How Is Your Church Leveraging Its Compensation Dollars?

by Michael Martin, JD

WHAT DO SCISSORS, CROWBARS, AND THE HUMAN ARM HAVE IN COMMON? (STAY WITH ME — THIS IS NOT THE OPENING OF A TERRIBLE JOKE.)

Each of these tools, and even your favorite seesaw on the playground growing up, all fall into the category of tools in science we call “levers.” The mechanics behind levers make our everyday lives so much easier and more fun—that is, where seesaws have not been outlawed yet.

Confession: I am not a scientist or an engineer (far from it!), but the little I do know about levers makes a useful analogy to a very critical area of church stewardship and administration: compensating church staff.

Here is a very brief and oversimplified explanation of how levers work: Levers are simple tools used to reduce the amount of force needed to move a load.

In this diagram of a seesaw, notice the load on one side. On the opposite side, you have force exerting energy to move the load. As the fulcrum on the lever moves closer to the load, the amount of force necessary to move the object reduces incrementally. In more exact terms for those who are...
LEVERAGING COMPENSATION DOLLARS

In the context of compensating church staff (we will refer specifically to pastors in this article, but many of the same principles apply to all staff), imagine the load represents the “economic loads” or burdens of the pastor—the physical needs of life like paying rent, buying groceries, and saving for retirement. These needs will be met in the form of compensation paid by the church, similar to force.

We will highlight here four key components of compensation your church can use as tools—much like a lever—to lighten the load for your pastor while maximizing stewardship of the church’s resources. These tools are

1. accountable expense reimbursements,
2. housing,
3. fringe benefits, and
4. salary.

As you will see, each of these tools has varying degrees of advantage in lifting the load. Some are taxable, some are tax-deferred, and some are even tax-free—if planned properly to ensure tax law guidelines are followed. Similar to the fulcrum moving closer to the load on a lever, taxable benefits move us marginally closer to the load and have the least advantage; tax-deferred can take us incrementally further with incrementally more advantage, and then finally tax-free benefits are those that get us closest to the load and provide the most significant advantages.

Stewardship is generally maximized for the pastor and the church by initially focusing on tax-favored or tax-free fringe benefits and accountable expense reimbursements, then the housing allowance, and finally cash compensation.

1. Accountable expense reimbursements.

Many pastors spend hundreds or thousands of dollars each year on church-related business expenses like ministry travel, conference registration fees, supplies, and more. An accountable expense reimbursement plan, where expenses are fully reimbursed to the pastor by the church with appropriate substantiation, is the best form of stewardship.

To illustrate, is it better stewardship for a church to pay its pastor a cash salary of $60,000 and provide a professional expense allowance (nonaccountable plan) of $8,000 or pay its pastor cash salary of $60,000 and reimburse up to $8,000 of professional expenses under an accountable plan?

The church is going to spend the same amount of money either way: $68,000. But the pastor will almost always have less money in his or her pocket at the end of the year with the nonaccountable plan. Why? Because the $8,000 of professional expense allowance under a nonaccountable plan must be added to the pastor’s Form W-2 as taxable compensation and with limited possibilities for deductions. A better alternative would be to reimburse all reasonable ministry-related expenses under an accountable plan to avoid these tax consequences to the pastor.

2. Housing.

For virtually every qualified minister—even those living in church-provided parsonages—a portion of salary should be designated as a housing allowance.

Most churches are aware of the housing allowance exclusion, but some are not maximizing this benefit to the fullest extent possible by basing the housing allowance designation on the minister’s estimate of actual expenses for the year. In addition to rent or mortgage payments, do not forget that property tax, utilities, furnishings, and other housing-related expenses may be eligible for the exclusion.

3. Fringe benefits.

A fringe benefit is any cash, property, or service that an employee receives from an employer in addition to salary. Because fringe benefits are a “form of pay for performance of services” in the eyes of the IRS, they are just like all other forms of compensation in the tax code and as a general rule are considered taxable unless a specific exception or exclusion exists.

Fringe benefits, therefore, fall into three categories:

- **Taxable** — e.g., personal use of a church-owned vehicle, SECA tax allowances,
- **Tax-Deferred** — e.g., IRA payments, tax-sheltered annuities, and 401(k) plans, and
- **Tax-Free** — e.g., insurance—church-provided group health, life, disability, and long-term care insurance.

Many churches have not leveraged compensation dollars for their staff to the **fullest extent possible**. Why? It is work, but it is worth it!
While leveraging the other elements of compensation is extremely important, churches must not forget cash salary as the final key component. Just think, even if a church took seriously the recommendations above and paid all ministry-related expenses through an accountable plan, provided for all housing expenses of the minister, and used other fringe benefits like health care and retirement to maximize tax benefits and stewardship, any pastors would be in trouble if they went to the grocery store without any cash in their pockets in the checkout line!

Taken together, these four tools should help your church arrive at a compensation package for the pastor that is financially sound and sustainable to the church and that provides a fair and reasonable amount on which to live and support their family.

To learn more about leveraging each of the forms of compensation references in this article, check out the 2017 Zondervan Minister’s Tax & Financial Guide available at ECFA.org.

The Church Network salary survey (MinistryPay.com) is one of the resources your church can use to benchmark compensation of your staff to other churches to ensure overall compensation is reasonable and competitive.

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Many churches have not leveraged compensation dollars for their staff to the fullest extent possible. Why?

Accountable expense reimbursement plans, housing, and fringe benefits require extra time, effort, and planning. It is tempting just to approve a single compensation amount for an employee and let them sort it out from there.

Like so many other areas in life, though, the easiest road is not necessarily the most helpful for staff and may not result in the best stewardship of the church’s resources.

Leveraging compensation dollars takes extra work, but it is worth it. PROVERBS 21:5 says: The plans of the diligent lead surely to advantage, [or in some translations], productivity or abundance.

Can I challenge you to go the extra mile as you plan compensation for your staff? I am confident God will honor your heart for stewardship and bless your church as a result.

Author

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