COMPENSATION POLICIES AND GUIDELINES FOR PASTORS SERVING CONGREGATIONS IN DENVER PRESBYTERY

COM Approved 8-6-2012

These policies have been developed as a means of providing a uniform set of compensation policies to guide the sessions of Denver Presbytery in their relationships with their pastors. The term “pastor” as used in this document refers to the office of pastor, co-pastor, associate pastor, designated pastor, interim pastor, and other temporary pastoral positions serving Denver Presbytery congregations. This does not apply to members of the Presbytery whose compensation is not subject to COM oversight.

This policy is available in its entirety on the Denver Presbytery Website **www.denverpresbytery.org/com/policies/**

Introduction

- What is a fair salary to pay our pastor?
- How do we determine what is fair for both minister and congregation?
- What kind of ministry can we expect from a pastor who is part-time?
- What kind of salary can I expect to receive from a church who wants me to work part-time?
- What are the requirements of the Presbytery of Denver for salary and benefits for a pastor?
- What benefits could be included in a compensation package?
- We have a manse. Should we be thinking about ways to help our pastor build equity? How could we do that?
- Does the government require any reporting about compensation?

These are real questions that are asked every day in the Presbytery of Denver. The document that follows is meant to answer these questions and to help sessions, pastor nominating committees and ministers find their way together to decisions that do compensate ministers fairly and also lead to the building up of a congregation’s ministry.

We hope you don’t think you should sit down and read these pages from beginning to end. But we do hope you find your particular questions addressed. A Table of Contents is provided for you to go to the section where you can find an answer to your question. You will also find an abundance of material, suggestions and sample forms in the appendix that will support your on-going work.

Before you begin, take time to read the Theology of Compensation. We believe it sets the stage for everything that follows. In that section you will be reminded that:

- All our decisions in the church must point, finally and always, to Christ.
- We are always to do what is loving, caring and supportive of the other.
- Each part of the church is integral to the health of the whole church.

- Fair compensation for ministers leads to stronger congregations.
- Seeing how compensation relates to the whole ministry of a church brings greater vitality to a congregation.

May these words lead to our being a more faithful and more caring church as we together in the Presbytery of Denver seek to serve Christ in all ways and times. To God be the Glory now and forever.

Table of Contents

1. A Theology of Compensation

The 2010 report to the General Assembly of the Presbyterian Church (USA), "Neither Poverty Nor Riches," states: "Money in our culture is used as a measure of value, of self-esteem, of comparative worth." The issue of money and compensation, therefore, goes to the core of our shared lives in our world and society, and also, therefore, to our life as people of faith. When the issue is the way to compensate those who are called by and work for the church, however, the issue takes on even deeper meaning and importance. It is for that reason that we must depend for understanding and guidance, as we make policy and decisions about compensation, on those things that are at the heart of our community life as a church and a Presbytery.

We believe that the questions to and the promises by ordained leaders in the church must give initial shape to all decisions about compensation. We believe that all our decisions are to recognize the Lordship of Jesus Christ. Decisions related to money must reflect our primary allegiance and dependence only on God in Jesus Christ. Decisions about compensation, further, must be a decision that also points to Christ, to the life of Christ, the love, justice and compassion of Christ. The work to reach such decisions is not easy or simple. It requires that we reaffirm that we believe that Scripture holds direction for these decisions and that in the Old and New Testaments we find the Living Word of God for us in all times. We believe that the Confessions of the Church also instruct and lead us. They reveal the church's wisdom through time and in our time as well.

With these affirmations in mind we believe that to love another, to seek what is best and fair for another, and to do all to serve another bring honor to God and acknowledge Christ as Lord. Believing that the church calls ministers into the work and asks them to give their lives, time, work, gifts and skills for the benefit of Christ's church means that the church must express in decisions, promises, and actions the fullness of its love for them and, thereby, recognize the depth of their commitment to the church.

We also believe that decisions about compensation must reflect the values of this particular presbytery. In the Presbytery of Denver, we believe decisions about compensation by the presbytery, its sessions and congregations, and its ministers must seek always to serve congregations so that vitality is encouraged. These decisions, further, must be accomplished in a spirit of mutual and interdependent partnership that is reflective of God's partnership with us. A sense of caring community that seeks to be responsive to the high mission of the church is also critical in the way compensation is established. Compensation is to care for all parts of the community of faith and lead to ways that the congregation is strengthened, and all leaders, including the minister, are supported in their lives and developed and empowered for service.

