

Caring for Clergy through Compensation

Fourth Edition

Data and Discussion for Wardens, Vestries, Finance Committees and Search Committees

The hope of this booklet is to raise awareness,
identify factors for discussion and consideration
and to emphasize the responsibility of the church to compensate clergy.

THIS BOOKLET WILL EXPLORE THE FOLLOWING TOPICS:

- What is our theology about clergy and Call?
- What is our theology about clergy compensation?
- What is the purpose of compensation?
- What basic guidelines and resources are available?

Compensation Defined:

Compensation as used in this booklet is a **general** term describing **all** the remuneration which may accrue to the position of parish priest.

For tax and budgeting purposes, however, there are distinctions between direct compensation (salary, housing, utilities), benefits (insurance, pension, etc.) and reimbursement for professional expenses.

This booklet is focused on the parish priest. It is important to check with your diocesan office regarding local standards, guidelines and other parish positions.

Caring for Clergy Through Compensation

"We receive you into the household of God. Confess the faith of Christ crucified, proclaim his resurrection, and share with us in his eternal priesthood." BCP p. 308

WHAT IS OUR THEOLOGY ABOUT CLERGY AND CALL?

"In each of us the Spirit is manifested in a particular way for a particular purpose." 1Cor. 12:7

It is important to be clear from the outset that the process of calling a priest is uniquely different from a hiring process. "Hiring" assumes an employer/employee relationship. Duties, responsibilities and power are sharply defined. Hiring is a focused decision that is in principle easily reversible. The reverse of hiring is firing. Calling assumes a community of relationships. Sharp definitions of duties, responsibilities and power prove elusive. Calling is generally experienced as something that grows in a continuing way. The reverse of calling is dissolution. (It is our hope that careful and well conceived calling processes will help to avoid dissolutions.)

"To hire is to invite a person into an employer/employee relationship. But that model doesn't fit what happens between parish and rector. Rector and vestry are mutually accountable to each other. And the rector is accountable also to the bishop, to the canons and to fulfilling promises made at ordination. To call is to invite a person into collaboration among the ongoing ministries of parish, priest and diocese. It involves listening and responding to one another, expecting to grow in understanding and in grace as a result." (*Choosing to Serve* by the Venerable Richard Ullman, Church Deployment Board, 1991.)

The rector, wardens and vestry of a parish share a common purpose and collegial interest: to build up the Body of Christ and help the parish open itself to the meaning of life as revealed to us in Jesus Christ. Together they forge a partnership for leadership of the congregation. That relationship is rooted in God's generosity and grace, based on trust, and shaped by understanding, communication, goodwill and accountability. The rector as a priest of the Church is one who is called by the community and affirmed by the Bishop to be the bearer of the healing work of blessing and forgiveness, the link with story and tradition, and the breaker of bread. The rector presides over a community which celebrates the grace and generosity of God directed toward ministry in the world. The wardens and vestry as elders of the congregation forge a partnership with the clergy to care for the spiritual and temporal affairs of the baptized community to further enable the membership to become who they are in Christ and serve the world in his name.

To summarize: a parish priest and vestry are partners in the leadership of any congregation. They are also partners in considerations of compensation.

WHAT IS OUR THEOLOGY ABOUT CLERGY AND COMPENSATION?

How we make decisions about compensation, and other matters dealing with money, declares the theological understanding we have about creation. The opportunity is present to understand God's creation as one of abundance.

Gospel Abundance

Gospel Abundance is joyful fullness of life based on knowing God to be with us in our personal lives, in community life, and in intersections of personal and community life.¹

We live in Gospel Abundance as we learn to trust that God is with us, loving us, ready to guide and empower us toward fullness of life. We develop habits to cultivate awareness of God's presence. We notice how such awareness makes a concrete difference in the quality of life. And we thank God.

We live in Gospel Abundance as we discern God's hopes and our own hopes: for abundance in relationships with God, neighbors, and ourselves and for resources to support these relationships. Discerned shared hopes become our vision.

When situations call for reflection and possible action, **we live in Gospel Abundance** as we discern: "What's the *real* issue?" "How does this issue invite us to move toward our hopes?" and "What are viable options for doing so?" We discern action plans within the ethical framework of Jesus' Great Love Invitation.

When unhealed feelings of pain, guilt, shame, and anger contaminate our relationships, **we live in Gospel Abundance** as we discern how to transform this emotional toxic waste into compost for abundant life.

