A SHIFT TOWARD TOTAL COMPENSATION: A PASTOR'S PRIMER

It happens every academic year: Toward the end of the spring semester I'm contacted by a student who would like for me to review a compensation package he has just been presented by a call committee who wants to hire him to a full-time position. Without fail, when I begin to do the math, it quickly becomes apparent that the numbers will not work. Without an increase in salary or a decrease in necessary expenses (Self-Employment Contributions Act (SECA) taxes, insurance, basic living expenses, or housing) or savings (emergency, home purchase, or retirement), there is no way to balance his income with his potential future expenses. When I point this out, the first question I often receive is, "What do I do?" My response normally escalates the fear factor: "Talk to them about the current offer and demonstrate that you are struggling to make the numbers work." The committee needs to see that work has been done that will validate his claim, so we talk through his budget and we examine the cost for insurance coverage, retirement contributions, and SECA taxes. We aggregate the data, and he presents it to the committee. In every case, the committee reviewed the data and increased their offer. More times than not, the committee commented to their new pastor that they did not realize the true cost for the benefits and other taxes paid for by an employer that most *W-2* employees take for granted, what human resource professionals call an employee's "total compensation." Due to a lack of knowledge in the area of personal finance, many students coming out of seminary and entering their first full-time position at a single-pastor or single-employee church do not take the approach of my student above. Rather than speaking with the call committee about making adjustments that can maximize the compensation package or requesting an increase in the total package, in order to make the position work financially, the pastor often makes decisions that will have grave short-term and long-term financial implications. The most common cuts come in the form of a Social Security opt-out, minimal or no insurance (health, life, or disability) coverage, and delaying retirement contributions.

The decision to sacrifice financially for the church is nothing new for SBC pastors. For years SBC ministers have focused not on asset accumulation, but on properly stewarding the Word of God, knowing that their "other" retirement program — the rewards given to a good and faithful servant — remains secure. While this is a noble and sacrificial undertaking, the earthly ramifications for such decision making are only just beginning to make themselves apparent as we begin to see the Baby Boomer generation of pastors retire. If they are like most Americans, these pastors have very little in personal or retirement savings.[1] Unlike most Americans, many of these pastors do not have the safety net of Social Security or Medicare, having opted out of these

[1]According to a recent *Government Accountability Office Retirement Report*, "about 55 percent of households ages 55–64 have less than $25,000 in retirement savings, including 41 percent who have zero." Government Accountability Office, "Retirement Security: Most Households Approaching Retirement Have Low Savings" (Washington D.C., The Government Accountability Office), 8. Later, this same report indicates that 27 percent of households ages 65–74 have no retirement savings, meaning that this group's retirement is funded almost entirely with Social Security income (Ibid., 14).

government programs years earlier. For these men and their families, their financial sacrifice for the Kingdom continues into retirement, turning their golden years into a financial nightmare.[2]

In the paper that follows, I attempt to distill some of the most important concepts from my personal finance class into a primer with the intent of equipping pastors to advocate for themselves in areas of total compensation. This paper seeks to accomplish four purposes. First, it educates the pastor on the most important components of the total compensation package after gross wages. Second, it provides examples that will present an ongoing case study which demonstrates the short- and long-term financial impact of adding these components to the pastor's compensation package. Third, it presents suggestions for churches who cannot afford to implement a total compensation model, realizing that bi-vocational employment is a reality for many pastors and churches in today's economy. Fourth, it delves into the future implications pastors, churches, and the laity may face as they shift to a total compensation model.

The Non-church Compensation Environment

In private and public sector jobs there is a substantial dollar difference between an employee's gross wage and an employee's total compensation. Gross wage is the wage an employee is paid before specific taxes (income and FICA) and deductions (insurance or retirement). Total compensation takes into account not only an employee's gross wage but also the dollar value of any benefits for which an employer pays. On average an employee's gross wage ranges between 60 percent and 70 percent of an employee's total compensation.[3] The remaining 30 percent to 40 percent of an employee's total compensation is derived from costs associated with employer-provided benefits such as paid leave, group insurance, retirement and savings, and other benefits that are legally required.[4]

Why is information on the non-church compensation environment important for pastors and churches? Many single-employee churches do not approach pastoral compensation from a total compensation model. Instead, they follow a gross wage model, where a gross wage is determined by the church, but the pastor is responsible for its allocation. A gross wage model could lead to a few problems. First, neglecting a total compensation model may lead to a package that underpays the pastor, since it often neglects the real cost of benefits. Take for example a pastor whose

[2]The problem is so prevalent among former SBC pastors and spouses that GuideStone® created the Adopt An Annuitant ministry in 1981, which changed its name to Mission:Dignity in 2008. This program "currently helps almost 1,800 people with extra money needed for housing, food and vital medications" (*MissionDignity.org*). Today, "more than $7 million is paid out annually by Mission:Dignity to help retired Southern Baptist ministers, workers, and their widows whose income is insufficient to meet their needs." Churches and laypeople realize there is a problem as "much of the funding for the ministry comes from the direct gifts of individuals, groups, and churches in our Southern Baptist family" (*MissionDignity.org/AboutUs/History*).
[3]A recent Economic News Release by the Bureau of Labor Statistics from the period ending December 2016 shows that civilian workers (68.4 percent) and those in private industry (69.7 percent) tend to have a higher percentage of total compensation allotted to wages and salaries versus state and local governments (63 percent). State and local governments tend to have a higher percentage of total compensation allocated toward benefits (37 percent) versus private industry (30.3 percent) or civilian workers (31.6 percent) (*https://www.bls.gov/news.release/ecec.nr0.htm*).
[4]Legally required benefits are those benefits (mandated by federal and/or state law) that employers are expected to participate in and contribute toward. The most common legally required benefits are Social Security and Medicare, federal and/or state unemployment insurance, and workers' compensation.

compensation consists entirely of a $35,000 gross wage to be divided as he sees fit. Under this system, all benefits would be paid out of the $35,000 gross wage. Compare that to a private or public sector employee who is employed under a total compensation model; this employee receives roughly $15,000 in benefits as well as a gross wage of $35,000.

Total Compensation Employee		
	Dollar Value	% of Compensation
Gross Wages	$35,000	70%
Benefits	$15,000	30%
Total Package Value	$50,000	100%

Gross Wage Employee		
	Dollar Value	% of Compensation
Gross Wages	$24,500	70%
Benefits	$10,500	30%
Total Package Value	$35,000	100%

Should the pastor allocate his compensation package of $35,000 in a similar fashion to that of the total compensation employee, $10,500 would be allocated toward benefit premiums, retirement contributions, and taxes (i.e., Social Security and Medicare), leaving the pastor with only $24,500 for living expenses and income taxes. In such a scenario the pastor is clearly worse off than a total compensation employee in all three facets: gross wages (-$10,500), benefits (-4,500), and total package value (-$15,000).

Second, neglecting a total compensation model may lead the pastor to misallocate resources, resulting in a higher tax burden. When a pastor pays insurance premiums and makes retirement contributions, he does so with after-tax dollars and recoups any income tax overpayment as he files his taxes. There are some benefits that churches may pay for directly. In such cases, even if the church deducted the amount of these benefits for which the church paid from the pastor's gross wage, the pastor would be better off as he would pay less in federal/state income and SECA taxes.

Important Components of Total Compensation Plan

In addition to a pastor's salary or gross wage during the negotiation process, he should focus on four key areas: a yearly cost of living adjustment (COLA), a Social Security offset, employer-subsidized insurance, and an employer contribution toward retirement. These four components do not make up an exhaustive list, but they do comprise the key components that most full-time private and public company employees receive under a total compensation plan.

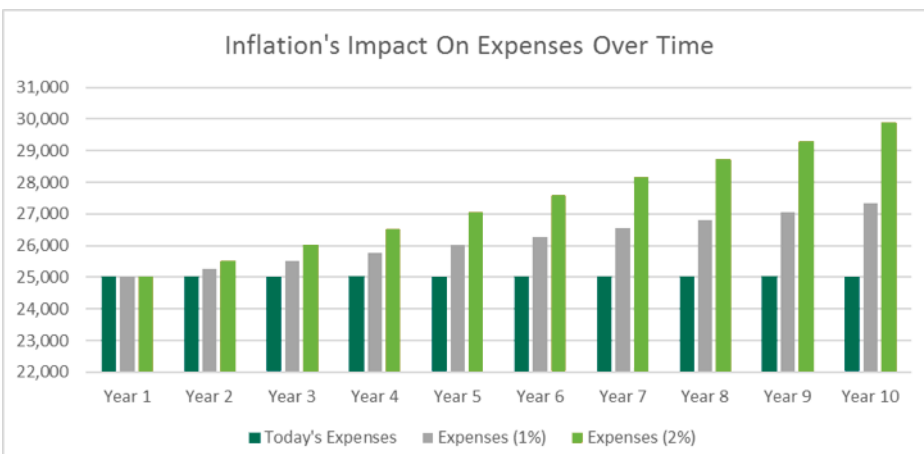
In addition to discussing the four key components and their impact on the pastor's financial health, each of the sections below will demonstrate how the pastor can take the supplied information and create a compelling case for a component's inclusion into his compensation plan. To do so, a hypothetical case study is presented throughout; this section will continue the example given above, which assumes that the pastor has received a package totaling $35,000 in gross wages and that the pastor is responsible for paying for all of his living expenses and benefits from this allotment.

Cost of Living Adjustment

The first point of discussion involves a COLA. COLA should not be confused with performance-based raises; rather, it is an adjustment made to one's compensation on a yearly basis that allows an employee to keep the buying power of his original wage as an increase in inflation negatively impacts this wage as time progresses.

