

Section 7:  
Articles on  
Compensation



# *Overtime Pay: Confusing Issues Churches Face*

By John Diffenderfer, SPHR

The issue of overtime pay – whether, when, and how to pay it – sometimes creates confusion for churches and other non-profit organizations. Because church staffs are often small, employment arrangements may be informal. In many cases, financial resources are tight. Despite a desire on the part of administrators to “do the right thing” for employees, confusion over legal requirements can sometimes lead to incorrect administrative practices.

Consider the following example: “Jane” is secretary to the pastor of a church. Her duties include typing, filing, and ordering materials and supplies from Nashville, Atlanta, and St. Louis. She also places and receives long distance telephone calls. Jane rides to and from work with her husband who picks her up about 5:30 p.m., one hour past her normal quitting time. Jane uses the extra hour to good advantage, catching up on her daily work and getting a head start for the next day. Jane’s duties also include maintenance of church records of attendance and new members. The Pastor likes to have the latest information available for Monday morning staff meeting. Jane volunteers her services each Sunday afternoon to prepare the information for the Monday morning meeting. She is always paid for 40 hours per week. Her supervisor is aware of and appreciative of Jane’s work habits, and he rewards her with an extra day or two off during the year.

I’ll bet many of you work with a “Jane” in your church. What is wrong with this picture? Jane’s church is probably in violation of the Fair Labor Standards Act (FLSA).

The FLSA is a federal law requiring, among other things, that overtime pay at 1½ times their base hourly rate be paid to eligible “non-exempt” workers for hours worked in excess of 40 hours per week (the law also covers the minimum wage and certain child labor regulations). The FLSA specifies that a job may be exempt from the overtime pay requirement only if it qualifies as an Executive, Administrator, Professional, Outside Sales Person or Highly Skilled Computer Professional (Note: For FLSA purposes, true ministerial jobs may be considered exempt.) The law further states that the nature of a job’s duties, not the title or pay method, will determine whether the job is exempt

from the overtime pay requirement. Detailed job duty requirements for overtime exemption are listed in 29 CFR 541 (see Department of Labor website – [www.dol.gov](http://www.dol.gov)).

While article space limitations preclude a detailed discussion of all aspects of the FLSA, the questions and answers below illustrate common issues that churches face.

## ***“Does the FLSA apply to churches?”***

In many, and perhaps most cases, the answer is “yes.” The FLSA states that in order to be covered by the act the individual worker must be engaged in commerce or the employer must be an enterprise engaged in commerce or the production of goods for commerce. The courts have interpreted being “engaged in commerce” to include the use of the U.S. mail and/or telephones for interstate communication. Many of the jobs in the church will be covered by this act. Although some jobs may not be covered, it is not practical or desirable to segregate jobs within a church based on whether or not they are covered by the FLSA. In addition to obvious administrative problems, it would be very difficult for a church to defend such a practice as being fair to its employees.

## ***“Do we need to pay overtime if the worker is salaried?”***

The method or frequency of pay makes no difference as to whether a job is eligible for overtime pay. Furthermore, an employer has no right to declare a job exempt from the overtime if the job’s duties do not qualify as exempt under one of the FLSA categories.

## ***“Why should we pay her for Sunday work if she is volunteering?”***

The provisions of the FLSA do not allow nonexempt employees to volunteer extra hours performing duties of their regular jobs. Thus, in our example, the church also owes overtime for the Sunday afternoon work. This provision would not apply if Jane volunteered for a different type of work at the church.

***“Why can’t we just give her comp time later and call it ‘even’?”***

With narrow exceptions (e.g., 1½ time off in the subsequent week of the same pay period), the FLSA generally does not allow the use of compensatory time off as a substitute for overtime pay. In our example, both Jane and the supervisor felt that they had a mutually beneficial arrangement. However, the law does not allow for Jane to accept less compensation than that to which she is legally entitled.

***“What if an employee works in several different non-exempt jobs but works fewer than 40 hours per week in each?”***

All hours worked by an employee apply to the 40-hour weekly maximum. For example, if the employee worked 20 hours as a receptionist in the church office, 15 hours as an assistant in the church nursery, and 10 hours as church outreach secretary, the church would owe her 40 hours pay at straight time plus 5 hours overtime at 1½ times the weighted average base pay rate for the three jobs worked.

### **What should your church do?**

It is prudent for a church to develop detailed job descriptions for all positions and to review them to determine their FLSA status (see detailed exemption requirements in 29 CFR 541). A careful review will show that most non-ministerial jobs will be non-exempt in nature and, therefore, eligible for overtime pay. When in

doubt about a job’s FLSA status, either limit the worker’s hours to 40 per week, or consider the job non-exempt. If you are not comfortable with determining the FLSA status of the jobs, consult your church’s legal committee or a qualified human resources professional.

Most people hold churches to the highest standard concerning treatment of employees – meticulous fairness is expected and assumed. Handling overtime pay properly can require a little more time and attention, but it is well worth the effort.

### **Final Note:**

The Department of Labor has recently acknowledged the need for review and possible revision of key provisions of the Fair Labor Standards Act. Although no deadline has been set, these revisions may occur in 2003. Churches and other employers should be watching for these changes.

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This article originally appeared in the Spring 2003 NACBA *Ledger*. The *Ledger* is a quarterly professional journal of NACBA and is a benefit of membership. ©copyright 2003 New laws relating to overtime pay are currently being considered in Congress. Readers should check the NACBA Website for current news on this and other subjects.

# Compensating Your Church Staff

By Ken Godevenos, MBA, CCP, CHRP

The topic of compensation is difficult for most organizations at the best of times, but when it comes to churches, the problem seems to magnify itself. Some people think church staff members are overpaid, others think they're not paid enough. Senior pastors and boards have difficulty annually allocating the dollars they have budgeted for salaries. This article in our Staff Management series is intended to provide both senior church administrators and boards some helpful suggestions as to how to compensate church employees.

While I approach this topic from a Human Resources perspective, I cannot deny that the primary motivation for most church workers is, and should be, service to God. While this may permit them to work for wages far below those that their secular industry colleagues may earn, it does not allow us to avoid paying them as appropriately as possible.

## **Nothing works better than a policy**

In secular organizations, unhappy employees are sometimes those who do not understand how and why management arrives at their compensation. Likewise, unhappy managers are often ones that cannot understand why their staff is never happy with their compensation. Assuming that most church organizations do not pay in the top quartile of the compensation range in their community, the issue of compensation communication and understanding becomes even more critical to employee satisfaction.

Over the years, I have found that the number one cause of employee dissatisfaction with compensation is the fact that an organization cannot readily identify a compensation policy and then communicate it effectively to its employees and other stakeholders. Once that position is communicated and explained, satisfaction scores increase. What, then, do I mean by a "policy?"

Every organization needs to establish a methodology by which to compensate its staff. This approach, which enables you to determine each annual salary for any given employee, should remain fairly constant from job to job and from year to year. Let me explain. To do this on a basis that is perceived as equitable, you will have to consider jobs rather than employees in the beginning. That is, establish a salary range for a given job with at least a minimum and a maximum for the position. This way, any given incumbent in that job will be paid somewhere in that range. The exact amount could depend on a number of things, primarily experience and performance.

