**Call Package Guidelines**

**& Planning Guide**

**As recommended by PCA Retirement & Benefits, Inc.**

## PCA Retirement & Benefits, Inc.’s Vision & Mission

**Our Vision**

To glorify God by helping our ministry partners achieve financial security.

**Our Mission**

PCA Retirement & Benefits, Inc. is committed to serve the Lord and His Church by providing financial direction and ministries of encouragement and support. As a member of God’s covenant family, PCA Retirement & Benefits, Inc. will deliver its services through a trusted and confidential relationship. We will provide professional expertise and competitive products designed to meet the retirement, insurance and ministerial relief needs of our Church family.

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**PREFACE**

The PCA Recommended Call Package Guidelines were developed by PCA Retirement & Benefits, Inc., an agency of the Presbyterian Church in America, in consultation with the Office of the Stated Clerk/ Administrative Committee of the Presbyterian Church in America. These guidelines were designed to provide accurate and authoritative information on ministers’ compensation packages. However, the guidelines are not mandatory, but are highly advisable for churches and presbyteries to use for the financial security of ministers.

This Call Package Guidelines and Planning Guide is provided to you with the understanding that neither the Presbyterian Church in America, nor any of its agencies or committees are engaged in rendering legal or accounting services. If expert assistance is needed, the services of a competent professional should be sought.

Resources recommended for use with these guidelines are:

Church and Clergy Tax Guide

By Richard R. Hammar, J.D., LL.M., CPA

Christian Ministry Resources

[www.yourchurchresources.com](http://www.yourchurchresources.com)

Zondervan Minister's Tax and Financial Guide

By Dan Busby, CPA

Zondervan

[www.zondervan.com](http://www.zondervan.com)

Worth's Income Tax Guide for Ministers

By B.J. Worth, EA, ATA, CTP

[www.worthfinancial.com](http://www.worthfinancial.com)

PCA Church and Clergy Tax Guide

By Richard R. Hammar, J.D., LL.M., CPA

[www.pcarbi.org](http://www.pcarbi.org)

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[www.pcarbi.org](http://www.pcarbi.org)**INTRODUCTION OF THE PCA RECOMMENDED CALL PACKAGE GUIDELINES**

1. **INTRODUCTION**
2. **What is a Call Package** – In its simplest terms, a Call Package is a minister’s compensation package. We refer to it as a *Call Package* because that is the term used by our Book of Church Order (e.g. BCO 20-6). A “call” is more than the internal call by the Holy Spirit to the minister, it is also a church or other organization acceptable to a presbytery requesting a Teaching Elder to exercise his ministry on a regular basis.
3. **The Purpose of this Document** – A 2010 survey of PCA Teaching Elders revealed that a significant majority of ordained ministers in the PCA desire more assistance in structuring their compensation packages. The survey, commissioned by PCA Retirement & Benefits, Inc. (RBI) and conducted by PriceWaterhouseCoopers, did not address the issue of compensation for pastors and this booklet will not suggest appropriate compensation levels for pastors. That, of course, is a responsibility of PCA churches and Presbyteries. Instead, this booklet will attempt to provide best practice guidance regarding the content and structure of ministerial call packages for ordained clergy. It is our hope that this document will be a valuable reference for churches, Sessions, Presbyteries and PCA related organizations. In writing this booklet, every attempt has been made to create broad-based support by inviting compensation experts from every Presbytery to participate in creating this booklet. We pray that God would use this valuable resource for the edification of His church and the propagation of the Gospel.

Those who have had a role in the development of this project are keenly aware that a discussion of clergy compensation structure will not be without controversy. We understand there are circumstances where a man may feel called by God to serve a church that is unable to provide elements of compensation customary for similar positions. It is not our intention to pass judgment on such circumstances. We would, however, strongly assert that typically every effort should be made to adequately compensate a minister of the gospel for his work. The balance in forming a proper compensation structure is set forth in Paul’s encouragement to his brother Timothy.

*“Let the elders who rule well be considered worthy of double honor, especially those who labor in preaching and teaching.  For the Scripture says, ‘You shall not muzzle an ox when it treads out the grain,’ and, ‘The laborer deserves his wages.’”* I Timothy 5:17, 18

*“If anyone aspires to the office of overseer, he desires a noble task.  Therefore an overseer must be above reproach, the husband of one wife,  sober-minded, self-controlled, respectable, hospitable, able to teach,  not a drunkard, not violent but gentle, not quarrelsome, not a lover of money.”*  I Timothy 3:1b-3

The above scriptures clearly make the point that a pastor should receive just and reasonable compensation for his work in the church. Thus, our hope is that this document will describe the appropriate components of clergy compensation which all churches should consider as an expression of love for their shepherd.

1. **RBI’s Role** - RBI is a denominational agency of the PCA, and our ministry since its inception has been one of support to the PCA churches, church related organizations, and PCA church servants. We assist over 1,600 PCA churches and church related organizations by providing cost effective employee benefits plans which include a 403(b) Retirement Plan as well as Term Life, Long Term Disability, Vision, Dental and Long Term Care Insurance Plans. Our supervision of these plans helps reduce the burden on our ministry partners. We perform the research, evaluation, and oversight on all of our benefit plans.