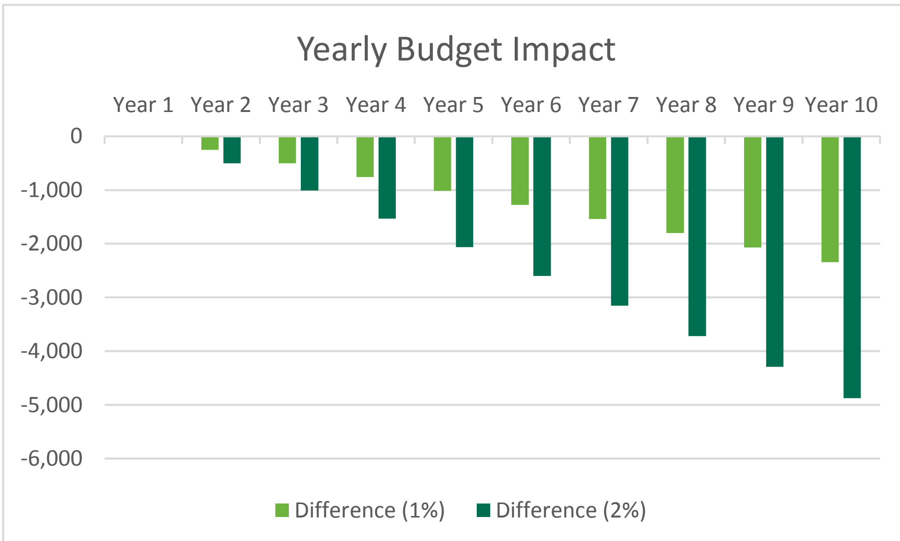
Inflation is the broad increase in the price level of general goods and services in an economy over time. Generally, over the long term, price levels increase. These increases are easier to recognize over longer periods of time. Think about the price of a stamp, a bottle of soda, or a movie ticket when you were a child; then fast-forward to today's price levels for those same goods. In almost every case, the price for each of those goods today is greater than in one's childhood. Over the last ten years, Americans have witnessed an inflation rate of about 2 percent per year. This may not seem like much on a year-over-year basis; it would be the equivalent of your cable bill increasing from $100 to $102 next year or a loaf of bread going from $2.00 to $2.04. Over time, inflation takes its toll on one's purchasing power. Continuing the example above, at the end of ten years, a cable bill has increased from $100 in year one to $121.90 by the end of year ten, while the cost of a loaf of bread has increased to $2.44. If the average household expenses continue to rise while one's salary stays the same, over time, this individual is worse off financially.

Take for example a pastor who, when hired, received a pay package which allows him to bring home $25,000 per year.[5] Then for the next ten years his wages remained unchanged. Assume that every year he spends the equivalent of $25,000 in today's dollars on his basic living expenses. As the graphs below demonstrate, over time inflation takes its toll as his expenses now exceed his income.



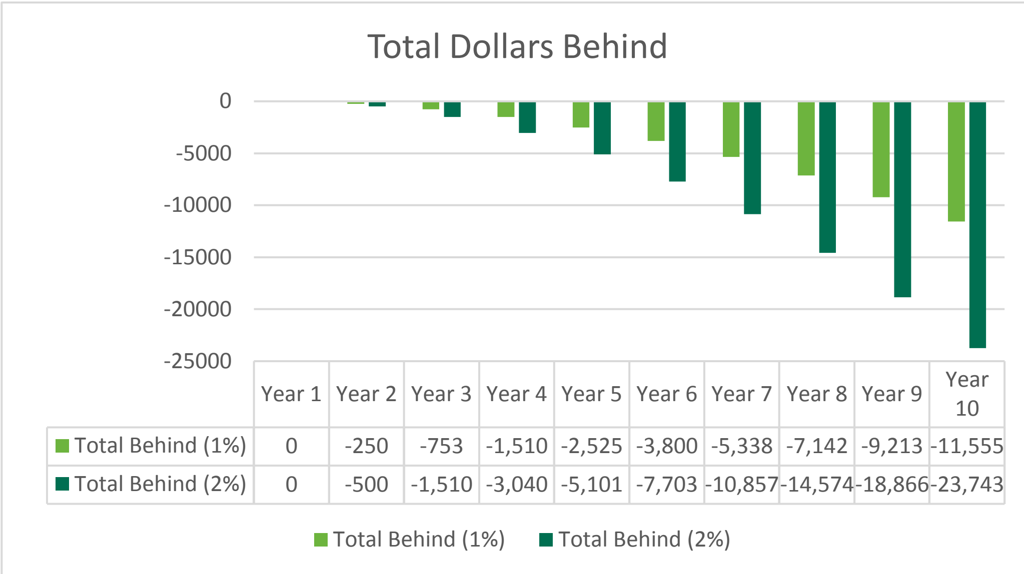
[5]This paper has chosen to examine a $25,000 net wages or take-home pay rather than gross wages, as net wages are the after-tax dollars used to pay for any incurred expenses. In the course of negotiation, the author suggests a pastor's gross wages to be indexed for inflation on a yearly basis.

The graph above demonstrates the impact that a 1 percent or a 2 percent inflation rate has on the pastor's expenses over time. In year one, he breaks even, spending $25,000 on his expenses. Barely a year into his ministry at the church, this pastor begins to fall behind financially. Keeping all of his expenses exactly the same, by the end of year two, this pastor faces expenses of $25,250 (1 percent inflation) or $25,500 (2 percent inflation). These numbers do not seem like much initially, but year-over-year the problem begins to compound. By the time one looks at year ten, the pastor is attempting to pay for $29,877 worth of expenses with $25,000. As the graph below depicts, the shortfalls grow increasingly out of control.



Many pastors are familiar with this situation. Without a yearly adjustment, the ever-increasing prices in goods and services place a continuous strain upon the family's budget. Initially, one seeks to cut just as any family would. Gone are the "unnecessary" expenses: eating out, name-brand merchandise, or family fun activities. The budget balances, but only for a moment. Year three's impact is not $250 or $500, but now this pastor has a shortfall of $503 (1 percent inflation) or $1,010 (2 percent inflation). Balancing the budget becomes increasingly difficult; now, all non-essential items are cut to close the shortfall. Year four presents even tougher challenges, increasing expenses $758 (1 percent inflation) or $1,530 (2 percent inflation); this is the equivalent of 3 percent or 6 percent of your $25,000 budget. Now the budget cuts have to be larger, as all the smaller cuts have been eliminated. As each new year comes, the cuts become larger and the pastor's financial situation becomes more unsustainable; by year ten, the pastor is attempting to close a $2,342 (1 percent inflation) or $4,877 (2 percent inflation) gap, which represents roughly 9 percent or 19 percent of the pastor's current take-home pay.

The above graphs demonstrate the financial toll that inflation may take on a budget on a year-by-year basis, but remember the financial troubles compound. This means prior years have a negative impact upon future years. The graph below depicts how a lack of a COLA places the pastor further and further behind financially.



The graph above takes the inflation information and aggregates the impact of inflation upon the pastor's budget year-over-year for a ten-year period. Once again, year one shows a net zero, with income equaling expenses. Year two's impact demonstrates a flat 1 or 2 percent impact. However, in year three and following it is easier to see the compounding effect of rising expenses due to inflation. Year three's impact stands at $753 (1 percent inflation) and $1,510 (2 percent inflation), which is derived from adding the shortfall of year two to that of year three. Over time we see the dramatic impact of years of underfunding to the tune of $11,555 (46 percent of current take-home pay) and $23,743 (95 percent of current take-home pay) over a ten-year period.

Worksheet: Below is a worksheet for the pastor to calculate the impact of a COLA on his gross wage for the upcoming year. First, choose a COLA percentage. Second, input this year's gross wage. Third, convert your COLA percentage to a factor. A COLA of 1 percent would be a factor of 1.01. Fourth, multiply your gross wage by the factor to determine next year's COLA adjusted gross wage.

COLA Offset

	COLA %	Gross Wage	Factor	Next Year's Gross Wage
Ex: 1	1%	$35,000	1.01	$35,350
Ex: 2	2%	$35,000	1.02	$35,700

Conclusion: The addition of a COLA to a pastor's compensation package provides financial flexibility to pastors by taking into account the ever-increasing price levels of goods and services. Pastors and churches should work together to determine the best percentage of increase per year and should apply this increase to the pastor's gross wages. While a 2 percent increase has been the average inflation rate over the past ten years, the community's demographics should play a role in determining any increase, as different areas of the country experience different variations in price levels.

How can the church help their pastor?

For churches who have not structured COLAs, this section has shown the need to make increases a yearly endeavor. If the church is capable of making up for past years where there was no COLA, there is no time like the present to increase your pastor's gross wages. If the church is not capable of making up for past years, put together a strategy for how you can successfully accomplish this goal in the next twelve to eighteen months. Finally, the church should commit to making a yearly COLA at the beginning of every fiscal year.

Social Security Offset

The second point of discussion involves a Social Security offset. A Social Security offset functions in a similar fashion to the COLA discussed previously; it seeks to increase the pastor's gross wages to compensate for an expense. Instead of compensating for inflation, the offset assists pastors with the additional SECA taxes pastors are required to pay as a result of their ministerial status. An offset is required because churches are not permitted by law to pay Social Security or Medicare taxes on behalf of the pastor, as they would for a *W-2* non-ministerial employee.

Pastors face a tax situation unlike many within their congregation: They are treated as self-employed for Social Security tax purposes. This means that not only do they pay SECA rather than FICA but also pastors are responsible for the full amount, the entire 15.3 percent tax, rather than the 7.65 percent tax with which *W-2* employees of companies are familiar.[6] A pastor who chooses to remain in the Social Security program is responsible for paying the full 15.3 percent tax on their ministerial earnings.[7] This additional 7.65 percent in SECA taxes means that the pastor and the employee in the pew, despite having the same gross wage, may have drastically

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[6]Much has been written on the need for pastors to remain in the Social Security System. Two Southern Baptist entities have given their opinions. GuideStone suggests that opting out of Social Security is among the top ways that pastors sabotage their well-being (*GuideStoneInsurance.org/AboutUs/Articles/GuidedJourney/SabotageFinancialWellBeing*). The Ethics and Religious Liberty Commission's Russell Moore has also weighed in on the ethical problems of opting out of the Social Security System (*http://www.russellmoore.com/2010/02/15/is-it-okay-for-me-to-opt-out-of-social-security-my-response/*). For the pastor that has opted out, GuideStone has produced a pamphlet encouraging pastors to take four steps, which can help to replace the benefits Social Security would have provided (*GuideStone.org/~/media/GuideStone%20Corporate/files/Social-Security-Considerations.pdf*).

[7]In addition to SECA taxes on ministerial earnings, pastors are also responsible for SECA taxes on the minister's housing allowance or the fair market value of the parsonage.

different Social Security and Medicare tax liabilities. The chart below helps to demonstrate the point.[8]

	Employee	Pastor
Gross Wages	$35,000	$35,000
FICA/SECA Taxes	($2,677.50) [7.65%]	($5,355) [15.3%]
IMPACT	**$32,322.50**	**$29,645**

Assuming the same gross wages, pastors pay an additional $2,677.50 in SECA taxes, which decreases their take-home or net pay. Since the church cannot pay a pastor's SECA taxes directly, should the church want to compensate for the additional SECA tax liability, the only legal option would be to increase the pastor's gross wage to compensate for the additional SECA taxes. Many churches choose to increase the pastor's gross wage by 7.65 percent ($35,000 * 1.0765), hoping to offset the liability, but this increase will not result in equating the IMPACT between the employee and the pastor.

