Ministerial Compensation: Pointers and Pitfalls for Search Committees and Negotiating Teams

From the UUA Office of Church Staff Finances and the Transitions Office
Your Hosts

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Our Time Together

- Minister: Employee or Independent Contractor?
- Ministerial Tax Provisions
- Budget Items to Remember
- Salary Recommendations
- Benefits
- Ministerial Agreements and Negotiations
- Your Resource People
Employee or Independent Contractor?

Your minister is an employee.

• Receives a W-2
• Is entitled to employee benefits
• “Self-employed” for Social Security/Medicare tax purposes ONLY*

*More on this in a moment…
“Contract” causes confusion

- A minister with a contract* is an employee
- Contract ministers are employees

* We tend to say “ministerial agreement” to avoid this confusion.
Employee or Independent Contractor?

When *is* a minister an independent contractor?

- Occasional guest preacher
- Workshop leader
- No ongoing relationship

**Independent Contractor:**
- Receives a 1099 (for > $600 in a calendar year)
- Ineligible for employee benefits
Ministerial Compensation: Payroll & Taxes

We tell new ministers:

“Kids, don’t try this at home.”

• UUA resources available
• Make sure your payroll company understands ministerial tax provisions
• Ministers urged to find an accountant who knows ministerial taxes (at least at first)
Payroll & Taxes

Three Special Tax Provisions for Ministers

**Dual Tax Status**
Minister is an employee for regular income tax purposes
* BUT *
self-employed for Social Security/Medicare.

**Housing Allowance**
Housing-related expenses are excluded from minister’s wages for income tax purposes.

**Withholding Optional**
- Minister need not have income taxes withheld from paycheck (but may elect to)
- Pays taxes **quarterly**
- Withholding FICA not allowed!
Payroll & Taxes

Three Special Tax Provisions for Ministers

• Treated as a minister for ALL or NONE.
• Minister for IRS purposes = fellowshipped or ordained
Payroll & Taxes

Minister’s paycheck

Salary
Pay to the order of **Happy Pastor**

Salary + Housing

Housing Allowance

- Tax withholding optional
- Deductions for employee-paid benefits

Payment in lieu of FICA

Jan calls this the “self-employment tax offset.”

Housing allowance may be paid in a separate check.
Payroll & Taxes

That “dual tax status” thing

A minister is an Employee

For income tax purposes (state and federal)

…and for nearly all other purposes.

BUT...

Self-employed

For Social Security/Medicare tax purposes

…and which is why they pay estimated quarterly taxes.
## Payroll & Taxes

### Dual Tax Status

#### Regular Employees

<table>
<thead>
<tr>
<th>Social Security/Medicare tax</th>
<th>15.3%</th>
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**FICA**

- Employer pays 7.65%
- Employee pays 7.65% (payroll deduction)

#### Ministers

<table>
<thead>
<tr>
<th>Social Security/Medicare tax</th>
<th>15.3%</th>
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**SECA**

- Minister pays 15.3% (quarterly taxes)
- Applies to Salary + Housing

AND SO...
Congregation pays self-employment tax offset to minister.

- Same $$ amount the congregation would have remitted to SS/Medicare for non-ministerial employee at same salary.
- SECA applies to Salary + Housing, so offset applies to Salary + Housing.
Payroll & Taxes

Housing Allowance
Payroll & Taxes

Housing Allowance

- For ministerial agreement, just need total Salary + Housing.
- Minister determines expected housing-related expenses.
- Congregation designates housing allowance (usually board resolution).
- HA excluded from federal & state* income tax, but minister still pays SECA (self-employment tax) on it.
- Salary + Housing used for salary-based benefit calculations.

* Housing allowance is taxed at the state level in Pennsylvania, possibly other states.
Payroll & Taxes

Housing Allowance

Common allowable expenses

• Rent or mortgage payment
• Real estate taxes
• Renter’s insurance
• Utilities
• Furnishings
• Appliances
• Repairs
• Yard maintenance
Housing Allowance

When they do their taxes, the minister is responsible for not excluding more than allowed.

- Can’t exclude more than congregation designated.
- Can’t exclude more than actual expenses of maintaining a home.
- Can’t exclude more than Fair Rental Value (including furniture, utilities, garage)
Parsonage Exclusion

- **Parsonage Exclusion** similar to Housing Allowance, i.e., based on rental value.

- *In addition, Parsonage Allowance* adopted by Board annually: for utilities, minor repairs, and furnishings. (Major repairs are responsibility of congregation.)