We regularly work with a number of industry experts who advise and inform us of new rules and regulations that affect our ministers and churches. RBI also belongs to a church association that studies, advocates for, and disseminates information about church employee benefit programs. In short, we do the heavy lifting so churches can put more of their precious resources towards the ministry of the gospel.

RBI also has a deep commitment to our ministers and their families. These men have answered the Lord’s call to lead, shepherd, oversee, and care for PCA church families, often accepting calls with little regard to salary or benefits. We feel it is our duty to help these men by providing financial guidance. We recognize that simply offering benefit plans to our pastors doesn’t necessarily translate into financial security.  We hope our recent expansion of RBI services will assist ministers in properly assessing and planning their family’s financial future.

Another ministry close to our hearts is the Relief Ministry. Through this ministry, we have the privilege and responsibility of assisting our retired and disabled ministers and their widows in times of financial need through the Ministerial Relief Fund. In 38 years of Ministerial Relief experience we have seen the devastation that disability or death brings upon a minister and his family. We are ministering monthly to elderly widows who have outlived their retirement savings and are no longer able to afford the basic necessities of life on their own. We understand the circumstances that put our PCA ministers and their families at risk of catastrophic loss, and we are thankful for the Lord’s provisions.

We delight in our role as a partner in the gospel and as an advocate for our PCA churches and pastors. It is our hope and prayer that the PCA Call Package Guidelines will assist our churches in developing a stronger partnership with their ministers and help to establish a firm financial footing for our ministers and their families. These guidelines are offered to assist our PCA ministers and the churches they serve in structuring call packages that better manage these risks through appropriate insurance products and retirement planning.

**ELEMENTS OF THE PCA RECOMMENDED CALL PACKAGE GUIDELINES**

1. **ELEMENTS OF THE PCA RECOMMENDED CALL PACKAGE GUIDELINES**
2. Salary

The purpose of this section is to encourage the church to care for its pastors in such a way that they fulfill their promise (from the PCA Book of Church Order) to ensure that these men and their families are “free from worldly cares and avocations.”

There is no better place to begin this topic of a Pastor’s compensation than the Bible. In 1 Timothy 5: 17 & 18, Paul states clearly that that a pastor should be paid for his work and quotes Deuteronomy 25:4 and Leviticus 19:13 to make his point from Old Testament Scripture. This teaching is repeated in 1 Corinthians 9:7-12 where he argues that those who serve the church are workers who are deserving of their wages. Jesus as well taught his disciples in Luke 10:7-8 and Matthew 10:10 that they should expect to be cared for by those whom they came to serve. While this is not an exhaustive exegesis of the topic, it is abundantly clear from Scripture that a pastor should be fairly paid for his labors to the church.

The subject of a pastor’s compensation has the potential to set off alarm bells. One alarm might be an effort to set pastor salaries from a denominational mandate instead of a market driven basis. Setting compensation levels for pastors in the PCA is not the purpose of this portion of the Guidelines. Determining “appropriate” compensation is truly challenging, but a necessary point that should be considered for every pastor. Below are some principles that should be carefully considered:

At a minimum, a pastor should be paid at least enough to live at the accepted standard of living of the congregation or the Session which he is serving. It is all too tempting for some to say (or think), “I don’t understand why we have to pay Pastor Joe so much. In my day I was able to get by on half of that with four children.” Because of inflation over the past 20 years, the costs associated with maintaining a household have risen dramatically. It would serve the church well to complete a thorough personal budget analysis for an incoming pastor before he is hired and to give him an opportunity to review and to point out weaknesses in the budget before issuing a call. For the pastor who does point out a weakness in the call package, he is simply concerned for his family and is not communicating that he is “in the ministry for the money.” Care should be taken that extremes are avoided. A pastor serving in Palm Beach, FL doesn’t need a chauffeured limo, nor should he be required to live in grinding poverty if he serves in Haiti. The PCA Book of Church Order (BCO) provides an excellent standard for the financial care of a pastor and his family. BCO 20-6 states, we (the church) “do earnestly call you to undertake the pastoral office in said congregation, promising you, in the discharge of your duty, all proper support, encouragement and obedience in the Lord. That you may be free from worldly cares and avocations, we hereby promise and oblige ourselves to pay you the sum of…” If a pastor living conservatively is unable to makes ends meet on the salary provided, then he is not free of worldly cares and avocations. In fact the stress created by the financial pressure he is under may significantly erode his ability to effectively minister to his congregation.

Paying a pastor a competitive salary involves evaluating other important factors. Just as the secular world pays more dollars for certain professional capabilities, a pastor’s deeper educational credentials, technical abilities and experience will result in higher compensation requirements. In addition, larger and more complex budget and personnel responsibilities are an important part of the compensation equation. In view of the more complex compensation issues, churches should seek specific information from salary surveys to make sure their pastors are compensated properly. Examples of available surveys can be found on the following page.