	Employee	Pastor
Gross Wages	$35,000	$37,677.50
Social Security Taxes	($2,677.50)	($5,764.66)
IMPACT	**$32,322.50**	**$31,912.84**

In the example above, the pastor's gross wage has been increased by $2,677.50 to $37,677.50, but it does not bring parity. The reason for disparity is the additional wages of $2,677.50 only take into account the additional 7.65 percent in gross wages given by the church. It does not factor in the additional SECA taxes of 15.3 percent that pastors must pay on the additional $2,677.50 in income. This difference leaves a $409 disparity. In order to bring parity, a pastor could use the following mathematical formula, where Employee IMPACT is the difference between a *W-2* employee with the same gross wage and the Social Security taxes of 7.65 percent of those gross wages:

$$X - .153X = \text{Employee IMPACT}$$

$$X - .153X = \$32{,}322.50$$

$$.847X = \$32{,}322.50$$

$$X = \$38{,}161.16$$

	Employee	Pastor
Gross Wages	$35,000	$38,161.16
FICA / SECA Taxes	($2,677.50)	($5,838.66)
IMPACT	**$32,322.50**	**$32,322.50**

[8]For the purpose of the illustrations, it is assumed that both individuals have zero deductions (ex: group insurance, FSA benefits, parking deductions), which could reduce their FICA or SECA taxable wages. Therefore, both the employee's and pastor's gross wages are equal to their FICA/SECA taxable wages.

By increasing the pastor's gross wage from $35,000 to $38,161.16 (an increase of $3,8161.16), this pastor is now in the same financial position as a layperson who is responsible for only one-half of the pastor's liability, or 7.65 percent in FICA taxes.

Continuing the pastoral case study, assume that the pastor and church come to an agreement that the church will increase the pastor's compensation package in order to provide a Social Security offset. The Social Security offset would be categorized as a benefit (just like a *W-2* employee), bringing the pastor's total compensation from $35,000 to $38,161.

Gross Wage Employee		
	Dollar Value	% of Compensation
Gross Wages	$35,000	92%
Benefits		
Social Security	$3,161	8%
Total Package Value	$38,161	100%

The Social Security offset provides the financial incentive that pastors may require to remain in the Social Security & Medicare programs. Once in the program, Social Security benefits in retirement are based upon two components: 1) total wages and 2) length of contributions. Assuming a pastor is hired out of seminary at twenty-six with the compensation discussed above, at retirement this pastor will not only be eligible for Medicare benefits but also he will receive roughly $1,430 per month or $17,160 per year in today's (2016) dollars from the Social Security program.[9] While $17,160 will not cover all of a pastor's potential retirement expenses, it provides a solid foundation for creating a retirement income plan by creating one future retirement income stream.

Unfortunately, there are many pastors who have opted out of the Social Security & Medicare programs. Despite being unable to contribute to these programs, a church-provided offset for this group of pastors would provide additional funds, which could be used in the following ways: retirement contributions, life insurance premiums, disability insurance premiums, and long-term care insurance premiums.[10] If given a Social Security offset, pastors should seek to spend these funds on Social Security and Medicare-like benefits. A pastor should not use these additional funds for his living expenses. To ensure proper stewardship, pastors should ask that the church

[9]The monthly benefit amount was calculated by using the Social Security Administration's Benefits Calculator (*https://www.ssa.gov/cgi-bin/benefit6.cgi*). I used the following statistics: Birthdate 6/15/1990 (26 years), $35,000 income, 2 percent inflation, and normal retirement age of 67 years old (2057). Retirement at 67 (2057) would allow for a monthly retirement benefit of $1,429, while retirement at 70 (2060) would allow for a monthly retirement benefit of $1,772 in today's dollars.

[10]Upon opting out of the Social Security program, unless vested from other employment (40 quarters in non-ministry work), you lose the right to all parts of the Social Security Disability Insurance (SSDI) program: retirement benefits, disability benefits, survivor benefits, and health insurance benefits.

send retirement contributions directly to their 403(b).[11] If the pastor chooses to purchase life, disability, or long-term care insurance, it would be best for him to pay for these premiums with after-tax dollars.[12] In this case pastors should provide proof of premium payment to the compensation committee.

Worksheets: Below are the worksheets the pastor may use to calculate the Social Security offset. In the Pre-Offset worksheet, the pastor uses his gross salary to demonstrate the disparity between a normal employee paying 7.65 percent FICA and the pastor who pays 15.3 percent. Once the employee impact is calculated, the pastor is able to divide the IMPACT by .847 to determine the appropriate wage increase. The Post-Offset worksheet allows the pastor to verify that the new wage does provide the wage parity he is seeking.

Pre-Offset

	Employee	Pastor
Gross Wages	$	$
FICA / SECA Taxes	($) [7.65%]	($) [15.3%]
IMPACT	**$**	**$**

X - .153X= Employee IMPACT

X - .153X= $___________

.847X = $___________

X = $___________

Post-Offset (Verify Your Calculations)

	Employee	Pastor
Gross Wages	$	$
FICA / SECA Taxes	($) [7.65%]	($) [15.3%]
IMPACT	**$**	**$**

Conclusion: In providing a Social Security offset, churches are empowering pastors to remain in the Social Security and Medicare programs, which bolster not only the pastor's protections during their career but also provide income and medical solutions in retirement. In the event that a pastor has opted out of Social Security, an offset would provide additional income that could

[11]Please remember that a church may make contributions to an employer-sponsored retirement plan, but may not make contributions to an Individual Retirement Account (IRA).

[12]Rule of thumb: If the pastor pays the premium with after-tax dollars, the benefit should be received tax-free. If you pay the premium with pretax dollars, the benefit should be taxable. Moreover, certain benefits, when paid by an employer, may produce unintended tax consequences; they may be taxable benefits and the premium cost may be included in a pastor's taxable wages.

fund retirement contributions and insurance policies that may offset the long-term impact of opting out of these federal safety net programs.

How can the church help their pastor?

Far too many pastors have opted out of the Social Security and Medicare programs, not because they were opposed to these programs, but because they were unable to find a way to make ends meet financially should they have remained within them. Churches should consider providing a Social Security offset of roughly 9 percent of a pastor's gross salary to keep the pastor from the negative financial impact of a 15.3 percent SECA tax.

Employer-subsidized Insurance

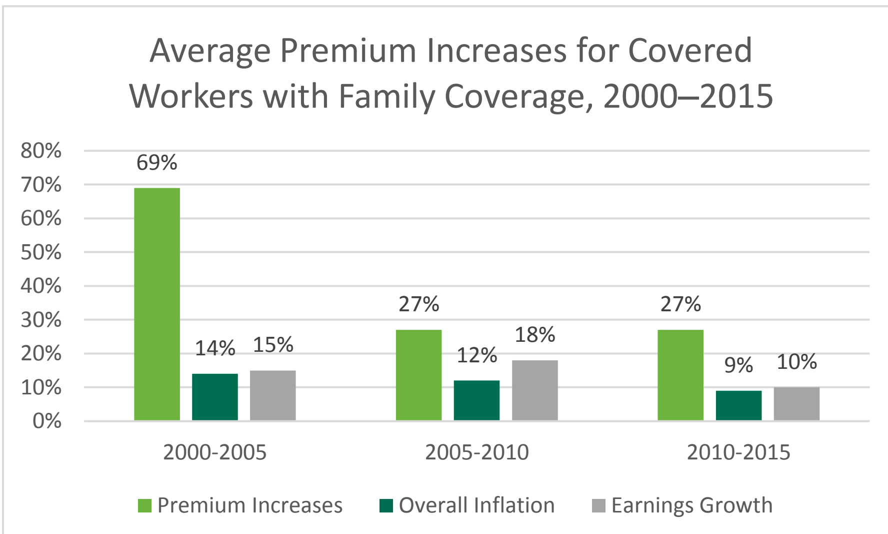
The third point of discussion involves employer-subsidized insurance. Many companies provide a variety of employer-subsidized insurance programs through group insurance plans. The most commons types of insurance provided by an employer are: health insurance, life insurance, disability insurance, and workers' compensation insurance. Health insurance provides insureds protection in the event of medical or surgical expenses, while life and disability insurance protect those who depend financially on the insured, should he die or become injured and unable to work. While not discussed below, churches should carry workers' compensation insurance, which provides medical and income benefits should the pastor suffer a work-related accident, injury, or illness.

Health Insurance

While employees and employers alike have felt the financial pressure associated with skyrocketing medical insurance premiums, pastors whose churches are not part of a group health insurance program have been hit especially hard by rising insurance costs. While larger churches benefit from the use of a group health insurance plan, most pastors of single-employee churches purchase their health insurance with after-tax dollars, drastically reducing their available cash flow for other expenses. This section discusses the rising costs of medical insurance and how the private and public sectors use a cost-sharing approach to pay for health insurance. Finally, it suggests some ways that churches can assist their pastor in procuring this important coverage.[13]

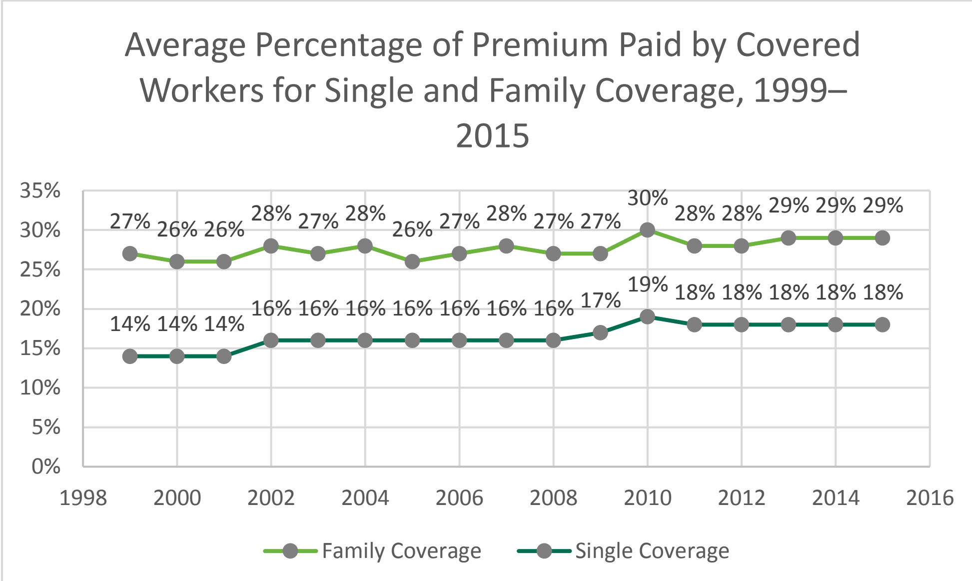
[13]The information in this section was obtained from the *2015 Kaiser Family Foundation and Health Research & Educational Trust Study: Employer Health Benefits, 2015 Annual Survey*.