We believe that we have been chosen to be members of the body of Christ through the Presbyterian Church (USA). In the Presbyterian Church it is affirmed that each part is integral to the working and well-being of the other. Each congregation is essential to the well-being of a presbytery and to the congregations that compose that presbytery. The leadership of ministers becomes critical in the ministry of a congregation; likewise, the congregation's ministry directly impacts the life of every minister. "The different parts of the organization are bound into each other so that one cannot subsist without the others." (from the Minutes of the 1927 PCUSA) Having ministers who are fairly, justly compensated brings life to a congregation. At the same time, keeping levels of compensation in balance with the whole ministry of the whole church, seeing how they relate to the church's mission, brings greater vitality to congregations. With this in mind, it must be said that there is a "recognition that our corporate actions may not be the desire of each individual." (2010 report to the GA). However, it is our intention to respect and honor each part of the church and, in so doing, do what is necessary for the faithful work of the church.

As the Presbytery begins to formulate its position, policies and directions in compensation it is with a humble spirit that it seeks to do so. It is with a commitment to seek to recognize all these fundamental needs, words and mandates. It is with a desire to keep them in a dynamic balance and tension so that the best and most just decisions are made at a particular time. It is with the hope that the Spirit of God continues to teach us, and work among us that the church of Christ might be built up in the Presbytery of Denver.

2. Applicable Presbytery Policies/Guidelines

The following Presbytery policies include references to compensation issues and are available on the Denver Presbytery website in the "About Us" tab under "Policies" (www.denverpresbytery/AboutUs/Policies).

a. Pastor Compensation 2013. (Sets minimum compensation, continuing education minimum allowances, vacation, reporting requirements).
b. Dissolution of Employment.
c. First Call Indebtedness Policy.
d. Certified Christian Educator Compensation Policy.
e. Commissioned Ruling Elder (CRE) policies. (formerly CLP plan and application)

3. Applicable COM Policies/Guidelines

The following Presbytery COM policies and guidelines include references to compensation issues and are available on the Denver Presbytery website in the "C.O.M." tab under "Policies" (www.denverpresbytery.org/COM/Policies)

a. Session Moderator Honorarium Policy.
b. Pulpit Supply.
c. Sabbatical Leave.
d. Military Chaplain.
e. Employment in Non-Installed Positions.
f. Minimum Compensation for Pastors. (new)
g. Pastor Compensation. (identical to Presbytery policy)

4. Compensation Guidelines

Factors to Consider When Determining Pastor Compensation

A number of factors need to be reviewed to assure adequate and fair compensation for a pastor. The Terms of Call Worksheet form in Appendix A should be completed when establishing an initial call and on an annual basis thereafter.

Establishing an Initial Call for a Pastor - it is important to be clear what the job requirements are on the Church Information Form (CIF). The "Denver Presbytery 12 Question Process" or a mission study will help a congregation in this task. See the document "Journey between Pastors" on the Denver Presbytery COM webpage for guidance.

Annual Adjustment to a Pastor's Terms of Call - The *Book of Order* requires the church to review annually the adequacy of a pastor's compensation. The Presbytery of Denver requires the pastor report their terms of call to the Presbytery office by March 31 of each year. This requirement is in addition to reporting required by the Board of Pensions.

As a congregation develops the terms of call, they should consider the following:

1. Compensation for employment must meet or exceed the Presbytery minimums. Presbytery sets these minimums annually. It differs from the BOP effective salary and the reportable income for tax and SECA.

2. COM recommends compensation is designed for the position, not the person filling that position.

3. Resources are available to develop a competitive or "market rate" pastor compensation package (see Appendix B). **Note:** adjusting the published data for regional differences has a great influence on the results and must not be overlooked.

4. Annual "cost of living" adjustments could be based on the change in the BOP median salary or using the cost of living index (CPI) or a three year rolling average of either to dampen what could otherwise be significant swings from year to year (see Appendix B).

5. An alternative perspective to offering "market rate" compensation suggests an approach that ensures a pastor is free from financial concerns and attracts high quality candidates to ministry. Pulpit and Pew released a report, *How Much Should We Pay the Pastor; A Fresh Look at Clergy Salaries in the 21st Century*. The report can be found at http://pulpitandpew.org/sites/all/themes/pulpitandpew/files/salarystudy.pdf.