**Checkpoint:** *If you do not have a compensation policy, determine to establish one as soon as possible in order to provide consistent direction to your compensation decisions and thus maintain and/or improve employee morale as they perceive an equitable approach to how they are all paid.*

## **Market pricing or internal equity**

When it comes to deciding the number of salary ranges, ask whether your philosophy emphasizes the payment of jobs based on what the market (we'll define that in a precise way later) is paying for each. Or, alternatively, does your organization value internal equity? That is, are jobs of equal "worth" basically paid from the same salary range within the organization although individuals in the job may be paid differently based on service and/or performance?

If you opt for the former (paying what the market pays), be sure of two things. First, be fairly certain you can find data in your market for each and every job. Second, make sure that each year you get the latest data in order to maintain the relationship between what you pay and what the market pays.

If you opt for the latter (paying on an internal equity basis), you will need some sort of mechanism for determining what jobs are of relatively equal value to the organization. Most organizations use a "job evaluation plan." Second, go to your market for salary data on at least some benchmark or key jobs in order to establish your pay structure, or schedule and then pay the remaining jobs from that schedule.

**Checkpoint:** *Some jurisdictions require jobs of similar value to be compensated the same, while others don't. Some employers believe that this kind of "pay equity" approach makes a lot of sense and is well worth the effort. I agree that using an "equal pay for work of equal value" goes a long way to keeping morale positive. The job evaluation plan does not need to be elaborate or complex. Usually, it measures the various demands involved in carrying out the job and considers the skill, effort and responsibility required, as well as the working conditions under which the job is performed. A simple approach would be take those factors into consideration and simply group all your jobs into what you deem to be the appropriate number of salary grades. Assistance is available from anyone with compensation experience.*

## **Determine your "market"**

Regardless of which approach you use, determine what organizations will be included in your search for "market data." Will you strictly stick to other

churches or will you include local or state charitable or other non-profit organizations? What about going beyond that to other local for-profit organizations? Normally, organizations include in their "market" or organizations likely to be sources of employees for their own organizations or destinations of those employees who leave. Sometimes these organizations vary depending on the type and level of job for which you are collecting data.

Other salary data sources might include surveys conducted by your denomination or various para-church organizations. These usually come with predetermined "markets," but sometimes some customization of the data or the ability to be selective in the data relied on is available.

**Checkpoint:** *Once you have focused in on appropriate data, use it to establish a series of salary ranges for the various jobs or job groupings that you have determined to be appropriate. Each range will include a minimum (usually 70%-80% of the mid-point or full job rate), the job rate itself (usually the salary to be paid to an incumbent who is performing the job fully competent), and the maximum (usually 120%-130% of the job rate). Sometimes these salary ranges are constructed in such a way that there is a consistent relationship between the job rate of one level or salary range and the next. This is not always necessary for a small number of ranges. Remember that all jobs in a given range (based on their perceived value) should be paid off that same salary range.*

### **Establishing the salary ranges**

Using the data that you have gathered, set your salary ranges to match the average of what the other organizations in your "market" or "survey" show. Alternatively, if you want to attract and maintain the best, you may wish to pay near the top quartile of your "market"--that is, as well or better than 75% of the survey participants. Or, if you can't afford to do so, you may need to pay somewhere below the average.

### **Some philosophical considerations**

Over the years, I have come across churches that use several non-traditional approaches to determining salaries or compensation. These include using the congregation's salaries, to the extent known or assumed, as the basis for establishing the senior pastor's salary. Then, using that as a base, they set the salary of the other positions. Others use census or other demographic data to determine the average salary of the community and use it as the rationale for establishing salaries.

Whatever is used, it is important to know why you have selected the wages you did and that your selection makes sense to your constituents. In your delib-

erations, do not forget to consider what Scripture may have to say about how you approach this matter.

Verses that come to mind are Luke 10:7 and I Timothy 5:8, "...worker is worthy of his wages." Another is Romans 4:4, "Now when a man works, his wages are not credited to him as a gift, but as an obligation." Finally, James 5:4, "The wages you failed to pay the workmen who mowed your fields are crying out against you." We often forget that our many of our church workers are working in the ministry when they could have more lucrative positions in private industry.

**Checkpoint:** *A good question to ask ourselves, especially if we are laypersons involved in the setting of church employee compensation, is whether or not we would do what we expect of these employees for the wages they are being paid.*

### **Establishing the compensation of an individual employee**

**Note:** This section is only applicable if you believe that an employee should be rewarded in his/her compensation based on his/her performance, and that different employees can and should be paid differently based on the same criteria. (If not, skip this section, since you will only be paying employees based on their years of service in the job. Simply start a junior employ at the minimum and progress him/her over the years to job rate and perhaps on to maximum in some consistent form.)

Assuming you believe in rewarding for performance, each incumbent's individual salary should fall within the appropriate range for his/her job. Exactly where on that range will depend, as mentioned earlier, on his/her experience and/or performance. Again, those new to the job will start at or near the bottom of the range but annual progression will be based on their performance during the previous year. Those who have performed excellently should move considerably faster up the range than those who only perform at average or with normal progression. In addition, once employees have moved up to the job rate, those performing beyond the expectations of the full job could be moved past the job rate towards maximum, saving the very extreme end of the range for "superstars." The amount of movement allowed each year would depend on the salary increase budget the organization has available.

**Checkpoint:** *The determination of an employee's performance should be based on a formal performance assessment each year.*

### **Annual adjustments to salary ranges and wages**

In addition to individual employee salary movement through the range, the range itself requires adjustment

periodically in order to reflect movement in the community or "market" based on your organization's periodic salary surveys, or in the absence of repeated surveys, the increase in inflation.

**Checkpoint:** Usually, organizations conduct their own surveys every two or three years and adjust salary ranges at that time. In between, they may adjust them either for inflation or based on an average general salary increase reported by local consulting firms. (Surveys provided by denominations or church-related associations may be provided to participants on a more regular basis than this.)

### **Allowances, perquisites, and/or indirect compensation**

Ministerial or clergy staffs are often recipients of additional benefits that must be taken into account when comparing compensation with jobs in other organizations. Some examples: housing allowance or the use of an actual manse, car allowance, and expense accounts. Some of these must be assessed and the equivalent dollar value added to the comparison. This is especially true if you believe in internal equity and some jobs in your organization don't have access to the same allowances. In addition, don't forget any major perquisites (even some things like free golf, miscellaneous gifts from others, use of adherents' condos or other recreational assets, etc.).

**Checkpoint:** When conducting salary surveys or using already published ones, make sure that you inquire or take into consideration how other organizations deal with these. Make the necessary adjustments in your comparisons.

### **Employee benefits**

A good benefits package for your employees usually costs a considerable percentage of one's base salary and should also be considered in comparing "total" compensation. This topic is examined in more detail later in this series. Here we simply point out that this is an important component of compensation and comparisons must take the absence or presence of benefits into consideration. You may want to consider what other "market" organizations do in terms of vacation, sick leave, various directly related work allowances such as mileage paid for use of one's own car, provision of health and dental benefits, bereavement and other leaves, etc.

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**Checkpoint:** One more point. When conducting surveys in your "market" or using published survey data, consider the value of benefits and either match the predominant practices on various provisions or adjust salary to compensate for them.