PCA Administrative Committee: (678) 825-1000

National Association of Church Business Administrators: [www.ministrypay.com](http://www.ministrypay.com)

Compensation Handbook for Church Staff: [store.churchlawtodaystore.com](http://store.churchlawtodaystore.com/)

Once a call is issued to a pastor, every church should schedule at least an annual reevaluation of the pastor’s compensation. This job is best accomplished by a committee of the session having the authority to talk directly to the pastor. Church leaders should understand that most pastors are naturally uncomfortable talking about money and many will not press the issue. But church leaders should take very seriously their promise to properly support a pastor and his family by keeping him free from worldly cares and avocations. A private meeting between a trusted member of the Session and the pastor is often a perfect time to ask “Pastor, how are things going financially for you and your family… really?” If an annual review of a pastor’s compensation is not done, then inflation will erode the purchasing power of his compensation over time. All too often a pastor and his family will suffer in silence while accumulating ever higher credit card debt. With such a burden hanging over his head, it is hard to imagine a pastor in this circumstance experiencing maximum effectiveness in the preaching of the Word.

Frequently, hard choices must be made when it comes to the church budget, and staff salaries are a large part of any church budget. Given the PCA’s high biblical priority on the preaching of the Word and the administration of the sacraments, all churches must give high priority to this portion of the budget. For instance, if there is a choice between giving the pastor a needed raise or making improvements to the church building infrastructure, choosing to support the preaching of the Word is the right choice.

Finally, and perhaps most importantly, a church should never pay a pastor using the “Lump Sum” methodology. A church using the Lump Sum approach to a pastor’s compensation will do the following. The church will calculate the amount of its budget available for the pastor and then say to him, “Here is the amount we can afford. We will pay this to you as your salary and you should use it to purchase your benefits like health insurance, life insurance, long term disability and retirement savings.” No person in the secular business world would ever accept their total compensation in such an arrangement. So, what is wrong with this compensation approach? First, in the Lump Sum approach, the pastor is paying for benefits on an after tax basis resulting in the payment of unnecessary personal income taxes. Instead, the church should net the benefits out of his compensation and pay for them directly, thus avoiding this tax expense. Secondly, when the call is approved by the congregation, the pastors Lump Sum salary is frequently made public. This circumstance creates an unfair and uncomfortable event for the pastor. Most church members have little idea what their employers pay in gross costs for their employment. However, because this issue is widely misunderstood, church members will compare their before tax take home pay with the gross employment cost of the pastor. There is a large difference between gross employment cost and before tax take home pay. No pastor should be asked to endure the Lump Sum compensation approach.

It would be impossible for this document to answer every potential question about a pastor’s salary. Fortunately, in the PCA there are resources available for the church needing help. PCA Retirement & Benefits, Inc. has significant experience in the area of pastoral compensation and benefits. The PCA Administrative Committee conducts the annual compensation survey for the denomination and every Presbytery will have church business administrators who have dealt with most of the typical questions asked. You are not alone and your questions would be gladly received.

1. Housing Allowance

The minister’s housing allowance is the most important tax benefit available to a PCA minister. Ordained and licensed PCA ministers who live in a church owned manse, rent a home, or own a home may be eligible to receive a housing allowance. With this benefit, a Teaching Elder can exclude a portion of his salary as a housing allowance under Section 107 of the Internal Revenue Code.

*Housing Allowance Limitations*

The IRS does place limitations on the amount that can be designated as housing allowance. It is important for churches and pastors to be aware of these limits and to manage this benefit wisely. Each year a pastor’s housing allowance should be prospectively determined by his PCA church (i.e., designated in December or earlier of the current year for the desired housing allowance the following year). Sessions should include their pastors in the process since the pastors are in the best position to calculate their anticipated expenses. However, it is important to note that the amount designated in advance by your church is not necessarily exempt from income tax. Section 107 of the tax code lays out a framework for calculating the maximum amount that can be excluded by law.

The tax code specifies that a housing allowance is excluded from income only to the extent that it falls within these guidelines:

1. Is used for actual expenses incurred by the minister in owning or renting a home, and
2. Does not exceed the fair rental value of a home including furnishings plus utilities.

Another important limitation to remember is the following:

1. The housing allowance is limited by the amount your church designates, in advance, as your housing allowance.

1. Actual Expenses

Most PCA pastors have one of three living arrangements. A) They live in a church owned manse; B) they live in a rented home; or C) they own their own home. The greater the personal stake you have in your living arrangement, the greater your housing allowance will be. Pastors living in a manse can exclude the following from their current income: *utilities, furnishings, appliances, landscaping, yard maintenance, pest control, personal property insurance, umbrella liability insurance, and personal property taxes on contents.* Pastors living in a rental home can count all of the previously mentioned exclusions, and they can also include *rental housing payments*.

Pastors who own their own home can exclude the following for federal income tax purposes: *utilities, furnishings, appliances, landscaping, yard maintenance, pest control, umbrella liability insurance, structural repair, down payment on a home, mortgage payments, homeowners insurance, home improvement loans, real estate taxes, real estate escrow and commission, and association dues*.

2. Fair Rental Value

To determine the fair rental value, it is suggested that you ask a local realtor or real estate appraiser to provide the church with a written estimate of how much a furnished house similar to the one you own and in your location would rent for on the open market. Some websites may allow you to determine the Fair Rental Value from the convenience of your home. Regardless of your methodology, it is important to perform this step periodically, especially when there are wide swings in valuation of the property.

