PRESBYTERY OF BOSTON

Pastoral Compensation Guidelines: Explanation

Installed Pastor, Associate Pastor, Designated Pastor

I. INTRODUCTION

The *Book of Order* [G-2.0804] requires presbyteries to

1. establish minimum standards for the compensation of teaching elders [and others] serving in installed pastorates in member congregations [appearing in the separate document *20nn Minimum Compensation Standards*, updated annually]; and
2. approve the original terms of call offered to teaching elders newly-called to any pastoral ministry in a member congregation; and
3. review annually the compensation of all pastors who are continuing in installed pastorates, for conformity with the minimum standards [as reported on the separate form *20nn Terms of Call Review*, updated annually]; and
4. counsel with sessions and pastors when difficulties arise in fulfilling the established minimum standards.

The *Book of Order* further requires every session to review annually with its pastor(s) the adequacy of her/his/their compensation, to submit the proposed terms of call for the subsequent year to vote at a congregational meeting [G-1.0503c], and to report that compensation to the Board of Pensions [on Form ENR-111 or on-line through Benefits Connect] as well as to the presbytery [on the annual *Terms of Call Review* form], seeking counsel with the Committee on Ministry when difficulties meeting the minimum standards arise.

This document is part of the Presbytery of Boston's response to these constitutional requirements, containing descriptions, definitions and explanations of various components of pastoral compensation. It is organized as follows:

Accompanying this document are the appropriate annual *Minimum Compensation Standards*, *Terms of Call Review* forms, *Compensation Comparisons*, and the four-part *Pastoral Call* forms with *Instructions*.

II. COMPENSATION CATEGORIES

A. **Overview**

Pastors' compensation consists of at least four of these seven kinds of elements:

1. mandatory cash salary
2. mandatory housing: manse or housing allowance, with associated items
3. mandatory monetary benefits
4. mandatory non-monetary benefits
5. recommended monetary benefits
6. optional monetary benefits
7. optional non-monetary benefits

[When reading this policy document for the first time, it may be helpful to read definitions of various terms in Section V before or while reading the rest of this Section. Words and phrases that are defined in Section V are displayed *underlined, in italics*, when they first appear in this Section.; one can refer to Section V for clarification of the meaning of any of these words and phrases.]

B. **Cash Salary**

The most straightforward component of pastors' compensation is *cash salary*. It appears [less required tax withholdings and perhaps other deductions] as part of the teaching elder's pay check. It is part of *Effective Salary*[1], on which the *Board of Pensions dues*[2] are computed, and it is taxable income.

C. **Housing**

Pastors' compensation must include a provision for the shelter of the teaching elder's family.

This part of compensation is called *Housing Allowance* when it is provided, as a pre-determined amount of money on a regular pay check, to a pastor who rents or owns a residence. Alternatively, this part of compensation is called *Manse Allowance* (accompanied sometimes by an associated *Furnishings Account* and/or a *Utilities Account*) representing the pre-determined fair market rental value, as well as the furnishings and utilities expenses, when the congregation provides a manse to its pastor.

Regardless of the form in which it is conveyed, a Pastor's housing compensation is included in Effective Salary for Board of Pensions purposes and is subject to SECA [Social Security] tax. If the session establishes the size of the housing or manse allowance [properly recording that fact in session minutes] and the congregation affirms it as part of the pastor's terms of call approved by majority vote at a duly-called congregational meeting [again recording the approval in the minutes] **before the allowance is paid**, and if the size of the allowance conforms to IRS regulations, then the housing or manse allowance is **not** subject to Federal income tax[3].

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[1] See Section IV.B.1. below for instructions how to compute Effective Salary.

[2] See Section IV.B., especially IV.B.3., for instructions how to compute the Board of Pensions dues for the three mandatory benefits plans.

[3] The only valid tax advice is from a qualified tax attorney; but see the Board of Pensions' *Tax Guide for Ministers*.

Finally, the Board of Pensions requires that, for all pastors residing in a manse, the manse allowance must be at least 30% of the sum of the other items in Effective Salary.

D. **Mandatory Monetary Benefits**

Pastors' compensation must include two categories of monetary benefits in addition to cash salary and either form of housing compensation. The mandatory[4] monetary benefits are:

1. Board of Pensions dues

Section G-2.0804 of the Book of Order requires that all installed pastors be enrolled in the Board of Pensions benefit programs. The Board requires employing congregations to pay the dues assessed for the member's coverage; if the member has a spouse or children below the age of 26, the presbytery directs congregations also to pay the additional dues assessed for the Member + family plan.

2. *Social Security [SECA] Offset*

This is an offset for half the amount the pastor must pay for SECA, which is the self-employed version of the more familiar FICA program.

E. **Recommended Monetary Benefits**

1. Reimbursable *Travel Expense Account*

Terms of call should include an account to cover pastors' expenses driving to meetings and pastoral visits, and other appropriate travel. The account is expressed in terms of a maximum dollar amount, allocated according to current IRS mileage rates and other documented travel expenses.

2. Reimbursable *Continuing Education* or *Study Leave Account*

Terms of call should include another reimbursement account to defray some of the registration and attendance expenses for continuing education events, conferences, study leaves and similar opportunities. This often takes the form of a limited *Accumulating account*.

3. Reimbursable *Professional Expenses Account*

Terms of call should include another reimbursement account to cover specified professional expenses, including professional memberships, subscriptions and book purchases, perhaps equipment and fees, and so forth. This often takes the form of a limited accumulating account.

F. **Mandatory Non-Monetary Benefits**

In addition, pastors' compensation must[5] include one week [40 hours; 6 days including one Sunday] of unpaid *Sick Leave* [see p. 25], plus paid time off for *vacation* and *study leave*.

G. **Optional Monetary Benefits**

1. *Moving or Relocation Expenses*

The original terms of call for a newly-called pastor should contain a sum of money to reimburse [wholly or in part] the packing, moving and related expenses incurred in moving from the family's previous home.

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[4] Consult the most recent *Minimum Compensation Standards* document for the current minimum amounts required for each of these categories.

[5] Consult the most recent *Minimum Compensation Standards* document for the current minimum number of weeks required for each of these categories.

2. Additional insurance coverage

Some congregations offer additional insurance coverage of various sorts to their pastors. It could take the form of paying part or all of the premium for the Board of Pensions' *dental benefits*, or paying some or all of the premiums for additional life insurance coverage or long-term care insurance, either through the Board of Pensions or another carrier, or some other insurance coverage.

3. Medical Expenses

In addition to paying the Board of Pensions dues, some congregations offer additional compensation to their pastor(s) for medical expenses.

Usually this compensation takes the form of an *accountable reimbursement plan* because of its advantageous tax treatment. Examples include a *medical deductible account*, or a more general *health flexible spending* account [formally known as a "Section 125 Plan" from the tax law upon which it is based; often part of a "cafeteria benefits plan"] or a *health reimbursement arrangement*, both of which can reimburse spending for most deductibles and copays and copayments, prescriptions, glasses and contact lenses, many non-covered dental and medical procedures, and so forth.

4. Deferred income

Some congregations offer their pastors *Deferred income* in various forms, perhaps through the Board of Pensions' *403(B)(9) retirement plan* or an equivalent commercial product, or special *equity-equivalent accumulation* funds for pastors living in a manse, and so forth.

5. Additional possible monetary benefits

Some congregations reimburse the cost of their pastor's cell phone and service contract. Some congregations offer their pastors a reimbursable *hospitality account* to pay for meals or coffee or similar things as a part of congregational care or outreach or evangelism or counseling activities, or of Membership or Confirmation classes [while other congregations seem to allow those expenses to be reimbursed from the Professional Expenses account]. Some congregations offer their pastors a reimbursable *dependent care account* to pay for qualified child care expenses. Some congregations offer their pastors a cash bonus upon certain accomplishments or at certain seasons. And so forth.

