

# **2008 Clergy Compensation Guidelines**

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

# MEMORANDUM

**To:** Congregation Councils and Rostered Person's  
**From:** Rev. Don Fossum, SW WA Synod Adjunct Staff  
**Date:** August 17, 2007  
**Re:** 2008 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 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 mid-August.

The Synod Council approved a 3% increase for the 2007 Compensation Guidelines. The 2008 Compensation Guidelines reflects a 3.3% increase. The 2009 Compensation Guidelines will reflect whatever the 2008 U.S. Congress COLA will be.

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

# Clergy Compensation Worksheet

(Please complete using the instructions and figures on the following pages 1-11 to include on the ELCA "Definition of Compensation" Form.)

## A. Clergy Compensation (pgs. 4-5 of this guide)

The total of section A is the "defined compensation"- salary, housing, Social Security)

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

## B. Pension and Other Benefits (tables on pgs 6-7)

1. ELCA pension at \_\_\_\_\_% of defined compensation
2. ELCA medical and Dental Insurance
  - \_\_\_ a. Member only    \_\_\_ b. Member and Spouse    \_\_\_ c. Member and Children
  - \_\_\_ d. Member, spouse and children    \_\_\_ e. Coverage waived
3. Other insurance or benefits: \_\_\_\_\_ \$ \_\_\_\_\_  
\_\_\_\_\_ \$ \_\_\_\_\_

## C. Expenses

1. Automobile and travel allowance (pg 8) \$ \_\_\_\_\_
2. Other professional expenses \$ \_\_\_\_\_
3. Expenses for official meetings of the synod, as reimburse
4. Continuing Education (pg 9) (\$1,000 recommended; minimum \$700 from calling source) \$ \_\_\_\_\_
5. Other \_\_\_\_\_
6. Pay the moving expenses to this field of service as follows \_\_\_\_\_ \$ \_\_\_\_\_  
\_\_\_\_\_ \$ \_\_\_\_\_

## D. Agreement

1. Annual Vacation (see pg. 10) \_\_\_\_\_ 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 6 weeks with full salary, housing and benefits

## E. Administrative Costs

1. Worker's Compensation for clergy employee (see pg. 11).....\$ \_\_\_\_\_
2. Payment to Supply Clergy (see pg. 11).....\$ \_\_\_\_\_

## A. Salary and Housing Allowance

The 2008 guidelines for clergy compensation below reflect a 3.3% Cost of Living Adjustment (COLA)<sup>1</sup> over the 2007 guidelines. The percentage incremental increases between each year of experience remain the same<sup>2</sup>.

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 ..	40,184	30,912	21 .....	66,582	51,216
1 .....	41,288	31,761	22 .....	67,332	51,793
2 .....	42,530	32,634	23 .....	68,088	52,374
3 .....	43,590	33,531	24 .....	68,854	52,964
4 .....	44,783	34,455	25 .....	69,629	53,561
5 .....	46,022	35,401	26 .....	70,412	54,163
6 .....	47,288	36,375	27 .....	71,294	54,823
7 .....	48,586	37,374	28 .....	72,005	55,390
8 .....	49,924	38,403	29 .....	72,815	56,011
9 .....	51,296	39,459	30 .....	73,634	56,643
10 .....	52,707	40,544	31 .....	74,371	57,192
11 .....	53,893	41,466	32 .....	75,122	57,781
12 .....	55,104	42,389	33 .....	75,873	58,360
13 .....	56,345	43,342	34 .....	76,633	58,943
14 .....	57,613	44,319	35 .....	77,399	59,532
15 .....	58,909	45,315	36 .....	78,173	60,127
16 .....	60,234	46,333	37 .....	78,955	60,728
17 .....	61,590	47,377	38 .....	79,747	61,338
18 .....	62,976	48,443	39 .....	80,543	61,949
19 .....	64,393	49,532	40 .....	81,349	62,569
20 .....	65,841	50,647			

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 on line 1 & 2 of Section A of the Clergy Compensation Worksheet. **Please see page 11, subtitled paragraph "Maximize Housing Allowance" for developments regarding the allowable amount that may be designated as Housing Allowance.***

<sup>1</sup> The annual COLA for the year 2007 was 3.3. % (September 2007). Source: US Federal Congress Budget Office. The synod executive committee is recommending 3.3% for 2008. (Explanation on page 2)