- The Minister does NOT pay **income taxes** on these amounts, but must pay the **Self-Employment Tax** (15.3%) on both.
Payroll and Taxes

Ministers: Exempt from Withholding

• Minister NOT REQUIRED to have taxes withheld
• May CHOOSE to have taxes withheld
• Taxes withheld are applied to income taxes, *not self-employment tax*

Self-employment tax is for Social Security and Medicare: SECA. Ministers must pay SECA through quarterly payments.
Payroll & Taxes
Cost to congregation of special ministerial tax provisions

Dual Tax Status
With the self-employment tax offset, cost to congregation is same as for non-clergy staff member at same salary.

Housing Allowance
No budget impact for congregation.

Withholdings Optional
No budget impact for congregation.
Ministerial Compensation

Remember…

1. Moving expense payments are taxable
2. Budget for benefits (every year)
3. Sabbatical fund* (accrues over time)
4. Search fund (accrues over time)
5. 501(c)(3)/Visa process

* To cover expenses during sabbatical
Payroll & Taxes

Questions?
UUA Salary Recommendations

Purpose

• Aid with consistency across congregations
• Enable congregations to attract and retain excellent staff
• Encourage congregations to live their values within their walls
UUA Salary Recommendations

Methodology

- Based on market data for similar church/nonprofit positions
- Midpoint is intended to reflect median survey salary
- Geo Index adjustment based on cost of wages, *not* cost of living
- Geo Index 3 = US average
- Cost of living will be on our charts for ‘20-'21
UUA Salary Recommendations

Three Comparisons

1. Competitiveness
   - Compare salaries with jobs “in the world”
   - Challenge: best jobs to compare?

2. Consistency
   - Compare salaries for similar positions across UU congregations
   - Challenges: varied congregational situations; congregational data collection

3. Equity
   - Compare salaries within a congregational staff team
   - Challenges: assessing relative value of staff roles; accounting for performance, longevity
UUA Salary Recommendations

Considerations for Starting Salary (including housing)

• Competitive process
• Salaries of other staff (for internal equity)
• Budget realities
• Set salary independent of benefits
• Minister (and other staff) expect/deserve raises
• Experience and intangibles
UUA Salary Recommendations

Complications

• High cost of living areas
• Congregations on a size cusp
• Non-standard positions
• Maintaining equity across staff team
Benefits

Health Insurance
- UUA Health Insurance Plans
- Other Health Insurance Options

UUA Group Insurance
- Dental
- Long Term Disability
- Life

UUA Retirement Plan
Eligibility: All UUA Insurance Plans

- All Employees working **750 Hours or more annually** (about 15 hrs/week, year-round)
  - Hours from multiple participating employers **additive**

➤ If the congregation is in the plan, **all eligible employees** must be offered the opportunity to enroll

- Congregation does not have to make the same premium contribution for all employees (but consider economic justice and equity)

Eligibility set by Plan Rules, not by congregational policy.
Benefits

Health Insurance Options

• UUA Health Plans (begun in 2007)
  – 3 Non-Medicare Plans (Gold, Silver, and Bronze) + Medicare Supplement Plan
  – Comprehensive, faith-based (trans, hearing aids, kids w/disabilities)
  – Extensive network and outstanding customer service

• Other Employer-provided health insurance

• ACA/State Exchanges

Recommendation: Congregation covers 80% of employee premium; 50% of dependents
(Budget for 50-year-old with family, Gold Plan)
Benefits

Health Plan: Minister doesn’t need health insurance?

• Do not provide additional salary instead.
• Reimbursement for premium on an individual plan is illegal.
• Reimbursement for employee’s share of premium in another group plan is allowed, tax-free. (For instance, on spouse’s insurance – or Medicare.)
• Put premium amount in reserve for other benefit needs (or future search)
Benefits

UUA Dental Insurance through Guardian

- Annual benefit: Up to $1,750
- Makes economic sense (Dentists charge individuals without insurance more)
- Can retain coverage (if not teeth) in retirement

**Recommendation:** Congregation covers 80% of employee premium; 50% of dependents.

Reminder:
If the congregation is in the UUA Plan, must make available to all eligible staff.

Annual enrollment or within 60 days of hire.
Benefits

UUA Long-Term Disability Insurance thru Guardian

- Benefit: 60% of Salary (and Housing)
- Protects employees AND congregation
- Can continue for 6 months between jobs
- Issue: pre-existing conditions and non-UUA providers

Recommendation:
Congregation pays but imputes premium on W2 to keep benefit payout nontaxable (*make this clear in your agreement*)

Enroll within 60 days of hire

Reminder: If the congregation is in the UUA Plan, must *make available* to all eligible staff.
Benefits

UUA Life Insurance thru Guardian

- Benefit: 2x Salary (and Housing)
- Protects employees AND the congregation

Recommendation:
Congregation pays the premium

Enroll within 60 days of hire

Reminder:
If the congregation is in the UUA Plan, must make available to all eligible staff.
Benefits: UUA Retirement Plan

Basics

• Multiple Employer Church Plan: our Interdependent Web!
• 620 participating congregations/4,200 plan participants
• Recordkeeper: TIAA
• All employees (age 18 and up) can enroll and authorize salary deferrals
• Employer contributions must be provided to those who meet the Plan’s criteria
• 85% of participating congregations offer at least 10% (combined base + match)
Benefits: UUA Retirement Plan

Employee Contributions

• EVERY EMPLOYEE (age 18 and up) can enroll and make pre-tax contributions from salary
• Encourage participation upon hire. Remind employees at least annually!