H. **Optional Non-Monetary Benefits, which could include:**

1. An additional week off during each of the first three years after ordination, to participate in the synod's *Early Ministry Institute* or some similar program.
2. Congregational commitment, with appropriate budgetary provisions separate from the pastor's annual terms of call, to offer the pastor a *Sabbatical Leave* after six or seven years' service, such as is described in the Committee on Ministry's *Sabbatical Leave Guidelines*.
3. Access to *Family/bereavement leave* in certain circumstances, as described in the Committee on Ministry's *Family Leave Guidelines*.
4. One week [six days including one Sunday] of paid Sick Leave benefits [see p. 25].
5. The provision of a laptop computer and appropriate software, up-dated regularly, to enable the pastor to work both at and outside the church office.
6. Congregational commitment, and an annual budget, to purchase books and resources – especially reference material and preaching resources – for the church's library.

III. UNIT SERVICE

Congregations without the regular service of a pastor [and for which, therefore, the provisions of pastoral compensation in the preceding sections do not at the time apply] often call upon teaching elder members of the presbytery to preach and lead worship, to moderate session or congregational meetings when appointed by the COM, perhaps to visit members, and to perform other ministerial tasks.

These intermittent activities are called *Unit service*, the compensation for which must meet the thresholds, based on the *Unit assignment* and the *Minimum unit compensation rate*, promulgated in each year's *Minimum Compensation Standards*.

IV. COMPUTATIONS

A. Computation of Adjusted Minimum Base Compensation: Tabular Example

Entry-Level Minimum Base Compensation	**$53,526.00**
Adjustment rule: 1% for each year since ordination for first 10 years 0.5% for each year since ordination after 10 years	

Years Since Ordination	Apply the Adjustment Rule	Adjustment Factor	Adjustment Amount	**Adjusted Minimum Base Compensation**
0	0%	0.0%	$ 0.00	$ 53,526.00
1	1%	1.0%	$ 535.26	$ 54,061.26
2	2%	2.0%	$ 1,070.52	$ 54,596.52
3	3%	3.0%	$ 1,605.78	$ 55,131.78
4	4%	4.0%	$ 2,141.04	$ 55,667.04
5	5%	5.0%	$ 2,676.30	$ 56,202.30
...	...	...	...	...
9	9%	9.0%	$ 4,817.34	$ 58,343.34
10	10%	10.0%	$ 5,352.60	$ 58,878.60
11	10% + 0.5%	10.5%	$ 5,620.23	$ 59,146.23
12	10% + 1%	11.0%	$ 5,887.86	$ 59,413.86
13	10% + 1.5%	11.5%	$ 6,155.49	$ 59,681.49
14	10% + 2%	12.0%	$ 6,423.12	$ 59,949.12
15	10% + 2.5%	12.5%	$ 6,690.75	$ 60,216.75
...	...	...	...	...
20	10% + 5%	15.0%	$ 8,028.90	$ 61,554.90
...	...	...	...	...
25	10% + 7.5%	17.5%	$ 9,367.05	$ 62,893.05
...	...	...	...	...
30	10% + 10%	20.0%	$ 10,705.20	$ 64,231.20

B. Computation of Board of Pensions Items

1. Effective Salary [ES]

   a. Effective salary includes essentially all compensation received during a Plan Year by a Benefits Plan Member from an employing organization.

      i. Components of effective salary that are in *all pastors'* terms of call are their cash salary and the housing or manse allowances along with any possible associated allowances for utilities or furnishings or maintenance.

      ii. *Some pastors'* terms of call include *additional* items that are in effective salary, such as unvouchered book, car and study allowances; vacation pay; overtime; most forms of deferred income; reimbursement of personal expenses; a bonus; a SECA offset in excess of one-half of the SECA tax obligation, and equity allowances.

      iii. Effective salary does **not** include Board of Pensions dues, matching contributions to the Board's Retirement Savings Plan, SECA Offset up to one-half of the member's SECA obligation, tax-free fringe benefits [other than housing-related expenses, or fringe benefits in lieu of cash] **that are offered** to **all** employees, or accountable reimbursements for business expenses advanced by the member on behalf of the employing organization.

   b. Effective salary must be computed and reported annually by each congregation

      i. to the Board of Pensions,

         1) either on line 8 of form ENR-111: *Change of Salary*, whose value is the sum of the values in lines 1 through 7;

         2) or on-line through Benefits Connect; and

      ii. to the presbytery, on line 8 of the annual *Terms of Call Review* form, whose value is the sum of the values in lines 1 through 7 [excluding line 3b to the extent that it "matches" the value in line 1b, thereby corresponding to the first seven lines of the Board of Pensions' form ENR-111].

      iii. Those seven lines, whose sum equals Effective Salary on line 8, contain:

         1) **Cash salary** (including employee contributions to 403(b)(9) plans; tax-sheltered annuity plans; unvouchered book, car, and study allowances; vacation pay and overtime)

         2) **Housing allowance, utilities, and furnishings allowances**

         3) **Employing organization contributions to 403(b)(9) plans; tax-sheltered annuity plans; and equity allowances** (Matching contributions to the Board's Retirement Savings Plan should **not** be included)

         4) **Bonus**

         5) **Excess SECA** (for reimbursement in excess of 50% of the teaching elder's SECA tax obligation)

         6) **Other allowances** (including copayment and medical expense reimbursement allowances; excluding expenses reimbursed through vouchers, and excluding Benefits Plans dues)

         7) **Manse amount** (must be at least 30% of lines 1-6 for members residing in a manse)

   c. For reference, consult Board document PLN-103: *Understanding Effective Salary* which includes a worksheet on its back page that corresponds to form ENR-111.

2. In part-time calls, Full-Time Equivalent Salary [FTES]

   a. To compute the Full-Time Equivalent Salary[6]

      i. Divide the pastor's Effective Salary by the hours worked per week.[7]

      ii. Multiply that quotient by 35.

   b. For example, a 25 hour per week call and an effective salary of $38,000 would be assigned a Full-Time Equivalent Salary of $53,200:

$$FTES = \frac{\$38{,}000}{25} \times 35 = \$1{,}520 \times 35 = \$53{,}200$$

3. Computation of Board of Pensions Dues

   a. Introduction

      i. Computing dues for the three main Board of Pensions benefit plans for teaching elders serving pastoral calls requires the use of two numbers:
         1) a *dues percentage*, set by the Board of Pensions; and
         2) a *reference income*.

      ii. The computation simply multiplies the dues percentage times the reference income.

Dues = dues% x reference income

      iii. A pastor or the authorized congregational officer can use the Board's *Benefits Connect* secure web site, or the Dues Calculators on the Board's web site, to calculate dues; when using this URL for the dues calculators, ignore the site's request for a username and password, click Cancel, and wait for the usually-slow site to display the portal to the calculator.

      iv. Alternatively, the computation of dues is explained below.

   b. Dues percentages are set by the Board of Pensions

      i. The Board publishes the dues percentages in each year's *Quick Facts* brochure, and in its annual *Dues Schedule*, and embeds them in their dues calculators.

      ii. The dues percentages, established by the Board each year, are also included in our *Minimum Compensation Standards* as revised annually.

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6 See the Board of Pensions form ENR-108: *Worksheet for Full-Time Equivalent Salary Basis for Healthcare Dues*. As the title of this worksheet suggests, full-time equivalent is relevant [and thus computed] when computing dues for the Medical benefits plan **but not for** the Pension or for the Death & Disability plans.