Other Factors to consider - To reduce both the pastor's tax liability and the BOP dues as low as allowable, consider the following when structuring the call:

a) List 50% of SECA tax under "other compensation"
b) If a 403(b) savings account is included in the call, have the pastor contribute to the plan (up to $2,000 annually is a tax credit) and have the church contribute as well since the church contribution is not included in the effective salary for BOP dues
c) Have the church pay the manse utilities directly rather than including them in the housing allowance.
d) Take full advantage of healthcare reimbursement and flexible spending accounts to reduce taxable income.

For a step by step guide to completing the terms of call, see Section 6 of this document.

5. What can we expect to get in the form of a Pastor for our money?

One of the most pressing issues for a PNC that is considering a less than full-time pastor to serve with the congregation is what constitutes a part-time call and what duties would normally be included with a part time call.

The Full-Time Call

Generally speaking, a part-time call assumes that some or many of the duties of a full time pastor would not be regularly performed. For a typical full-time call, the following duties are generally assumed (and would be defined in a position description):

- **Worship**
    - Sermon Preparation
    - Proclamation of the Word
    - Administering the Sacraments
    - Worship Leadership
- **Pastoral Care (see Directory for Worship in Book of Order)**
    - Congregational Home Visitation
    - Hospital and Emergency Visitation
    - Counseling
    - Providing support to members and constituents in need
    - Spiritual Development
- **Church Education**
    - Curriculum Building or Assessment
    - Teaching
    - Planning or Supervising Education program and staff
    - Training Volunteers
- **Administration**
    - Planning
        - Defining Program Needs
        - Organization review and scheduling
        - Strategic planning
    - Office Management
    - Public Relations
    - Communications
    - Staffing and Human Resources
    - Leadership Development
    - Evaluation of Program and Staff
    - Financial Management
    - Management of Building Usage
- **Mission**
    - Evangelism
    - Fundraising
    - Ecumenical and Interfaith Activities
    - Cross Cultural Collaboration
    - Local Mission
    - Mission beyond the local Community

- **Governance**
    - Parliamentary Expertise
    - PCUSA Polity/Constitutional Knowledge
    - Planning with Session
    - Serve as Moderator of Session
- **Active Participation in the Presbytery, Synod, and General Assembly.**

In a less than full-time call, not all these duties may be carried out weekly. In a half-time call, most of these duties would not be carried out. In the less than half-time call only worship, a limited Emergency call provision, and Governance is expected.

Perhaps the most difficult issue to quantify in terms of hours worked or the expectation of hours worked is that associated with a full time call. The normal custom is that the work day is 8 hours long and 5 work days makes a work week.

Recent Personnel and Management studies indicate that the normal hours worked weekly for a full time call pastor is closer to 50 hours per week than 40. This is realized in our own experiences as well, when funerals, weddings, and other crises demand more time be expended in fulfilling one's duties. This "feast or famine" approach, we find, is normal. However, it begs the question regarding basis. Is a full-time call based on a 40 hour work week or a higher number of hours work week? For guidance, COM recommends that a 40 hour work week be used for the basis of determining the hours included in a part-time or less than full-time call.

For purposes of determining less than full-time calls, a full-time call is based on a 40 hour work week. A part-time call is determined as a percentage basis of a full-time call. For calculation of Board of Pension dues, please refer to the Board of Pension section of this manual.

The Part-Time Call

A part-time call consists of any amount of regularly scheduled work in a week that is less than full-time. Typically there are two forms of the part-time call 75% (three-fourths time) and 50% (half-time). Calls of less than half-time are dealt with on a case by case basis since less than half time calls generally are limited to one function (such as preaching only). This manual provides one example of less than half-time calls, that of the Sunday preacher/moderator of session.