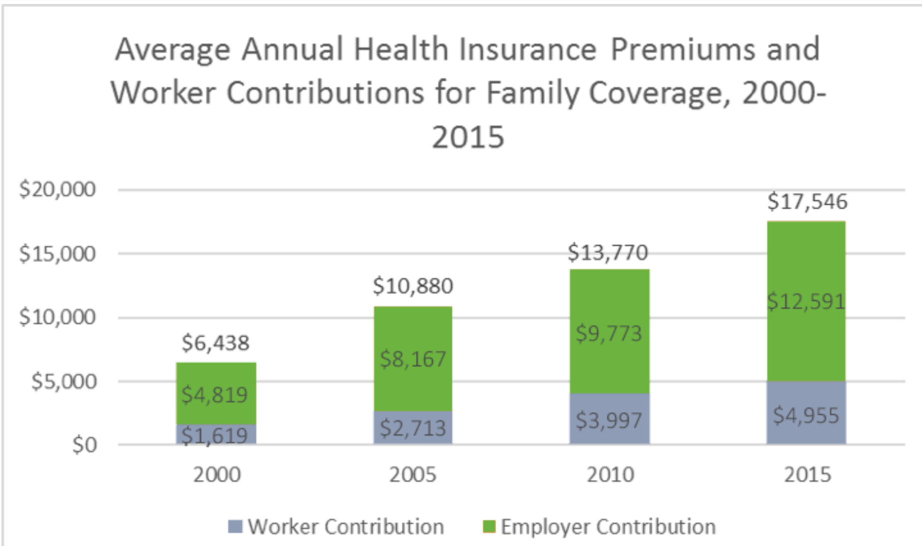
A great resource for understanding the current health care environment is the *Employer Health Benefits Survey*, produced by the Kaiser Family Foundation and the Health Research and Educational Trust. Based on their 2015 report, in 2015 the average cost for a family health insurance plan was $17,546, while the average cost for a single health insurance plan was $6,250. If these premiums appear high, it is because they are. Health care premiums have grown at a far higher rate than inflation and employee wages. While the growth rates for given periods of time have varied, over the past sixteen years (1999–2015) premiums have increased an average of 6.46 percent and 5.97 percent per year for family and single health care plans, respectively. Over this sixteen-year period, this amounts to a 272 percent and 252 percent increase for these plans. For individuals bearing the full cost of these increases, premium costs have become a larger and larger percentage of their expenses.[14] On the other hand, employees of companies who provided health insurance were responsible for a much more manageable percentage of these large premium payments.

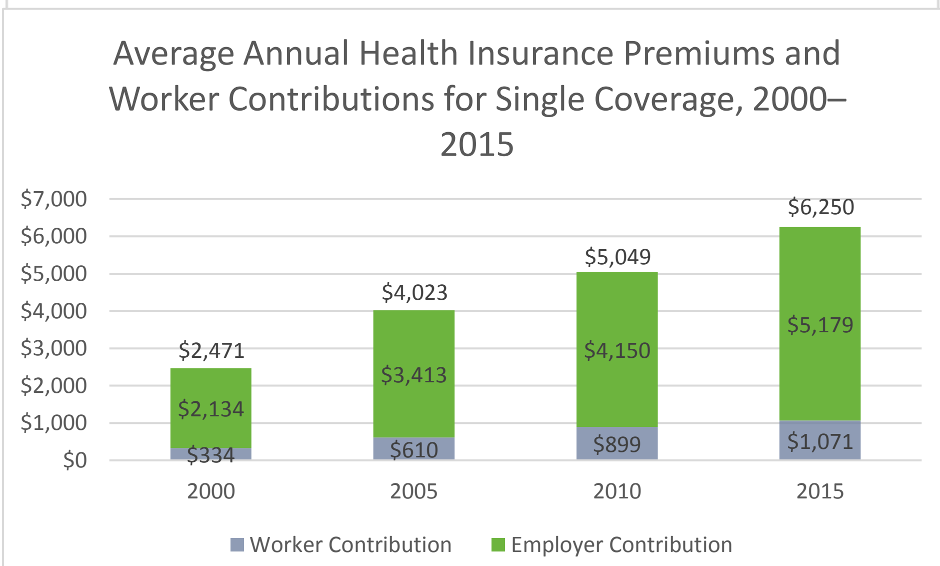


On average, companies covered the majority of health care premiums for both family and single plans. The charts below reveal that, on average, companies have been relatively consistent in how they subsidize employee health insurance premiums. In 2015 employers paid for 71 percent of an employee's family coverage, costing upwards of $12,500 per employee covered. For single-plan employees, companies covered a larger percentage, 81 percent, costing an additional $5,000 per employee covered. Employer cost sharing is important because these premium payments represent an additional $1,040 or $415 per month that employees of corporations did not have to pay out of pocket for health insurance coverage. This frees up a substantial sum which may be used in alternative ways by the employee.

[14]Similar to recognizing the need for COLA, churches must keep track of the increase in medical insurance premiums and be willing to inflate their employer contributions accordingly.


Average Percentage of Premium Paid by Covered Workers for Single and Family Coverage, 1999–2015
35%
30%
25%
20%
15%
10%
5%
0%
1998
2000
2002
2004
2006
2008
2010
2012
2014
2016
27% 26% 26% 28% 27% 28% 26% 27% 28% 27% 27% 30% 28% 28% 29% 29% 29%
14% 14% 14% 16% 16% 16% 16% 16% 16% 16% 17% 19% 18% 18% 18% 18% 18%
Family Coverage
Single Coverage


Average Annual Health Insurance Premiums and Worker Contributions for Family Coverage, 2000-2015
$20,000
$15,000
$10,000
$5,000
$0
$6,438
$4,819
$1,619
$10,880
$8,167
$2,713
$13,770
$9,773
$3,997
$17,546
$12,591
$4,955
2000
2005
2010
2015
Worker Contribution
Employer Contribution


Average Annual Health Insurance Premiums and Worker Contributions for Single Coverage, 2000–2015
$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
$2,471
$2,134
$334
$4,023
$3,413
$610
$5,049
$4,150
$899
$6,250
$5,179
$1,071
2000
2005
2010
2015
Worker Contribution
Employer Contribution

Based on the information provided by the charts above, a church seeking to follow industry standards for health insurance cost sharing should seek to cover between 70 percent and 80 percent of an employee's health insurance premiums. During the compensation discussion, if the church chooses to assist the pastor with health insurance premiums, single pastors should ask the church to cover the single plan at a higher percentage or in full versus a family plan due to the large price disparity between the two premium amounts ($11,296).

The GuideStone Advantage:[15] "As of January 1, 2014, churches can no longer reimburse employees for individual medical policies on a tax-free basis. Because of GuideStone's unique structure as a church benefits board, all of GuideStone's medical plans — including both Personal and Group Plans — are considered 'group health plans' under the Affordable Care Act."[16] This classification is extremely important, as it gives GuideStone a distinct advantage versus other health insurance providers and has the potential to save pastors a substantial amount of money in income and SECA taxes. How does this work?

If you are a pastor and purchase an individual plan on the open market from a company like Blue Cross/Blue Shield, you pay that premium one of two ways: Your church could pay the premium or you could pay the premium with after-tax dollars. Unfortunately, in both cases you are taxed. If your church paid BCBS directly, the amount of the premiums would be included in your taxable income. If you paid directly, you can then deduct the premiums on your income taxes, but you will receive only a fraction back of what you have paid in. If you choose a GuideStone plan, your church could pay GuideStone directly and, because all plans with GuideStone are considered group plans, these benefits would not be taxable to you. If your church cannot afford to pay your premiums, but is paying you a salary, you could easily reduce your salary by the premium amount with the understanding that the reduction is to pay for your insurance. Such a decision could substantially reduce your tax burden, especially when family plans can run upwards of $17,000. The difference in taxation may cause a GuideStone plan, which was more expensive than another company's competing plan, to be cheaper due to its unique tax savings ability.

Not every church has the ability to cover an additional $17,000 in insurance premiums. For churches with less financial ability, the pastor should ask if the church would be willing to pay for the entire premium of a single person plan or for a percentage of a family plan. For pastors who still need a family plan, the pastor then applies these funds to the family plan and pays the

[15] Full disclosure: Neither I nor anyone in my immediate family works for GuideStone. My discussion of GuideStone's plan is based solely on the fact that it presents a unique opportunity for pastors which, to my knowledge, is not available with any other individual insurance company.
[16] GuideStone, *Compensation Planning Guide*, 9.

difference. While such a contribution will not offset the entire cost of a family plan, a substantial contribution should relieve some of the financial burden associated with individual family health plans. While health insurance garners the most attention as an employee benefit, churches and pastors should not neglect two other important coverage needs: life and disability insurance.

Life & Disability Insurance

Many companies provide some level of group life and group disability policies for their employees. While larger churches may have the staff numbers to make group policies financially viable, pastors at small and single-employee churches, who do not have this group benefit, must look at purchasing individual policies. These policies are necessary components of a pastor's financial plan as they will provide much-needed financial benefits in the event of death or disability. While some questions arise as to whether it is better to own group or individual policies, the big question with which you must first deal is how much insurance should be purchased in order to mitigate any potential liability in the event of its use.

How much life insurance is necessary?

While the value a pastor should purchase depends on family-specific information, there are three calculations he could use to determine the most appropriate death benefit for his situation.

- **Multiple of Income:** This is the easiest and most non-exact calculation. Here, an individual would take his gross income and multiply it by a number between seven and ten. Such an amount will probably not allow his family a lifetime of financial protection, but the policy benefits should allow the creation of a savings reserve from which living expenses for a period of seven to ten years could be withdrawn. Many planners suggest using the seven to ten multiplier as it represents the amount of years that are often needed for the surviving spouse to grieve, recover, and remarry.
    - **Example:** Assuming the pastor's gross income is $35,000, he would need a death benefit of between $245,000 (7x) and $350,000 (10x).
    - **Example:** Assuming all or a portion of a pastor's health insurance premiums are paid for by the church directly, he may want to increase his income by the cost of the policy's yearly premium. Assuming the church pays for the entire $17,546 yearly premium (2015 average cost of a family health insurance plan), a pastor may want to increase his benefit to account for a yearly income of $52,546 ($35,000 plus $17,546). Failing to do so would deplete the family's life insurance proceeds more quickly, as they would have to account for this health insurance premium expense.
- **Capital Needs Analysis:** This calculation is more advanced and focuses on an individual's monthly or yearly income needs. To determine the required death benefit, look at the amount required every month/year to cover the family's expenses. Then purchase a policy whose face value will spin off this amount in interest every year. You can use a calculation that will deplete the account after a set amount of time or carry on to perpetuity.

- **Example One:** Using the above COLA example of $25,000 in yearly expenses, that the life insurance benefits could be invested to yield a 5 percent yearly rate of return, and that the pastor wants to be sure there is $100,000 in the account at the end of year seven, the pastor would need to purchase a policy with a death benefit of $222,960, assuming withdrawals would be made immediately.