7 Effective salary and hours per week must be as reported to the Board of Pensions every year on form ENR-111: *Change of Salary*, or on-line through Benefits Connect.

c. Reference Income

i. Reference Income is Effective Salary, <u>except in any of the three cases listed here:</u>
   1) When computing Medical dues for a part-time pastor, the reference income is instead the Full-Time Equivalent Salary, as described above.
   2) If Effective [or Full-Time Equivalent] Salary **is less than** the Minimum Participation Basis [MinPB], then the reference income is the Minimum Participation Basis instead of Effective Salary; see subsection ii. below.
   3) If Effective [or Full-Time Equivalent] Salary **exceeds** the Maximum Participation Basis [MaxPB], then the reference income is Maximum Participation Basis instead of Effective Salary; see subsection iii. below.

ii. Minimum participation basis
   1) Dues are invoiced based on – that is to say, the reference income equals – the minimum participation basis when a member's effective salary [or FTES] is less than the minimum participation basis for a benefit. [This turns out to be a highly unlikely prospect in the Presbytery of Boston: an effective salary that satisfies the presbytery's minimum compensation standards would thereby exceed the MinPB for all Board of Pensions benefit plans.]
   2) The Board of Directors of the Board of Pensions sets the **minimum medical participation basis**, a dollar amount, each year. The Board publishes the Minimum Medical Participation Basis in each year's *Quick Facts* brochure and *Dues Schedule*, and in *Median Salaries and Dues Minimums and Maximums for 20nn*; search on http://www.pensions.org.
   3) The **minimum pension participation basis** and the **minimum death and disability participation basis** have for many years been set at 25 percent of the annual churchwide median effective salary for installed teaching elders. This proportion is unlikely to change; current dollar values are published in each year's *Quick Facts* brochure and *Dues Schedule*, and in *Median Salaries and Dues Minimums and Maximums for 20nn*.

iii. Maximum participation basis
   1) Dues are invoiced based on – that is to say, the reference income equals – the maximum participation basis when a member's effective salary [or FTES] exceeds the maximum participation basis for a benefit.
   2) The Board of Directors of the Board of Pensions sets the **maximum medical participation basis**, a dollar amount, each year. The Board publishes the Maximum Medical Participation Basis in each year's *Quick Facts* brochure and *Dues Schedule*, and in *Median Salaries and Dues Minimums and Maximums for 20nn*; search on http://www.pensions.org.
   3) The **maximum pension participation basis** and the **maximum death and disability participation basis** is a dollar amount set annually by federal law. Current values are published in each year's *Quick Facts* brochure and *Dues Schedule*, and in *Median Salaries and Dues Minimums and Maximums for 20nn*.

C. SECA

1. The mandatory SECA Offset is one-half of the pastor's SECA obligation[8].

   a. For many years[9] the SECA rate has been 15.3%; one-half of that is obviously 7.65%.

   b. The current rate is given in the presbytery's annual Minimum Compensation Standards.

2. The reference income for SECA is Effective Salary minus certain types of deferred income.

   a. Note the special treatment of housing compensation.
      i. Effective Salary includes the housing or manse allowance, which is not subject to federal income taxes.
      ii. But the Social Security Administration treats housing allowance differently than the IRS does, including it in the SECA base.

   b. Note also the special treatment of certain types of deferred income; see the paragraphs describing Section 403(b)(9) plans in the *Tax Guide for Ministers* from the Board of Pensions for further clarification of requirements.

[8] See the definitional entry for *SECA Offset* below.
[9] With a temporary reduction during the early Stimulus years.

V. DEFINITIONS

The following terms are defined in this section; their definitions appear on the indicated pages.

403(b)(9) retirement plan

Similar in many ways to the perhaps-more-familiar 401(k) retirement plans, a 403(b) plan is a defined contribution retirement plan for employees of certain tax-exempt organizations or public schools, allowing pre-tax contributions and deferred taxation advantages. The *Retirement Savings Plan of the Presbyterian Church (U.S.A.)* [RSP], offered through the Board of Pensions and administered by Fidelity Investments, is a 403(b)(9) plan. The "(9)" indicates that it is a *church* retirement income account.

Pastors can enroll in the PCUSA's Retirement Savings Plan as long as their employing agency – in this case, their congregation – has executed an *Adoption Agreement* with the Board of Pensions. Some congregations establish their own 403(b)(9) plans to give their employees options instead of or in addition to the RSP, but the legal and administrative overhead can be onerous for small or medium-sized congregations such as are in our presbytery.

The pastor's [employee's] contributions to the RSP *or any other* qualified 403(b)(9) plan offered by her or his employer, in the form of pre-tax payroll deductions, are part of the total entered on line 1 of the Board of Pension's Form ENR-111 [or Benefits Connect]. Those contributions [pre-tax payroll deductions] to the Board's RSP are reported to the presbytery on line 1b of our annual *Terms of Call Review* form, while the pastor's contributions to any other 403(b)(9) plan are reported on line 1c. The amount reported in line 1a ["cash salary"] is thus reduced by a corresponding amount.

Matching contributions by the congregation [employer] to the Board of Pensions' **RSP** 403(b)(9) plan are reported on line 3b of our annual *Terms of Call Review* form; but they are **not reported** on the Board's Form ENR-111 or Benefits Connect, nor are they part of Effective Salary. In contrast, any matching contributions by the congregation [employer] to a **non-RSP** 403(b)(9) plan **are** reported on line 3 of Form ENR-111 and on Benefits Connect, and on line 3c of our annual *Terms of Call Review* form.

In summary, a pastor's contributions to the RSP or any other 403(b)(9) plan are included in Effective Salary, as are the church's matching contributions to any **non-RSP** 403(b)(9) plan. The inclusion of the non-RSP matching contributions in Effective Salary can be good if the pastor [who is a member of the Board of Pensions benefits plan] wishes to accumulate more pension credits; it can be bad if the church wishes not to increase its dues obligations, or if the member wishes not to increase the deductible and copayment maximum values, both of which are computed as a proportion of Effective Salary. Thus the decision whether to offer and accept a 403(b)(9) benefit, and its amount, deserves careful thought and discussion during the annual review of the adequacy of the pastor's compensation.

Accountable reimbursement plan

An accountable reimbursement plan reimburses an employee for the employee's expenses of carrying out duties benefiting the employer. Accountable reimbursements for business expenses are those expenses repaid by an employing organization upon substantiation or an accounting from the member, indicating the purpose, date, amount, and place of the expenditure.

See the Internal Revenue Code or the *Tax Guide for Ministers* from the Board of Pensions for further clarification of requirements.

Such a plan must be administered by the church. It will require record-keeping by the pastor, use of vouchers supported by receipts and contemporaneous records, and the satisfaction of applicable Federal rules for reimbursement of expenses.

Eligible expenses could include the following, *inter alia*:

- mileage and travel
- mobile phones
- vestments and robes
- continuing education, books, subscriptions, memberships
- hospitality expenses
- other professional expenses of this type.

To qualify expenses for an accountable reimbursement plan, employees must

- Have paid or incurred eligible expenses while performing services related to their work; and
- Submit information to substantiate the specific business nature of expenses to the employing organization. Each element of an expenditure must be substantiated; it is not sufficient for the reimbursed individual merely to combine expenses into broad categories such as "travel", nor to report individual expenses through the use of vague, non-description terms such as "miscellaneous business expenses."

Expenses reimbursed by an accountable reimbursement plan are not reported on the W-2 form as taxable income nor are they included in Effective Salary.

Accumulating account

The presbytery recommends that unspent funds in a pastor's Accountable Reimbursement Continuing Education / Study Leave account, and her/his Accountable Reimbursement Professional Expenses account, be allowed to carry over for use in a subsequent year, up to a limit of three years' worth: it is said that the value in these accounts can thus *accumulate*.

This obviously requires careful accounting, perhaps in some sort of segregated fund, because these accounts can span more than one current budget year.

Adjusted minimum base compensation

The Book of Order [G-2.0804] requires presbyteries to establish minimum standards for pastors' compensation. The Presbytery of Boston's standard is expressed in terms of Adjusted Minimum Base Compensation.

The standard is structured such that the minimum compensation increases with the pastor's years of experience since ordination. The presbytery therefore establishes an entry-level minimum for newly-ordained pastors, and an adjustment formula that specifies how the entry-level minimum is augmented – is adjusted – for each year of ordained service.

The current value of the entry-level minimum base, and the formula by which that entry-level base is augmented, are given in each year's *Minimum Compensation Standards*; the formula that has been in effect for many years increases the entry-level minimum base compensation by 1% for each of the first ten full years of ordained ministry, and by 0.5% for each subsequent year beyond ten. That computation is illustrated above in Section IV.A.

