contribution</u>
Member only	12.4%	\$5,808	\$7,848
Member and Spouse <u>or</u> Children	21.8%	\$10,164	\$13,740
Member, Spouse & Children	31.1%	\$14,520	\$19,632
Coverage Waived	0.0%	\$-0-	\$-0-

Determine the amount to budget for payments for Medical and Dental Coverage under the ELCA Board of Pensions Program, by multiplying the appropriate percentage from the above table to the sum of Section A, lines 1, 2, 3 of the Clergy Compensation Worksheet. Enter the computed amount in Section B, line 1 of the worksheet. Please note minimum and maximum amounts.

Disability Benefits, & Administration.

The cost of disability benefits, retiree support and administration of the ELCA Board of Pensions Plan is **2.7%** of “**Defined Compensation**” for all members.

Disability Benefits & Administration Contributions for Clergy members of the ELCA Board of Pensions based on synod guidelines

Yrs Exp	Contrib	Yrs Exp	Contrib	Yrs Exp	Contrib	Yrs Exp	Contrib
0....	1,195	11...	1,602	22...	2,001	33....	2,255
1....	1,227	12...	1,638	23...	2,024	34....	2,278
2....	1,264	13...	1,675	24...	2,047	35....	2,300
3....	1,296	14...	1,713	25...	2,070	36....	2,324
4....	1,331	15...	1,751	26...	2,093	37....	2,347
5....	1,368	16...	1,790	27...	2,119	38....	2,370
6....	1,406	17...	1,831	28...	2,140	39....	2,394
7....	1,444	18...	1,872	29...	2,164	40....	2,418
8....	1,484	19...	1,914	30...	2,189		
9....	1,524	20...	1,957	31...	2,211		
10...	1,567	21...	1,979	32...	2,232		

Enter the Disability, Survivor Benefits & Administration Contribution in Section B line 2 of the Clergy Compensation Worksheet.

Pension

Regular pension contributions to the ELCA Board of Pensions are computed on the basis of age. The payments are calculated as a percentage of “**Defined Compensation**” which is **the sum of salary, housing, and social security allowance**. If a parsonage is provided, “**Defined Compensation**” is **the sum of cash salary and social security allowance multiplied by 1.3**. Use the appropriate table below to calculate pension contributions.

2009 Pension Contribution Rates for Clergy Enrolled In a Predecessor Church Pension Plan before 1988.

Based on Age of Member on **12/31/2008**

Under **61** = 10.0%

62-70 = 11.0%

71+ = 12.0%

If service in the church began in 1988 or later, the required pension contribution is 10% of “**Defined Compensation**” regardless of age.

Computations on next page.

2009 Pension Contributions Based on Synod Guidelines

Yrs.			Yrs.			Yrs.					
<u>Exp.</u>	<u>10%</u>	<u>11%</u>	<u>12%</u>	<u>Exp.</u>	<u>10%</u>	<u>11%</u>	<u>12%</u>	<u>Exp.</u>	<u>10%</u>	<u>11%</u>	<u>12%</u>
0	4,424	4,866	5,308	15	6,485	7,133	7,770	30	8,106	8,916	9,727
1	4,545	5,000	5,454	16	6,631	7,293	7,957	31	8,187	9,005	9,824
2	4,582	5,159	5,618	17	6,780	7,458	8,136	32	8,269	9,096	9,923
3	4,799	5,278	5,758	18	6,932	7,626	8,319	33	8,352	9,187	10,022
4	4,930	5,301	5,916	19	7,088	7,797	8,506	34	8,436	9,279	10,123
5	5,066	5,566	6,079	20	7,248	7,972	8,697	35	8,520	9,372	10,224
6	5,196	5,715	6,235	21	7,329	8,062	8,795	36	8,605	9,466	10,326
7	5,348	5,883	6,394	22	7,412	8,153	8,894	37	8,691	9,560	10,430
8	5,496	6,045	6,558	23	7,495	8,245	8,994	38	8,778	9,656	10,534
9	5,646	6,211	6,776	24	7,579	8,337	9,085	39	8,866	9,753	10,639
10	5,702	6,382	6,962	25	7,665	8,431	9,188	40	8,955	9,850	10,746
11	5,932	6,526	7,119	26	7,751	8,526	9,301				
12	6,066	6,672	7,279	27	7,848	8,633	9,418				
13	6,202	6,823	7,443	28	7,926	8,719	9,511				
14	6,342	6,976	7,599	29	8,015	8,817	9,589				

Enter your congregation or agency's pension contribution for its clergy in Section B, line3 of the Clergy Compensation Worksheet.