### **A few pitfalls to avoid**

No matter how effectively you pursue and apply some of the ideas we've presented, you will still find that some employees are not satisfied, or some of your congregation feels you are overpaying--or surprisingly, underpaying--some of the staff. Here are a few pitfalls to avoid:

- ◆ Failure to communicate and defend your compensation policy, at least in general terms to the congregation, or in specific terms to your staff, when the issue arises;
- ◆ Failure to review your "market" periodically and to adjust salary ranges regularly so that you fall considerably behind and find it unaffordable to catch up;
- ◆ Failure to understand the content of salary surveys used and to use all data appropriately; and
- ◆ Failure to ask experts either in your congregation or others available to you for advice and guidance in setting up and administering your compensation policy and program.

**Checkpoint:** Establishing a compensation policy and implementing it need not be a complex process, but it does require some logical application of tested processes. The best thing that a church could do is to establish a Human Resources Subcommittee of the Board with knowledgeable members to provide directly or through access to others, the necessary guidance and direction in this regard.

Making sure that employee compensation attracts, retains, and above all, motivates staff in your organization is one of the senior manager's (whether a pastor's, administrator's or a board-member's) most critical administrative responsibilities. Every church should be able to say something like, "We base our compensation on comparisons with such and such a community or market, and we strive to pay at the average (or whatever) of that market for any given job." You owe it to yourself to do it right..

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# Staff Compensation: Does Your Church Have a Plan?

By Stephen Dees

*What words best describe your staff? “Unified”? “Self-motivated”? “Well-qualified”? Or, are “self-seeking,” “complacent” and “barely capable” more accurate? If your church finds itself clinging to the latter, your compensation plan could be the cause — and the cure.*

It’s no secret that money makes the world go around. A church without a written salary plan for its employees might find itself in a precarious position. Employees, regardless of the organization for which they work, want to know where they stand and how far they can go with regard to personal income. A written salary plan will provide the security they need to excel in their tasks and foster a sense of loyalty to your church.

There are four benefits of a well-written staff compensation plan:

## 1. Constancy

It is a well-known fact that church staff turnover rates are high compared to most secular businesses and other organizations. Pastors in the United States average only 48 months at one church before moving on to another place of service. Why? Many factors contribute — philosophical differences, disciplinary problems and doctrinal issues are a few — but compensation (or lack thereof) also has an effect. In many cases, a staff member must move to another church — often a larger one — to receive a respectable increase in compensation. Outlining a clear, concise compensation plan promotes constancy and longevity among employees.

## 2. Consistency

A compensation plan also helps maintain consistent and fair salary distribution. Many churches give all staff members, regardless of job performance, the same amount of annual compensation increase. This method of salary distribution might take the least amount of time and effort, but it might not be the method that promotes staff unity. (Take, for example, the staff member who unarguably “produces” at a higher level than other workers. How will that person feel when he or she receives the same salary increase as the co-worker who does mediocre work? Resentment might be the end result and cause conflict between staff members.) Annual salary increases should be based

on merit and achievements vs. across-the-board raises. Semi-annual or annual performance reviews are one way to determine who is doing a satisfactory job and who is going the extra mile. Each staff member’s supervisor should conduct these reviews, not the church personnel committee or personnel ministry team. Supervisors spend time daily with most of the employees under their direction whereas personnel committees or teams often have only minimal contact with these employees.

Individual increases should be based on continued service, additional training received, performance goals achieved, or a combination of these. Jealousy and resentment among staff members is reduced when the staff compensation plan promotes consistency in its distribution of wages and benefits.

## 3. Competency

Have you ever had to fill the vacancy left by someone who was considerably underpaid in relation to the job they were required to perform? It’s no easy task. Or maybe you’ve tried running an ad for a pastor in a church with an average Sunday morning attendance of 900 with a salary of \$40,000? See how many resumes you receive. (Hint: Don’t wait by the mailbox.)

The old adage, “You get what you pay for” holds true for churches. If you want average staff members, you might be able to attract them with less-than-average salaries. Some churches, however, are looking for employees who hold master’s and doctoral degrees and have 20 years experience but offer only entry level salaries. Good luck!

The reality is these types of employees are attracted to churches with well-defined compensation plans because it shows foresight, planning and a high level of professionalism.

## 4. Character

A compensation plan also promotes character and self-development among church staff. We all have heard there are only two certainties in life — death and taxes — but there’s another to add to the list: money as a motivator. Employees who are certain they will receive compensation increases based on their performance are likely to do a better job than those who have received only cost-of-living adjustments for the past five years.

### **How do we get there from here?**

A handful of steps can help you develop your written compensation plan: Steps to Developing a Written Compensation Plan:

- Prepare written job descriptions for all paid staff.
- Determine each job description's relative worth.
- Compare your church staff salaries with other churches and similar secular jobs.
- Determine typical beginning salaries using salary survey data.
- Determine the number of pay grades in the salary plan.
- Determine the maximum salary for each salary/grade category.
- Determine the method of granting merit increases (step or percentage plan).
- Establish support policies.

Determine who will be responsible for keeping and maintaining records.

**A:** Game of "What if?"

### **Q: What if our church can't afford to give salary increases?**

**A:** It's not a good idea to answer a question with a question, but the real question here is whether or not you can afford to lose your staff members to other churches that will do whatever it takes to make salary increases available.

### **Q: If God calls our staff to the ministry of our church, won't He take care of them?**

**A:** Yes, God has a way of providing for the needs of everyone, not just church staff. It just so happens that He uses the Church to meet financial needs of the church staff through the church budgeting process. Luke 10:7b reads, "[T]he laborer is worthy of his wages." (NAS)

### **Q: Should our staff have larger incomes than the average household income of our church members?**

**A:** It depends. As a rule, it is a bad idea to pay your staff based on what your church parishioners earn. Church staff compensation should be based on three factors: job responsibilities, educational achievements and prior experience. If your church is in a large city or nearby suburb, your staff salaries likely will be similar to parishioners'. On the other hand, if your church is in a rural area, your staff's salaries might be higher.

### **Q: How much compensation is enough?**

**A:** To find out, acquire survey data of church staff salaries. Some of the best resources include NACBA Press (800.898.8085) [www.nacba.net](http://www.nacba.net), Christian Ministry Resources (704.841.8066), [www.cmaonline.org](http://www.cmaonline.org) and your state's associational office.

### **A worthy investment**

The time spent preparing a written church staff compensation plan will pay for itself for many years to come, though not necessarily in dollars and cents. Having a written plan means personnel committees and ministry teams likely will experience fewer personnel/ management problems because the policy ensures they will have been fair with all employees. They also can enjoy the peace of mind of knowing they have made every effort to retain top-notch employees — and that's a benefit that can't be measured in money.

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# *Compensation Includes What?*

by Larry C. Howlett, CPA

Compensation, as defined by Webster Dictionary, is “something given to make up for something else or pay. A person is given something to make up for the work she/he has done for someone else.” Anything that is given to someone for the services rendered should be included in the amount of compensation for income tax, Social Security and Medicare purposes.

Compensation is an economic benefit received for services rendered. If the following items are received for the services you perform for your church, the fair market value of these items should be included in the amount of compensation or taxable income you report on your Form 1040, U.S. Individual Income Tax Return. Any of these items the church provides for you should be included on the Form W-2, Wages and Earnings Statement the church gives you.