Base compensation

The presbytery's minimum compensation standards have always been expressed in terms of an installed pastor's *base compensation*, rather than in terms of all possible components of compensation as outlined above in section II.

The minimum standards describe a method to compute each pastor's *adjusted minimum base compensation*, based on an entry-level minimum base and the number of years of pastoral service since ordination.

The pastor's effective salary is then compared to this computed adjusted minimum base compensation, to see whether the pastor's compensation conforms to the presbytery's minimum standards.

See the definitional entry for adjusted minimum base compensation, above, and the entry for effective salary, below.

Board of Pensions

The Board of Pensions administers the Benefits Plan of the Presbyterian Church (U.S.A.), providing pension, healthcare, death, and disability benefits to qualifying members who serve, or have served, the PC(USA).

The Board of Pensions also offers a Retirement Savings Program [the RSP, a qualified 403(b)(9) plan, administered by Fidelity Investments] as well as supplemental dental and vision benefits programs.

The Board of Pensions' Assistance Program also provides financial and vocational grants, and some kinds of emergency assistance.

Board of Pensions dues

Dues assessed by the Board of Pensions for its medical, death & disability, and pension benefit plans, expressed as a proportion of Effective Salary. The *Book of Order* mandates that all installed pastors participate in the plan and that their congregations must pay the dues.

The Board publishes the dues percentages in each year's *Quick Facts* brochure, and in its annual *Dues Schedule*, and embeds them in the on-line dues calculators. The dues percentages are also included in our *Minimum Compensation Standards* as revised annually.

The Board of Pensions has separated the member's medical benefit from her/his dependents' medical benefits; if the member has a spouse or children below the age of 26, the presbytery directs congregations also to pay the additional dues assessed for the Member + family plan.

Cash salary

Along with the basic payment on the pastor's pay checks, Cash Salary includes the employ**ee**'s [the pastor's] contributions to 403(b)(9) plans and tax sheltered annuities; unvouchered [i.e., not structured as an accountable reimbursement account] book or study or car allowances; salary reduction contributions to flexible health spending accounts and other cafeteria plans [often called "Section 125" plans because of the governing section of the tax code], special vacation pay, overtime, etc.

These payments are added together and listed on line # 1 on the Board of Pensions' form ENR-111 and on sub-lines within line 1 of the presbytery's annual *Terms of Call Review* form: the [net] cash itself goes on line 1a., salary-reduction contributions to the Board of Pensions' Retirement Savings Plan on line 1b., other 403(b)(9) annuity plans on line 1c., salary-reduction contributions to various "cafeteria" or Section 125 benefits on line 1d, and any other salary-reduction contributions on line 1e. The *Terms of Call Review* form will then calculate the sum and display it in the shaded box on line 1.

Other components of the pastor's compensation are reported elsewhere:

a. employer contributions to 403(B)(9), tax-sheltered annuity plans are reported on line 3;
b. manse equity allowances that are structured as a qualifying deferred Equity-equivalent accumulation fund [see its definitional entry, below] are reported on line 3 of both forms;
c. manse equity allowances that instead are structured as a current income supplement are reported on line 4 of both forms;
d. down-payment assistance from the church is reported on line 4 of both forms;
e. bonus or gifts from the church is reported on line 4 of both forms;
f. unvouchered [that is, not structured as an accountable reimbursement account] professional expense allowances are reported on line 4 of both forms;
g. excess [above 50%] SECA compensation is reported on line 5 of both forms;
h. unvouchered medical allowances are reported on line 6 of both forms.

Continuing education or study leave account

One of the three recommended accountable reimbursement accounts [which therefore requires the submission of vouchers or similar expense reports, supported by receipts and contemporaneous spending records substantiating payment for qualifying purchases], the continuing education / study leave account reimburses the pastor for the expenses incurred in maintaining or increasing her or his skills and knowledge as a pastor.

The presbytery recommends that this be an accumulating fund, allowed to grow up to three times its annual size.

Often this fund will support a pastor's attendance at a conference or educational event that might last several days. In that case the registration, any books and materials charges, accommodation and travel expenses can be reimbursed from this account, and the pastor's time away is enabled by the recommended two weeks of Study Leave each year; see the definitional entry for Study Leave, below. [Many congregations also allow their pastor to submit the travel expenses associated with a distant study leave for reimbursement through an accountable reimbursement Travel Expenses Account; see its definitional entry below.]

But it is also possible that the pastor might engage in a continuing education activity that does not require travel or absence; this account can of course still support the accompanying registration, books and materials expenses.

Deferred income

Deferred income is a general term for a part of compensation that is paid this year, in some [usually tax-advantaged] form, to be available for use later. The customary form is through a 403(b)(9) plan, such as the Retirement Savings Plan [RSP] mentioned above in the 403(b)(9) definitional entry and described below in its own entry, but it could also be an Equity-Equivalent Accumulation Fund [EEAF] as described below.

The pastor's [employee's] contributions, if any, to a deferred income instrument would be reported to the Board of Pensions as part of line 1 on Form ENR-111 [or on-line through Benefits Connect], and to the presbytery on line 1c or line 1d of the annual *Terms of Call Review*.

If the congregation [employer] offers an EEAF, its value would be reported to the Board of Pensions on line 3 of Form ENR-111 [or on-line through Benefits Connect], and also to the presbytery on line 3d of the annual *Terms of Call Review*.

In all such cases, the deferred income is part of Effective Salary; in no case is it subject to current federal income tax.

Dental benefits

In addition to the flagship Medical Plan, the Board of Pensions also offers an Optional Dental Benefits Plan to members, currently administered by Aetna Life Insurance Company. Depending upon where the member lives, the Optional Dental Benefits Plan may be a Passive PPO, a PPO Option or a Dual Option [offering the choice of either a Dental Maintenance Organization or a PPO] plan.

There are restrictions – and some waiting periods – depending on when a member enrolls in the Dental Benefits Plan. For more details, consult the *Benefits Overview: Optional Dental Benefits*.

Dependent care flexible spending account

If both the pastor and her or his spouse/partner work outside the home, and thereby need to pay a qualified individual or organization to care for their minor child(ren) during the day, the IRS recognizes that spending as pretty much like other expenses that are necessary in order to earn income.

There are two ways a family can obtain some tax advantages for such child care expenses[10]. For the most part [at least with respect to each child taken one at a time], the family must choose only one of the ways.

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[10] These potential tax savings are in addition to the Child Tax Credit, which offers a tax credit [varying with income] for the mere presence of a child in the family. These tax savings accrue only to the extent that the family pays for child care to allow the parent or parents to work and earn income. As always, consult a qualified tax advisor.

One way is the Dependent Care *Credit*, allowing the family to reduce its tax obligation by a certain amount for every dollar spent on child [or certain other dependents'] care, within certain spending limits; the proportion of child care spending that is credited decreases with gross income. See IRS Publication 503, *Child and Dependent Care Expenses*, and Form 2441, *Child and Dependent Care Expenses.*

The other way is with a Dependent Care Flexible Spending Account, operating like any other flexible spending account, in which a portion of the employee's pre-tax salary is diverted into the account which then reimburses qualified child care expenses. This has the practical effect of converting the covered child care expense into a tax *deduction*.

For a pastor to participate in a dependent care flexible spending account, her or his church must have set up the account according to specific and strict IRS regulations and offer it to all of its employees; that is a considerable administrative burden, beyond the reasonable ability of most of our congregations.

Some families [usually those with higher adjusted gross income] would benefit more from the child care flexible spending account deduction [if their employer were, in fact, to offer such a creature] than they would from the child care credit; naturally, many families with not-so-high adjusted gross incomes would benefit more from the child care credit.

If a pastor were to explore both, based on her or his own financial and family circumstances[11], and discover that a child care flexible spending account would be most beneficial, then perhaps part of the annual review of the adequacy of her or his terms of call might include an exploration of the possibility that her or his church might establish such an account.

Early Ministry Institute

Early Ministry Institute (EMI) is a three year program of the Synod of the Northeast designed to encourage and support pastors in their first call to parish ministry and to assist them to gain skills in specific areas which are often omitted in the traditional seminary education.

