Interpretive Comments on the
Guidelines for Pastors' Salaries and Benefits
2017-2018

I. Pastoral Salary Base and Unit Values

The base and unit values have been increased 1.3%. The base assumes a high school education only. Credit for post-high school education is included in the salary units for education (II.B).

II. Unit Value for Salary Adjustment

A. Experience. One unit is given for each accumulating year (or full-time equivalent) of pastoral experience, up to a maximum of 30 years. One unit should be credited for each of the first 20 years of pastoral experience and one-half unit per year for years 21-30 for a maximum of 25 units.

In some situations, particularly where ministry is a second career or where other church related years of experience have helped to prepare the person for pastoral ministry, it might be appropriate to award some units for experience other than ministry. When that is done, the maximum should be no more than one unit for each two years (or full-time equivalent) of relevant experience. For new pastors, it would also be appropriate to give one year of experience for each year of full-time pastoral education.

B. Education. Education units are awarded according to the table based on degree completion—not on years of study. The unit credit for S/CPE is for four full units of credit, not for the single unit but year-long extended unit of S/CPE. Graduate degrees other than seminary, while valuable for general preparation, are not designed for pastoral ministry preparation and should be granted only one unit per degree. The maximum units for all accumulated education are eight.

C. Responsibility. The premise is that different levels of complexity, various levels of intensity, and higher levels of risk in ministerial leadership ought to be reflected in the salary scales. These are kept at a minimum in the church compared to other vocations in our society. Where these guidelines might result in an equal or higher salary for an associate as compared to a lead pastor in that congregation, the committee may need to make adjustments that reflect the stated roles and responsibility.

The criterion is weekly worship attendance and pastoral role. In some cases, there may be other factors that should also be considered in adding units for responsibility. For purposes of these guidelines, we consider a youth minister to be an associate pastor. This year Church Planter was combined with Solo Pastor / Co-pastor rather than a separate category.

Conference Minister's responsibility units reflect the additional weight of being a pastor to pastors and the complexity of overseeing a larger organizational system. Conference ministers are often required to balance pastoral, administrative and management functions similar to executives of comparable organizations. Additional responsibility units for conference ministers acknowledge this role.

D. Geography. Across the country there is considerable spread in the cost of living, particularly related to housing costs. The geographical units assigned are primarily based on the 2017 "Effective Buying Income" index obtained from *Claritas* (formerly *Nielsen Segmentation & Local Market Solutions)* for counties in which there are Mennonite Church USA congregations.

These geographical units are not updated each year because the data source has become very expensive. Because units will increase for many counties, a congregation may choose to spread the increase over more than one year. Decisions about future updates will be made each year but the next update is anticipated to be for 2020-2021.

It cannot be stressed strongly enough that local data should be taken into consideration to adjust geographical units as needed. Specifically, we recommend taking into consideration the cost of living and/or the effective buying power in your county or the community where the majority of your members reside. You should also consider the median household income of your congregation. Checking with your local Chamber of Commerce or a similar organization will help inform your congregational decisions.

E. **Optional other units**. We recognize that the specific unit values identified on the worksheet may not meet the unique circumstances of every congregation. In some cases, where the cost of living and/or housing is particularly high, a congregation may want to add additional units. There may also be other local considerations that would suggest additional units.

III. Self-Employment Tax Adjustment

We strongly support pastors' participation in the Social Security system to provide long-term benefits for retirement, disability, survivor's benefits in case of an untimely death, and Medicare benefits in retirement years.

Pastors are considered self-employed for purposes of figuring social security taxes, meaning that they are responsible to pay the self-employment tax (both the employee's and the employer's portion of social security, minus a somewhat discounted rate (approximately 2 percentage points) of the 15.3 percent total tax rate).

This additional cost to the pastor for social security could be considered a trade-off for the unique housing deduction which pastors have on income tax (see section VII. A. "Housing Allowance"). However, many times, half of the self-employment tax still exceeds any special income tax deductions for housing which the pastor may receive.

The pastor should be granted additional income to cover the amount normally paid by the employer (7.65 percent of income or one-half of the usual rate of 15.3 percent). Any payment to the pastor to assist in payment of the self-employment tax becomes additional salary and must be included as taxable income on the W2 form for IRS.

IV. Housing Adjustments

A. Parsonage adjustment. When the congregation provides housing through a parsonage, the value of such housing should be figured at a fair market value in the community and subtracted from the overall salary. This amount should be deducted from Total Salary before Housing Adjustments (line 12). Another guide for determining this parsonage adjustment is that it should not exceed 25 percent of line 12. The value of the housing is considered a taxable benefit.

B. Housing equity fund. If the fair market value of housing is deducted from salary because of a parsonage, then a housing equity fund may be established for the minister. This fund helps to offset the loss to the minister of the amount which normally would go to pay on the principal of the mortgage, the gain in value which may come to the property due to inflation and the gain which may be realized through improvements using the minister's own labor. The recommended amount to be placed annually in an account is five percent of line 12 or two percent of the assessed parsonage value. It is recommended that these funds be deposited in a separate account such as an Everence Praxis Mutual Fund or another type of investment of local choice. *This is taxable income in the year the minister receives and controls these funds as is the interest or dividends earned.*

V. Benefits

A. Medical Health Plan. The Corinthian Plan is a comprehensive benefit plan including health, life and disability with optional dental and vision coverage sponsored by Mennonite Church USA and administered by Everence. The Corinthian Plan envisions all Mennonite Church USA congregations participating in a plan to provide access to health care insurance for all Mennonite Church USA pastors. See http://mennoniteusa.org/what-we-do/the-corinthian-plan/. Cost information for The Corinthian Plan is available by contacting Denise Henke at Denise.Henke@Everence.com. Information on premium assistance is available from The Corinthian Plan Director, Duncan Smith at DuncanS@MennoniteUSA.org.