- 1. Wages:** The salary paid to you periodically, less the authorized housing allowance.
- 2. Bonuses:** Any bonus paid recognizing your services for the nature or length of your tenure with the church. If the church has a special fund drive for your anniversary of tenure at the church and you receive a car or trip, the fair market value of the car, trip and/or money should be included in the compensation.
- 3. Housing Allowance:** If the church’s administrative body, a board of elders, deacons, trustees, salary committee, etc., hasn’t approved an amount of housing allowance prior to its payment, the total salary paid to the minister is includible in compensation. The administrative body should approve the amount of housing allowance for each minister prior to or at the start of each fiscal year of the church. The amount of housing allowance approved should be based on the anticipated expenditures each minister forecasts for that year. The amount of housing allowance that can be claimed for the Form 1040 is the lesser of the amount approved by the church or the actual amount spent by the minister for his family’s housing purposes.
- 4. Travel Allowance:** If the church’s administrative officers do not require an accounting of the travel allowance given to a minister, the travel allowance is includible as compensation. There must be an accounting of how the travel allowance is used for the amount not to be included in taxable income of the minister. Any portion of the allowance that is not used for church business is considered to be personal and includible as taxable income.
- 5. Personal Use of Automobile:** If the church provides a minister with an automobile or if a member, such as a car dealer, provides the minister with an automobile, the personal use of the car is includible in taxable income. Personal use includes the travel to and from the church. Contemporaneous records should be maintained of the use of the automobile for church business. If sufficient records are not maintained, the entire fair rental value of the car or the cost of operating the car would be includible in the taxable income of the minister. If the minister’s wife is provided an automobile and she doesn’t use it for church business, the total fair market value of the car is includible in the minister’s compensation or taxable income.
- 6. Personal Legal Cost:** When the church pays the personal legal expenses of the minister or his family, the payments the church makes are includible in the minister’s taxable income.
- 7. Personal Purchases:** When the minister makes personal purchases through a catalog, Internet service, or warehouse club to take advantage of a church membership or discount arrangement, and doesn’t completely reimburse the church for the cost of the purchases, the expenditures related to these purchases are included in the taxable income of the minister.
- 8. Wedding, Funeral, and Baptism Fees:** The money the minister receives directly from people for performing weddings, funerals or baptisms is includible in taxable income.

**9. Retirement Gifts:** When the church presents retirement gifts to the minister in recognition of the years of service given by the minister, the fair market value of the gift is includible in the minister's taxable income. If the church intends for the gift to merely be a gift and not necessarily in recognition for the service rendered to the church, the value of the gift would not be includible in taxable income. For the item to be a gift there must be an intent to create a gift and not merely a way around the minister having to pay taxes on the fair market value of the gift. The intent to make a gift is the controlling factor in the consideration if the fair market value is includible in compensation or taxable income.

**10. Group-Term Life Insurance Over \$50,000:** If the church pays for group-term life insurance for an employee and the coverage exceeds \$50,000, the "cost" of the coverage in excess of \$50,000 is taxable. The "cost" of the coverage is calculated using the IRS Uniform Premium Table. This table is included in Publication 15-A Employer's Supplemental Tax Guide. The publication is available online at [http://www.irs.gov/forms\\_pubs/pubs.html](http://www.irs.gov/forms_pubs/pubs.html) (Choose which publication format you wish to use and download 0100 Publ 15-A.)

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# MINISTERIAL COMPENSATION

By Robert H. Welch, Ph.D., FCBA

Through the years I have had the opportunity to discuss salary issues with students as they finish seminary studies and begin to move out into the church employment environment. They come to me because they know I teach the subject, but also they know I have access to the NACBA survey of compensation. Whether they have had a class with me or not they seek my “wisdom,” and I am always willing to help them get their feet planted firmly.

I warn them that (1) churches historically are terrible personnel managers; (2) they will probably arrive with a better understanding of the term “compensation” than they will possess; and (3) they will have to be cautious because it seems the attitude of nearly every church is “how cheaply can we buy one of these kind of ministers.” While my comments are for the most part a very rude oversimplification, they, sadly, are generally accurate.

Writing an article for the *Ledger* is like preaching to the choir. You have a good handle on the issue of ministerial salary and benefits and the administrative elements that make up total compensation. Nevertheless, let me provide you with a renewal of thought as well as a short article you can copy and give to a pastor of a church that is struggling with this issue.

## PROVIDING COMPENSATION FOR THE MINISTER IS A BIBLICAL CONCEPT

*Dear brothers and sisters, honor those who are your leaders in the Lord's work. They work hard among you and warn you against all that is wrong. Think highly of them and give them your wholehearted love because of their work. 1 Thessalonians 5:12-13*

*And now, brothers and sisters, we give you this command with the authority of our Lord Jesus Christ: Stay away from any Christian who lives in idleness and doesn't follow the tradition of hard work we gave you. For you know that you ought to follow our example. We were never lazy when we were with you. We never accepted food from anyone without paying for it. We worked hard day and night so that we would not be a burden to any of you. It wasn't that we didn't have the right to ask you to feed us, but we wanted to give you an example to follow. Even while we were with you, we gave you this rule: Whoever does not work should not eat.*

*2 Thessalonians 3:6-10*

*This is my answer to those who question my authority as an apostle. Don't we have the right to live in your homes and share your meals? Don't we have the right to bring a Christian wife along with us as the other disciples and the Lord's brothers and Peter do? Or is it only Barnabas and I*

*who have to work to support ourselves? What soldier has to pay his own expenses? And have you ever heard of a farmer who harvests his crop and doesn't have the right to eat some of it? What shepherd takes care of a flock of sheep and isn't allowed to drink some of the milk? And this isn't merely human opinion. Doesn't God's law say the same thing? For the Law of Moses says, "do not keep an ox from eating as it treads out the grain" [Deut. 25:4] Do you think God was thinking only about oxen when He said this? Wasn't He also speaking to us? Of course He was. Just as farm workers who plow fields and thresh the grain expect a share of the harvest, Christian workers should be paid by those they serve.*

*1 Corinthians 9:3-10*

Jesus sent the twelve disciples out with these instructions: *Don't take any money with you. Don't carry a traveler's bag with an extra coat and sandals or even a walking stick. Don't hesitate to accept hospitality because those who work deserve to be fed.*

*Matthew 10:5, 9-10*

*Elders who do their work well should be paid well, especially those who work hard at both preaching and teaching. For the scripture says "do not keep an ox from eating as it treads out the grain" [Deut. 25:4] . And in another place, "Those who work deserve their pay"*

*[Prov. 27:18] . 1 Timothy 5:17-18*

*Let the elders who rule well be counted worthy of double honor, especially those who labor in the word and doctrine.*

*1 Timothy 5:17 NKJV*

In summary:

- The church (the group that receives the result of the work) is responsible to pay the ministers.
- While it is not the objective of church employment, ministers and other workers should expect to be paid for their labor.
- There is a differentiation in the level of pay the person receives.

## WHAT IS COMPENSATION?

The term “compensation” is an **administrative term** that describes the costs to a church (or other organization) for the employment of an individual. It is best described as the total cost for having a pastor (or other staff member or employee) serve in a paid position in the church. Compensation is the expenses the church will have to come up with for that individual. Usually it is computed on an annual basis and becomes part of the annual church budget.

