

MEMO TO: PASTORS, CONGREGATION CHAIRMEN, & TREASURERS

SUBJECT: 2012 SALARY & COMPENSATION GUIDELINES FOR PASTORS

DATE: SEPTEMBER 10, 2011

FROM: THE ND DISTRICT LCMS BOARD OF DIRECTORS/Sharpe



NEW FOR 2012

The 2012 recommended salary scale reflects a 2% (this may vary slightly due to rounding) increase over 2011. Additionally, congregation treasurers have received information concerning rate increases and option for the Concordia Plans.

The Board of Directors dropped the flat monthly auto allowance (Option 2) in 2011 and, therefore, no longer offer updates, changes or modifications for Option 2. These guidelines call for reimbursing the worker at the IRS mileage rate for business/ministry miles driven.

FYI: The Concordia Plan Services consists of 3 separate programs designed to work together for the benefit of workers. The three plans include: Concordia Health Plan, Concordia Retirement Plan, and Concordia Disability and Survivor Plan. Employers which opt out of one or more of these programs may be putting their worker(s) at risk or may not be providing their worker(s) the optimum benefit from the Plans. For instance, a worker who is in all three Concordia Plans and who becomes disabled will have their health insurance premiums waived after 6 months of disability until they reach retirement age. If an employer is not in the Concordia Health Plan at the time a worker becomes disabled, this health insurance premium waiver is lost unless separate coverage has been purchased.

Concordia Plans Services frequently updates both employers and workers on their programs. Please read these carefully.

OTHER SALARY CONSIDERATIONS

These guidelines are most appropriate in situations where a sole pastor serves a single congregation. Dual, triple, multi staff congregations/parishes, and other configurations need to adapt the guidelines to fit their unique circumstances and workload.

Congregations with more than one pastor might consider using multipliers in order to differentiate between the roles of senior, associate or assistant pastor. A congregation with two pastors may, for instance, compensate the associate pastor from the appropriate baptized membership column for his years of experience and compensate the senior pastor from the appropriate column for his years of experience but multiplied by 1.05.

UNIQUE TAX STATUS OF PASTOR

A pastor is considered an ordinary or common law employee by the IRS for income tax purposes.

With respect to Social Security taxes, ministers of the Gospel are self-employed. Self-employment tax (SECA) is the equivalent of both the employer's and employee's social security and Medicare contribution. Virtually all cash paid to a worker by a congregation is subject to SECA tax. If a congregation provides a parsonage, the fair rental value of the parsonage (even though no cash has exchanged hands between the worker and congregation) is subject to SECA tax. If a cash housing allowance is paid, the worker pays SECA tax on the allowance paid.

Clergy taxes are complicated. Competent tax advice should be sought as questions arise. These guidelines are not a substitute for such advice. The LCMS *Congregational Treasurer's Manual* provides information on IRS reporting requirements and payroll issues. It is updated annually.

Clergy are not subject to mandatory income tax or FICA/Medicare tax withholding. They make estimated quarterly tax payments. Voluntary withholding is permissible but the treasurer needs a very good understanding of how such voluntary withholdings are reported to the IRS in order to avoid confusion.

Income received from honorariums for funerals, weddings, etc. is subject to yet additional IRS rules. Reporting these types of income to the IRS is not the responsibility of the congregation.

Clergy income is reported to the IRS via a W-2 form. It is the responsibility of congregational leadership to insure the W-2 is reported to the IRS in a timely manner and copies supplied to the pastor before January 31 of each year.

CONCORDIA PLAN SERVICES (CPS)

Concordia Plan Services consists of three different benefit programs: the Concordia Health Plan (CHP), the Concordia Retirement Plan (CRP) and the Concordia Disability and Survivor Plan (CDSP). The premiums charged for these plans depend directly upon the marital and family status of the pastor and, in the case of the health plan, the Plan Option chosen by the congregation as well as the salary/housing amounts paid/provided. Each of these Plans has its own premium. They appear separately on the CPS monthly bill.

Concordia Plan Services communicates directly with the worker and the congregation (employer). The ND District guidelines do not attempt to describe every option, coverage, premium, or nuance available through Concordia Plan Services. Congregation leadership and, of course, those workers covered by CPS are expected to read, understand, and follow the rules and guidelines of CPS.