The 75% call considers generally that a PNC would receive the following for a Solo Pastor (An Associate Pastor call is different):

Worship
Pastoral Care
Administration
One of the following:
    Youth
    Family
    Christian Education

Teaching
Governance/Moderator of Session
Active Participation in the Presbytery, Synod, and General Assembly

A 75% position would cost at least 75% of the minimum compensation required by Presbytery

A 50% position is much more limited in what is generally expected to be provided. The half-time call for a solo pastor would generally provide:

Worship
Pastoral Care
Administration
Governance/Moderator of Session
Active Participation in the Presbytery, Synod, and General Assembly

A 50% position would cost at least 50% of the minimum compensation required by Presbytery

A 25% position is much more limited in what is generally expected to be provided. The one-quarter time call for a solo pastor would generally provide:

Worship
Governance/Moderator of Session
Emergency calls
Active Participation in the Presbytery, Synod, and General Assembly

A 25% position would cost at least 25% of the minimum compensation required by Presbytery

Associate Pastor

For an Associate Pastor, the duties change in that primary consideration for Proclamation of the Word is normally the responsibility of the Pastor, Head of Staff. A part-time AP call may put limits on the Preaching and may place greater emphasis on Youth, Family, Christian Education, or Teaching. For instance, a "Youth and Family" or a "Visitation" pastor may be less than full-time.

A full-time AP call would be expected to share all the duties of the Pastor, Head of Staff, excepting supervision of staff (unless otherwise specified in the position description).

Presbytery sets minimum full-time equivalent compensation for pastors serving congregations.

6. Guidelines for Terms of Call

Most of the topics relating to pastor compensation are documented in the terms of call that is negotiated between the church and the pastor when a pastor is called. This "Terms of

Call" format can also be used by a church for a temporary pastoral contract such as an Interim or Supply Pastor as an employment contract. The following sections provide guidance for pastor nominating committees (PNC) and sessions along with their Committee On Ministry (COM) liaisons to address the issues commonly encountered when structuring a terms of call or contract for pastoral service.

The attached Excel worksheet in Appendix A can be used to structure the "Terms of Call" or temporary "contract" that needs to be approved by the church, the pastor and COM. Annual revisions to these terms also need the same approval and are to be filed at the Presbytery office. The Presbytery of Denver requires that pastors report their terms of call to the Presbytery office by March 31. Utilizing the electronic form available on the Presbytery webpage is encouraged to assist with the process. This reporting requirement is in addition to that required by the Board of Pensions (Form ENR-111).

Generally, a call/contract is structured to identify the effective salary for BOP dues (if applicable), minimize the tax burden to the pastor, and minimize the BOP dues expenses to the congregation, while providing adequate compensation to the pastor.

The worksheet in Appendix A is intended to assist with the calculations and provide guidance on what entries are a part of the Presbytery minimum, the BOP effective salary, and whether or not they are subject to SECA and income taxes. While all components of a call/contract need to be addressed it is helpful to divide the discussion to those normally included in the BOP calculation of effective salary, and the other components of compensation and call/contract that are in addition to those required for the effective salary calculation and the benefits that will be included.

Part-time Considerations

Line 4 of the Terms of Call worksheet addresses part-time calls. The % of full time reported in the call/contract is used by COM to prorate the compensation to full time in order to meet the Presbytery minimum compensation requirement, while the hours per week scheduled to work reported on the "Change of Salary" report (ENR-111) is used to calculate the BOP reported "effective salary" for dues and benefits purposes (BOP assumes 35 hrs/wk as full time).

Studies report that 50 hrs/week is a typical workweek for pastors. LifeWay Research finds pastors' long hours can come at the expense of people and ministry. The report can be viewed at www.lifeway.com/article/LifeWay-Research. A sampling of other Presbyteries reports 40 to 50 hrs per week as their definition of a typical full time work week. See section 5 on what services can be expected for less than full time positions.

COM recommends that 40hrs/wk be used as full time to convert % of full time to hrs/wk.

Compensation Included in BOP Effective Salary

Cash Salary (line 5)

Cash Salary is defined by the Board of Pensions to include all monies paid directly to the employee, including voluntary salary reductions such as employee contributions to 403(b), tax sheltered annuity plans, non-vouchered allowances, excluding housing allowance and employer contributions to 403(b) plans (unless they are matching contributions), tax sheltered annuity plans and equity allowances.

Compensation for full time employment must meet or exceed the Presbytery minimums for pastors serving congregations Presbytery sets these minimums annually.

The BOP and the IRS consider allowances (line 5c) as income, whereas expense reimbursements (line 14) are not, provided that they are processed through an accountable reimbursement plan. **COM recommends that auto, books/professional expenses, continuing education expenses be listed as "expense reimbursements" on the call or contract.** This reduces both the taxable income and the effective salary basis for BOP dues.