The context of EMI is to center on God's call to us and to reflect how Christ is part of our ministry, to consider the ongoing life of the congregation, and to take a look at the church as it interacts with the surrounding world.

EMI Objectives Are:

- to encourage participants, individually and as a community, to reflect intentionally upon God's role in their lives and their ministry;
- to provide opportunity for those in their first parish to discuss with each other and with more experienced pastors certain issues of ministry.
- to introduce new pastors to human and other resources available in the Synod of the Northeast;
- to provide a time in a relaxed setting when participants can reflect together on their experiences, their successes, and their disappointments.

The EMI is usually held from the first Sunday in May through the following Thursday at Stony Point Conference Center.

[11] Probably with the assistance of the Board of Pension's *Tax Guide for Ministers*, as mentioned above, and certainly only with the counsel of a qualified tax advisor.

The Presbytery of Boston strongly urges that all pastors in their first call as solo pastor be granted a week's paid leave [in addition to normal study leave] in order to participate in EMI, for the benefit of the pastor and her/his ministry to the congregation. The presbytery will pay the registration and attendance costs of EMI, and will assist the congregation in obtaining pulpit supply during the pastor's Sunday absence.

Effective salary

Effective Salary is a Board of Pensions artifact, used to compute dues obligations for covered members, and their deductible and copayment maxima. In general it includes nearly all compensation received from the member's congregation or employing organization, whether received in cash or kind or some deferred form. It includes housing allowances but excludes matching contributions to the Board of Pensions' Retirement Savings Plan, accountable reimbursements for qualifying business expenses, SECA reimbursements, and Board of Pensions dues.

The formal definition of Effective Salary, found in section 2.1 of the Benefits Plan, is

> Any compensation received during a Plan Year by a Benefits Plan Member from an employing organization, including but not limited to any sums paid as a housing (including utilities and furnishings) allowance. Effective Salary shall also include any deferred compensation (funded or unfunded) credited to or contributed on account of a Member by an employing organization during a Plan Year, with the exception of any amounts contributed as an employer contribution to the Retirement Savings Plan under a matching contribution program that is available to at least all employees of the employer in the same employment classification, and any salary reduction contributions to a plan or other arrangement providing a tax-favored benefit. Effective Salary does not include amounts received for reimbursement of professional expenses through an accountable reimbursement plan or Social Security amounts up to fifty percent (50%) of a teaching elder's Self-Employment Contributions Act obligations. With respect to a Member eligible for a housing allowance, the amount for housing is calculated as follows: if a Manse is provided, the amount shall be at least thirty percent (30%) of all other compensation described above; if no Manse is provided, the amount shall be the actual housing allowance.[12]

The computation of Effective Salary is discussed above in Section IV.B.1.

Entry-level minimum base compensation

The minimum base compensation for a newly-ordained pastor, specified in each year's *Minimum Compensation Standards*.

The Book of Order [G-2.0804] requires presbyteries to establish minimum standards for pastors' compensation. The Presbytery of Boston's standard is expressed in terms of Adjusted Minimum Base Compensation.

Our presbytery's standard is structured such that the minimum compensation increases with the pastor's years of experience since ordination. The presbytery therefore establishes an *entry-level* minimum for newly-ordained pastors, and an *adjustment formula* that specifies how the entry-level minimum is augmented – is adjusted – for each year of ordained service.

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[12] This definition of Effective Salary also appears in the Board of Pensions publication PLN-103: *Understanding Effective Salary*, p. 3, which includes highly detailed explanation and examples of various items which are or are not included in Effective Salary in various circumstances.

Equity-equivalent accumulation fund [EEAF]

A deferred-income fund offered by some congregations to their pastors who live in a manse.

Pastors [or anybody else] who do not own their own homes thereby do not enjoy the appreciation in asset value as house prices typically increase over long periods of time. Congregations that own a manse usually do find the value of the manse appreciating over time.

As congregations with a manse seek to call a new pastor, and negotiate their terms of call annually with a current pastor, an equity-equivalent accumulation fund can sometimes make the call more attractive. Such a fund could be expressed in a number of ways; most often as a percentage of effective salary, but perhaps as a percentage of the fair market value of the manse, or even a fixed monetary amount.

Experience adjustment

The amount by which the entry-level minimum base compensation is adjusted – is augmented – for each year of ordained ministry, to compute the adjusted minimum base compensation.

The experience adjustment is computed on the basis of the *adjustment formul*a specified in each year's *Minimum Compensation Standards*.

Family / bereavement leave

The presbytery recommends that congregations offer their pastors paid leave when faced with certain events in their families' lives, in accordance with the *Pastoral Family Leave Guidelines*.

Full Time

Pastoral calls can be, obviously, either full-time or not full-time: either full-time or part-time.

In recent years the presbytery has not always been complete or precise in expressing what full-time means, or how it corresponds to employment conditions outside the church. One major manifestation of that is the practice for several years of specifying pastoral activity in terms of units[13] rather than hours per week.

A full-time call in the Presbytery of Boston is often said to involve 14 units[14]; thus a half-time call is said to be seven units. Some presbyteries explicitly limit a full-time call to no more than two evening units – which is how presbyteries express, in unit language, an intention to protect their pastors from a requirement or expectation that they attend meetings too many evenings per week.

One complication of the presbytery's expressing pastoral activity in terms of units arises because the Board of Pensions requires all part-time calls to be defined [and reported to them] in terms of *hours* per week rather than *units* per week, on forms ENR-101 and ENR-111, and in Benefits Connect[15].

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[13] A unit is often loosely-defined as "a morning, an afternoon or an evening" and sometimes translated into some interval between three and four hours. See the definitional entry below for Unit Service.

[14] A few presbyteries formally define full-time service to involve 13, or rarely only 12, units.

[15] The presbytery's annual *Terms of Call Review* form also requires congregations to express their part-time pastors' call in terms of hours per week.

Parallel to thinking of a unit as a morning or an afternoon or an evening – and more familiar and thus easier to deal with for some pastors and congregational officers – a unit is sometimes described as three to four hours; by that standard a full-time call would involve somewhere between 42 and 56 hours and a half-time call would be 21 to 28 hours. Some presbyteries, eschewing unit designation altogether, declare that full-time is something like 48 or 50 hours, essentially the middle of that range.

In one limited context – computing the Full-time Equivalent Salary for a pastor whose call is less than full-time, and on that basis computing medical dues and deductibles and copayment limits – the Board of Pensions defines full-time as only 35 hours or more. But the Board makes no other claim or advice, in any context, about the number of hours actually devoted to a full-time pastorate

Furnishings account

Some congregations offer a fully-furnished manse and undertake all cleaning and replacement of the furnishings, factoring these costs into the [fair rental] value of the manse allowance. In contrast, some pastors' families have [and prefer to use] their own furniture, in which case it may be appropriate to offer a furnishings account, reimbursing the pastor's expenditures for furnishing the manse [perhaps buying, almost certainly replacing, cleaning or repairing furniture and other equipment in the manse].

The Board of Pensions requires that the manse allowance, if it exists, be at least 30% as large as the value of all other components of the pastor's effective salary. The choice of whether the value of furnishings will be included in the manse allowance, or recorded in a separate account, obviously affects whether that 30% ratio is achieved: it affects the proportion of the manse allowance to the rest of effective salary. If a separate furnishings account is offered, the value of the manse allowance by itself must still meet the 30% threshold. Pastors and church officers should consider this when deciding whether to separate furnishings into its own account.

If such an account were included in a pastor's terms of call, it would be reported to the Board of Pensions on line 2 of form ENR-111 [separate from the value of the Manse Allowance, which is reported on line 7] or through Benefits Connect; it would be reported to the presbytery on line 2c of the annual *Terms of Call Review*.

Health flexible spending account

A Health Flexible Spending Account is a program under Section 125 of the Internal Revenue Code that allows an employee to set aside a part of salary on a pre-tax basis and use the money to be reimbursed for eligible healthcare expenses the employee incurs for herself or himself or for her or his eligible dependents.

