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Keeping Up with the Pastor's Pay: Trends behind Clergy Wages

Forces large and small affect how best to answer the question: "What should we pay the pastor?" Failure to keep track of inflation and replacement costs associated with current staff could make a church's clergy compensation package uncompetitive. Sadly, the pastor feels no choice but to seek to move.

What Makes up a Pastor's Pay?

Governing boards and personnel committee members must think about the pastor's *total compensation*, not just salary.

Manse or housing allowance. Many churches provide housing in the form of a parsonage, or what some denominations call a manse. The pastor's total compensation includes that house's fair market rental value. In churches that do not own a parsonage, many offer instead a monthly housing allowance so that the pastor can own or rent a home of his or her choosing.

Employee or self-employed. The Internal Revenue Service considers clergy *employees* for Federal Income Tax calculations but treats clergy as *self-employed* for Social Security Tax purposes. Thus, church boards must designate how many compensation dollars are for salary and how many dollars are for housing expenses. Each church determines when and how often it sets or changes these amounts. The law requires that they do so in writing and in advance, with documentation in official church minutes. Tax laws prohibit churches from retroactively determining the salary-housing proportional split.

Some churches believe that designating a larger percentage of the pastor's salary for housing allowance will let the pastor avoid paying Federal Income Taxes on those housing dollars. In order for this strategy to work, the pastor has to use *all* of that housing allowance to pay for expenses like rent, mortgage payments, property taxes, utilities, repairs, renovations, furnishings, etc. If any funds are left over, those dollars must be added back, in full, to the pastor's taxable compensation. And, for Social Security Taxes, all the salary dollars *and* the full amount of the housing allowance are used in computing the amount due.

Self-employed workers pay about double the amount of Social Security Taxes paid by other workers who are classified as employees. Some churches give their clergyperson additional pay to cover this self-employment expense.

Non-taxable compensation. Most full-time (and some part-time) pastors receive health insurance, which is often purchased through the denomination. A second form of compensation comes in the form of retirement benefits, which again is typically offered through the denomination. Both types of benefits essentially extend a clergy's monthly paycheck, without adding taxable income.

Another clergy financial benefit comes in the form of reimbursements. For example, most churches include a budget item for pastoral transportation expenses. This is a per-mile figure established by the IRS that covers only ministry-related travel, but not travel between the pastor's

WE NEED TO REVISIT MY "HOUSING ALLOWANCE."

home and the church. The majority of churches establish line items in their budgets for other work-related expenses such as continuing education, book purchases or magazine subscriptions, and the costs associated with workshops or conferences. These types of reimbursements are not treated as personal income for tax purposes.

Church Size and Denomination Still Matter

As in other occupations and work settings, clergy compensation is not equal among all those called to ministry. For clergy in parish ministry, the size of the congregation determines, in part, the size of the compensation package. Denominational affiliation plays a role too. For mainline Protestant pastors, those serving in small churches (with fewer than 100 in worship) receive about 75% of the total compensation of what pastors serving in large churches receive (churches with more than 300 in worship).

This clergy pay discrepancy grows larger for conservative Protestant pastors. Clergy in small conservative Protestant congregations (those with fewer than 100 in worship) receive a total compensation package about 58% of what pastors in large Conservative Protestant churches receive (those with more than 300 in worship).[1]

Significant Trends in Clergy Compensation

A new study takes into account housing provisions among Protestant clergy to look more closely at compensation over time. Their five findings pose important considerations for congregations.[2]

A shift away from church-owned housing. Analysis of this national data set confirmed what many denominational leaders and others already knew. In 1976, about six in ten pastors lived in free housing—that is a manse or parsonage—and did not own or rent their home. By 2013, the percentage of pastors living in church-owned property dropped to only fourteen percent. Does this shift contribute to a real overall rise in clergy compensation? How do these changing housing provisions relate to clergy satisfaction with compensation?

A narrowing income gap between clergy and their professional peers. Because earlier studies omitted housing provisions or allowances, those comparisons probably overestimated the gap between clergy pay and that of other professionals.[3] However, this new positive finding of a smaller pay gap still comes with a cautionary note. Clergy income seems to be keeping pace only when the thirty-five highest income occupations are excluded. Growing income inequality affects all workers, including the clergy. And while the income gap between clergy and like professionals is closing, they are still earning 26 percent less than others at a similar education level.[4] What compensation comparisons make sense for our church—the salaries provided by other congregations like ours, our denomination, the cost-of-living in our area, or other factors?

Working fewer hours a week contributes to rise in hourly wages. Clergy report working fewer hours, on average, in recent years compared to three decades ago. Those clergy who report working fewer hours per week also experience better physical and emotional health.[5] Therefore, although the total compensation may not change, the shorter workweek of many clergy has enhanced their quality of life. Does our congregation rely on clergy's nonmonetary values—such as having a job that helps people, believing one is fulfilling a vocation, and self-supervision—to fill in the wage gap?[6] Does our church use salary compensation as an unfair way to communicate dissatisfaction with a clergyperson's job performance?

Higher pay for nonparish clergy. Clergy serving in nonchurch ministry positions (such as military or hospital chaplain, director of a nonprofit agency) earn more, on average, than clergy serving in churches. Further, when clergy leave churches to serve in a nonchurch setting, their compensation increases. Both trends decrease the attractiveness of serving in a local church.

Becoming a pastor decreases wages. Individuals who enter pastoral ministry, on average, see an immediate drop in wages. This pattern poses problems for new pastors struggling with seminary student debt.

The Bottom Line

Every church needs a periodic reality check around salary and benefits to show respect and act with fairness toward their pastor. Clergy compensation issues warrant a frank, annual discussion with the pastor.

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1. Total compensation calculations include housing and salary. Cynthia Woolever and Deborah Bruce, *Leadership That Fits Your Church: What Kind of Pastor for What Kind of Congregation* (St. Louis, MO: Chalice Press, 2012), 17.
2. Cyrus Schleifer and Mark Chaves, "The Price of the Calling: Exploring Clergy Compensation Using Current Population Survey Data," *Journal for the Scientific Study of Religion*, 2016 (55:130-52).
3. Schleifer and Chaves, 131.
4. Note: All analyses by Schleifer and Chaves include the housing provisions in total compensation calculations.
5. Woolever and Bruce, 43.
6. Schleifer and Chaves, 150.