Housing Allowance (line 6)

One of the tax benefits for clergy consists of the housing allowance being excluded from the taxable income for federal and Colorado taxable income. Housing allowance is normally included in a call/contract (even when a manse is involved). Details on who qualifies, how to set it, and what is permissible to include in it are provided in the details of Appendix C.

Deferred Compensation (line 5b, 7 and 13a)

Generally, deferred compensation is used as a supplemental retirement account or as a deferred housing equity account. Any church employee of an eligible employing organization may participate in the BOP retirement savings plan. Both the employee and the church can contribute to this account. Using the Board of Pension 403(b) to set up this account has the advantage of allowing its proceeds to be classified as clergy housing allowance when received whereas this is not possible with non-church retirement accounts.

Employer Contributions to a BOP 403(b) account are included in the effective salary determination of the pastor (line 5b) except that employer contributions to a "matching" 403(b) plan where the employee contributes directly to such a plan are not (line 11a). None of the contributions (by employer or the employee) are included in the employee's taxable income. The employees' contribution (up to $2,000) generally qualifies for a 50% tax credit. Denver Presbytery requires all deferred compensation paid by the employer to be included in meeting the Presbytery minimum requirements. Plan details and contribution limits that must be followed are outlined in the BOP website www.pensions.org under the Benefits & Assistance and Retirement Savings tabs.

Other tax sheltered plans can be used, however, payouts from these plans are not considered "housing allowance" by the IRS. "Tax Sheltered Annuity Program for Employees of Public Schools and Certain Tax-exempt Organizations" and "Rabbi Trusts" are examples of IRS approved plans. Tax and/or investment experts can help with these plans.

COM recommends that if deferred compensation is included in a call, or employment contract, that the pastor cash salary be increased to allow the pastor to contribute to the BOP deferred compensation plan and that the church contribute "matching funds" to the plan.

Churches are reminded that deferred compensation payments at retirement from the BOP plans are considered "housing allowance" for active, disabled, and retired Ministers of the Word and Sacrament in the PCUSA as well as active and retired commissioned ruling elders who were officially granted sacramental functions by a presbytery.

SECA Reimbursement (line 9 and 13c)

Pastors are considered "self employed" for income tax purposes and as a result are responsible for 100% of the social security tax. If 50% of the SECA is reported separately from the cash salary on the call or contract (line 11c), the BOP and IRS allow this 50% of the self employment tax to be excluded from the pastors' effective salary and the IRS taxable salary. This results in significant tax and BOP dues savings. While the IRS allows this deduction from the reportable income as an adjustment, it includes it in the gross salary. To offset the pastors' taxes due on the SECA allowance, some churches add 20% of the SECA allowance to the cash salary of their pastor.

COM recommends that the 50% SECA allowance be listed on the call/contract and not included in the effective salary reported to the BOP.

Healthcare Reimbursement Accounts (line 10a)

Because the Major Medical Plan of the Board of Pensions does not fully reimburse a pastor/educator for medical expenses, many churches have established a medical reimbursement accounts upon which the pastors and their families may draw each year. (Referred to as a "Cafeteria 125 fund," some IRS rules apply.) If a church wishes to follow this practice, the amount of the fund shall be established annually, as a part of the annual compensation review. The fund shall be used only for the same type of deductibles which are covered by the Major Medical Plan of the Board of Pensions and other qualified medical and child care uses defined by IRS rules.

These employer funded healthcare reimbursements plans require documentation (forms are available on the BOP website). While a part of the effective salary, they are exempt from both income and social security taxes

Home Purchase / Mortgage Assistance (line 10b)

Denver Presbytery recognizes the fact that home values within the presbytery are significantly higher than in many other areas of the country and vary greatly within the Presbytery between rural and resort communities. Some form of home purchase assistance by the church may be necessary for a pastor to be able to move from a lower housing cost area in the country and purchase a home near (within 20 minutes) the church.

For calls where a manse is provided or where the pastor is renting rather than purchasing a home, a home equity provision may be included in the call. The goal of the home equity provision should be to allow the pastor to own a home (not necessarily in this area) upon retirement. It is assumed that a normal working career spans 40 years, and that each annual part of the home equity component of a call where the pastor lives in a manse or rents, represents 1/40 of a median home price in the USA as reported annually by the national board of realtors. (www.realtor.org/).