A Health FSA is operated through a "cafeteria plan," enabling participants to pay the expenses on a pre-tax basis. To qualify for the advantage on a pre-tax reimbursement, the Health FSA must follow certain rules established by the IRS.

In order to establish a Health FSA for its employees [its pastors and other employees], the employing organization [the congregation] must adopt a plan document setting forth the terms and conditions of the Health FSA according to IRS requirements.

For more information about the IRS requirements and regulations, consult the Board of Pensions' Publication FSA-001: Guide for Employers Considering Health Flexible Spending Accounts and Federal Reporting Requirements for Churches; no congregation should set up its own Health FSA or any other FSA[16] without the advice of a qualified professional tax advisor.

Health reimbursement arrangement

A health reimbursement arrangement [HRA] is one of the options [along with a health flexible spending account or a more restrictive medical deductible account] by which a congregation can offer its pastor a form of compensation to reimburse certain health and medical-related expenses on a non-taxable basis.

A HRA, established under Section 105 of the Internal Revenue Code, is funded solely by the employer[17], providing reimbursement for certain medical expenses up to an annual limit. These arrangements are not subject to federal income tax or social security [SECA] tax **if set up as a group plan** to reimburse the employing organization's **entire employee population** for medical expenses not covered by the Board of Pensions' Medical Benefits Plan, such as deductibles and copayments. To reinforce what was written in bold above: Funds provided through a HRA for medical reimbursement are taxable, unless the benefit is provided to the employing organization's entire employee population.

For more information, refer to two Board of Pensions documents: Guide for Employers Considering Health Flexible Spending Accounts and Federal Reporting Requirements for Churches, especially pages 9 and 10, and seek qualified professional tax advice.

Hospitality account

Some congregations include in their pastor's terms of call an accountable reimbursement account for meals or coffee or snacks which the pastor shares with members and groups in the congregation or presbytery or community, while engaging in congregational care, counseling, outreach, evangelism, committee or small group meetings, and so forth.

In other congregations it is understood that these expenses are appropriate for submission as professional expenses.

Housing allowance

One form of housing compensation, the Housing Allowance reimburses the expenses incurred by a pastor who owns or rents her/his own home. See the Housing Compensation definition below, for broad guidelines on its favorable tax treatment.

According to the *Tax Guide for Ministers*,

> Ministers who own or rent their home do not pay federal income taxes on the amount of their compensation that their employing church designates in advance as a

[16] Employers may also establish Flexible Spending Account plans for dependent care expenses. If an employer offers a cafeteria plan established under Section 125 of the Internal Revenue Code, it may also permit pre-tax contributions toward disability, life insurance (other than dependent life), and medical plan premiums. Again, consult qualified professional tax advisors before establishing any such plans.

[17] In this way a health reimbursement arrangement differs from a perhaps more-familiar health flexible spending account, in which the employee makes pre-tax contributions to the flex account.

housing allowance, to the extent that (1) the allowance represents compensation for ministerial services, (2) it is used to pay housing expenses, and (3) it does not exceed the fair rental value of the home (furnished, plus utilities.) Housing-related expenses include mortgage payments, rent, utilities, repairs, furnishings, insurance, property taxes, additions, and maintenance.

The second and third criteria above are crucial, and bear repeating: a pastor's housing allowance is excluded from taxable income only to the extent that it is used to pay housing expenses and does not exceed the fair rental value of the pastor's home, with furnishings and utilities.

This can be summarized as follows: the nontaxable portion of a housing allowance is the **lesser** of the following three amounts:

1. the housing allowance as designated by the congregation in the pastor's terms of call;
2. the pastor's actual housing expenses; and
3. the fair market rental value of the house (furnished, with utilities).

Conscientious pastors and congregations obtain a professional appraisal of the fair market rental value of their pastor's home every five years or so in order to be certain to satisfy this IRS requirement.

The value of housing allowance is reported to the Board of Pensions on Benefits Connect, or on Line 2 on form ENR-111, and is reported on Line 2a of the presbytery's annual *Terms of Call Review*. The **non-taxable** portion of housing allowance [which will be the entire housing allowance for those pastors and congregations who correctly specified its value in the terms of call] will **not** be reported on Form 1040, but will be reported on Schedule SE in computing SECA tax obligation. If the designated housing allowance exceeds the allowable value, its excess must be reported on Line 7 of Form 1040.

Housing compensation

Housing compensation, which is part of Effective Salary, can take one of two forms:

1. Manse Allowance, for a pastor living in a manse owned and provided by the congregation; or
2. Housing Allowance, for a pastor living in a house (s)he owns or rents.

See the definitional entries for each of the forms for detailed information.

Regardless of the form in which the congregation compensates its pastor(s) for housing, this part of pastoral compensation offers significant federal income tax[18] benefits which are available **only if** certain conditions or criteria are scrupulously followed. A full discussion appears in the Board of Pensions' annual *Tax Guide for Ministers*; general guidance follows:

First, the allowance must represent [partial] **compensation for ministerial services**.

Second, the amount of the housing or manse allowance must be **designated in advance**. Session must formally approve the allowance as part of the terms of call [recording that fact in their minutes] and the congregation must approve the terms of call including the housing or manse allowance by vote at a duly-called congregational meeting [recording that fact in the minutes of the congregational meeting] before the allowance is paid to the pastor. Housing or manse allowance that has not been pre-designated by both the session and the congregation in this way cannot be excluded from taxable income, but must instead be reported on line 7 of Form 1040.

[18] But **not** SECA tax benefits: housing or manse allowances, and accompanying utility or furnishing allowances if applicable, must be reported as income on Schedule SE when computing the SECA tax obligation.

Third, the **size of the allowance must be justifiable** to the IRS. See the definitional entries for each form of housing compensation; again: more details plus examples appear in the Board of Pensions' annual *Tax Guide for Ministers*.

Manse allowance

One form of housing compensation, the Manse Allowance represents the fair rental value of a manse owned by the congregation and occupied by the pastor's family.

The congregation may also provide (tax-free) "allowance" for reasonable expense for furniture, cleaning, décor, etc., recognizing that the use of furniture and cleaning etc. is for the benefit of the church, with the expectation that the manse will be the location of some meetings, entertaining, maybe counseling, whatever. In order to do so, the furnishing allowance or utility allowance[19] must be designated in advance just as the manse allowance must be designated in advance.

The amount of income that can be excluded from federal income tax is the lesser of (a) the value designated as manse allowance plus any associated allowances, or (b) the fair market rental value of the manse plus utilities and furnishings and maintenance.

The value of the manse allowance is reported to the Board of Pensions either through Benefits Connect or on line 7 of their Form ENR-111; it is reported to the presbytery on line 7 of the annual *Terms of Call Review*. The value of any associated allowance [utilities, or furnishings] is reported on line 2 of Form ENR-111 and on lines 2b or 2c of the annual *Terms of Call Review*.

The Board of Pensions requires the value of the manse allowance to be at least 30% of all the other elements of Effective Salary; alternatively, it must be at least 23% of Effective Salary

Medical deductible account

The Board of Pensions' Medical Benefits Plan includes deductibles, the amount of eligible medical expenses that must be paid annually before the Medical Plan starts to reimburse a share of the costs: one for the member and one for the rest of her or his family. The size of the deductible is determined by the Board of Directors of the Board of Pensions, typically expressed as a proportion of the member's effective salary.

Some congregations offer their pastors a Medical Deductible Account from which the pastor's and family's deductibles can be reimbursed. It is a more restrictive benefit than a health flexible spending account or a health reimbursement arrangement, but easier to set up and administer.

The account is reported on line 6 of Form ENR-111 and of the annual *Terms of Call Review*.

Moving Expenses

The presbytery recommends that moving expenses for any pastor [and her/his family] who live more than 50 miles[20] away from the church building be included in **original** terms of call. It is best to structure this item as a maximum dollar amount which can be reimbursed, subject to proper submission of expenses supported by receipts.