One element of the Concordia Retirement Plan often overlooked effects LCMS Rostered workers who were ordained /commissioned after January 1, 1982. These workers participate in the CRP on the "offset/regular basis". (Workers ordained/commissioned prior to Jan.1, 1982 participate on the "full basis".) The CRP premium paid for those on the offset/regular basis is less than for those workers on the full basis. Congregations should pay their ordained/commissioned workers the difference between the offset/regular premium and the full premium. This may be paid monthly, quarterly, or annually. The difference is 2.3% for single workers and 3% for married workers as computed on the annual Workers Benefits Plan salary report.

This payment is designed to assist the self-employed pastor/worker pay a portion of the SECA tax of 15.3%. (The actual percentage paid is affected by IRS adjustments & other federal stimulus programs). This payment is made directly to the worker and is reported as income for Federal Income Tax purposes on the W-2. The worker also pays SECA tax on this payment.

LCMS Concordia Health Plan

Concordia Health Plan (CHP) offers employers several health insurance options. Employers may be able to lower their premiums depending on the option they choose. Unfortunately, lower premiums for the employer may mean higher out-of-pocket expenses for the worker. Congregations should discuss these options with their workers and consider sharing their premium savings with their workers if the option is chosen which results in higher out-of-pocket expenses for the worker.

Employers choosing health insurance from another provider should carefully compare coverage. CHP health insurance includes prescription drugs, dental, vision and mental health coverage. "Cheaper" health insurance premiums are appealing; but, such insurance may not provide the worker complete coverage. Also, the disability waiver discussed early is not available unless coverage for such a premium waiver has been purchased separately.

AUTOMOBILE EXPENSES

Auto use for ministry purposes should be reimbursed. Discussing the mileage needs of the ministry in advance will help avoid misunderstandings and budget surprises.

Ministry/business mileage is reimbursed at the IRS rate per mile driven. As of this writing (September 2011), the IRS mileage rate is 55.5¢. Using this method, the pastor records all pastoral miles driven during the month and then submits them to the Treasurer for reimbursement. The IRS has specific rules on how mileage logs are to be kept. Mileage reimbursements using this method are not subject to income or self-employment taxes.

Note: Option 2 included in previous Guidelines suggested a flat monthly auto allowance. This method may result in income and SECA tax liability depending upon actual business miles driven annually. A flat auto allowance is reported as taxable income on the pastor's W-2. The worker must maintain adequate records to show business mileage in order to deduct these dollars from his income.

CONVENTIONS & CONFERENCES

Conventions and pastor conferences, including monthly circuit meetings (winkels) are **required** by Synod. They are considered integral to a congregation's ministry. They are not "days off". Meals, lodging, registration fees and other related costs are legitimate business expenses and should be paid by the congregation(s).

HOUSING & UTILITIES

Every parish is expected to provide for the worker's housing needs.

Parsonage provided

When a congregation provides a home, all utilities are paid by the congregation excluding personal long distance telephone costs and other items of a personal nature/choice. Lawn care, snow removal, routine house maintenance, cable TV, etc. should be discussed to determine who provides the necessary equipment, does the work and pays the bill. Charges for premium or add-on services (movie channels, call waiting, etc) should also be discussed prior to their installation.

Congregation leadership should assure that the parsonage reflects well on the congregation within the community and provides the pastor and his family a modern, comfortable, well-maintained home. Trustees need to regularly inquire as to the home's condition and make necessary repairs and updates.

The parsonage family's privacy should at all times be protected. This means no unannounced inspections or repairs.

The parsonage family should view the parsonage as a trust deserving of their care and respect. Permission should be received prior to making changes/improvements. While the parish should not attempt to prescribe how the pastor and his family live in the parsonage, discussing matters (such as adding pets) helps avoid conflict.

The parsonage, when vacated, except for normal wear, should be in a condition similar to when it was first occupied.

Pastors are required to pay self-employment tax (SECA) on the fair rental value of a parsonage (see the LCMS Treasurer's Manual for a definition of *fair rental value*). Normally, this means that the Pastor pays SECA tax on the fair rental value of the parsonage from his cash salary.

Housing equity

If the parish provides a parsonage, they should consider adding a Housing Equity Allowance to the pastor's salary. This annual amount roughly equates to equity the pastor would earn as a homeowner and can be used as a down payment on a home in the future. It should be treated as ordinary income. The pastor should be encouraged to save this allowance for a down payment on a house in the future.