The Rev. Arthur G. Stevens "Finding Gospel Abundance", 1998

¹Gospel Abundance does not always feel good. In addition to much pleasure, Jesus felt the fear, pain, anger, and shame of ridicule, imprisonment and crucifixion. God resurrected Jesus, thereby showing that such fullness of life is God's way.

WHAT IS THE PURPOSE OF COMPENSATION?

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There are two purposes for compensation. The first is to provide wages and benefits in order for parish clergy to have a living wage and care for themselves and their families. The second is to provide monetary reward for special competencies, outstanding leadership or other meritorious service.

BASIC GUIDELINES

Each diocese has its own guidelines and policies around clergy compensation. The basis for these guidelines varies from diocese to diocese. Here are some of the compensation strategies from across the Episcopal Church.

COMPENSATION STRATEGIES

- Salary based on years of ordination
- Salary based on size of parish
- Salary based on number of years' experience in congregations
- Salary based on formula from certain parochial report statistics, such as budget, average attendance, communicants, pledging units or some combination of these
- Salary based on combination of the factors listed in all of the above

Search committees and vestries will assist the conversations about compensation if the following things occur:

- 1) *At the beginning of the process it is determined at what point in the process compensation information will be: a) provided, and b) discussed and determined with the candidate.*
- 2) *There is clarity about the compensation related to the position. This may appear as a range, given the length of ordination variable. It is important to state what the position is worth.*
- 3) *For clergy being considered from another diocese, it is important to provide them with the diocesan guidelines and rationale for compensation. Search committees and vestries can clarify this with the diocesan deployment/ transitions officer.*

GENERAL CATEGORIES TO CONSIDER IN COMPENSATION

DATA

SALARY or STIPEND is the actual cash salary for services rendered. The stipend, or salary, is reportable in full for income tax purposes.

In some dioceses there is a separately listed allowance toward the Social Security tax. In addition to being liable for income tax, this should be understood as part of salary when using CDO profiles.

The CDO personal Profile provides information on a person's compensation at the time the data was last updated with CDO, as well as a non-binding estimate of the minimum stipend/salary required in a new position. Parish search committees need to check the filing date of the Profile and recognize that the passage of time will have affected both those figures - usually upward!

By the same token, the compensation figure indicated on a parish's position Profile generally represents a range that is subject to negotiation.

HOUSING today may take several forms. More and more clergy are choosing to live in their own homes while many Episcopal parishes still provide the traditional rectory.

The conversation about housing, with all the options and realities, will be important to have during the final stages of the Calling process. The choice of housing-in-kind or housing allowance is the subject of much debate, which rises in part from the desire of clergy to be building some kind of equity over the years to provide for their own housing at retirement.

Where housing-in-kind is not provided, cash allowances for housing and utilities may be provided. Some dioceses suggest determining this cash allowance as a percentage of cash salary, and the percentages generally range from 30% to 45%. This also fluctuates with the cost of living in particular areas of the country. The accountability for declaring the dollar/per/year amount and substantiating that for the IRS rests with the clergy.

Tax laws generally permit a non-taxable housing allowance equal to the amount actually spent, but not greater than the fair rental value of the dwelling including furnishing and utilities; and this has to be set by the vestry before the clergy person can receive the tax advantage.

Here, again, dioceses vary in their policies and in the degree of options. There are studies to support both philosophies, but two observations can be made:

- *The vestry should be clear in its policy before a Call is finalized.*

- *Many dioceses or parishes are trying to address the "equity" question with tax sheltered annuities, endowment insurance, or other creative techniques **when housing-in-kind is provided.***

It will serve both clergy and vestry well to learn about the diocesan policies, the parish policies and possible options available prior to extending a Call and negotiating compensation.

DATA

UTILITIES which generally include electricity, fuel, water and other similar services are the third part of the usual minimum contractual compensation.

These provisions may be paid directly by the employing institution, reimbursed, or subject to a cash allowance.

*When a cash allowance or reimbursement is provided for housing and/or utilities, the components of total compensation may be adjusted for the greatest tax advantage to the member of the clergy. It is usually advisable to take the gross compensation - cash stipend plus cash allowance(s) - and determine the best proportions allowed under Internal Revenue Service regulations for the specific clergy income situation. **Tax rulings change annually. It is important that clergy and vestries use current tax regulations.** Church Law and Tax report at www.ICLOnline.com provides updated information. Consultation with a Certified Public Accountant who is especially conversant in clergy tax issues is also recommended.*

PENSION refers to the Church Pension Fund plan benefit which is paid by the parish. The Church Pension Fund uses the term “pension-based compensation” on which a clergy person’s 18% pension is calculated.