3. Designated Housing Allowance

If your actual expenses exceed the benefit that your church has granted, you will be limited to the amount designated by your church. For this reason, churches should always involve their pastors in the process of determining a housing allowance and churches should be liberal in the designation of housing allowances. After all, we want our shepherds to maximize their use of this important benefit.

*Housing Allowance in Retirement*

In retirement, PCA ministers are also eligible for the housing allowance exclusion. This provision is not well known in the PCA. RBI, the retirement and welfare arm of the PCA, is authorized by Revenue Ruling 63-156 to designate housing allowance amounts for all honorably retired ministers who receive retirement plan payments from the PCA Retirement Plan. This provision may provide significant tax savings to you during your retirement years. However, this important benefit will be forfeited if you transfer your retirement assets from the PCA Retirement Plan to a bank, brokerage firm, insurance company or other financial services provider.

Properly used pre and post retirement, the housing allowance can significantly reduce a PCA pastor’s tax liability. If PCA churches or pastors have any questions about effectively managing the housing allowance benefit, contact RBI.

1. Home Equity Allowance

*A Home Equity Allowance is not another term for the Minister’s Housing Allowance. It is a benefit designed for ministers living in a church owned manse.*

Most ministers who live in a church owned manse are unable to continue living in that manse in retirement. Therefore, it is important for ministers living in church owned housing to save additional resources for their housing needs in retirement. It is also important for PCA churches to recognize that ministers living in a church owned manse cannot accumulate home equity since they do not own a home. PCA churches are encouraged to provide a home equity allowance that will help ministers secure a home in the future.

PCA churches should establish a written plan that includes a calculation and establishes a funding plan. The calculation can be based on the manse’s home value and increase in value during the past year, or based on the U.S. median home price and the percentage increase in the national home value using well recognized services like the Fiserv Case Shiller & the S&P Case Shiller U.S. National Home Price Index. Examples of the calculation are provided on the following page.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Annual Change in Value |  | Home Amount |  | Equity Allowance |
| Manse: 1.5% | X | Manse’s Home Price: $215,000 | = | $3,225.00 |
| National Average: 2.1%  | X | Median Home Price: $177,000 | + | $3,717.00 |

The optimum method of funding of a home equity allowance is a decision best made in consultation with a qualified tax professional. However for tax purposes, a home equity allowance is taxable both for income and Social Security tax purposes unlessthe contribution is directed to a 403(b) or similar retirement plan.

1. Social Security and Medicare Allowance

Generally, ministers serving in PCA churches have a dual tax status. This means that the IRS considers them employees for federal income tax purposes (they receive a W-2), and self-employed for Social Security and Medicare tax purposes (they file a Schedule SE with their personal return). Unlike lay church employees, ministers must pay into a different Social Security and Medicare program (SECA) which requires them to pay the full 15.3% on their cash salary and housing allowance (or fair market rental value of the manse).

Many PCA churches would like to defray their ministers’ expenses by paying the employer portion of the (FICA) Social Security and Medicare program to the IRS. Regrettably, churches cannot directly pay FICA (or SECA) taxes on their ministers’ behalf. However, PCA churches are permitted to give an allowance that offsets some or all of the Social Security and Medicare taxes.

PCA churches are encouraged to pay ministers who have remained in Social Security a special allowance that provides for 7.65% of their salary, as it must do for lay church employees. The difference in the amount should be paid directly to the minister. The allowance must be considered taxable income and must be included with wages in Box 1 of the pastor’s W-2 form, and reported on the minister’s tax return.

1. Benefits

One of the cornerstones of a good call package is a strong benefit plan that includes, at minimum, retirement savings as well as health, disability, and life insurance. When a church provides insurance premiums for a minister, the money contributed by the church is not considered taxable income for the minister. However, if a minister directly pays for his own benefits, he will have to pay taxes on the amount he pays for his insurance premiums. Therefore, it is very important that churches directly pay for benefits within the Call Package to minimize taxes for their ministers.

We recognize that some churches are concerned about the additional cost of paying for benefit plans. What many churches do not realize is that they wield a lot of discretion when it comes to benefit plans. Churches are able to control costs through their input on insurance plans, plan design, and by shopping carriers each year. Churches concerned about the additional work of creating a well balanced call package can rely on RBI for multiple cost effective solutions.

PRIMARY BENEFITS

1. Health and Medical Supplement Insurance

Medical emergencies can be very expensive and the debt associated with these emergencies can cripple a family. A good health insurance policy (or a Medicare Supplement policy for ministers 65 years old and older) can reduce these expenses and provide peace of mind to ministers, their families, and the churches in which they serve. The purchasing power of a group plan and group underwriting guidelines tend to be more favorable to the insured than individual policies.

PCA churches are encouraged to pay 100% of the premiums toward a health insurance plan for their minister and his family.

1. Retirement Savings

The easiest way for a church to provide a retirement plan for a minister is through the PCA Retirement Plan. RBI is prepared to assist with the myriad of compliance rules and regulations governing retirement plans, so our churches can focus on the ministry of the Gospel.