Year	Beginning Account Value	Annual Need	Ending Account Balance
1	$222,960	25,000	$207,858.00
2	$207,858.00	25,000	$192,000.90
3	$192,000.90	25,000	$175,350.95
4	$175,350.95	25,000	$157,868.49
5	$157,868.49	25,000	$139,511.92
6	$139,511.92	25,000	$120,237.51
7	$120,237.51	25,000	$99,999.39

  At the pastor's death, $222,960 would be placed into an account. Immediately, $25,000 would be withdrawn for the year's expenses and the remaining $197,960 would earn 5 percent for the year. This would continue for seven years. At the end of year seven, the account would be worth roughly $100,000.

- **Example Two:** Assuming the pastor doesn't mind the account being depleted by the end of year seven, a policy with a death benefit of $151,892 could be purchased.

Year	Beginning Account Value	Annual Need	Ending Account Balance
1	$151,892	25,000	$133,236.60
2	$133,236.60	25,000	$113,648.43
3	$113,648.43	25,000	$93,080.85
4	$93,080.85	25,000	$71,484.89
5	$71,484.89	25,000	$48,809.14
6	$48,809.14	25,000	$24,999.60
7	$24,999.60	25,000	($0.42)

- **Family Needs Analysis:** Takes into account the lump sum needs at death in addition to any ongoing income needs after death. The lump sum calculation takes into account not only final medical and burial costs but also seeks to fund debt repayment (mortgage, auto loan, and credit card debt) and personal goals (college savings goals) that may remain outstanding in the event of the pastor's death. Lump sum needs form one part of a two-part equation; they are then added to your new capital needs analysis used in the previous example.

- **Example:** Assume the pastor has debt repayment goals of $100,000, a college savings goal of $50,000 (two children at $25,000 per child), and medical and burial expenses of $15,000. This means at death, just to pay off these obligations, the pastor's family requires $165,000 at his death. In addition to these immediate obligations, the pastor also requires enough money in savings to take care of a certain amount of his family's expenses for a given period of time. Assume the pastor wants to fund an account that will allow for yearly withdrawals of $25,000 for the next ten years, after which the account will be depleted. Assume the withdrawal takes place at the beginning of every year and that the account earns 5 percent per year. In order to maintain this $25,000 per year income stream, the pastor requires a death benefit of $202,695 which will be invested. When added together, the pastor requires a life insurance benefit of $365,695. Upon his death, his family will have the funds to pay $165,000 toward their immediate obligations and goals, while taking the remaining $202,695 to invest, providing a future income stream.

Year	Beginning Account Value	Immediate need	Annual Need	Ending Account Balance
1	$367,695	$165,000	$25,000	$186,579.75
2	$186,579.75	$0	$25,000	$169,658.74
3	$169,658.74	$0	$25,000	$151,891.67
4	$151,891.67	$0	$25,000	$133,236.26
5	$133,236.26	$0	$25,000	$113,648.07
6	$113,648.07	$0	$25,000	$93,080.47
7	$93,080.47	$0	$25,000	$71,484.50
8	$71,484.50	$0	$25,000	$48,808.72
9	$48,808.72	$0	$25,000	$24,999.16
10	$24,999.16	$0	$25,000	($0.88)

Assuming the family's debts and savings goals are satisfied through the use of an immediate debt repayment, the pastor may require an income stream less than $25,000 per year, especially if debts such as a mortgage, student loan, or auto loans were paid in full. In such an event, the annual need would be reduced, thus requiring a smaller insurance policy.

While examining a pastor's life insurance needs, do not forget to insure the life of a spouse. If a spouse is employed full- or part-time, a pastor should be able to use the above methods to calculate the amount needed in death benefits. If a spouse stewards the home and family, they must determine the economic value of the services provided to the family unit.

Some points to consider:

- If the spouse is employed:
  - What is your spouse's gross income?
  - What is the value of any benefits (health or life insurance) received from the working spouse? How much would these benefits cost should the pastor have to source them from another provider?

- If the spouse stewards the home and family:
    - What are the tasks currently performed by your spouse in stewarding the home and family?
    - How would those tasks be completed if your spouse was unable to perform them going forward?
    - What would it cost to replace the tasks the pastor could not take on?
        - Ex: Home services (cleaning, laundry, etc.) may be outsourced for $15–$20/hour.
        - Ex: If a pastor has children, one duty of a stay-at-home spouse is child rearing. In the event this spouse is unable to carry out this task, the financial implication is large, as care for a one-year-old to a five-year-old child runs upwards of $200 per week or more depending on the pastor's location.

Too often the purchase of life insurance is delayed under the auspices of "it will never happen to me," or "I'll buy a policy when I'm 30 or 40." And yet, outlying events like car wrecks and cancer, which take husbands and wives away too early, occur on a daily basis, leaving behind families struggling to pick up the pieces. Adding life insurance to a pastor's financial plan will ensure his family has the financial capacity to weather those dark days.

How much disability insurance is necessary?

When attempting to calculate a pastor's disability insurance need, he must first ask two questions: Is my policy a group or individual policy? Who pays for my policy?

- **Group or Individual Policy:** Group and individual policies normally differ in how they determine their monthly benefit payout. Group disability insurance policies usually help an individual to recover a certain percentage of income, typically between 50 percent and 66 2/3 percent of his gross wages. Individual policies differ from group policies in that they normally have a stated dollar amount received monthly. If a pastor has access to both policies (one through work and one owned personally), he can aggregate the two, reducing the monthly benefit amount he needs from an individual policy.
- **Payment for Policy:** Who pays for the policy is important, as it determines if the benefits received are taxable or tax-free. If the church pays for the policy premiums as part of a pastor's compensation package, the proceeds received are included in his gross income and are taxed accordingly. If the pastor pays the policy premiums directly, the proceeds are received tax-free. For individual policies, churches may also choose to pay for the premiums directly and include those premium payments in the pastor's gross wage. In such cases benefits received should be tax-free.

When purchasing insurance policies, portability is very important, especially knowing the average tenure of a pastor in an SBC church is around three to four years. If a pastor is part of a church with a group life and a group disability policy, he needs to research whether these policies are portable in the event of his termination or resignation. While the Consolidated Omnibus Budget Reconciliation Act (COBRA) allows workers and their families who lose health benefits due to job loss the legal right to continue group health benefits provided by the group health plan for a set amount of time, there is no law in place that allows for a continuation of life or disability policies or assures these policies may be converted to individual policies. If a pastor’s policies are not portable after separation, he may want to opt for a more robust individual policy to ensure his coverage remains active in the event of his departure.

While every pastor should consider adding disability insurance to his financial plan, for pastors who have opted out of the Social Security program, disability insurance is extremely important, as they have no protection in the event of a disabling event. Pastors who do not participate in the Social Security or Medicare programs should discuss allocating a portion of their Social Security step-up to the purchase of a personal disability policy.

Continuing in our case study, assume that the pastor and church come to an agreement that the church will pay for a portion of the pastor’s family plan commensurate with the 2015 averages depicted above. In addition, the church agrees to contribute $1,100 toward the pastor’s life and disability policies. Such a decision provides immediate financial relief for the pastor versus his previous situation. Previously, the entire $17,546 health insurance premium and the full premium of the life and disability policy would be paid for by the pastor out of his net wages (after taxes and deductions); now the pastor would be responsible for roughly $5,000 of the premium payments for his health insurance and the difference between his premiums for life and disability and the church’s contribution. As a portion of the insurance premiums are absorbed by the church, the pastor’s compensation more closely mimics the total compensation employee composition discussed earlier.

Total Compensation Employee		
	Dollar Value	% of Compensation
Gross Wages	$35,000	70%
Benefits	$15,000	30%
Total Package Value	$50,000	100%

Pastor's Total Compensation Package		
	Dollar Value	% of Compensation
Gross Wages	$35,000	68%
Benefits		
Social Security	$3,161	6%
Health Insurance	$12,591	25%
Life Insurance	$550	1%
Disability Insurance	$550	1%
Total Package Value	$51,302	100%

Worksheets: Below are the worksheets that will assist the pastor in working through his insurance costs and needs. The Health Care Insurance Quote provides a space for the pastor to determine quote information for single and family policies. The Multiple of Income Table assists the pastor in quickly determining his life insurance needs based on the pastor’s income. The Immediate Needs and Goal Funding helps the pastor determine his outstanding debts and funding priorities, which may increase his required death benefit. Finally, Life & Disability Insurance Quotes allows the pastor to determine the cost of potential life and disability policies while comparing their benefits.

Health Care Insurance Quotes

	Policy	Type	Annual Premium
Ex: 1	Single Policy	Health	
Ex: 2	Family Policy	Health	Annual Premium

Multiple of Income Table

	Gross Wage	Church Covered Expenses	Total Yearly Need	Factor (7-10)	Dealth Benefit Required
Ex: 1	$35,000	$0	$35,000	8	$280,000
Ex: 2	$35,000	$17,546	$52,546	8	$420,368

Immediate Needs and Goal Funding

	Outstanding Debts / Final Expenses
Home:	
Auto One:	
Auto Two:	
Student Loan One:	
Student Loan Two:	
Credit Card One:	
Credit Card Two:	
Credit Card Three:	
Funeral Expenses:	
Total:	

	Goals
Goal One (________________)	
Goal Two (________________)	
Goal Three (________________)	
Total:	

Life & Disability Insurance Quotes

	Policy	Type	Face Value	Quote
Ex: 1	Life	20-year term	250,000	$700/ year
Ex: 2	Disability	until 65	$2,000 monthly benefit	$1,200 / year

Conclusion: Health, life, and disability insurance are no longer luxuries for the pastor to acquire as his financial situation improves, but they are necessities that provide financial protections in the event of their use. It is important for pastors and churches to work together to create a funding plan for these three important policies, knowing that in doing so they not only protect the pastor but also his family.

What could the church do?

In addition to providing a gross wage, churches should provide a set amount of benefit dollars, which are indexed annually for inflation. These benefit dollars are then used by the pastor toward the purchase of insurance or retirement benefits. Churches who employ a pastor who does not require health insurance due to spousal or other coverage means should also consider providing benefit dollars, which may be used toward life, disability, or long-term care insurance or toward a pastor's retirement plan.

Employer & Employee Retirement Contributions

The fourth point of discussion involves retirement plan contributions. Earlier this paper discussed the importance of the Social Security offset and how Social Security funds constitute one income stream of a pastor's retirement plan. A pastor's retirement income will also be bolstered by the income generated from his retirement accounts (403(b) and IRAs).[17] Here, churches and pastors may work together to jointly fund an account that seeks to help the pastor in his retirement years.