C. Expenses

Auto Expense Reimbursement/Auto Allowance

Auto expense and other work related travel are a business expense for the congregation and must not be considered as part of a church professional's salary. An appropriate place for this line item in the church budget is under church operating expenses.

Auto reimbursement plans or auto allowances should be sufficient to cover all church-related expenses including cost of fuel, repairs, insurance, tolls, parking, and depreciation. The IRS is increasingly requiring accurate records to support auto expenses claimed as church-related travel. Expenses for automobiles may be handled in one of the three following ways.

- 1) Congregations can purchase or lease a car and assume the total automobile expense. The pastor, in order to comply with tax regulations, is required to report and to reimburse the church for personal use of the vehicle.
- 2) The congregation can reimburse the church professional for actual miles driven at a specific rate per mile. It is appropriate to use the IRS standard mileage rate for operating a car for business. The pastor submits a monthly log and reimbursement is based on the actual miles driven for church business. An annual budget figure for this type of reimbursement program is usually based on a review of the work-related miles driven by a church professional in the previous year. The actual annual pay-out may be more or less based on the actual requirements for travel in the new year.
- 3) The congregation can pay a pre-determined dollar amount on a monthly basis in the form of an auto allowance. An auto allowance is considered taxable income and it should appear as part of wages on either W-2 or 1099-MISC Forms. In order to deduct some or all of church-related auto expenses under an allowance arrangement, pastors

who file their federal tax returns as employees must itemize their return and file form 2106 for Employee Business Expenses. Clergy filing under self-employed status can deduct some of their auto expenses using Schedule C and Form 4562 (Depreciation & Amortization).

Check the type of Auto Expense Reimbursement/Auto Allowance plan your congregation will provide its clergy and then enter the amount of money required to fund that auto expense or allowance plan Section C, line #1 under the Expenses Section of the Clergy Compensation Worksheet.

Continuing Education/Sabbatical Leave

Congregations should expect pastors to be involved in continuing professional and theological education programs which provide opportunities for personal development, enrichment of devotional life, and growth in pastoral effectiveness and competency. The purpose of continuing education is “professional growth” and “self renewal” as distinguished from program development, vacation, or synod and regional pastoral leadership retreats.

Pastors should be granted at least two weeks study leave per year and a minimum of \$700 per year for continuing education expenses, both cumulative up to three years*.

Accumulating accounts may be established and managed through the **Region I Financial Services Office**. It is an expectation that pastors contribute an additional \$350 each year to their continuing education through a salary reduction plan.

- * We urge all congregations to establish the following policy about accumulated continuing education time for when a pastor resigns:

A pastor may take only as many days of accumulated continuing education time as he or she has used in the previous eleven (11) months when those days will be used after the date of the announcement of his or her resignation or termination of call.

Enter your congregation's or agencies annual Continuing Education contribution for its clergy in Section C line 4 of the Clergy Compensation Worksheet. Also enter the number of weeks of continuing education granted each year and for how many years' continuing education weeks may be accumulated in Section D line 2. The Southwestern Washington Synod recommends a minimum of \$700.00 annually, two weeks/year, and a three-year maximum accumulation.

Sabbatical Leave

The congregation and its pastor(s) are encouraged to plan together for a time when the pastor can take a sabbatical leave of three months to one year for study, personal growth and reflection. Sabbatical planning resources are available from the Alban Institute (1-800-486-1318) and through the synod office.

D. Agreement

Annual Vacation

Pastors are “on call” day and night, carrying heavy responsibilities daily, are separated from family and relatives for great lengths of time, must regularly produce fresh material for the spiritual growth of parishioners, and are seldom able to take advantage of three-day weekends and other holidays. Therefore, vacation time is a necessary priority for pastors. It is this synod’s policy that all pastors receive a minimum of four weeks annual paid vacation, including four Sundays*. (see **Payment for Supply Clergy** below)

- * **Unused Vacation Time.** In the absence of any other officially recognized agreement or policy about the accumulation of unused vacation days, we recommend that congregations adopt the following ELCA churchwide policy, as follows:

A maximum of 10 days vacation time may be “carried-over” from one year to the next. No more than 10 days of additional vacation time may ever be retained.

Weekly Days Off

At least one full day free from professional church leadership responsibilities should be provided each week and, when possible, arrangements be made for having two consecutive days off.

Enter the number of weeks your congregation or church agency will grant as annual paid vacation in Section D line 1 under the “Other Benefits” section of the Clergy Compensation Worksheet.