Churches can effectively use the PCA Retirement Plan to make contributions on the minister’s behalf. The minister may also make additional contributions over and above the church’s contributions by executing a salary reduction agreement. These contributions can be made on a pre-tax basis, a Roth after-tax basis, or some combination of both. Pre-tax contributions reduce your taxable income for the current year, and income tax on the contributions and earnings are deferred until you begin taking distributions from the plan. Future distributions will be taxed as ordinary income in the year taken. Alternatively, Roth after-tax contributions do not reduce your current taxable income. The tax advantage comes in the future, when you can take tax-free distributions of your contributions and their earnings (if you meet certain conditions). Once the amount is determined and the agreement is signed, the church begins to withhold the pre-determined amount from the minister’s salary and contribute it to the PCA Retirement Plan.

Denominational retirement plans, like the PCA Retirement Plan, provide unique tax benefits that are not available through a commercial plan. One such benefit is the Annual Housing Allowance. When a minister retires and begins receiving retirement benefits from a denominational plan, those benefits are considered eligible for the tax-free housing allowance exclusion. This benefit can be significant for our ministers. For example, a minister in the 25% tax bracket with $20,000 in annual housing allowance would ***save $116,380*** in income tax over a 15-year retirement – and the tax savings would increase for ministers in a higher tax bracket or with a larger housing allowance.

PCA churches and ministers are encouraged to contribute a sum that totals between 10% and 15% of the minister’s annual salary plus their housing allowance. This amount is in addition to their Social Security and Medicare Allowance.

1. Short Term and Long Term Disability Insurance

Disability insurance provides ministers with income in the event of illness or injury. It should also provide a Session with peace of mind. Most PCA churches are not financially prepared to lead their church through a minister’s long term disability. What would your church do in the event your minister was disabled? How would you financially support him and who would take on the responsibilities of the disabled minister? Your church may be able to continue this practice for a year, but how about 3 years, 5 years or longer? Most PCA churches do not have the financial resources to provide for the salary of two head pastors (i.e. disabled minister and the acting minister). Having a long term disability policy in plan protects not only the minister, but also the church.

Having good short term and long term disability insurance plans is a cost effective way of reducing your risk. PCA churches are encouraged to pay 100% of the premium for a Long Term Disability Plan that provides for at least 60% replacement of income. Most churches self insure their employees for any short term disability. Be apprised that some states have rules governing insured and self-insured plans. If your church is in a state that requires short term disability coverage, you should carefully research applicable state law to determine your options.

RBI offers a number of group long term disability solutions. All of them include the housing allowance benefit in event of disability. If a minister becomes disabled and is participating in one of the PCA Disability Plans, a portion of his disability benefit can be treated as housing allowance for federal income tax purposes. As detailed above in the Retirement Savings section, this can be a significant tax advantage for our ministers.

1. Life Insurance

Life insurance is an essential component of a good financial plan. It protects survivors of the insured against financial loss in the event of death. Many PCA churches fail to recognize that life insurance also protects their church. Most congregations are unable to provide long term financial assistance for widows and their families. Why subject your church to undue risk, especially when life insurance is so inexpensive? Providing life insurance for ministers is a cost effective way to manage your risk and a good way to care for your minister and his family.

There are many types of life insurance products available, but the most cost effective type is term life insurance. Term life policies, on the whole, are cheaper because, unlike whole life or universal insurance, no part of the premium is used for investment purposes. Term life insurance has another benefit. The first $50,000 of church-paid term group life insurance coverage is tax-free. Any universal life or whole life coverage paid for by the church is taxable in its entirety.

RBI provides a number of group life insurance and accidental death & dismemberment products for ministers, their spouses and children. Determining how much life insurance a minister needs is a multi-factor decision that is best determined on an individual basis. We encourage PCA churches and ministers to contact us if they need assistance in determining how much life insurance is needed.

SECONDARY BENEFITS

1. Cafeteria Plans (Section 125)

One of the most underused benefit plans is the Cafeteria Plan which is outlined in section 125 of the US tax code. This plan allows a minister to withhold a portion of his pre-tax salary to cover certain medical or child-care expenses. Because these benefits are free from federal and state income taxes, a minister’s taxable income is reduced, thereby increasing his take-home pay.

1. Other Important Benefit Plans
* Dental - These policies provide essential dental care such as exams, cleanings and fillings. RBI provides two group dental plans for ministers and their families.
* Vision – This type of insurance pays for comprehensive eye examinations and helps to offset the cost of corrective lenses. Eye examinations are recommended every five years for individuals between the ages of 20 and 40. Those over 40 should have an eye examination every two years. RBI provides one group and one individual vision plan for ministers and their families.
* Long Term Care – These types of policies help those with chronic illnesses and disabilities function on a day-to-day basis. Neither Medicare nor employer provided health insurance pays for long-term care services for an extended period of time. If you are a minister age 50 or older, you should investigate the benefits of long term care insurance. RBI provides one group and one individual long term care policy for ministers, parents, siblings and children.
1. **Vacation, Leaves of Absence, Sabbatical**

The pastorate is a unique ministry that comes with unusual hours. Ministers do not work a five-day workweek as many lay people do. They work most weekends and often evenings as well. This means they have limited time on evenings and weekends to spend with their families. Scheduled times with family can often be interrupted by congregational emergencies, such as a church member’s death or illness. Due to the 24/7 nature of a ministers calling, it is vitally important that ministers have sufficient periods of time off for rest, recuperation and especially to spend sufficient time with their families.