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[19] It is usually far simpler for the congregation to pay the major utilities directly, as it does anyway with all repairs and maintenance, directly rather than to reimburse the pastor for those expenses.

[20] 50 miles satisfies the IRS "distance test."

As a reimbursable account, this is not subject to federal income tax or SECA tax, nor is it counted in the computation of effective salary.

Any qualifying moving expenses **in excess of the reimbursed amount**, properly supported by receipts, are deductible for the purposes of federal taxes as long as both the IRS "distance test" and the IRS "time test" are satisfied. Moving expenses are figured on Form 3903, *Moving Expenses*, and deducted as an adjustment to income on Form 1040. To repeat: pastors cannot deduct any moving expenses that are already covered by reimbursements from their congregations, that are thus already excluded from income.

For more information on deductible and nondeductible moving expenses, refer to Publication 521, *Moving Expenses*, from the IRS, and to the Board of Pensions' *Tax Guide for Ministers*.

Part-time

See the definitional entry for *full-time*, which part-time of course is not, but within which the relevant information for part-time is presented.

Professional expenses account

One of the three recommended accountable reimbursement accounts [which therefore requires the submission of vouchers or similar expense reports, supported by receipts and contemporaneous spending records substantiating payment for qualifying purchases], the professional expenses account reimburses the pastor for the expenses incurred in performing her or his ministerial services for the congregation.

The pastor and congregation should have a clear agreement ahead of time concerning what expenses are eligible for reimbursement through this account. In general, qualifying purchases or expenses would be similar to those that the IRS would accept for excludable business expenses. Two relevant points:

First, although business travel and continuing education are usually qualified business expenses, and are thus usually treated like any other business or professional expense in the corporate or lay context, the practice for most clergy contracts – and the recommendation of the presbytery in our compensation standards – is to maintain separate accountable reimbursement accounts for travel and for continuing education or study leave.

Second, therefore, the categories of spending that are usually reimbursed from a pastor's professional expenses can include such things as books and subscriptions, membership and dues, vestments and ecclesiastical items, postage and office supplies if not provided directly by the church, perhaps cell phones and their service contracts, and so forth.

It is usually best that the congregation directly provide [and regularly update] appropriate computer, software, printer and accompanying equipment for the pastor's work, perhaps from a budget line in a general equipment or administrative category. Some congregations instead prefer that their pastors purchase such items, upgrading them as appropriate, for reimbursement; in that case the professional expenses account should be augmented sufficiently to allow those kinds of expenses as well.

This would be an especially important reason to allow the account to accumulate up to three years' worth, because computer and software expenses would typically fluctuate greatly from year to year.

As an aside, note that computers and other tangible goods – even books – that are paid for under the reimbursement method actually belong to the church. Churches may later offer to sell these items to the pastor at [a depreciated] fair market value; sometimes churches choose to treat these items as gifts to the pastor when a new replacement item is purchased. If treated as a gift, however, these items are considered taxable to the pastor based on the current market value [which, after depreciation, can often become quite low].

Relocation expenses

See the definitional entry for Moving Expenses, above.

Retirement Savings Plan of the Presbyterian Church (U.S.A.)

The Retirement Savings Plan of the Presbyterian Church (U.S.A.) [the RSP] is a tax-deferred church retirement income account plan under Section 403(b)(9) of the Internal Revenue Code, administered by Fidelity Investments (Fidelity).

The Board charges no fees for the RSP, and the Plan offers socially responsible Fidelity funds with PC(USA) social screens, which are often popular investment options for employees who seek long-term capital growth. Also, unlike commercial plan sponsors, the Board has the authority to designate RSP distributions as housing allowance eligible for exclusion from federal income tax.

The employing organization [the *congregation*, for the purposes of those subject to these compensation guidelines], at its discretion, may contribute on the pastor's behalf to the pastor's account. These contributions may be in the form of a contribution matching a contribution the pastor makes to the RSP (a "matching contribution"), or, in some cases, the pastor may not be required to contribute to receive the employer's contribution (a "non-contingent contribution").

All contributions – the pastor's contributions, the congregation's contributions, if any, and the results of any investment gains in the account – are immediately 100 percent vested (non-forfeitable).

Savings grow on a tax-deferred basis —no taxes are paid on any contributions or earnings until the funds are withdrawn from the RSP.

Members have the flexibility to choose how to invest their savings from among the investment options designated by The Board of Pensions of the Presbyterian Church (U.S.A.) (the Board) and offered through Fidelity.

A teaching elder's contributions to the RSP are not subject to Self-Employment Contributions Act (SECA) taxes. This means that teaching elders exclude the amount contributed to the RSP from earnings reported for Social Security taxes. Keep in mind that this may also reduce benefits received in the future from the Social Security Administration.

Information about the Retirement Savings Plan is available on the Board of Pensions' web site.

Sabbatical leave

To enable pastors to give extended study to subjects which will contribute to the work of their church and to their own technical or professional development, an extended sabbatical leave with salary continuation may be granted after six or seven years' service.

For a number of years the Presbytery of Boston had recommended that congregations include in each year's Terms of Call a contribution to a "Sabbatical Fund", equal to 1/28 of the pastor's effective salary, in order to accumulate sufficient money to support a several-month sabbatical leave for the pastor after six or seven years' service.

While the presbytery remains committed to this opportunity for each of its congregations' pastors, beginning in 2014 we no longer recommend that it be "financed" through the Terms of Call – in fact, we declare doing so to be inappropriate.

Instead, the presbytery recommends that congregations commit to enable their pastors to partake of a sabbatical but prepare for it through the operating budget and perhaps a separate fund, but not through the pastor's Terms of Call. See the document *Guidelines for Sabbatical Leave*, in the COM page of the presbytery's web site.

Sick leave

In the past, some congregations may have created explicit, written Sick Leave policies for their pastors and perhaps other employees; most probably did not, and responded to their pastors' health issues on an *ad hoc* basis.

The presbytery had never recommend that all congregations create an explicit sick leave policy before 2015. But the earned sick leave law, M.G.L. c. 149 § 148C, was approved by the voters of the Commonwealth on 4 November 2014 and takes effect on 1 July 2015. The law entitles employees in Massachusetts to earn and use sick time according to certain conditions.

Employees who work for employers having eleven or more employees can earn and use up to 40 hours[21] of *paid* sick time per calendar year; none of the congregations in the presbytery have as many as eleven employees. Employees working for smaller employers – all of our churches fall in this category of "smaller employers", and their pastors are counted as their employees for the purpose of this law – can earn and use up to 40 hours of *unpaid* sick time per calendar year, according to the terms of the new law. Thus the Minimum Compensation Standards include one week of *unpaid* sick leave, in § C.2., as one element of the Minimum Mandatory Non-monetary Benefits.

Consistent with the relationships of love and support and shared ministry that we all desire to maintain between our churches and our pastors, the presbytery has always urged that all congregations prepare so as:

- to be able to react quickly if their pastors are suddenly taken ill and unable to perform their pastoral service for a period of time. This may include provision to arrange pulpit supply and pastoral care on short notice, perhaps with help from the Committee on Ministry; and
- to continue to pay the pastor according to the terms of call for a period of time during his or her illness-related absence.

That advice, "to continue to pay the pastor … for a period of time", takes concrete form now in the recommended benefit of one week of *paid* sick leave that appears in § D.4. of the *Standards*.

Congregations may consult the Chair or the Recording Clerk of the Committee on Ministry to obtain immediate pastoral coverage if their pastor is suddenly and temporarily unable to serve.

[21] We interpret the law's "40 hours" to mean one week, or six working days, including [only] one Sunday. The six days need not be taken consecutively.

Social security (SECA) offset

SECA [the acronym of the Self Employment Compensation Act] is the counterpart to the perhaps more familiar FICA: the Social Security's *Old-Age, Survivors, and Disability Insurance* (OASDI) program plus Medicare's *Hospital Insurance* (HI) program for employers and employees.