Compensation is when the Personnel Committee and the Finance Committee come together with church leaders and count the costs. It will include the salary paid the individual; any fringe benefits the church will provide such as a medical insurance plan; the expenses paid out for certain business expenses like transportation, education, book/computer allowances, and so on. Some churches will include the cost for support personnel, such as a secretary, and the costs for physical operations, like providing an office space.

This article will address only the areas of compensation computation: Salary and business expenses of benefits and reimbursements. First, let's get a handle on what these terms mean.

**Salary** is the take-home pay. It is the portion of compensation that the employee will pay taxes on. Later we will discover that an ordained minister may declare a portion of the salary as a housing allowance from which they will not have to pay federal income taxes.

**Benefits** are termed "fringe benefits" in the secular business world and are the inducements provided by an employer to attract and retain top quality employees. Since these are business expenses of the employer, they are not part of the taxable salary paid the employee. And, since churches are tax exempt entities, no taxes—either federal income or social security—will be paid by the church. We will discover that very strict rules apply for churches to follow. Nonetheless, benefits provided by the church are tremendous opportunities to reward employees above their salary.

**Reimbursements** are basically that; the employee spends his or her own money for a business expense and is paid back after providing a receipt for it. These are church expenses the employee has obligated his or her money to buy. Reimbursement plans require receipts.

#### THE CHURCH SALARY PLAN

As a portion of every personnel manual, the church should develop a salary plan that describes how it will conduct operations with regard to salary and benefits of the personnel it employs. The salary plan *pre-establishes* the rules (policies and procedures) for financial management of personnel resources. In a later section we will discuss some the issues that the church should consider in creating this plan.

There are eight steps in developing the Salary Plan:

1. Determine the mission and purpose of the church.
2. Create a leadership organization to meet that mission.
3. Write job descriptions for all leadership or employee positions.
4. Determine the relative worth of each job description

5. Determine the categories and limits of a scale of salaries to be paid.
6. Establish policies and procedures relating to the administration of pay.
7. Determine benefits that will be provided.
8. Determine reimbursable business expenses offered.

This article will assume the church or organization has already accomplished steps 1 through 3 above. Be cautioned, however, that without first establishing what the church is to do and determining what human resources will be required to accomplish this mission, the remainder of the salary plan will be not be spiritually-based.

Let's begin with step four:

#### 4. DETERMINE THE RELATIVE WORTH OF EACH JOB DESCRIPTION

Worth is translated as level of importance. The best way to determine worth is to look at the organization chart developed in step 2 above. Typically in a church, three types of organization are evident:

1. Centric, where everybody reports to one person and that person is in charge of everything. This is the situation Moses' father-in-law Jethro saw in Exodus 18 and for which he declared to Moses that he was going to burn out if he kept this up.
2. Collegial or no organization. This is the church Paul found in 1 Corinthians 14 and which led him to remind the church that certain persons had been appointed as leaders who were suppose to bring order instead of chaos.
3. Matrix or hierarchical organization in which leaders are delegated responsibilities of providing supervision to others. This is the solution Jethro gave to Moses in Exodus 18.

Look at your organization chart—Who supervises who? Are there similar ministry areas that the pastor can delegate work to? In the typical church there are four basic ministry areas: Pastoral, Education, Music and Support. As a consequence, "the leaders of thousands" of Exodus 18 would become the Associate Pastor, the Minister of Education, the Minister of Music and the Church Administrator. Each of these ministry areas will have other leaders. For instance, in education you will have age group (adult, youth, children, preschool) leaders; in administration you will have office and housekeeping employees, and so forth.

An indicator of relative worth placed upon an employee is the summary of wages given to the various types of positions in the church. Probably the best such summary is produced by the National Association of Church Business Administration, [www.nacba.net](http://www.nacba.net). The survey gives a sum-

mary of nearly every paid position in a church.

Summary information is provided for all churches, for protestant churches, for churches of selected denominations, for churches of selected size, for churches of selected budget, and for churches within five regional areas of the United States.

Below is an extract of the line for the senior pastor from the **2001-2002 NACBA Church Staff Compensation Report**, the **National Report** section.

STAFF #	NO REPRTD	YEARS TENURE			SALARY INCL. HOUSING/UTILITIES			RETIREMENT			INSURANCE			SELF EMPLOYMENT SOC SEC OFFSET			TOTAL COMPENSATION			REIMBURSED EXPENSES		
		HIGH	AVG	LOW	HIGH	AVG	LOW	HIGH	AVG	LOW	HIGH	AVG	LOW	HIGH	AVG	LOW	HIGH	AVG	LOW	HIGH	AVG	LOW
1	1,535 #PAYNG	50	19	1	280,805	70,356	3,744	64,500	7,561	177	36,568	7,893	118	19,817	5,742	185	296,940	86,421	8,121	34,000	5,217	250
			1,346			1,535			1,384			1,420			520			1,535			1,174	

An explanation of these columns is given in the chart below:

**STAFF NO.**

Twenty-five Staff Position Code Numbers and Titles are listed at the bottom of the chart. They include nearly all positions of the church from Senior Pastor to the Food Services Director

**NO.REPRTD**

This column describes the number of individuals who made up the sample in this ministry position

**YEARS TENURE**

HIGH AVG LOW Describes the years tenure in the position high, average for the number, and low

The number below each group indicates the number of individuals who made up the average

**SALARY INCL HOUSING/UTILITIES**

HIGH AVG LOW This describes the salary portion that is reported for Federal Income Tax purposes. For ordained ministers it will include the housing allowance figure. The number below the range indicates the number of individuals who made up the average computation.

**RETIREMENT**

HIGH AVG LOW Contributions the institution made on behalf of the employee for retirement

**INSURANCE**

HIGH AVG LOW Insurance includes death, accidental death, dismemberment, loss of work, health, health compensation, and similar insurance contributions by the institution.

**SELF EMPLOYMENT SOC SEC OFFSET**

HIGH AVG LOW Some churches provide additional income for ministers who must comply with SECA social security tax provisions.

**TOTAL COMPENSATION**

HIGH AVG LOW This figure adds all columns to this point

**REIMBURSED EXPENSES**

This column reports the amount of funds that are available to individual employees by the institution for legitimate business expenses that are part of an approved reimbursement plan.

Other average compensation charts may be available to the church or institution from denominational or other professional surveyors. The NACBA survey is made up of numerous churches from various denominations and sizes of organizations and budgets. In addition to the generalized averages and ranges of all churches participating in the survey, specific charts are computed for a variety of sub-components of the analysis:

- Charts are created for five geographic regions of the United States
- Charts are created for 10 faith groups
- Charts are created for institutions based upon the average Sunday Morning Worship Attendance
- Charts are created based upon the level of church budget
- Charts are created that compartmentalize the larger church organization
- Charts are created for specialized studies like gender and ordained/not-ordained status

**5. DETERMINE THE CATEGORIES AND LIM ITS OF A SCALE OF SALARIES TO BE PAID**

The next task is to establish some format to the salary plan. In The *Church Organization Manual* (Welch, NACBA

Press), a series of diagrams is given. An example of such a diagram is demonstrated on the left for a small- to medium-sized church.