Pastor buys or rents housing

A Cash Housing Allowance may be added to the pastor's salary in lieu of the congregation providing a parsonage. This amount should be sufficient to cover the rent or mortgage payment, utilities, property taxes, insurance, and other necessary costs of home ownership in the community. Review this allowance annually so that it remains adequate.

The worker is required to pay self-employment tax (SECA) on all cash housing allowance dollars. (For example: A \$1,000 per month cash housing allowance, after paying the SECA tax, leaves about \$860 for actual housing expenses.)

IRS Housing Allowance Resolution

Traditionally, a pastor's total compensation is comprised of his salary as reflected on the district salary scale and a cash housing allowance or a parsonage.

IRS regulations require congregations to *annually* designate a portion of the pastor's total compensation as a Housing Allowance so that that portion of his earnings used to provide housing may be excluded from income tax.

The Housing Allowance Resolution does **not** involve paying additional dollars to the pastor. It is simply a designation for income

reporting purposes which allows the pastor to exclude that portion of his compensation/earnings which is used to provide housing from income tax. These dollars are not reported as taxable income on the worker's W-2.

He still pays SECA tax on the amount designated by the Housing Allowance Resolution. And, he must also be prepared to verify to the IRS that portion of the amount designated by the Housing Allowance Resolution was, indeed, used for housing costs.

The congregation must pass a Housing Allowance Resolution **before** the pastor can begin to take advantage of this tax benefit. Sample Resolutions and a more thorough explanation of this tax benefit are in the **Congregational Treasurer's Manual**.

Pastors living in a parsonage are also eligible for this "tax break". While not making house payments or paying utilities, a pastor living in a parsonage might purchase furniture, pay renter's insurance, or incur other related expenses which are eligible.

An amount larger than the Cash Housing Allowance included in the worker's compensation can be designated through this Housing Allowance Resolution for exclusion from income tax.

SECA TAX ALLOWANCE

The worker pays both the employer and employee's shares of social security/Medicare taxes (SECA). Employers are encouraged to help pay the employer portion of this tax by adding a predetermined amount to the pastor's compensation. This allowance is a mixed blessing. These dollars help pay the SECA tax while at the same time being subject to both income & SECA taxes.

OPTING OUT OF SOCIAL SECURITY

The IRS allows ministers to opt out of Social Security within the first two years of entering the ministry. The reason for opting out must be theological. *The Lutheran Church- Missouri Synod does not oppose participation by its ministers in Social Security on the basis of religious principles.* **LCMS pastors seeking exemption from Social Security must discuss their choice with the district president prior to filing for exemption.**

PROFESSIONALISM - PERSONAL NEEDS

A pastor's responsibilities cannot be squeezed into a regular schedule or a 40 hour work week. Many of his evenings, weekends and holidays are consumed by obligations. Weddings, funerals, hospital visits and other pastoral care cannot be scheduled by the pastor for his convenience. He is on call 24 hours a day, 7 days a week. Even dealing with phone calls (some of which are critical and necessary and some which aren't) from members while at home is an intrusion which blurs the lines between work and leisure. Also, there are times (Lent for example), when the pastor spends more time than normal preparing and carrying out the public ministry.

The need for time to rest and to *re-create* is Scriptural. A pastor and his Elders and/or Church Council need to discuss this important matter. Striking a balance between ministry and relaxation is the pastor's ultimate responsibility. He should not abuse this privilege; neither should the congregation deny him this freedom.

Time off for sickness, funerals, and other emergencies should not be counted as vacation time or as the pastor's day(s) off. The congregation should have a policy in place *prior* to such a need arising. If there are no sick pay/ benevolence pay/family leave policies or guidelines in place, the congregation should be prepared to be overly generous when these situations arise.

VACATION

The pastor should discuss his vacation plans well in advance with the appropriate church board so that the congregation has adequate time to arrange for pastoral care and pulpit supply during his absence. The pastor and congregation should also discuss in advance what constitutes a vacation day, how many, if any, vacation days can be accrued for use the following year, and who keeps the official tally of days used.