PCA churches are encouraged to provide at least 4 weeks of paid time off from work (including Sundays) for vacation and most leaves of absence with the exception of educational leave. Churches should work closely with ministers to determine appropriate scheduling for ministers continuing their education or for those taking a sabbatical.

1. **Vacations** – It is appropriate to look at vacation policy as part of the annual compensation review. One thing to consider when offering vacation is the total number of years of dedicated service as a pastor, not just the length of service to the current congregation.
2. **Leaves of Absence –** Listed below are four types of leaves of absence.
* **Sick Leave –** Time away from church should be provided for illness and medical treatment in a hospital. In cases of prolonged illness or injury, a church’s short term disability provisions will provide care for the minister.
* **Paternity Leave** – Fathers who are blessed with a new child through birth or adoption are encouraged to be at home to strengthen familial ties.
* **Funeral Leave -** Time away should be provided to a minister to attend the funeral of an immediate family member (i.e. spouse, children, sibling, or parent)
* **Educational Leave –** Continuing education and professional development are necessary for carrying out the work of the ministry. This may require periods of educational leave from two to four weeks annually. This will be of value not only to the minister but also to his church. Ministers interested in pursuing continuing education should develop a plan with the assistance of their Sessions.
1. ***Sabbatical* -** Sabbatical leave is a planned time of renewal whereby a minister seeks personal and professional growth. Sabbatical leave is an extension of the Biblical concept of a Sabbath day and a Sabbath year for renewal. This type of leave requires advanced planning by pastors to create a plan and acquire adequate savings for programs or studies. Churches also need to save by setting aside funds that will cover the cost, if any, associated with the minister’s absence.
2. REIMBURSABLE EXPENSES

Traditionally, some churches have included expense reimbursements as part of the call package. We recommend that all churches discontinue this practice. Instead all PCA churches should agree to a maximum amount of reasonable and necessary business expenses to be reimbursed each year. These expenses should be included in the church budget completely separate from the minister’s compensation. Thus before the beginning of each year, the minister should carefully estimate the amount of expenses he will incur over the course of the year. The Session should evaluate and approve or revise this amount in the church budget as the maximum expense reimbursement for the upcoming year. Please note if at the end of the year there remains money in the reimbursement account, that amount will revert back to the church, and cannot be paid to the minister as additional compensation (e.g. bonus, extra salary, etc.).

Before a church can reimburse expenses, an accountable reimbursement plan must be created. This plan would require ministers to submit reimbursement requests for mileage and submit receipts for such things as books, business lunches, etc. in a timely manner (within 60 days after the expenditure). If the minister receives a monthly allowance he would need to submit documentation for its use for business purposes within 120 days and return any unused funds. Payments made to ministers pursuant to an accountable reimbursement plan can be excluded from taxable income. However, if the minister receives a monthly allowance from the church and submits no documented evidence of the expenses, the amount must be included as part of his taxable income.

Suggested categories for accountable expenses:

1. Ministry Related Expenses
2. Travel Expenses
3. Hospitality Expenses
4. Personal Vehicle Expenses
5. Educational Expenses

**Other Considerations**

1. OTHER CONSIDERATIONS

These guidelines serve as a tool to help our PCA pastors, churches and Presbyteries create equitable call packages. This document was created to apprise you of a number of challenges and assist you in formulating solutions. Items mentioned under this section are not part of the traditional call package, but have been included to remind you about important information related to employee benefits.

1. **Small Churches**

We recognize that there will be a number of high hurdles for some churches to cross, particularly our smaller PCA churches, church plants and missions. Many of these organizations have limited resources and annually struggle to keep afloat. These churches play a vital role in Christ’s Kingdom and would welcome the opportunity to better compensate their staff. Regrettably, there are not enough resources to cover all the ministries of the church.

Most of our ministers recognize these limitations and have answered Christ’s calling to serve in these churches. However, provisions must be made to allow them to adequately provide for themselves and their families. One solution is to change the expectations that congregations have of ministers. If a church is unable to adequately compensate their minister, acknowledging this challenge is the first important step. If a church calls a full-time pastor, it is obligated to adequately compensate the pastor for full-time employment.

An equally important second step is developing a plan that will permit a pastor to adequately provide for himself and his family. Three alternatives are listed below.

1. Reduce the minister’s workload to the essentials of ministry (i.e. work that cannot be carried out by church members) and call a bi-vocational, partially retired or part-time minister.
2. Partner with other small churches in your area to call a minister that will serve in multiple congregations.
3. Develop a plan to adequately compensate your minister within a reasonable amount of time (e.g. 1 – 5 year plan).
4. **Should Ministers Opt Out of Social Security?**

Every newly ordained minister in the PCA faces a difficult decision about his compensation structure – one that has significant personal ramifications. The decision to opt out of Social Security or not begins with a conviction of one’s personal religion-based opposition to the acceptance of Social Security benefits. For the minister who opts out of Social Security, the need to adopt very conservative budgeting practices becomes paramount.

Pastors who choose not to opt out of Social Security will ultimately qualify for the following important benefits:

* Retirement benefits payable to a fully insured person
* Survivor benefits payable to the surviving spouse or dependent children of a deceased worker
* Disability benefits payable to a permanently disabled worker and his dependent children under 19 years of age
* Medical and hospital benefits payable at age 65 (the Medicare program)

This section of the PCA Compensation Guidelines will attempt to address this very complex topic and provide guidelines based on the experiences of pastors within the PCA.