Category 1 in this example, for instance, might be all the support personnel: the secretaries, janitors, nursery and food service workers. In Category 2 might be the age group directors (children, youth, senior adult, single adult) and other non-executive ministry personnel such as the church administrator. Category 3 column would be the executive ministers: senior pastor, ministers of music and education, and associate pastor.

*In the left column are the steps that would be included in each category.* A sufficient number of steps should be present to ensure the potential growth and tenure of the employee. For instance, the church may decide that a minister will get a step increase for every two years of employment. If an individual started at the bottom of Category 3 with a beginning salary of \$42,000 then it would be 30 years before the limits of that category will be reached. If a pastor was brought in at \$54,000 then he would have 10 steps or a possible tenure of 20 years before the limit of the scale is reached.

*The lower limit of the scale is developed by looking at the salaries that make up the scale.* For instance, in Category 3 (made up of the senior pastor, associate pastor and the two ministers of music and education) looking at the NACBA scale given on the previous page for average salary, you will note that the national average for the minister of education is about \$49,000, but ranges from the mid \$30s to nearly

\$60,000. In developing a salary range, the church will have to look at the average salaries for its region and/or church size. My personal contention is that if the church desires to attract a quality individual to the position, then they will, out of necessity, have to offer at least the average salary for ministers of their category.

*The upper limit is established by taking the highest paid individual's salary and then extending it to the desired number of tenured steps.* For example, a pastor's salary in the Chicago area (North Central) averages \$52,000. Thus a salary plan to \$70,000 will ensure 20 years of tenure with a step increase every two years before the limit is maximized.

**In summary:**

- Establish the number of categories of personnel
- Establish who will be in each category
- Set lower limit by finding the average salary of the least paid employee of the category
- Set upper limit by determining the average salary of the highest paid individual of the category and then extending it up to the tenure/steps you desire

**6. ESTABLISH POLICIES AND PROCEDURES RELATING TO THE ADMINISTRATION OF PAY**

In establishing a salary plan, the church or organization needs to develop certain rules and regulations about issues relating to pay. Example policies and procedures can be found in *The Church Organization Manual* (by Welch and published by NACBA). Below are some general comments.

- A. **Use of Probationary Periods for Hiring.** While most states in the nation have employment-at-will laws, termination under that concept should be for some stated legal reason. Termination during a probationary period requires no reason. It is suggested that the church or organization state that they are an employment-at-will employer and also that all employees will be employed with a stated probationary period. The minimum length of that period should be however long it takes to complete background and reference checks. Probationary periods of six months to one year are common.
- B. **Part-time Workers.** The easiest way to pay part-time workers is to give them a percentage of the pay they would receive if they were full-time employees. This means you must have a job description and that position evaluated for worth. For instance, a 30-hour per week janitor would be a Category 1 employee and would receive a \$14,000 per year salary if full time. Since he only works 75 percent of that time, he would receive an annual salary of \$10,500. Part-time employees usually do not receive fringe benefits. The church/organization must remember that it may be under the guidelines of the wage and hour employee laws of the Fair Labor Standards Act relating to minimum wage and hours worked.

C. **Credit for Experience.** The church or organization may grant credit for experience. This comes about in two venues:

1. As the employee continues employment she may be granted step increases based upon tenure.
2. When a person is hired, the church may choose to reward the person for experience she has gained prior to employment.

If the job description calls for an "experienced" applicant, then the personnel committee must determine how many years is considered necessary. If the future employee has more years of experience than this base, then she may be rewarded for this additional experience. Usually one step increases for each additional five years of experience is given.

D. **Credit for Education.** The church or organization may grant credit for education or training. Like experience, this may come about in two venues:

1. Education or training completed while an employee. A formula for awarding step increases for Continuing Education Units (CEU) or degrees should be established. For instance, for every 10 CEUs, the person will receive a step increase.
2. The second place where education reward may occur is in the hiring process.

If the position description calls for a seminary degree, that usually means a master's degree. What if the person has a doctorate? Then a formula should be developed for recognizing that additional training. Usually a one step increase for every degree above the minimum is appropriate.

E. **Process for Moving Up Steps.** Already discussed are step increases for tenure and for additional education. A mechanism should be in place for rewarding "merit" or outstanding employees via a step increase. This is an especially useful process for retaining top notch employees. Merit increases should be the result of evaluation and general recognition.

F. **Cost of Living Increases.** Unless the church or organization has some method for providing an automatic adjustment in salary each year for cost of living increases, the employee will, in effect, be required to incur a pay reduction. A simple way to accomplish this is to adjust automatically the value of each step in a salary plan profile. For example, for Category 3, Step One (\$42,000) this figure will change to \$43,260 to reflect a 3 percent cost of living increase for the previous year. Cost of living indexes are provided for the nation as well as by region and state. The adjustment of steps and salaries is a simple mathematical computation for a financial secretary if the church has established a policy dictating the automatic adjustment to maintain salary level.

G. **Housing.** As a result of the Tax Reform Act of 1986



and as explained in IRS Code, Section 107, employees who are ordained ministers may declare a portion of their salary as “housing allowance.” This declaration must occur within a brief period of time after ordination, employment, or by December 31 of each year. The minister designates how much of the salary they wish to declare as housing allowance; the church approves the designation. *Churches should not dictate housing allowance.* This is a tax matter between the ordained minister and tax officials.

H. **Social Security.** Social Security taxes must be paid for and by all employees. The church or organization must have policies and procedures in place to cover the varieties of situations that will be present with the combination of ministerial and non-ministerial employees.

In all cases of non-ministerial employees, the church is responsible for 50 percent of the Social Security and Medical tax and the employees have deducted from their salaries the remaining 50 percent. This is the FICA/Medical tax. The 2002 rate is 15.3 percent of wages; the church and employee each paying a share of 7.65. These payments are made on a monthly basis through a deposit system. The Annuity Board supplement to *The Minister’s Tax Guide for Current Year Returns*, [www.absbc.org](http://www.absbc.org), provides information as well as certain IRS Publications. Some of the more important IRS publications are

- 334 Tax Guide for Small Businesses
- 517 Social Security for Members of the Clergy and Religious Workers
- 525 Taxable and Nontaxable Income
- 571 Tax Sheltered Annuity Programs for Employees of .....Tax Exempt Organizations
- 937 Business Reporting (Employment Taxes, Information Returns)

Circular E Employer’s Tax Guide

These publications may be ordered online via [www.irs.ustreas.gov/prod/forms\\_pubs](http://www.irs.ustreas.gov/prod/forms_pubs) or by calling 1-800-TAX-FORM.

Ordained ministers are responsible for their own Social Security and Medical taxes (SECA). While the ordained minister is considered an “employee” of the church for federal income tax purposes, the ordained minister is “self-employed” with regard to Social Security. This dual status as an ordained minister has caused confusion in the past, and, in some instances for tax problems with authorities.

Ordained ministers are responsible for filing their own taxes. This is usually accomplished by filing quarterly estimated taxes. Ministers may choose to allow the church to withhold *federal income taxes* and pay those taxes on a monthly basis for them. Pastors may choose to allow the church to compute and withhold Social Security and Medical taxes but they are responsible for filing these taxes themselves.

Ordained ministers will pay federal income tax only on that portion of salary that is not declared by them and approved beforehand by the church as “housing allowance.” The minister will pay self-employment (SECA) taxes on all salary, including the portion declared as housing allowance.