A recent Vanguard study of their managed 401(k) plans revealed two startling numbers regarding plan participants 65 and above: 1) the average account balance for this demographic was $208,158, while 2) the median account balance was $72,845.[18] While this seems to be a large retirement account balance, one must realize that these funds must last for the entire duration of an individual's retirement, perhaps as long as twenty (eighty-five years old) to thirty (ninety-five years old) years. The only way to achieve withdrawals lasting twenty to thirty years

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[17]Retirement contributions, when partnered with Social Security and personal savings, constitute what those in the retirement business call the three-legged stool. These three independent legs provide a firm foundation, giving retirees three different income streams and two different pots of assets (retirement and savings) by which to fund their retirement expenses.

[18]Martha King, "How America Saves 2015: A report on Vanguard 2014 defined contribution" (Valley Forge, PA: The Vanguard Group), 45. The large difference between the average and median account balances is telling. It suggests that in the upper band of retirement accounts there are numerous accounts with substantial account balances. These balances pull the average up, as the median is only $72,845. The Government Accountability Office (GAO) adds some additional context to the numbers put forth by Vanguard. According to their 2013 SCF, "52 percent of households age 55 and older have no retirement savings in a DC [defined contribution] plan or IRA, and Social Security provides most of the retirement income for about half of households age 65 and older. Among the 48 percent of households age 55 and older with some retirement savings, the median amount is approximately $109,000" (Government Accountability Office, "Retirement Security: Most Households Approaching Retirement Have Low Savings" (Washington D.C, The Government Accountability Office), 7).

is to reduce one's withdrawal rate to between 3 and 5 percent of the total account balance annually. If these were the balances of a pastor's account he would be able to withdraw between $6,244 and $10,408 from the average account and between $2,185 and $3,642 from the median account in today's dollars, while maintaining a high degree of certainty that the funds would last throughout the duration of his retirement. Unfortunately, even when added to a potential future Social Security benefit, his highest potential yearly income is still below $30,000 (pretax) in today's dollars.

Account Value:	**$208,158**		
	3%	4%	5%
Withdrawal	$6,245	$8,326	$10,408
Social Security	$17,160	$17,160	$17,160
Total	**$23,405**	**$25,486**	**$27,568**

Account Value:	**$72,845**		
	3%	4%	5%
Withdrawal	$2,185	$2,914	$3,642
Social Security	$17,160	$17,160	$17,160
Total	**$19,345**	**$20,074**	**$20,802**

The above income streams may appear to be sufficient, especially if the pastor is debt-free and healthy. However, should situations change, his long-term financial viability changes as well. What if tax rates have increased? What if our pastor is still carrying a mortgage or a car payment? What if medical problems force him or his spouse into a costly managed-care facility? These types of additional expenses could easily deplete an account balance of $208,000 or absorb all of the account's yearly income. To guard against insolvency in retirement, pastors need to add a well-funded tax-deferred retirement plan to their Social Security income. While the savings goal a pastor may need in his investment account before retiring varies based on spending needs and other expenses in retirement, it is entirely possible to save $600,000 to $1,000,000 in today's dollars, which could spin off a yearly income anywhere from $18,000 to $50,000 per year, depending on the chosen future withdrawal rate. While these numbers may seem unattainable, consistent contributions on the part of the pastor and the church, over the long term, assuming an average market return, should allow for this level of savings at retirement.

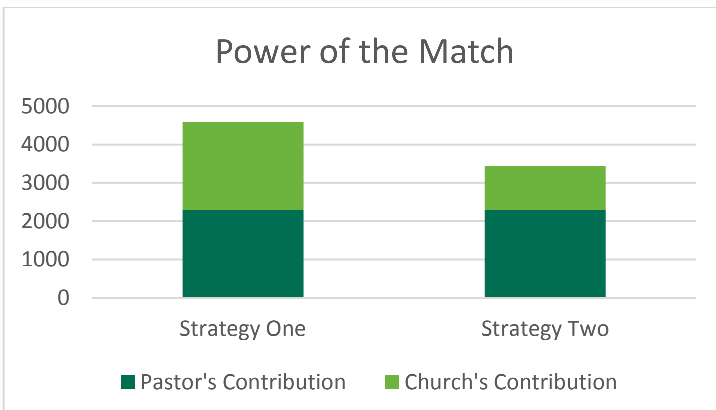
Funding Retirement Is a Team Effort

While not every church is on the same level financially, every church should be contributing in some way to their pastor's retirement.[19] Yet, pastors should not depend entirely on the church for their retirement; pastors too should be responsible for making systematic contributions to their retirement account. This makes retirement planning a partnership. While many retirement plans in the church are structured as fixed contribution plans (as GuideStone suggests), churches and pastors may benefit by constructing a retirement plan that encourages both parties to contribute. The easiest way to encourage employee contributions is to create an employer match option, or a matching plan.

[19]GuideStone recommends employers contribute 10 percent of an employee's salary to an employee's 403(b) account. GuideStone Retirement Plans, *Compensation Planning Guide* (Dallas, GuideStone), 10. The calculations included in this presentation use church contribution rates of 3 percent, 5 percent, and 10 percent of salary. A detailed breakdown of this information may be found in the appendix.

With a matching plan, employers agree to match a certain percentage of an employee's contribution, up to a certain contribution percentage or amount. In its recent "2015 Trends & Experience in Defined Contribution Plans," Aon Hewitt reveals that the most popular matching formula is dollar-for-dollar and that the majority of plans surveyed "require workers to save 6% or more in order to receive the full employer matching contribution."[20] In other words, for every dollar an employee adds to his retirement account, his employer adds one dollar up to 6 percent of an employee's gross income. The second most prevalent matching formula for employer-sponsored retirement plans is fifty cents on the dollar up to 6 percent. Here for every dollar an employee adds to his retirement account, his employer adds fifty cents up to 6 percent of an employee's gross income. A benefit of the matching plan occurs when employees contribute. Assuming the employee contributes the maximum needed for an employer match, the employee receives another 6 percent or 3 percent, which is the equivalent to 100 percent or 50 percent return on the employee's contributions before these funds are even invested.

Continuing the example from earlier, assume the pastor with a starting salary of $38,161 (adjusted for a Social Security offset) has the ability to enroll in either one of these two plans. The savings results for year one are depicted in the graph below.



The graph above depicts two different savings strategies. Strategy One assumes the pastor receives a dollar-for-dollar match up to 6 percent of his gross income. This strategy requires a contribution from the pastor and church of $2,289.66 each, resulting in a total retirement contribution for year one of $4,579.32. Strategy Two assumes the pastor receives a match of fifty cents on every dollar up to 6 percent of his gross income. This strategy requires a contribution from the pastor of $2,289.66 and a contribution from the church of $1,144.83, resulting in a total retirement contribution for year one of $3,434.49. Assuming these funds are invested, return an annual rate of return of 8 percent, and grow for forty-two years (age sixty-seven), these contributions will grow to $116,037.60 and $87,028.20 respectively.

Now that the reader understands the amount of money that may be saved toward retirement, should pastor and church work together, let's extrapolate this savings strategy over an entire career to see the long-term impact of saving and how this savings strategy assists the pastor to

[20]Aon Hewitt, "2015 Trends & Experience in Defined Contribution Plans: Executive Summary" (Lincoln Shire, IL: Aon Retirement), 2.

create a powerful second income stream at retirement. Based on the aforementioned retirement plan best practices, this report constructed potential ending account balances based on the following contribution rates:

- A 6 percent employee, 3 percent employer match
- A 5 percent employee, 5 percent employer match
- A 5 percent employee, 5 percent employer match, and 5 percent employer contribution

The results of employer-employee contribution programs are significant and are displayed below.[21] Assuming a church uses a plan similar to the ones depicted above, that the funds receive an 8 percent annual rate of return, and that these contributions continue for forty-two years, the chart below demonstrates that the value of these accounts at retirement should provide ample resources for a comfortable retirement.[22]

Plan Type	Value in 42 Years	Value in Today's Dollars
6%-3%	$1,424,495.87	$620,088.93
5%-5%	$1,582,773.19	$688,987.70
5%-5%-5%	$2,374,159.79	$1,033,481.56

While the values depicted above are significant, pastors must remember that inflation (as we discussed earlier) constantly raises the cost of living by eroding one’s purchasing power. To fully understand how these contributions and their long-term growth allow for a more stable retirement, pastors need to examine the future account value in today’s dollars.[23] Assuming a 2 percent discount rate (inflation adjustment), the account’s value in today’s dollars is $620,088, $688,978, and $1,033,481 for the 6-3, 5-5, and the 5-5-5 plans respectively.[24] Naturally, the higher the contribution percentage, the larger a pastor’s retirement balance assuming all other variables remain constant.

Account Value:		**$620,088**				**$688,987**				**$1,033,481**	
	3%	4%	5%		3%	4%	5%		3%	4%	5%
Withdrawal	$18,603	$24,804	$31,004		$20,670	$27,559	$34,449		$31,004	$41,339	$51,674
Social Security	$17,160	$17,160	$17,160		$17,160	$17,160	$17,160		$17,160	$17,160	$17,160
Total	**$35,763**	**$41,964**	**$48,164**		**$37,830**	**$44,719**	**$51,609**		**$48,164**	**$58,499**	**$68,834**

[21]Like the Social Security calculation, this paper used a starting salary of $35,000, with a 2 percent COLA per year and a Social Security offset for forty-two years. For simplicity, it is assumed that contributions are made yearly and that the rate of return is 8 percent per year.

[22]For a detailed breakdown of how these numbers were attained, please see the appendix.

[23]Discounted the future value for forty-two years at a rate of 2 percent per year.

[24]Of the 48 percent of households with an age range of sixty-five to seventy-four years of age that do have some retirement savings, about 20 percent of households have a retirement account balance of more than $500,000. When taking into account all households (savers and non-savers) age sixty-five to seventy-four years of age, the 75th percentile amount is between $306,096 and $482,304, and the 90th percentile amount is between $885,356 and $1,339,444” (GAO, Retirement Security, 12). Such retirement account values (in today’s dollars) would put the owners in the top 25 percent of retirement accounts according to the GAO’s *Retirement Security Report*.

Assuming a 3 percent, a 4 percent, or a 5 percent withdrawal rate, when paired with the projected yearly Social Security income of $17,160, all three accounts, regardless of withdrawal rate, assure that the pastor's income will exceed $35,000; this is well above the $16,020 poverty threshold for a family of two in 2016. Top withdrawal rates of 5 percent will yield a yearly income of around $50,000 for the 6%-3% account and up to almost $70,000 for the 5%-5%-5% account when added to the Social Security benefit.

Continuing the case study, assume that the pastor and church come to an agreement that the church will institute a 5-5-5 plan for the pastor's 403(b) account. This will result in the church making two different contributions: a $1,908 contribution accounting for 5 percent of the pastor's gross wage and a $1,908 matching contribution, provided that the pastor also contributes 5 percent toward his 403(b) account.