*Church Pension figures are not discretionary, as stated in the Constitution and Canons of the Episcopal Church. The Church Pension Fund base assessment is 18% of the total of cash stipend plus housing plus utilities plus Social Security tax reimbursement. See **Appendix A** for an explanation of “What compensation is assessed for pension purposes.”*

INSURANCE Virtually all dioceses have group plans for medical/hospitalization and life insurance for which the congregation pays part or all of the premiums. Copies of diocesan medical plans may be obtained from the diocese and relevant diocesan canons should be consulted.

For some clergy in some dioceses, the diocese funds these premiums. Dental coverage, vision, and employee assistance plans are optional in many insurance packages.

Insurance coverage is subject to timing restrictions. Clergy and vestries need to be clear about ending and starting dates between positions to ensure that the individuals involved suffer no lapse in coverage when changing positions. Pre-existing medical conditions should be checked with the new provider.

BUSINESS EXPENSES AND REIMBURSEMENTS

DATA

CAR/TRAVEL ACCOUNT appears on the CDO personal Profile and in most parish compensation packages. Besides car allowance or travel reimbursement, other options may be actual parish purchase of an automobile for clergy use, car lease, and low-interest or no-interest diocesan loans to clergy for vehicle purchase.

Where cash allowance for auto is provided the amount varies greatly depending on geography. Remember, cash allowance is considered reportable income if it is not justified by records showing it as actual reimbursement cost. Commuting to the church from home is not considered business mileage.

Reimbursable mileage is usually at the amount allowed by the I.R.S., determined annually.

CONTINUING EDUCATION is part of the compensation package. In some dioceses there is a standard amount per year provided, in others the provision is in time not dollars.

The term Continuing Education may refer to short-term conferences or workshops. It is desirable that agreements also be made for time and money to be accumulated for Study Leave or Sabbatical periods of longer duration. Diocesan guidelines vary on length of time in a parish for Sabbatical eligibility as well as length of Sabbatical.

Parochial support for professional education and growth is a prudent provision - one that benefits both clergy and parish. Some dioceses match or provide additional funds for Continuing Education.

BUSINESS EXPENSES is another category related to business allowances. In that context, provision is allowed for professional expenses such as books, magazines, journal subscriptions, membership dues, conference fees, etc.

Business Expenses is a vague category of job-related obligations and may include, in some parishes, official hospitality expenses, baby-sitting for parish functions, moving costs, or other items pertinent to the program of a specific parish.

DISCRETIONARY FUND is not a clergy benefit and is subject to audit. (Reasonable precautions should be taken by all parties for the appropriate protection of pastoral confidences.) The Canons of the Episcopal Church are clear that the intent of this fund is to benefit those in need. **Title III, Canon 14, Sec. 2(f)** “*The Alms and Contributions, not otherwise specifically designated...shall be deposited...to be applied to such pious and charitable uses as shall be thought fit by the Member of the Clergy. When a parish is without a Rector the Vestry shall appoint a responsible person to serve as Almoner.*”

Though not usually a large dollar amount, planning and budgeting discretionary fund items will define the professional needs and help expectations to be realistic.

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SOCIAL SECURITY is generally the responsibility of the priest. If a diocese recommends contributions to social security, such amounts become part of "salary" and are thus taxable under IRS regulations.

Where this is an option, it is a minimal approach for the parish to pay the differential between the self-employment rate and the lower employee rate.

*Clergy are presently required to pay **SOCIAL SECURITY** at the self-employment rate, which is adjusted periodically by the federal government. In the case of clergy, this rate is applied to **cash stipend plus cash allowances for housing and utilities, or the rental value of church-provided housing plus utilities.***

ADDITIONAL CONSIDERATIONS are benefits which may not require expenditure of money by the parish but which are specifically offered by some dioceses or parishes as part of the formal Call agreement. These additional considerations are:

- Time off
- Sick Leave
- Long or short term disability insurance
- Maternity/paternity leave
- Family medical leave
- Military reserve leave
- Jury duty
- Flexibility of time and compensatory time
- Honoraria - expectations about this
- Educational assistance for clergy children
- Equity sharing
- Maintenance and repair of church-owned housing

If the vestry or member of the clergy is not sure of the practices in a particular diocese, it is important to consult with the bishop, the diocesan deployment/transitions officer or other appropriate staff person.

It is important that the vestry provide this information to the candidates prior to the election and Call. Some dioceses have clergy compensation handbooks that assist in clarifying local guidelines and standards.