**7. DETERMINE BENEFITS THAT WILL BE PROVIDED**

Through the years students have come to me for advice about “salary packages” churches have offered them as they move from seminary to employment. More often than not a church will say to a prospective staff member, “Here is X-thousands of dollars. You divide it among salary, insurance, and transportation allowance like you want.” There are two problems with this reasoning. The first is a legal problem. Recent rulings and determinations by IRS have stated that if the individual has any decision in the process of remuneration for services, then the entire amount considered may become taxable income. Thus, if the employee says that “I choose to have this portion as salary, this portion as housing, this portion as medical insurance, this amount for retirement, this amount for convention and education, and this portion as transportation allowance,” then he is going to be taxed on the whole mess—federal income *and* social security.

The second problem I have with the “here-‘tis” philosophy is that it negates the concept of “fringe benefits.” “Fringe” means outside of or in addition to. With regard to the employee, it would mean “in addition to salary.” It would be ridiculous to tell a pastor that “Here is X-thousands of dollars. You designate part for salary, housing, insurance, etc., AND you pay your secretary’s salary, you give us X-hundreds of dollars each month for rental of your office, AND you are responsible for X-percent of the utility bills.” A pastor’s secretary, office and work environment are normal givens, why not insurance, medical care, retirement and other business expenses?

It’s like telling a soldier, “You come fight for me but you have to bring your own weapons and provide your own armament. In addition to that, if you get injured we won’t provide medical assistance. If you get killed we won’t provide for your family. If you spend a lifetime fighting for us and have to retire, you better sock away money for living because we won’t provide you a retirement.” I spent 22 years in the Navy. I am retired and now receive a life-time pension. I received medical benefits in the Navy then and now. I have an insurance policy for my family provided by the Navy. A smart general will provide for his soldiers—a trained fighter is hard to find and keep. So is a quality minister or church employee!!!!

The table on page 7.16 answers an interesting question:

Ordained minister, which would you rather have; \$45,000 and you provide all your own benefits

Or

\$35,000 and the church provide medial and insurance benefits and establish a reimbursable business expense limit?

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**With \$45,000**

Housing \$16,000 | Salary \$16,000 | Medical and life insurance \$7,000 | Business Expenses \$5,000 | Retirement \$1,000

← You pay social security taxes on this amount →

← You pay federal income tax on this amount →

Spendable income of the salary portion:

\$16,000

Less taxes -8,000 Based on social security taxes on \$45K and income taxes on \$29K

**\$8,000**

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**With \$35,000 plus benefits provided by the church**

Housing \$17,500

Salary \$17,500

← You pay social security taxes on this amount →

← You pay federal income tax on this amount →

Spendable income of the salary portion:

\$17,500

Less taxes -6,300 Based on social security taxes on \$35K and income taxes for \$17.5K

**\$11,200** That's \$3,200 **MORE** spendable income – you might even be able to buy a new car!

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Benefits should be considered inducements for employment. They are tax-free fringe benefits because the CHURCH pays for the expenses and because a church is a tax-exempt, non-profit religious organization. Benefits are legal ways to maximize the dollar spent for such services.

Some of the benefits usually provided employees are

- Up to \$50,000 accidental death/dismemberment life insurance policy
- Medical insurance for the member and/or member and family Contributions to a retirement plan

This article will not discuss all the facets or the legal requirements for establishing such benefit plans. An excellent discussion about each is found in both the *Planning Financial Support* and *Ministers Tax Guide* published by the Annuity Board of the Southern Baptist Convention, [www.absbc.org](http://www.absbc.org) or call the toll free number 1-800-262-0511 and ask for a consultant.

One additional word about benefit plans for the church employees. While the church does not have to fund the benefit at the same level, the Tax Reform Act of 1986 requires that if a church provides a benefit plan to one category of employee, the plan must be available to all other individuals in that same category. Translated: as part of the salary plan, the church may tell a senior pastor, “We will provide you full medical coverage for you *and* your family.” To the minister of

education, however, his or her salary plan may say, “We will provide medical coverage for you. If you want to pay for the coverage of your dependents, then we will deduct that from your pay for you and you can buy into our groups rated plan.” Incidentally, tax courts have begun to extend that requirement of availability to other than executive staff. That means that benefit plans for the pastor’s secretary will have to be available to all secretaries, but not funded equally based upon the church’s salary plan.

## **8. DETERMINE REIMBURSABLE BUSINESS EXPENSES OFFERED**

Suppose a church says to a minister “Here is \$2,000 for you to spend for transportation, convention or education expenses, or so forth. You don’t have to account to us how you spend that money.” Sounds good; no paperwork or strings attached. Some ministers like this idea—no red tape. Trouble is, they are going to have to pay taxes on that \$2,000, income and Social Security. Sure, if they itemize their taxes then they can declare it as a business expense, but then they will get only about 3 percent of it back.

What if there was a way of providing a minister an allowance for travel he or she does on behalf of the church, a way of paying for expenses like convention, educational materials and courses, books and a variety of other business-related expenses. There is, if the church will establish

an *accountable* reimbursable business expense plan. A sample policy is given in both *The Church Organization Manual*.

Key features of the plan must include:

1. A description of the limits that will be reimbursed upon receipt
  - Transportation allowance up to the limit established by IRS. Note: commuting from home to work is not an allowable expense.
  - Transportation, lodging and meals on business trips away from home
  - Attendance expenses for conferences, symposia, meetings or other professional gathering
  - Education or professional development expenses
  - Professional books, literature, or other ministry related materials
  - Hospitality expenses for direct ministry related activities
2. Time limits for submission – receipts or invoices must be within 60 days of incurring expense
3. Time limit for return of advances beyond actual expenses—must be returned within 120 days.

Churches may set limits for each category. They may also discriminate between the various categories of personnel who will receive the benefit. For instance: the pastor may get a transportation allowance of \$2,000, a conference/meeting allowance of \$1,000 and an education allowance of \$1,000. The minister of music, on the other hand, may be limited to a transportation allowance of \$1,000, a conference allowance of \$1,000 and an education allowance of \$500. These various limits should be spelled out in the Accountable Reimbursement Plan Policy. *They should not be linked to the individual's salary plan except to say that they will have certain accountable business expenses available to them.*

Let me close this article with an extension of the last sentence of the paragraph above. Salary Plans for employees of the church should *define* the salary they will receive and *describe* the benefits and reimbursements they have available to them. Salary is taxable income; benefits and reimbursements are not taxable if treated as business expenses of the church. It is my strong suggestion that separation be as apparent as possible to avoid any hint of linkage. If I was writing a contract for a minister this is the way that I would phrase it this way:

***As the minister of education you will be Category 3, regular full time employee of XYZ Church. In recognition of your previous experience and training, you will be employed at Step 3 of that category with a beginning salary of \$46,000 per year. You will be provided the following benefits: Medical insurance for you and your family, an accidental death/dismemberment life insurance policy to the limit established by law, and a contribution equal to 2 percent of your annual salary to an authorized church retirement plan. The church will provide reimbursement upon proof for legitimate business expenses incurred by you and as defined in the Accountable Reimbursement Plan Policy.***

Note that you don't give a value or dollar amount to the benefits or reimbursement plan elements. Since these will change over the years, you just *describe* them! I would advise business expense items become part of the church administrative budget line items. I would also include insurance and retirement costs in the administrative budget as opposed to the personnel budget because they are legitimate church business expenses, not personnel salary items.