Employer Contributions

• BASE contributions (all congregations): all staff meeting criteria (next slide) must receive.
• MATCHING contributions: employee receives match if Employer Participation Agreement reflects this commitment

*UUA Recommendation:* 10% combined base + match (most do 10% base)
Benefits: UUA Retirement Plan

Who receives Employer Contributions?

1. Those who have completed a ministerial internship (as required for ministerial credentialing), OR

2. Those who previously met eligibility criteria for employer contributions through service at another participating UU employer, OR

3. Those who complete 1,000 hours AND 12 months of employment at a participating employer (hours from multiple participating employers additive)

Recommendation: 10% combined base + match (most do 10% base)
Benefits: UUA Retirement Plan

3 Plan Rules to Know and Follow

RULE 1: ALL EMPLOYEES (age 18 and up) may enroll and authorize **elective** pre-tax contributions from *day one of employment*, regardless of hours!

Is your congregation telling *every new employee* (and reminding all employees annually) that they can make elective contributions?
Benefits: UUA Retirement Plan

3 Plan Rules to Know and Follow

**RULE 2:** Employers MUST make employer contributions to all employees who meet the eligibility requirements through any one of these paths:

- Successful completion of a ministerial internship (required for ministerial credentialing)
- Previously qualifying for employer contributions at another participating UU employer
- After 12 months AND 1,000 hours of employment (*multiple participating employers additive*)

Do all key players (including Negotiating Team) understand the eligibility requirements?
Benefits: UUA Retirement Plan

3 Plan Rules to Know and Follow

- **RULE 3:** All employees eligible for employer contributions must receive the same percentage base employer contribution and match opportunity**

** As specified in the Employer Participation Agreement on file with our Office
Your Ministerial Agreement must be consistent with your Employer Participation Agreement.
Example: Base + Match

Employer Participation Agreement specifies:

• 8% base employer contribution
• 4% matching employer contribution

• Every employee who meets eligibility criteria gets 8%.
• Those who meet eligibility criteria AND make deferrals (voluntary employee contributions) from salary are matched, 1 for 1, up to an additional 4%.
• Employer should budget for 12% contribution.
Benefits: UUA Retirement Plan

Tax Advantages

• Contributions go in tax-free (pre-tax) for everyone
• For those who defer salary, short-term tax reduction and long-term retirement savings!
• Ministers: withdrawals used for housing in retirement are tax-free *if from a qualified church plan*
Benefits

Resources

• Benefis Tune-up Workbook (on proper administration of benefits)
• Benefits, Compensation, and Aid Funds page
Salaries and Benefits

Questions?
Ministerial Agreements

General Recommendations

• UUA/UUMA has a recommended model agreement for a reason.

• Be clear about any variations. (Sometimes they are red flags to ministers.)

• Legal language offers protection when an employment relationship goes south. Covenantal language often doesn’t.

• Live within your means.

• Remember that benefits are often 40% or more of Salary + Housing.

• Discuss deal-breakers during pre-candidating week.

• Reach out for advice.
Ministerial Agreements

Help with Housing

- Loans
- Shared Equity Agreements
Ministerial Agreements

Negotiations

• If salary is on the low side, can fewer preaching Sundays or an extra week of vacation compensate?

• Is anything about the congregation’s history getting in the way? (Ministerial misconduct, culture of mistrust?)

• Are valued current staff being shortchanged?

• Do not be pressured by incoming minister to use a “total cost of ministry” model.
Ministerial Agreements

Resources

UUA/UUMA Model Agreement(s)

– Full-time Senior/Solo Ministers posted on Ministerial Transitions page
– Interim Minister posted on Ministerial Transitions page
– To follow:
  • Part-time
  • Associate/Assistant/MRE
  • Co-Ministers
Ministerial Agreements

Questions?
Your Resource People

Transitions Coach
- general process questions

Transitions Office (Keith/Emily)
- ongoing support

Compensation Consultant
- compensation guidelines

Jan Gartner
- ministerial agreement, salaries and benefits
Our thanks and blessings

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