<sup>2</sup> 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 1) 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.....	3,055	11.....	4,097	21.....	5,062	31.....	5,654
1.....	3,139	12.....	4,189	22.....	5,119	32.....	5,711
2.....	3,233	13.....	4,283	23.....	5,176	33.....	5,768
3.....	3,214	14.....	4,379	24.....	5,234	34.....	5,826
4.....	3,404	15.....	4,478	25.....	5,293	35.....	5,884
5.....	3,499	16.....	4,579	26.....	5,353	36.....	5,943
6.....	3,595	17.....	4,682	27.....	5,420	37.....	6,002
7.....	3,693	18.....	4,787	28.....	5,474	38.....	6,062
8.....	3,795	19.....	4,895	29.....	5,435	39.....	6,123
9.....	3,899	20.....	5,005	30.....	5,598	40.....	6,184
10.....	4,997						

*Enter your pastor's Social Security Allowance figure on 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 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 **2008** Medical and Dental benefit rates established by the Board of Pensions of the ELCA.

#### 2008 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	12.2%	\$5,532	\$7,476
Member and Spouse <u>or</u> Children	21.4%	\$9,672	\$13,092
Member, Spouse & Children	30.5%	\$13,824	\$18,696
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 from the Clergy Compensation Worksheet. Enter the computed amount in Section A of the worksheet.*

## 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....1,168	11...1,566	22...1,956	33....2,204
1....1,200	12...1,601	23...1,978	34....2,226
2....1,236	13...1,637	24...2,000	35....2,249
3....1,267	14...1,674	25...2,023	36....2,271
4....1,301	15...1,712	26...2,046	37....2,294
5....1,337	16...1,750	27...2,071	38....2,317
6....1,374	17...1,789	28...2,092	39....2,340
7....1,412	18...1,830	29...2,116	40....2,363
8....1,451	19...1,871	30...2,139	
9....1,490	20...1,913	31...2,161	
10...1,531	21...1,934	32...2,183	

*Enter the Disability, Survivor Benefits & Administration Contribution in Section B 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.

### 2008 Pension Contribution Rates for Clergy Enrolled In a Predecessor Church Pension Plan before 1988.

Based on Age of Member on 12/31/2007

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.

## 2008 Pension Contributions based on Synod Guidelines

Yrs.				Yrs.				Yrs.			
Exp.	10%	11%	12%	Exp.	10%	11%	12%	Exp.	10%	11%	12%
0	4,324	4,756	5,189	15	6,339	6,973	7,607	30	7,923	8,619	9,508
1	4,443	4,887	5,331	16	6,481	7,130	7,777	31	8,003	8,803	9,604
2	4,576	5,034	5,492	17	6,627	7,290	7,953	32	8,083	8,892	9,700
3	4,691	5,160	5,630	18	6,776	7,454	8,131	33	8,164	8,981	9,797
4	4,819	5,301	5,784	19	6,929	7,622	8,316	34	8,246	9,071	9,895
5	4,952	5,447	5,943	20	7,085	7,793	8,503	35	8,328	9,161	9,994
6	5,088	5,597	6,106	21	7,165	7,881	8,598	36	8,412	9,253	10,094
7	5,228	5,752	6,275	22	7,245	7,970	8,694	37	8,224	9,047	10,185
8	5,372	5,909	6,447	23	7,326	8,059	8,791	38	8,307	9,137	10,296
9	5,520	6,072	6,625	24	7,409	8,150	8,891	39	8,390	9,229	10,400
10	5,672	6,239	6,807	25	7,492	8,241	9,080	40	8,474	9,321	10,504
11	5,799	6,379	6,959	26	7,567	8,334	9,080				
12	5,929	6,522	7,115	27	7,671	8,439	9,205				
13	6,063	6,669	7,276	28	7,748	8,523	9,298				
14	6,199	6,819	7,439	29	7,835	8,619	9,402				

*Enter your congregation or agency's pension contribution for its clergy in Section B 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 on line #9 under the Administrative 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 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. 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 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 official policy established by church councils. 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, 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 under the Administrative Section of the Clergy Compensation Worksheet.*

### **Payment to Supply Pastors**

The 2008 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 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 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 **2008 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).

10

## **Suggestion 4. Deferred Compensation Plan**

Another option that a congregation may wish to consider with the consent 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