Total Compensation Employee		
	Dollar Value	% of Compensation
Gross Wages	$35,000	70%
Benefits	$15,000	30%
Total Package Value	$50,000	100%

Pastor's Total Compensation Package		
	Dollar Value	% of Compensation
Gross Wages	$35,000	63%
Benefits		
Social Security	$3,161	6%
Health Insurance	$12,591	23%
Life Insurance	$550	1%
Disability Insurance	$550	1%
403(b) Contribution	$1,908	3%
403 (b) Match	$1,908	3%
Total Package Value	$55,668	100%

Additional Church Retirement Contribution Thoughts

The previous section discussed the more basic retirement plan contribution structures. In addition to these structures, pastors should discuss additional contribution strategies based on more specific circumstances. Additional contributions could be made to compensate pastors for the use of a parsonage or as a reward for a pastor's longevity. Contributions from the Social Security offset may also be used to provide much-needed retirement contributions for those pastors who have opted out of this program.

Parsonage Offset: For many Americans, their homes are the single largest investment that they will ever make, and its appreciation during their lifetime provides an additional asset, which may be liquidated or tapped for additional income during retirement. Unfortunately, for pastors who have a parsonage, they do not receive the financial benefit of an appreciating home value. To compensate for this potential loss, churches could choose to make an additional contribution to the pastor's 403(b) in order to compensate him for this lost opportunity. Determining the yearly contribution amount could be as simple as an additional 3 to 5 percent of gross wages or something more complex. The church could make contributions based on the median home price appreciation in the area. For example, the median home price in the area is $150,000 and prices appreciated 3 percent in 2016. The church could choose to make an offset contribution of $4,500 to the pastor's 403(b) account.

Longevity Contributions: While employer contributions provide a great benefit to employees, they can also provide a way for churches to reward longevity and maintain consistency among their pastoral staff. This could be accomplished by giving an employer retirement contribution based on the number of years served. A church could contribute a certain percentage of income for each year served. For example, Church XYZ could choose to contribute 2 percent of a pastor's gross wage for every one year served, up to a given maximum percentage, in addition to or in lieu of a contribution-based matching program.

Social Security Offset: As discussed previously, many pastors have chosen to opt out of the Social Security & Medicare programs, leaving them without numerous benefits in retirement. For these pastors it is imperative that they contribute funds toward their retirement account. A pastor could take all or a portion of the Social Security offset and contribute these funds to his 403(b) account. This would allow for an additional contribution in addition to the pastor's contribution, an employer match, or an employer set contribution.

The Problem of Postponing Retirement Contributions

It is common for pastors to forgo retirement contributions in the early years of their career, especially if such a decision would make life easier financially. This is usually justified by believing finances will improve in a few years and that today's financial need is more important than planning for a retirement event forty years in the future. Moreover, pastors are under the false assumption that they can make up for lost time by contributing additional funds toward retirement in future years. While these justifications seem legitimate, the ramifications for these choices are costly, when saving time is a pastor's greatest ally. Below is a chart that puts the previous statement into perspective. It depicts the amount in today's dollars and the potential income that a pastor sacrifices by delaying retirement contributions during the first five years of his career.

6%-3% Retirement Contribution						
	Missed Contributions	Loss in Future Dollars	Loss in Today's Dollars	3%	4%	5%
One Year	$3,434.50	$87,028.56	$37,883.89	$1,136.52	$1,515.36	$1,894.19
Two Years	$6,937.70	$169,222.19	$73,663.12	$2,209.89	$2,946.52	$3,683.16
Three Years	$10,510.96	$246,849.51	$107,454.61	$3,223.64	$4,298.18	$5,372.73
Four Years	$14,155.68	$320,164.21	$139,368.80	$4,181.06	$5,574.75	$6,968.44
Five Years	$17,873.30	$389,405.86	$169,509.98	$5,085.30	$6,780.40	$8,475.50

5%-5% or 5%-5%-5% Retirement Contribution						
	Missed Contributions	Loss in Future Dollars	Loss in Today's Dollars	3%	4%	5%
One Year	$3,816.12	$96,698.39	$42,093.21	$1,262.80	$1,683.73	$2,104.66
Two Years	$7,708.55	$188,024.66	$81,847.91	$2,455.44	$3,273.92	$4,092.40
Three Years	$11,678.84	$274,277.24	$119,394.01	$3,581.82	$4,775.76	$5,969.70
Four Years	$15,728.53	$355,738.01	$154,854.22	$4,645.63	$6,194.17	$7,742.71
Five Years	$19,859.22	$432,673.18	$188,344.42	$5,650.33	$7,533.78	$9,417.22

While a one-year delay will not drastically reduce a pastor's retirement income, the longer he delays saving toward retirement, the smaller the future value of his retirement account. For pastors who delay a mere five years out of a forty-two-year period, their final account balance will be over 27 percent lower in the 6%-3% and 5%-5% scenario, leading to a 27 percent reduction in the yearly income one could withdraw from the account.[25] The reason for the reduction is that the pastor not only loses the contributions that he and his church make but also he sacrifices the returns those contributions may earn over time. Over the long run, this pastor should earn far more than what was ever contributed to his accounts. The reason for this lies in the power of compound interest. Instead of working against you, as was the case with inflation and inflation's erosion of a pastor's purchasing power, now the pastor is the beneficiary of the tax-free compounded growth within the 403(b) account. While $3,400 or $3,800 does not look like a large financial sacrifice today, when these values are compounded year after year with a rate of return of 8 percent, forgoing today's contributions results in a sacrifice anywhere between $390,000 and $430,000 in future dollars.

Worksheets: The worksheet below will assist the pastor in determining what changes may be made to his current retirement contributions, either through his contributions or the church's.

Example: Pastor with a $36,000 Gross Wage			
	Contribution %	Dollar Value Pastor	Dollar Value Church
Pastor's Contribution	5%	$1,750	-
Church's Match	5%	-	$1,750
Church's Contribution	0%	-	$0
Church's Social Security Off-set	5%	-	$1,750
Church's Parsonage Off-set	3%	-	$1,050
Total:		$1,750	$4,550

Pastor: $________________ Gross Wage			
	Contribution %	Dollar Value Pastor	Dollar Value Church
Pastor's Contribution			
Church's Match			
Church's Contribution			
Church's Social Security Off-set			
Church's Parsonage Off-set			
Total:			

Conclusion: Retirement contributions are an important part of the compensation package, and many pastors do not realize the contribution's true value until twenty or thirty years later. Pastors and their churches are partners in funding these retirement accounts. By creating a plan that focuses on long-term systematic payments from the employer and employee and that seeks to maintain normal market returns, this partnership creates a retirement account that may afford the

[25] The 5%-5%-5% retirement contribution plan will lead to a higher account value and therefore a higher potential withdrawal amount versus the 6%-3% and the 5%-5% because the 5%-5%-5% account has a 5 percent fixed employer contribution, which is not tied to a match.

pastor financial stability in retirement and should provide another income stream that may be partnered with Social Security.

What could the church do?

Churches need to work with their pastor to create a 403(b) retirement account, whereby the church and the pastor may make contributions. 403(b) accounts allow for a substantially higher contribution limit than an IRA. The 2017 annual limit for 403(b) accounts is $54,000, $18,000 of which may come from the pastor's compensation. An IRA has a contribution limit of $5,500, but this account may not receive contributions from anyone but the owner. This means that the church cannot contribute to the account on behalf of the pastor, and valuable tax benefits may be lost.

The Reality of the Bi-vocational Pastor

For many pastors reading this paper, it has become evident that the financial state of the church in which you serve precludes it from providing some or all of the aforementioned benefits. That is okay, as not all churches have the financial capacity to do so. The benefits (COLA, Social Security offset, insurance, and retirement contributions) discussed in this paper are vital to a pastor's short-term and long-term security, so if any or all of the benefits discussed are not available at a pastor's church, then he needs to find these benefits elsewhere, even if it must come through another place of employment. The author does not advocate finding another church who can afford such benefits or leaving the ministry and moving to secular employment. Rather, I am suggesting that the pastor and church work together to realize the weaknesses of the pastor's compensation package and to develop a plan which will allow the pastor to continue his service to the local church, while providing the opportunity for the pastor to seek additional employment opportunities that will fill in the gaps produced by the church's plan. This creates a bi-vocational employment structure.

When approaching the possibility of bi-vocational employment, it is important for the church and pastor to understand that dual employment is necessary if the pastor is to fulfill his God-given obligation to care for his and his family's needs and his shepherding responsibility to the church to whom he is called. The sections above will assist the church and the pastor in making that determination by demonstrating the ability or inability of the church to provide a wage and benefits package that allows for short- and long-term financial viability. Once the church and pastor realize that the current package is insufficient, they may then work together to maximize the current offerings, realizing that the pastor will require a full- or part-time position elsewhere to supplement any shortcomings. What follows are two suggestions for the pastor and church in the structuring of a bi-vocational package.

Full-time Employment with Benefits

It is not uncommon for bi-vocational pastors to find full-time employment with benefits, particularly within local government or public education. In this scenario, the pastor's full-time position allows for him to participate in Social Security and Medicare as well as receive insurance benefits. When benefits are covered by the full-time employer, the pastor could look to maximize his housing allowance, retirement contributions, and life and disability insurance add-ons.

Assume the structure of both employment packages is the following:

Pastor's Compensation		
	Dollar Value	% of Compensation
Gross Wages	$35,000	100%
Benefits	$0	0%
Total Package Value	$35,000	100%

Pastor's Full-Time w/ Benefits Total Compensation		
	Dollar Value	% of Compensation
Gross Wages	$40,000	70%
Benefits	$17,000	30%
Total Package Value	$57,000	100%

Should the pastor choose to take the full $35,000 as income he would pay federal and state income taxes as well as Social Security and Medicare taxes on the full amount. By working with the church to restructure his compensation package, the pastor can substantially reduce his tax burden on the ministerial side.

First, let's assume that the pastor first looks to maximize his housing allowance and that the lesser of the three amounts allowed for exclusion comes to $1,500 per month or $18,000 per year.[26] The pastor would still pay Social Security and Medicare taxes (roughly $2,754) on the $18,000, but allocating this amount toward the housing allowance would reduce the pastor's federal tax liability by the amount of federal income taxes the $18,000 in income would require from the government. Second, let us assume that the pastor would like to make retirement contributions a priority and that the church has set up a 403(b) retirement plan. In 2017 the maximum an employer may contribute to a 403(b) plan is $36,000; employees may contribute an additional $18,000. While the pastor's compensation (now $17,000) does not allow for the full $54,000 to be allocated toward retirement, he could allocate $12,000 toward retirement. To make the benefit even more favorable the pastor could ask the church to take the $12,000 from his "compensation" and ask the church to use those funds as the employer contribution. Finally, he could allow the remaining $5,000 to be considered gross income, subject to federal and state income taxes as well as Social Security and Medicare taxes. In addition to paying for its own taxes, this $5,000 will pay for Social Security and Medicare taxes associated with the housing

[26]The federal government allows ministers who own their homes to exclude the lowest of three different calculations from their income for federal income tax purposes: the housing allowance designated by their church, actual housing expenses, or the fair rental value of the home.

allowance. This allocation of resources helps to maximize both packages while prioritizing housing and retirement.