Ministers called by congregations are considered by the IRS to be "employees" for income tax purposes, and yet "self-employed" for purposes of Social Security taxation. If ministers had been employees of the church then the church would have been obligated to pay half the Social Security tax while the minister would have been responsible for the other half; as self-employed the pastors are obligated to pay the entire tax. And in fact the presbytery and our congregations pay the employer's portion of Social Security [FICA] taxes for every lay employee.

Thus the presbytery instructs all congregations to provide their installed ministers with a SECA Offset equal to one-half the SECA tax, just as congregations pay one-half the FICA tax for their lay employees. In this way our presbytery – matched by essentially all other presbyteries in the denomination – treats pastors the way other non-ordained employees of the congregation are treated with respect to Social Security taxes.

The SECA tax rate is now 15.3% of earnings subject to social security tax (line 8d of Schedule SE); the presbytery's *Minimum Compensation Standards* indicate that terms of call must include half that much, which therefore is currently 7.65% of the SECA base, which is Effective Salary less salary-reduction contributions to the RSP.

Contributions to a SECA Offset are subject to income tax. Contributions up to 50% of the total SECA obligation – the presbytery's recommendation – **are not counted** as part of Effective Salary; any "excess" above 50% **is counted** in Effective Salary [and must be entered on line 5 on both Form ENR-111 and our presbytery's annual *Terms of Call Review* form], thereby increasing Board of Pensions dues, deductible and copayment limits, but also the retirement credits.

Study leave

The presbytery requires that all installed pastors be provided two weeks of paid study leave per year. The presbytery further recommends that study leave be allowed to accrue up to four weeks in total, if the pastor does not use the entire two weeks in any year.

The purpose of the study leave is to enhance the professional abilities of the pastor which shall be mutually beneficial to both the pastor and the church. The goal is for self-development in the work of ministry and not for vacation, recreation, or leisure. Study leave should equip a pastor for the work not only of the local church, but the whole Church. Hence a study leave may have immediate and direct relevance broader than the current pastoral position.

Each pastor must present, several weeks in advance, the plans and rationale for each study leave to the Session for discussion, approval and the timing of the leave. That will allow session to arrange pulpit supply and other necessary pastoral coverage in the pastor's absence. Most sessions require that their pastors submit a written report of each study leave to the Session at the next meeting following the conclusion of the study leave.

One of the three recommended accountable reimbursement accounts, the Continuing Education / Study Leave account, can support the registration, supplies and books, accommodation and travel expenses associated with study leaves. Many congregations also allow the use of another of the recommend accounts, the Travel Expense account, to cover travel expenses associated with study leaves. See the definitional entries for both of those accounts.

The presbytery recommends that in the event of termination of service, any accumulated study leave time and allowance shall be forfeited. Pay *in lieu* of study leave will not be provided.

Travel expense account

One of the three recommended accountable reimbursement accounts [which therefore requires the submission of vouchers or similar expense reports, supported by receipts and contemporaneous spending records substantiating payment for qualifying purchases], the travel expense account reimburses the pastor for the expenses incurred in traveling away from the church building in performance of her/his pastoral duties.

It is usually best to reimburse automobile travel according to the current IRS mileage rate, and all other forms of travel on the basis of actual expenses substantiated by tickets and/or receipts.

The pastor and congregation should have a clear agreement ahead of time concerning what expenses are eligible for reimbursement through this account. To conform with IRS regulations it **should not** cover commuting between the pastor's home and the church building. Almost always it will include travel to members' homes and to hospitals for pastoral visits; to meetings of the presbytery or synod or general assembly, and to meetings of committees of the presbytery; to homes or offices or restaurants or other venues when engaging in evangelism or outreach or counseling or community groups or clergy gatherings; to funeral homes and cemeteries for planning and conducting funerals; and so forth.

Attending continuing education events during study leave often requires travel, sometimes for a fairly long distance. Those travel expenses could be reimbursed from the recommended accountable reimbursement Continuing Education / Study Leave account; most congregations would also allow their pastor to submit those travel expenses for reimbursement from this account instead. [See the definitional entry for the Continuing Education / Study Leave account.]

Unit assignment

This refers to the number of "units" assigned in the *Minimum Compensation Standards* to the performance of intermittent pastoral service, usually pulpit supply and moderating meetings.

For example, during the last several years the standards have assigned 2 units to preaching and leading one worship service or 3 units for leading two services on the same day, and 1.5 units for moderating a session or congregational meeting. These almost surely represent more "units" than the corresponding hours for the act itself, whether it be a worship service or a meeting, reflecting preparation and maybe travel time.

Unit compensation rate

The rate, specified in the *Minimum Compensation Standards*, at which a congregation must compensate a teaching elder for the performance of intermittent pastoral service, usually pulpit supply or moderating meetings.

Unit service

A Unit is a block of time given by a teaching elder in service to a congregation: a morning, an afternoon or an evening. The service given may be administrative, pastoral, worship preparation or leadership, and/or study for any of these activities.

Teaching elders who provide intermittent pastoral services to congregations without regular pastoral leadership – often preaching and leading worship, and moderating session or congregational meetings – are said to offer Unit service. Such pastoral services are to be compensated consistent with the presbytery's current *Minimum Compensation Standards*, which specify both the minimum unit compensation rate and the unit assignment corresponding to each such activity.

Utilities Account

A utilities account sometimes accompanies a manse allowance or a housing allowance, reimbursing the pastor's expenditures for the utilities [electricity, natural gas or oil, water and sewer fees, etc.] which serve the manse or house in which the pastor's family lives.

For pastors living in a manse:

Most congregations that provide a manse find it simpler to have the utilities serving the manse billed directly to the church, paying for the utilities themselves, factoring any such expenses into the [fair rental] value of the manse allowance; nevertheless, some congregations keep the two separate, assigning utility oversight and payment to the pastor, in which case a separate reimbursement fund is required [which is reported separately, and is a component of effective salary].

The Board of Pensions requires that the manse allowance, if it exists, be at least 30% as large as the value of all other components of the pastor's effective salary. [That is mathematically equivalent to a requirement that the manse allowance be at least 23% of effective salary.] The choice of whether the value of utilities will be included in the manse allowance, or recorded in a separate account, obviously affects whether that 30% ratio is achieved: it affects the proportion of the manse allowance to the rest of effective salary. Pastors and church officers should consider this when deciding whether to separate utilities into its own account.

If the terms of call for a pastor living in a manse include a utilities account, it would be reported to the Board of Pensions on line 2 of form ENR-111 [separate from the value of the Manse Allowance, which is reported on line 7] or through Benefits Connect; it would be reported to the presbytery on line 2b of the annual *Terms of Call Review* form.

For pastors living in their own houses:

In a parallel fashion, most congregations whose pastors own or rent their own homes [and thus who receive a housing allowance] find it simpler to include utility cost along with fair rental value and other components into one overall value for the housing allowance. Some, however, decide to list them as separate accounts.

If the terms of call for a pastor living in her or his own house include a utilities account, it would be reported to the Board of Pensions as part of a larger sum [including the housing allowance itself] on line 2 of form ENR-111 or through Benefits Connect; it would be reported to the presbytery on line 2b of the annual *Terms of Call Review*.

Vacation

At least four weeks' vacation with pay is provided for all pastors. It is a necessary time of rest, refreshment, and relaxation for health and work performance. Except in extraordinary circumstances and with explicit session and COM approval, vacation time does not accrue from year to year: it is the responsibility of the pastor and the Personnel Committee or whatever group of another name supervises the pastor's work, to see that vacation time is used each year in order to maintain a healthy pastor and an effective ministry.

Some congregations increase paid vacation to 5 weeks after the pastor has served the church for some specified number of years.

Vision benefits

The Board of Pensions' Medical Benefits Plan covers an annual routine eye exam [subject to a copay] at any optometrist or ophthalmologist that is a VSP Choice Network provider, along with small discounts on prescriptions glasses and contact lenses.

For more information, consult the Vision Benefits page at the Board of Pensions' web site.

The Vision Benefits page contains a link to another page from which members can find a VSP Choice Network provider convenient to them.