Although it is the vestry that is the contracting body, it is helpful for the search committee to know the broad outlines of compensation as information toward the final stages of the Call Process.

CONCERNING THE INSTITUTIONAL SPENDING PLAN

It is apparent that the institutional spending plan provides for all categories of compensation, benefits and job-related expenses, including substitutes or supply clergy; as well as additional staff and the entire plan of parish ministry. It is important to distinguish between **direct clergy compensation** and the actual cost of the position to the parish (sometimes referred to as the “total package”).

A rough rule of thumb to use in developing the spending plan is to consider that if more than 50% of the spending plan is going to one clergy compensation package, this begins to stretch the capacity of the parish to manage for the other expenses and programs of ministry.

As a spending plan is developed it is important to look at the clergy compensation package as one of the essentials of this plan.

CHECKLIST FOR COMPENSATION, BENEFITS, AND OTHER BUSINESS ALLOWANCES

Listed on the next page are most of the kinds of compensation, benefits, and other professional reimbursements as reported by cooperating dioceses and discussed in this booklet.

You will first want to determine your own diocesan policy, and adhere to those specific guides.

In addition, review and discussion of the various items mentioned in the text can increase your awareness and understanding of the broad range of compensation considerations which will enhance **Caring for Clergy in the Calling Process**, as well as help to ensure that your continuing life together as priest and parish remains strong and creative.

**CHECKLIST FOR COMPENSATION, BENEFITS,
AND OTHER BUSINESS ALLOWANCES**

DIRECT COMPENSATION	PAGE	ACTION TAKEN
SALARY/STIPEND (actual cash salary, exclusive of other compensation and benefits)	5	
HOUSING (use of church-owned housing or cash allowance)	5	
UTILITIES (covered in church-owned housing, or allowance)	6	
SOCIAL SECURITY ALLOWANCE (optional contribution toward clergy self-employment rate)	8	
BUSINESS ALLOWANCES	PAGE	ACTION TAKEN
CAR / TRAVEL (some form of reimbursement for church-related travel)	7	
CONTINUING EDUCATION	7	
OTHER		
BENEFITS	PAGE	ACTION TAKEN
PENSION (if Church Pension Fund: 18% of salary + utilities + [s + u] ÷ 4 or housing allowance if greater)	6	
INSURANCE (medical, life, long-term care, etc.)	6	
TIME OFF	8	
SICK LEAVE	8	
DISABILITY INSURANCE	8	
MATERNITY/PATERNITY LEAVE	8	
EDUCATIONAL ASSISTANCE FOR CHILDREN	8	
MAINTENANCE OF CHURCH-OWNED HOUSING	8	
OTHER		

CHURCH PENSION FUND POLICY

What Compensation is Assessed for Pension Purposes?

For pension purposes, compensation generally consists of: cash salary, Social Security tax reimbursements, utilities, and housing. Compensation may also include other items that are taxable under the Internal Revenue Code, as determined by the Plan Administrator.

- **Cash salary** is the stipend paid, including bonuses, fees, one-time cash payments, tuition paid for dependents, severance and any salary reduction arrangements used to fund an annuity or other tax-favored account, such as a TSA, RSVP or other 403(b) account.
- **Social Security tax reimbursement** is compensation the employer provides to offset self-employment (SECA) taxes.
- **Utilities** are allowances received to cover the cost of utility bills, such as fuel, gas, and electricity, or the amount the employer pays for utilities on the cleric's behalf.
- **Housing** is the allowance received for this purpose. As CPF calculates the total compensation on which the assessment is based, it is important for CPF to know whether or not housing is provided and if so, how it is provided.

If housing is provided rent-free, the housing allowance is calculated at 30% of the sum of the cash stipend, Social Security (SECA) reimbursements, and utilities.

If both housing and meals are provided free of charge, the housing allowance is calculated at 40% of the sum of the cash stipend, Social Security (SECA) reimbursements, and utilities.

If the cleric receives a cash housing allowance or a housing equity allowance, the housing allowance is the actual dollar amount the cleric receives.

If housing is provided rent-free and the cleric receives an additional cash housing allowance or housing equity allowance, for pension purposes the value of the provided housing is calculated at 30% of the sum of cash stipend, Social Security reimbursement, and utilities. Total compensation is then equal to the calculated value of the housing plus the actual cash housing allowance or housing equity allowance received.

If the cleric receives compensation from more than one church employer, but only one provides housing, compensation from all of the qualified employers is assessed for a proportionate share of housing.

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