YEAR OF EXPERIENCE	VACATION DAYS*	SUNDAYS
1-5 years	21 days	3
6-14 years	28 days	4
15+ years	35 days	5

** Does not include legal holidays which may fall during a scheduled vacation*

PROFESSIONAL GROWTH

Continuing Education is important in every profession. Congregations are encouraged to provide time and financial assistance so that their pastor(s) may take advantage of professional growth opportunities. Monthly circuit meetings and pastor conferences are mandatory conferences and should not be counted as continuing education time. Neither should continuing education time off be counted as vacation.

SUMMARY

The pastor's compensation requires careful management by a congregation's leadership. Each congregation should develop procedures for annually reviewing and adjusting compensation. The pastor should be made to feel comfortable discussing his salary, his ministry and related matters with those responsible for his welfare.

These guidelines are reviewed annually by the ND Division of Professional Church Worker Growth and Health. Its recommendations are sent to the District Board of Directors. The District BOD is the approving authority of these guidelines. Both groups include lay and clergy members working together to provide guidelines that reflect the concerns of both congregations and professional church workers. These guidelines are not a substitute for competent payroll management or tax advice. Changes in tax law may affect accuracy of these Guidelines.

TREASURER'S MANUAL

An **LCMS Congregational Treasurer's Manual** is updated annually by District & National Synod Business Managers. It is a helpful tool for understanding the complexities of salary, benefits, and other payroll issues. It also covers congregational accounting and financial reporting. It is available on CD and on the LCMS website.

QUESTIONS OR CONCERNS

Should you have questions or comments regarding the items in this document, you are encouraged to contact your Circuit Counselor, the District President or the Executive Director of the Board of Directors for assistance. Mr. Sharpe from the district office is available to visit with congregations when requested.

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North Dakota District LCMS 2012 Salary Guidelines

Years of experience	Year of ordination	Baptized membership up to 300	Baptized membership 301-600	Baptized membership over 600
0	2012	\$33,703	\$34,650	\$35,597
1	2011	\$33,982	\$34,929	\$35,875
2	2010	\$34,539	\$35,485	\$36,433
3	2009	\$35,096	\$36,043	\$36,990
4	2008	\$35,653	\$36,600	\$37,547
5	2007	\$36,768	\$37,713	\$38,661
6	2006	\$37,882	\$38,828	\$39,776
7	2005	\$38,997	\$39,942	\$41,295
8	2004	\$40,109	\$41,057	\$42,005
9	2003	\$41,224	\$42,170	\$43,118
10	2002	\$42,338	\$43,285	\$44,232
11	2001	\$42,895	\$44,399	\$45,346
12	2000	\$43,453	\$45,513	\$46,461
13	1999	\$43,729	\$46,627	\$47,575
14	1998	\$43,843	\$47,741	\$48,685
15	1997	\$43,954	\$48,855	\$49,803
16	1996	\$44,065	\$49,970	\$50,917
17	1995	\$44,176	\$50,527	\$52,031
18	1994	\$44,287	\$51,084	\$53,146
19	1993	\$44,399	\$51,641	\$54,260
20	1992	\$44,510	\$52,199	\$55,375
21	1991	\$44,567	\$52,755	\$55,931
22	1990	\$44,622	\$52,867	\$56,488
23	1989	\$44,678	\$52,978	\$57,046
24	1988	\$44,733	\$53,089	\$57,602
25	1987	\$44,789	\$53,200	\$58,159
26	1986	\$44,844	\$53,311	\$58,716
27	1985	\$44,900	\$53,424	\$59,273
28	1984	\$44,955	\$53,536	\$59,384
29	1983	\$45,013	\$53,647	\$59,497
30	1982	\$45,067	\$53,758	\$59,608
31	1981	\$45,124	\$53,842	\$59,719
32	1980	\$45,179	\$53,925	\$59,831
33	1979	\$45,235	\$54,008	\$59,942
34	1978	\$45,290	\$54,092	\$60,054
35	1977	\$45,346	\$54,176	\$60,165
36	1976	\$45,402	\$54,260	\$60,276
37	1975	\$45,457	\$54,342	\$60,387
38	1974	\$45,513	\$54,426	\$60,499
39	1973	\$45,569	\$54,510	\$60,610
40	1972	\$45,625	\$54,594	\$60,722

2012 salary guidelines approved August 2011 by the ND Board of Directors
Salaries reflect a 2% increase above 2011 guidelines, with slight variations due to rounding.