The objective of a church salary plan is to provide an adequate salary and offer inducement benefits to obtain and retain qualified, professional employees. By following certain guidelines, churches can provide fair salaries as well as legal benefits for employment.

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# *A New Approach To Salary Administration: Guidelines for Using The NACBA Compensation Survey*

By Richard L. “Dick” Galbreath, FCBA

Below are some helpful guidelines by which to administer salaries, by position, over the career of an employee.



You have likely wrestle with the question “Are we adequately paying our employees?” Or, perhaps, the thought has haunted you that you may be paying more than a position justifies and incurring the additional ripple costs associated with that condition. From time to time, you may have grappled with both sides of this issue. Wouldn’t it be helpful to have a salary administration program which gives you the confidence to be able to respond to both of these questions from a basis of comparative data—a program which establishes guidelines by which to administer salaries, by position, over the career of an employee?

## **A. Guidelines Are Needed**

It is not unusual for a church to administer salary increases to all employees at the beginning of each year. This is an excellent manner in which to provide financially for employees. It also makes the task of budget preparation and associated accounting very straightforward. However, this pattern can lead to a serious problem of escalating salaries. As we retain outstanding employees for many years, a salary increase at the beginning of each new year can result in eventually paying a salary much higher than the position warrants. This is poor personnel management and poor stewardship by the church.

Salary administration for part-time employees has its own problems. As we tend to give salary increases year after year, someone suddenly realizes the part-time employee is being paid a salary disproportionate, for the hours involved, to that of an equivalent full-time position.

Another tendency of many churches is to hire a replacement at the salary level achieved by the person vacating the position. This may be justified, based upon individual qualifications and immediate needs of the position. However, in most cases this is not necessary and not advisable for future salary growth. Being able to refer to an established salary range for the position would certainly provide guidance in the hiring process.

Many times we disillusion ourselves into thinking a salary increase is a motivator. We need to overcome this erroneous thinking. As a motivator, it is very short-lived—about three pay periods! The first pay period we quickly check the numbers to verify we received the increase. The next pay period we check to be sure the increase continues to be included. By the third payday we have decided it is ours, we rationalize that we deserve it and start wondering how quickly the next increase will be forthcoming.

Do any of these scenarios sound familiar? Given there are a variety of problems which can exist with salary administration within the church, how can we establish better procedures? I would like to offer a method I think works very well and can be supported with confidence.

## **B. Developing A Salary Administration Program**

First of all, when developing a salary administration program, much time and effort must be devoted to establish credibility and gain acceptance of the program. You will identify the manner which will be most convincing to your executive board or best fits your situation. Later I will indicate several approaches which I use.

There are many salary surveys on the market. Each offers its unique characteristics of presentation. I chose to use the *NACBA National Church Staff Compensation Survey*. The presentation of data in this survey is by denomination within a geographic area. Then, it is possible to identify the section most closely relating to the average attendance and budget size of your church. This is one item which helps greatly in establishing the credibility of your research data and development approach.

To get started, establish a salary range for each full-time position on your church staff. Using the NACBA survey data, proceed as follows:

1. Select your denomination section of the salary survey within your geographic area.
2. Select data page for worship attendance most representative of your church.
3. Record: High, Average, and Low salary for the position desired.
4. Record years tenure for each of these salary points from the data.
5. Select data page for annual budget amount most representative of your church.
6. Record: High, Average, and Low salary for the position desired.
7. Record years tenure for each of these salary points from the data.
8. Add the two average salary amounts together and divide by two. Doing this establishes the midpoint of the salary range for this position.
9. Multiply this midpoint by 80% to determine the lower limit of the range for this position.
10. Multiply the lower limit by 150% to determine the upper limit for this position.

11. Divide the salary range just developed into four equal quarters. Quarter 1 (quartile 1) being the lowest, quartile 4 being the highest dollar amount.
12. Repeat the steps above to develop a salary range for all full-time positions.
13. Review the tenure figures as a guide to determine the number of years for an employee typically to reach the midpoint of the salary range for the respective position.

You have now developed a salary range for each full-time staff position in your church. I refer to this as a "career salary range" for the individual position. If there were no economic factors and/or forces which would cause the range to be adjusted upward, the range would represent the career salary potential for that position.

Since the range is divided into quartiles (quarters), you can readily identify individual employee positions within the respective salary range. This individual percentage position within the salary range assists in objectively administering salary increase. Also consider individual tenure in current location as compared to the average numbers obtained from the NACBA salary survey. This helps to provide a guide pertaining to how rapidly an employee progresses upward in the salary range.

Most churches employ a number of part-time people also. A salary range for part-time positions can be developed by prorating the range for the full-time position downward to correspond with the hours specified in the part-time position description: i.e., 30 hours, 20 hours, etc.

You need to be sure the factors you consider as compensation are consistent with the salary survey data you are using. Base salary, deferred compensation, social security reimbursement, housing/utility allowance, whole life insurance and auto allowance as all part of compensation are factors to consider.

### **C. Develop Guidelines**

Now that you have salary ranges for each position, you need some guidelines with which to administer salary offers and increases. The headquarters level for your denomination may have guidelines pertaining to the recommended span between midpoint of highest salary range to midpoint of lowest full-time program staff salary range. This will typically be approximately three times. These comparisons help prevent a disproportionate spread between ministerial/program staff and support staff salaries.

The guidelines which I established for administration of beginning salary offers and salary increases are as follows:

1. Entry salary into a position should normally be in the lower 1st quartile. Prior experience and other qualifications will determine exact entry point within the quartile.

2. Satisfactory employees should normally achieve the midpoint of the salary range within 5-7 years.
3. Exceptional/outstanding performance should be rewarded with a merit increase amount over any cost-of-living increase planned.
4. No employee should exceed the maximum salary for the position regardless of the length of time between salary increases.
5. Salary increases should occur at variable time intervals; not necessarily on January 1 of each year.
6. After achieving the 3rd quartile for the salary range, salary increase timing should normally occur in the 13-18 month range.
7. After achieving the 4th quartile for the salary range, salary increase timing should normally occur in the 19-24 month range.
8. Established salary ranges should be reviewed every two years for possible adjustment. The same data sources and methods should be used for this review.

There are probably other methods which could be logically used to adjust the salary ranges upward as necessary over time. One method would be to uplift the range each year by a percentage equal to the cost-of-living increase or use a fixed percentage each year. No doubt you can think of other possible methods for range adjustment; however, you must be careful not to escalate the range too rapidly.

As indicated earlier, several approaches to help establish credibility are necessary.

Besides how closely your average worship attendance and budget size fits the survey data, you will find the method outlined for developing the respective ranges tends to eliminate the extreme highs and lows found in most salary surveys. This conveys a more conservative approach to administering salaries. Also, in most states you can obtain wage data from the Department of Labor. This is usually available for your specific county and is an excellent source of comparative data. As you work through the process, you will recognize other methods you can use advantageously during your presentation to establish credibility and gain acceptance.

### **D. Conclusion**

You now have a method with which to develop a salary administration program which is equitable and consistent. Use it in good health. If you are proficient on a spreadsheet software package, this could assist greatly with the mathematics during the development process and ongoing administration.