We strongly recommend that a family health insurance plan be provided for the pastor and the pastor's family through The Corinthian Plan and paid for by the congregation. Participation helps provide health insurance coverage for Mennonite pastors and church employees, some of whom would otherwise find it difficult or impossible to obtain adequate health insurance elsewhere. If the spouse has health insurance available through employment, the coverage the church provides may include only the pastor and eligible children.

If your congregation participates in The Corinthian Plan through active coverage or waiver, there are no tax implications for the congregation or employee. However, your congregation may be providing financial support for pastors/staff to access other group or individual health insurance through direct or indirect compensation. The rules around employee compensation for health insurance and taxes are changing. If a congregation does not participate in The Corinthian Plan through active coverage or waiver for any of its employees, then it *may* qualify for a QSEHRA (Qualified Small Employer Health Reimbursement Arrangement). A QSEHRA allows qualified small employers to pay for employee health insurance, up to a limit, without tax implications. Consult your accountant or tax professional regarding this type of compensation for health insurance.

Because of the continuing escalation of health insurance costs, some congregations are moving to higher deductible plans and/or limiting coverage for families. Such changes result in a pay cut to pastors! Where this is deemed necessary, we urge congregations to phase in these changes over a period of years. We also urge you to set up and contribute to a Health Savings Account (HSA) or a Flexible Savings Account (FSA) to help manage out of pocket expenses for pastors. HSA and FSA contributions can be made with pre-tax income and can reduce income tax. For information on HSA's, contact Everence or your current health insurance provider.

B. Pension Plan/Retirement Fund. We recommend that an amount equal to 8 to 10 percent of the Total Salary (line 12) be contributed by the congregation for retirement purposes into Mennonite Retirement Trust, administered by Everence, or another tax-deferred instrument on behalf of the pastor. We encourage the pastor to make personal investments/savings toward retirement. Contributions from both the employer and pastor can be up to 100 percent of taxable compensation or $53,000, whichever is lower. Keep in mind that contributions to retirement plans cannot exceed the pastor's income minus the amount designated as housing allowance. See "Ministers' Retirement Fund Recommendations" at http://mennoniteusa.org/resource/pastor-salary-guidelines/. We encourage you to consult with a financial advisor, tax consultant, or lawyer.

C. **Life and Disability Insurance**. The congregation may provide some other life insurance and/or disability insurance for the pastor if they do not participate in The Corinthian Plan. Life and Long Term Disability are also now included as benefits in The Corinthian Plan. Congregations are encouraged to consider Short Term Disability for their staff as well.

D. **Continuing Education and Spiritual Direction/Retreats.** The congregation should provide funds for pastoral growth and continuing education such as the annual seminary pastors' week. We are suggesting a range from $600 - $1000 per year. In addition, one to two weeks' annual study leave time should be provided. These may be accumulated over three years within the congregation being served to permit participation in something such as the seminary interterm or summer school. Congregations may also wish to encourage pastors to seek out opportunities for spiritual direction and/or retreats.

E. **Other Benefits.** Congregations may want to contribute to an employee's Health Savings Account (HSA). This can help offset deductible expenses for the pastors/staff. Other special benefits can be recorded on line 21.

VI. Expense Allowances

A. **Auto Expense**. Auto expense for church related travel should be reimbursed at 53.5 cents per mile, the 2017 level of allowance by IRS. This should be paid monthly based upon an itemized record of miles actually driven and reported by the pastor. The rate should be updated on January 1, 2018 to the current IRS rate or at any other time that IRS adjusts the rate.

B. **Conference Expense**. The pastor's attendance at area and denominational conference sessions as well as area ministers' meetings is part of the pastor's professional responsibility. It is strongly recommended that the congregation pay for registration, travel, lodging, and food costs for the pastor.

Sometimes pastoral families vacation in connection with conference attendance. In such cases, it is recommended that the congregation reimburse the round trip costs of the least expensive mode of transportation to get the pastor to the conference, realizing this may be flying, renting a car or paying mileage on a personal car. The costs and the method for the trip should be agreed upon prior to the trip.

C. **Professional Expenses**. Dues of professional associations and costs incurred on behalf of the congregation such as church-related lunch meetings or visits should be reimbursed.

D. **Other Expenses.** Moving arrangements and expenses are negotiable between the pastor and the congregation. It is common practice that the receiving congregation assumes the basic costs of moving, such as payment for a rental truck and fuel. Such negotiations should occur as part of the "Covenant of Understanding" and be part of the offer to the pastoral candidate prior to the candidate accepting the invitation.

VII. Housing Allowance. Our salary guidelines include allowances for housing, utilities and appurtenances. For these to be tax-deductible items for the pastor, they must be identified by a specific amount prior to receiving them in an annual contract, the church budget, or a specific minute reflecting an action by the governing body of the congregation. When the minister provides his/her own housing, official boards of congregations in the United States should designate annually a portion of the cash salary as a "housing allowance" or a "parsonage allowance," which under IRS rules may be excluded from taxable income. This action must be taken by the church prior to the time the income is received. Generally, the pastor, in consultation with her tax consultant, will recommend a housing allowance amount.

Current IRS rules (Publication 517) stipulate that only the lowest of the following three factors can be taken as a housing allowance exclusion for income tax purposes: 1) the amount designated as housing allowance by the church; 2) the amount actually used for housing and related costs; or 3) the fair market rental value for equivalent housing in the community.

Revised April, 2017
Terry Shue
Nancy Kauffmann
Richard Friesen