Options available to assist churches and pastors to address these issues during the call/contract negotiations are outlined in Appendix D.

Manse Rental Value (line 11)

The Board of Pensions requires that the "manse rental value" be included as a part of the effective salary when a manse is provided. This is the "fair rental value" and shall be at least 30% of all other compensation included in the effective salary. If any utility or furnishings allowances are provided, they are covered under "housing allowance" in addition to the manse rental value. The same housing allowance limitations apply to rental or pastor owned homes for excluding this from the reportable income for the pastor.

BOP Effective Salary (line 12)

The BOP requires an annual report (ENR-111) from congregations with employees enrolled in the BOP benefits plans documenting the components of the effective salary for the employee. These are used by the BOP to determine the dues the church must submit.

Not all forms of compensation to the pastor are included in the "effective salary", and therefore effective salary, cash salary, compensation and reportable income for IRS or SECA are all different for any call/contract. To assist congregations in determining what parts of an employees' compensation is included, the BOP publishes a guide "Understanding Effective Salary" on their webpage www.pensions.org/ on form PLN-103. The Terms of Call worksheet in Appendix A lists which items are included in the calculation of the effective salary.

Compensation in Addition to BOP Effective Salary

Line 13 addresses other compensation. Depending on how some items are reported or administered determines whether they are a part of the effective salary. They are discussed under the effective salary section and include;

13a. 403(b) contribution by the church when the employee contributes to the 403(b) plan
13b. Shared equity programs, down payment assistance, loans, where the church shares in the cost of the home and is reimbursed in some way when the home is sold.
13c. Up to 50% of SECA
13d. Manse utilities if paid directly by the church

Voluntary Salary Reductions

Line 14 addresses voluntary salary reductions. A pastor may wish to participate in a plan administered through the church to fund a BOP 403(b) Retirement Savings Plan, a Flexible Spending Account, Healthcare Reimbursement Account, or other plans. While these are normally a part of the cash salary and included in the effective salary, documenting these through an accountable plan (forms are available from the BOP) excludes these from taxable income and may also exclude the employer contributions from being included in the effective salary.

There are two benefit programs, in addition to the benefits plan programs administered by the Board of Pensions, that employers may establish and offer to their employees to help ease the payment of unreimbursed medical costs. Both programs provide for the payment of such costs with pre-tax dollars.

Health Flexible Spending Account (Health FSA)

Line 10b. This is a program through which an employee makes before-tax contributions (usually through a voluntary salary reduction election) to an account and is then reimbursed from the account for certain eligible medical expenses. The governing rules for this account is the IRS section 125. Any payments into these accounts by the employer is considered "effective salary".

Health Reimbursement Arrangement (HRA)

Line 10a, 13g. This is a program funded solely by the employer and provides reimbursements for certain medical expenses up to an annual limit. The governing rules for the HRA are found in IRS section 105.

It is important to note that both the Health FSA and the HRA must be documented and adhere to strict IRS requirements. While the Board of Pensions does not administer such plans, it has published guidelines to help churches set up such accounts for their employees.

Board of Pensions "Optional Benefits Plans" for long term care insurance, dental insurance, supplemental death benefit, supplemental disability benefit are administered by the BOP and allow for employer and employee cost sharing. The employee's share can be from a Health FSA account to exclude the premiums from the taxable income. The employer's share can be through a properly established HRA and thus not be a part of the employee's effective salary. COM includes the employer's share in the Presbytery minimum compensation.

Benefits

Normally, a call/contract should document the benefits that are included. This insures that a common understanding of what is provided in the call/contract exists before a situation arises that needs resolution. Line 16 is a checklist that can be used to refer to the applicable church policy or to a specific agreement for the particular call/contract.

Board of Pensions (BOP) Benefits Plans (line 16a,b,c)

All "called and installed" pastoral calls are mandated by G-2.0804 to require full traditional coverage from the BOP providing pension, death and disability and medical coverage. The "limited" participation plan that excludes pension for 3 years may be an option. For contracted positions, such as interims and temporary pastoral positions, as well as lay exempt and lay non-exempt employees, the "Affiliated Benefits Plan" offered by the BOP may fit a specific employment situation. All employees may participate in the BOP "Optional Benefits Plans" for various insurance plans.

See Appendix E for summary details and the BOP website www.pensions.org of the benefit plans offered by the Board of Pensions.