First, let’s review some basic information about this important topic. The payment of Social Security and Medicare taxes is typically split evenly between the employer and non-ministerial employee. The tax rate of 15.3% (as of 2011) of each employee’s wages is paid with each party contributing 7.65%. Ministers are self-employed for Social Security purposes with respect to their ministerial earnings. So, instead of paying just the employee’s portion of the Social Security tax, ministers pay a self-employment tax equal to the entire 15.3%. Sadly, this self-employment tax feature is not widely understood by most church members or their leaders.

Ministers may exempt themselves from self-employment taxes (opt out of Social Security) with respect to their ministerial earnings if several conditions are met. The requirements are:

* The minister must be an ordained, commissioned, or licensed minister of a church.
* The church or denomination that ordained, commissioned, or licensed the minister is a tax-exempt religious organization.
* The minister must file an application in triplicate with the IRS. (IRS Form 4361). On the application, the minister must attest to the following:
	+ He must be “conscientiously opposed to, or because of his religious principles is opposed to the acceptance (with respect to services performed by him as such minister) of any public insurance that makes payments in the event of death, disability, old age, or retirement, or that makes payments toward the cost of, or provides services for, medical care.”
	+ He must be opposed on the basis of religious considerations to the *acceptance* of Social Security benefits – not in opposition to the *payment* of the tax.
* The exemption application (IRS Form 4361) must be filed on time. The deadline is the due date of the federal tax return for the second year in which a minister has net earnings from self-employment of $400 or more, any part of which is derived from the performance of services in the exercise of ministry.
* The ordaining, commissioning, or licensing church or denomination must be notified.
* IRS verification is required. No application for exemption is approved unless the IRS “has verified that the individual applying for the exemption is aware of the grounds on which the individual may receive an exemption…and that the individual seeks an exemption on such grounds.” Ministers seeking the self-employment exemption must certify they have read the statement and agree on the grounds listed in the statement under penalties of perjury. Once completed, the exemption is irrevocable.

It is very important that pastors who are considering opting out of Social Security carefully consider their reasons for such a decision. Many potential reasons given for opting out of Social Security would, in fact, contradict the plain meaning of the tax code. Some examples would be:

* I can’t afford to pay the self-employment tax.
* If I opt out of Social Security I will get an 18% increase in my compensation.
* Social Security won’t be around by the time I retire.
* My financial advisor told me to opt out.
* Any other economic or nonreligious consideration.

Pastors who opt out should understand that their religion based opposition to Social Security has nothing to do with the *payment* of self-employment taxes for Social Security benefits. Instead the pastor should be “conscientiously opposed to, or because of his religious principles is opposed to the *acceptance* (with respect to services performed by him as such minister) of *any* public insurance that makes payments in the event of death, disability, old age, or retirement, or that makes payments toward the cost of, or provides services for, medical care.” The two key words in this statement are “*acceptance”* and “*any”*. You must be religiously opposed to the acceptance of the benefit and further you are opposed to the acceptance of any public insurance for the reasons given.

For those pastors who choose to opt out of Social Security, the enormous challenge they face is to save sufficiently to replace the value of the Social Security benefit. Pastors who opt out will need to have at least an additional $500,000 in retirement savings compared to pastors who remain in Social Security. The RBI sponsored *PCA Retirement Readiness Survey* revealed that pastors who have opted out of Social Security are not saving sufficiently to replace these important benefits.

Given the extraordinary good faith claim required for exemption from Social Security, few pastors would qualify for this exemption. PCA churches who want to encourage their pastors to remain in Social Security should include in a minister’s compensation a reimbursement for one-half of the pastor’s self-employment tax. Churches should not withhold the employee’s share of Social Security and Medicare taxes from ministers’ compensation and then pay the employers share since this reporting is incorrect.

1. **Minister’s Dual Tax Status**

Most PCA ministers who labor in a church or related Christian ministry have a dual tax status. They are treated as *employees* for income tax purposes and as *self-employed* for Social Security and Medicare (self-employment) tax purposes. Churches should consider ministers as employees for income tax purposes and issue them a W-2. Additionally, ministers must file a schedule SE to pay for self-employment tax. Many churches do not understand the uniqueness of a pastor’s tax status nor do they understand the implications of a minister’s dual tax status.

While most lay church members contribute 7.65% of their salary in FICA taxes towards Social Security and Medicare, ministers are responsible for 15.3%. This is equivalent to the employee (7.65%) and employer portion (7.65%) of FICA taxes. This large tax burden doesn’t apply to all church workers, just ordained ministers.

1. **A Minister’s Option in Paying Taxes**

Churches and church related organizations are not required to withhold taxes from their minister’s compensation. It is the minister who is responsible for remitting their taxes to the IRS on a quarterly basis. However, many churches choose to assist their ministers by withholding and depositing those taxes on their minister’s behalf.

Ministers can choose to submit quarterly estimated payments (for their income and self-employment tax) to the US Treasury (April, June, September and January) using Form 1040-ES. If their church is willing, ministers can also calculate the amount of estimated tax (income and self-employment) they owe and request their employer to withhold a set amount on a regular basis. The employer would then remit the taxes along with their regular payroll tax deposits. These payments are reported on the minister’s W-2 as “Federal income tax withheld”.