Pastor's Compensation		
	Dollar Value	% of Compensation
Gross Wages	$5,000	14%
Benefits		
Housing Allowance	$18,000	51%
403(b) Contribution	$12,000	34%
Total Package Value	$35,000	100%

Pastor's Full-Time w/ Benefits Total Compensation		
	Dollar Value	% of Compensation
Gross Wages	$40,000	70%
Benefits	$17,000	30%
Total Package Value	$57,000	100%

Full-time or Part-time Employment Without Benefits

When structuring a bi-vocational package the pastor must realize that health insurance and retirement benefits may not be attainable, even with full-time employment. In the event that the pastor finds employment, but that this employment does not afford him health insurance or retirement benefits, the pastor should look to use his ministerial compensation to prioritize the acquisition of these benefits.

Assume the structure of both employment packages is as follows:

Pastor's Compensation		
	Dollar Value	% of Compensation
Gross Wages	$35,000	100%
Benefits	$0	0%
Total Package Value	$35,000	100%

Pastor's Part-Time Position		
	Dollar Value	% of Compensation
Gross Wages	$20,000	100%
Benefits	$0	0%
Total Package Value	$20,000	100%

In this scenario, the pastor’s part-time position provides income of $20,000, but does not provide any benefits, while his ministerial compensation provides a package totaling $35,000, which may be used however the pastor chooses. A key priority is the acquisition of health insurance. Thereafter, he must focus on utilizing his housing allowance. Assuming that he is married and a family policy has a yearly premium of $17,546, the pastor must decide between two funding scenarios.

Scenario One:

In Scenario One the pastor works with GuideStone, and the church pays the insurance premiums directly to GuideStone. Choosing GuideStone should save the pastor 15.3 percent in Social Security and Medicare taxes on the policy’s premium, plus state and federal income taxes on the premium amount since the policy will not be included in the pastor’s income for federal or state tax calculations. Allocating $17,546 toward health insurance leaves the remaining $17,454 available for use toward housing allowance. The pastor would fund the remainder of his living expenses, retirement contributions, and life and disability insurance through the income generated from his part-time employment.

Pastor's Compensation (Scenario One)		
	Dollar Value	% of Compensation
Gross Wages	$0	0%
Benefits		
Health Insurance	$17,546	50%
Housing Allowance	$17,454	50%
Total Package Value	$35,000	100%

Pastor's Part-Time Position		
	Dollar Value	% of Compensation
Gross Wages	$20,000	100%
Benefits	$0	0%
Total Package Value	$20,000	100%

Scenario Two:

In Scenario Two the pastor chooses another insurance company and pays the premiums to the provider directly. Here, the pastor could go one of two routes. First, if he is not averse to receiving government subsidies or assistance for health insurance, he could use the ministerial housing allowance and structure his retirement contributions to come from his employer to drastically reduce his gross wages to the point where his family would qualify for a substantial government subsidy and possibly CHIP or Medicaid coverage for children under nineteen.[27] This particular scenario was the impetus for why the Affordable Care Act was created. The pastor has gross wages totaling $55,000. A health insurance policy totaling $17,546 would account for 32 percent of his gross wage, leaving very little for taxes and living expenses.

Pastor's Compensation (Scenario One)		
	Dollar Value	% of Compensation
Gross Wages	$0	0%
Benefits		
Housing Allowance	$18,000	51%
403(b) Contributions	$17,000	49%
Total Package Value	$35,000	100%

Pastor's Compensation (Scenario Two B)		
	Dollar Value	% of Compensation
Gross Wages	$0	0%
Gross Wages (Health Care)	$17,000	49%
Benefits		
Housing Allowance	$18,000	51%
Total Package Value	$35,000	100%

Pastor's Part-Time Position		
	Dollar Value	% of Compensation
Gross Wages	$20,000	100%
Benefits	$0	0%
Total Package Value	$20,000	100%

Second, if the pastor is averse to government assistance, he could choose to pay the health insurance premiums with either his ministerial wages, his part-time wages, or a combination of

[27]According to the Kaiser Family Foundation's Health Insurance Marketplace Calculator, a family of four (U.S. Average) with a yearly household income of $55,000 with no insurance coverage from outside employment and two non-tobacco-using parents and two children under 20 would qualify for a credit of $586 per month or $7,033 per year in a silver plan. The family's cost would be $337 per month, or $4,041 per year. If the family's yearly household income dropped to $35,000 the subsidy increases to $815 per month or $9,779 per year, while the family's cost drops to $108 per month or $1,295 per year. At a $25,000 yearly household income the subsidy increases to $880 per month or $10,564 per year, leaving only $43 per month or $510 per year as the family's responsibility.

the two as the remaining funds after his housing allowance will be allocated to living expenses. Such a substantial amount of his gross wages allocated toward health insurance premiums leaves very little left for retirement savings or life and disability insurance policies.

Worksheets:

Full-time Employment with Benefits

Pastor's Ministerial Compensation		
	Dollar Value	% of Compensation
Gross Wages		
Benefits		
Social Security		
Health Insurance		
Life Insurance		
Disability Insurance		
403(b) Contribution		
403 (b) Match		
Total Package Value		

Pastor's Full-time Employment With Benefits		
	Dollar Value	% of Compensation
Gross Wages		
Benefits		
Social Security		
Health Insurance		
Life Insurance		
Disability Insurance		
Retirement Contribution		
Total Package Value		

Full-time or Part-time Employment Without Benefits

Pastor's Ministerial Compensation		
	Dollar Value	% of Compensation
Gross Wages		
Benefits		
Social Security		
Health Insurance		
Life Insurance		
Disability Insurance		
403(b) Contribution		
403 (b) Match		
Total Package Value		

Pastor's Full-time or Part-time Employment without Benefits		
	Dollar Value	% of Compensation
Gross Wages		
Benefits	$0	
Total Package Value		

Conclusion: Many pastors choose a bi-vocational lifestyle as the churches to which they are called for ministry do not have the financial capacity to provide a total compensation package that cares for the pastors' total monetary and total benefit needs. Despite the church's inability to provide in total for the pastor's financial need, churches can be great partners as they work with the pastor to structure his compensation package in the most beneficial way, taking into account the income and benefit options provided by the pastor's other employment position(s).

Future Implications When Shifting to a Total Compensation Paradigm

A Reduction in Pastor Turnover: Whether denominations are willing to admit it or not, pastors often leave one church for another for the same reasons that those in the private or public sector do: a better opportunity or a better compensation package. How else can one explain the average tenure for a pastor in an SBC church hovering around three years? While there is nothing that can be done in the case of a better opportunity, for many pastors, moves between churches of similar size and location are influenced by the benefit packages offered. As this paper has demonstrated, if the pastor has to pay for many of the aforementioned benefits out of his own pocket, the funds available for living are drastically decreased. If the benefits part of the equation is improved, or if churches realized that their pastor should be bi-vocational and encouraged him to pursue additional employment options, I believe the average tenure of pastors in small to medium-sized churches would improve.

Increase in Church Morale: I thought about placing this under the previous heading, but I chose to give it its own point, because turnover impacts more than the pastor; it also impacts the church body. A wise professor once told me that it takes four to five years before a congregation and community will really trust you enough to call you their pastor and submit to your leadership. The longer a pastor's tenure, the more he becomes a part of the congregation and a part of the community. Constant pastoral turnover leaves congregations guarded and unable to fully embrace the pastor God has placed to shepherd them.

Increase in Pastor Morale: I have heard the statement that your passion and vigor should be found in Jesus Christ and His gospel. I agree wholeheartedly with this statement. At the same time, there is something to be said for receiving an honest day's pay for an honest day's work and knowing that your flock is willing to sacrifice for you, just as you are willing to sacrifice for them. Most pastors are not looking to live a lifestyle different from their congregations, but like the individuals who occupy the pews, they want to be able to pay their bills on time, to go to the doctor when necessary, and to retire with dignity.

Retiring with Dignity: As I mentioned earlier, we currently are seeing the ramifications of an entire generation of pastors who failed to save adequately for retirement while also opting out of the Social Security program. As this paper demonstrates, if churches come alongside pastors and assist with a COLA, with a Social Security offset, and with retirement contributions, retirement does not have to be a time of angst. Such contributions will allow the next generation of pastors to have both income (Social Security & retirement income) and medical coverage (Medicare & supplemental insurance programs) when it is time to retire from full-time vocational ministry.

Leaving a Financial Legacy: When pastors remain in the Social Security program and begin saving for retirement in their 20s, time and the power of compound interest become huge allies. Even with modest contributions from employer and employee, the pastor who starts early has the opportunity to accrue substantial assets ready to carry him through retirement. Should those assets outlast the pastor and his spouse, a lasting financial legacy may be left to heirs and charities.

If Applicable, Realize You Are a Bi-vocational Pastor/Church: There are many churches whose pastors work full-time hours for part-time compensation. It is time for churches to realize that if they are unable to pay for the key benefits, which our current economic environment requires, they need to give their pastor the opportunity to provide for his family's needs through additional employment. Here, churches could be great partners, providing health insurance benefits, retirement contributions, and a housing allowance, while allowing their pastor to find gainful employment that provides additional income for his living expenses.

Staff Reductions: Churches with multiple staff members, who choose to raise their total compensation packages, may have to pay for this increased expense by cutting positions or by reducing full-time positions to part-time. While unfortunate for those affected, position changes and position cuts provide a great opportunity for the laity to increase their involvement in the gospel ministry of the local church.

Conclusion

This paper attempted to distill some of the most important concepts from a personal finance class that I have taught to Bible college students into a pastoral compensation primer with the intent of equipping pastors to advocate for themselves in areas of total compensation. This paper focused on four key areas. First, it educated the pastor on the most important components of the total compensation package after gross wages. These included the COLA, the Social Security step-up, insurance benefits, and retirement contributions. Second, it presented an ongoing case study that demonstrated the short- and long-term financial impact pastors would receive should the church add additional components to their compensation package. Third, it speaks to the reality of the bi-vocational pastor. For far too long, many pastors have been employed with full-time hours and compensated as a part-time employee. Churches need to realize if they are deficient in their current compensation model and must be willing to aggregate benefits or compensation to maximize a pastor's additional employment opportunities. Fourth, it discussed the future implications pastors, churches, and the laity may face as they shift to a total compensation model, providing talking points for moving along the conversation on pastoral compensation and the bi-vocational pastor's financial needs.

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