Parental Leave for Newborns/Sick Leave

Many Letters of Call and Letters of Appointment do not include provisions for parental and sick leave. These issues should be discussed and an official policy established by church council. It is recommended that maternity leave of six weeks with full salary, housing, and benefits be adopted as official policy. Since paternity leaves are emerging as appropriate and beneficial to the health and well being of the family, we recommend that paternity leave be granted of up to two weeks with full salary, housing, and benefits.

If a pastor becomes disabled as a direct result of injury, or physical or mental disorder and is therefore unable to perform the material duties of his or her occupation for the employer, the ELCA Board of Pensions expects the employing congregation or institution to pay full salary and benefits during the first two months of disability. Beginning with the third month of disability, the Board of Pensions provides 66 2/3% of pre-disability pay.

Where applicable, Section D line 6 write the number of weeks your congregation or church agency will grant as parental newborn leave with full salary, housing and benefits on the Clergy Compensation Worksheet.

E. Administrative Costs

Washington State Workers' Compensation Plan

Washington State law requires that congregations pay into the State Workers' Compensation program for all church employees, for all worker hours, including those of ordained clergy who are employees of the congregation.

Enter the cost of Workers' Compensation your congregation must pay for its employee pastor's benefit in Section E line 1 under the Administrative Section of the Clergy Compensation Worksheet.

Payment to Supply Pastors

The 2009 synodical rate of payment to supply pastors is one hundred & fifty dollars (\$150.00) for one worship service, and twenty-five dollars (\$25.00) for each additional service/adult forum/Bible study on the same day and at the same location. Travel should also be reimbursed at a rate of the current IRS rate per mile, plus parking, ferry, and road or bridge tolls. The payment of these expenses is the sole responsibility of the congregation and should be paid on the day in which a supply pastor fills the pulpit.

The synod office should be consulted in determining honoraria for pastors supplying in congregations where a pastoral vacancy exists.

Enter the annual amount required to pay supply pastors based on the number of your congregation's weekend services, your church's location, and the number of weekends you anticipate the need for supply pastors in Section E line 2 of the Clergy Compensation Worksheet.

Congratulations, you have now completed a compensation package including associated administrative costs and other benefits for your pastor using the **2009 Compensation Guidelines for Clergy- Southwestern Washington Synod**.

The following pages include suggestions for "redistributing" your compensation package in ways that may enable your pastor to take better advantage of IRS tax codes applicable to ordained clergy or in ways that may actually increase the after tax value of the compensation package to your clergy. Most of the following suggestions can also reduce the bottom line cost to the congregation.

Compensation Package Redistribution Options

An important element common to the suggestions below is that the congregation and its salaried pastor(s) work together to come up with alternatives to straight cash salary and housing allowance payments set forth in these guidelines. In so doing, the congregation and staff professionals can create alternatives which benefit both the employer (the congregation usually has lower total costs) and the employee (the pastor which may have greater after tax income or a compensation package better suited to his or her long-term financial goals). The full consent of both the church council and the salaried pastor is an absolute prerequisite to the application of any of these suggestions.

Note About a Potentially Negative Effect on Retirement Income

Several of the following strategies have a net effect of cutting the congregation's total compensation costs by substituting different forms of compensation in place of straight cash salary and housing allowance. Several of these strategies also have a net effect of increasing the pastors' after-tax income by reducing the amounts that are subject to federal income taxation and social security taxation, SECA or FICA.

Be appraised, however, that with the exception of maximizing housing allowance, all of the following redistribution options also reduce the required amount that must be paid by the congregation to the Board of Pensions. This includes the pension portion of those payments. These same strategies also reduce survivor benefits from the ELCA Board of Pensions because survivor benefits are based on a percentage of "Defined Compensation" at the time of death.

With respect to survivor benefits, church professionals will have to assess the risk for themselves. With respect to reduced pension contributions, **the synod strongly urges congregations using any of these strategies to restore the pension portion of payments made to the ELCA Board of Pension to the full amount based on guideline figures regardless of the actual "Defined Compensation."** This is the only way to avoid what can be a dramatic reduction in the future retirement income of a church employee who has helped his or her congregation reduce present expenses. Again, the simplest and most equitable way of avoiding this hazard is for the congregation to calculate the pension portion of payments made to the ELCA Board of Pension based on the guideline figure, regardless of the actual cash salary, housing allowance, and social security allowance (Defined Compensation) being paid out.