1. **Challenges in Preparing Minister’s Taxes**

Because of the “dual tax status” of ministers, as detailed above, and the way that taxable income and tax withholdings are reported on the W-2, (i.e. only taxable salary portion of compensation reported in box 1 and no amounts reported in boxes 3-6) many tax preparers, including some CPAs, do not know how to properly prepare a minister’s tax return. Common errors include:

1. Assuming that since a minister is self-employed for Social Security and Medicare tax purposes he is self-employed for income tax purposes and reporting his salary on a Schedule C.
2. Assuming that, since no amounts are reported in boxes 3-6 of the W-2, none of the minister’s compensation is subject to self-employment tax and not filing a Schedule SE, thereby not paying the self-employment tax. (Ministers who timely filed a Form 4361 and opted out of Social Security do not have to file a Schedule SE and pay the self-employment tax on their ministerial income.)
3. Reporting on Schedule SE only the amount shown in box 1 of the W-2 and not including the housing allowance, thereby under-reporting and under-paying self-employment tax.

Due to these errors and others, RBI produces the PCA Church and Clergy Tax Guide and Federal Reporting Requirements for Churches. This document is specifically designed for PCA ministers and church administrators to assist with federal reporting, tax planning and income tax returns. The PCA Church and Clergy Tax Guide is prepared in conjunction with Richard Hammar and Christianity Today International. Mr. Hammar, one of the nation’s leading authorities on legal and tax issues for churches and clergy members, strives to provide churches with the most current and comprehensive information available.

The guide comes in two sections. The first section of the guide is a supplement to ministers as they use their 1040 instruction booklet and other publications of the Internal Revenue Service. Whether pastors prepare their own income taxes or delegate the task to an accountant, this guide will help them to comply with the law. The second section contains valuable information for church business administrators, treasurers, and financial secretaries to assist their churches in complying with federal requirements for submitting tax payments and reports to the IRS and preparing W-2 forms for church employees.

1. **Separation from Service**

The Federal Unemployment Tax Act (FUTA) provides a safety net to most former employees who were discharged for acts other than serious misconduct. In general, benefits will be awarded to former employees who are laid off or discharged for minor misconduct (e.g. incompetence). The award amount for unemployment insurance benefits is almost half of an employee’s former earnings. The award amount could be more if the employee is married or has dependents.

Most church employees do not have this type of protection. Section 3309 of the FUTA enables most churches and church related organizations to opt out of the State Unemployment Tax System. While it is possible for a church to voluntarily elect into the unemployment insurance system, most do not.

PCA churches and church related organizations should remember former employees are not covered under unemployment insurance, and are encouraged to factor this disadvantage into severance package decisions for former employees.

1. **Workers’ Compensation Insurance**

Many churches and church related organizations assume they are exempt from Workers’ Compensation laws, although frequently that is not the case. Workers’ Compensation laws exist in all fifty states and the majority of states do not provide churches with specific exemptions of Workers’ Compensation benefits. If your church or church related organization is located in a state that requires Workers’ Compensation, you should carefully research applicable state laws to determine your options. A prudent course of action would involve the purchase of Workers’ Compensation insurance for your employees and possibly volunteers workers as well.

Churches and church related organizations that have legal exemption from purchasing Workers’ Compensation should critically evaluate their ability to pay a large multi-year claim on an injured employee. A serious on the job injury would financially overburden most small and mid-size churches. If your church is eligible and considering self-insurance, it is best to seek professional counsel in assessing your risks.

1. **The PCA Ministerial Relief Ministry**

The PCA Ministerial Relief Fund was established at the first General Assembly to provide financial assistance to retired or disabled Teaching Elders and their widows with acute financial needs. These needs are typically caused by serious medical conditions that prevent a family from adequately saving for retirement, catastrophic loss due to an accident or death, or, most often, widows in their 80s and 90s who have outlived their retirement savings. Without this assistance, these church servants would be living in or near poverty.

The Ministerial Relief Fund provides assistance only when their family and church cannot assist them sufficiently to meet the basic needs of life. It is not able to provide the level of assistance that would replace a significant portion of pre-retirement income. Therefore, it should not be considered as a practical alternative to a well funded retirement plan.

While most Teaching Elders will be able to fund their retirement plan, we know that some will be unable to achieve a sufficient level of savings to meet their needs. Death or disability will prevent some from meeting their savings goals as well. We will always need the PCA Ministerial Relief Fund to provide this vital assistance.

The Ministerial Relief Fund is primarily funded through donations by churches and individuals giving to the annual PCA Ministerial Relief Christmas Offering. Participation in this offering is an important part of any church’s plan to provide for our retired Teaching Elders and especially their widows. RBI provides free bulletin inserts, offering envelopes, and other materials to churches who desire to participate. They may be ordered by contacting the RBI Ministerial Relief office.

Forms and Policies are in development

Possible Ideas

* Housing Allowance Worksheets
* Housing Allowance Resolution
* Accountable Reimbursement Policy
* Accountable Reimbursement Form
* Call Package Worksheet
* The Recommended Form of Call to a PCA Minister

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