Suggestion 1. Establish a Medical Expense Reimbursement Plan

A congregation may reimburse its church professionals for deductibles not covered by the ELCA Board of Pensions Medical/Dental Plan. This is an especially advantageous option for pastors who cannot participate in the Managed Health Care benefits being offered by the Board of Pensions in larger metropolitan areas.

At the beginning of the calendar year, an account can be established with a maximum amount that will be reimbursed for medical expenses not covered by insurance. The reimbursements are tax free in all respects, should not appear on W-2 or 1099-MISC forms, and are not considered part of Defined Compensation when calculating medical/dental contributions to the ELCA plan. Congregations offering such a program must make them available to all full-time employees and the appropriate motions must be

passed by the church council at its first meeting after the church's budget is passed. An accounting system must be established where the church employee submits vouchers and receipts for reimbursement.

For assistance in meeting the IRS requirements for an accountable plan, contact the IRS.

Suggestion 2. Establish a Professional Expense Reimbursement Plan

A congregation and its pastor(s) can work together to maximize the reimbursement of professional expenses, which are typically paid out-of-pocket with after-tax wages by the pastor. These expenses can include the cost of periodicals, books, professional supplies, conferences, etc. Using methods that meet the IRS requirement for "Accountable Reimbursement" plans, a pastor can receive reimbursements which are exempt from all taxes (federal and social security) and which are not considered part of "Defined Compensation" when calculating the medical/dental contribution to the ELCA plan. This is an especially advantageous plan for pastors who are planning an extensive study leave for which there will be expenses greater than continuing education set-aside accumulations. As with the Medical Reimbursement Plan above, appropriate motions must be passed by the church council at its first meeting after the church's budget is passed and a system for submitting vouchers and receipts for reimbursement is established.

For reference in meeting the IRS requirements for an accountable plan, contact the IRS.

Suggestion 3. Employer Optional Contributions to the Optional Pension Plan of the ELCA Board of Pensions

An ELCA congregation may elect to make an "Employer Optional Contribution" to the Optional Pension Plan of the ELCA Board of Pensions for the benefit of its pastor. The Optional Pension Plan is a 403b Tax Deferred Plan. The "rule of thumb" for a maximum annual contribution into such a plan is generally 16.66% of after-tax annual income or 20% of gross annual income, though there are a set of complex rules which may allow for an even greater one-time contribution. To request an analysis of maximum allowable 403b or TSA contribution for your pastor, write to:

Member Services Department of the ELCA
Board of Pensions Office
800 Marquette Ave. Suite 1050
Minneapolis, MN 55402

If the "Employer Optional Contribution" to ELCA Optional Pension Plan is made in lieu of cash salary, the contribution actually saves the church and church professional money because (1) the sum of the contributions is not considered part of "Defined Compensation" and therefore does not figure into the cost of medical/dental insurance and disability, survivor benefits and administration under the ELCA plan, and (2) the contributions are fully exempt from federal income tax and social security tax (SECA or FICA).

Suggestion 4. Deferred Compensation Plan

Another option that a congregation may wish to consider with the consent of its pastor is to provide life insurance coverage and build supplementary retirement savings for him or her through deferred compensation. These programs use whole life insurance policies as investment vehicles. An attorney must be consulted in drawing up such agreements.

The cost saving advantages are the same as those listed above for Employer Optional Pension Contributions to the Optional Pension Plan. An added advantage is that the amount that may be deferred can be in addition to contributions made into a TSA or 403b tax deferred savings program, even when the latter contributions have reached the tax free maximums established by the IRS.

Suggestion 5. Designate a Household Furnishings

Allowance (for clergy and living in unfurnished parsonages)

A Household Expense and Furnishings Allowance may be designated as a portion of annual salary and may be used by a pastor for purchasing and repairing furnishings, and for certain other household maintenance expenses. To the extent that the allowance is used for household furnishings, etc., it is excluded income for federal income taxation. The designation is still considered part of the base for calculating social security payments (SECA or FICA) and is considered part of “Defined Compensation” by the ELCA Board of Pensions

Suggestion 6. Maximize Housing Allowance

Receiving a portion of salary as a “Housing Allowance” provides the single best tax advantage offered to clergy who do not live in a church owned parsonage.

Reassessing the sum of the fair rental value of a fully furnished home, all utilities, insurance costs, fees, maintenance costs, and property taxes have often increased the amount designated from the church for this purpose. While housing allowance *is* considered part of “Defined Compensation” by the ELCA Board of Pensions, and *is* part of the base for calculating social security payments (SECA), to the extent that it is used for housing expenses, it *is not* subject to federal income taxation. The clergy is responsible for proving the expense of the housing allowance amount.