COM recommends that all pastors employed in temporary pastoral positions (e.g. interims) be enrolled with full participation in the BOP "traditional" benefits plans.

Since part-time calls are normally expressed as a % of full-time, and since COM considers full-time to be nominally 40 hrs per week, converting the % of full-time call/contract to hours worked per week as mandated for the report to the BOP impacts to both the employee and the church. The BOP converts reported % of full time to hrs/wk by multiplying the % by 35hrs, whereas a church might convert % to hrs by multiplying % by 40hrs. Thus, for a 50% call, the hrs/wk will be either 17.5 (calculated by the BOP as the basis for dues determination) or 20 (as reported by the church).

Hours per week are reported to the BOP on form ENR-111 and, if less than 35, impact the medical plan dues basis as this is based on the "full-time equivalent salary". The medical, pension and death and disability benefits to the employee are not affected by the part-time status of the employee as long as the employee is a BOP plan member.

Provisions Included in Call (line 17)

Specific provisions relating to sick leave, holidays, emergency leave, sabbatical leave, parental leave, and severance are to be included by reference in the call/contract. In the event no church specific provisions exist, the appropriate presbytery provisions may be included.

Churches are reminded that a file of sample provisions is available from the Presbytery that can be used to create church specific provisions.

Special agreements (line 18)

Some calls include specific agreements between the church and the pastor such as shared equity agreements, loans, down payment assistance, relocation reimbursements, etc. Signed copies of these need to be included in the call/contract.

Appendix A: Terms of Call Worksheet

Example worksheet; please see the Presbytery website for the working spreadsheet

This worksheet can be used to structure a terms of call/employment contract taking into consideration what is included in the BOP effective salary , what is included in the pastor's taxable income and what is included in the Presbytery minimum. When an annual report must be filed with the BOP, the reference to the line number on that report (ENR-111 and ENR 110) is provided.

	Effective Dates of Terms of Call (contract) from / to					
1	Minister's Name:					
2	Church: PIN:					
3	Minister's Position i.e. Pastor, Co-Pastor, Associate Pastor, Designated Pastor, Interim Pastor, Temporary Supply, Stated Supply,					
4	**If part-time, indicate**					
	a. % of full-time					
	b. Hrs/wk scheduled to work reported to BOP form ENR-111					
			Incl. in BoP effective salary	Incl in IRS income	Inc. in SECA calc.	Incl. in Presbytery minimum
5	**Cash Salary** (before payroll deductions)		yes	yes	yes	yes
	(BOP Form ENR-111 line 1)					
6	**Housing Allowance, Utilities and Furnishings Allowance**					
	a.Housing allowance (no manse)		yes	no	yes	yes
	b.If manse is provided,					
	1. Manse housing allowance		yes	no	yes	yes
	2. Manse utilities and furnishings allowance /reimbursements		yes	no	yes	yes
	(BOP Form ENR-111 line 2)					
	3. Manse utilities paid directly by the church (do not include in effective salary, report on line 13f)	reported on line 13f	no	no	yes	yes
7	**Church Contributions to Deferred Compensation Plans**					
	a. Church contribution to BOP 403(b), If pastor does not contribute to the plan		yes	no	no	yes
	b. Church contribution to BOP 403(b), If pastor contributes to the plan (not in effective salary, report on line 13a)	reported on line 13a	no	no	no	yes
	c. Tax sheltered annuity plan		yes	no	no	yes
	d. Home equity allowances (typically in a BOP 403(b) to compensate for forgone equity usually resulting from residing in manse) unless held in a trust account		yes	yes	yes	yes
	(BOP Form ENR-111 line 3)					
8	**Bonuses, Gifts from Church, Loan Forgiveness, Interest Forgiveness,(if paid by the church) (BOP Form ENR-111 line 4)**		yes	yes	yes	yes
9	**SECA Reimbursement (in excess of 50%) (BOP Form ENR-111 line**		yes	yes	yes	yes
10	**Other Allowances / Compensation**					
	a. Healthcare reimbursement account (HRA)(funded by employer as IRS section 125) (see line 13		yes	no	no	yes
	b. Health Flexible Spending Account (FSA) contributuions by employer		yes	no	no	yes
	c. Down payment or mortgage assistance allowances, (does not include payments where shared equity is result of such payments)		yes	yes	yes	yes
	d. Severance pay (received during this calendar year)		yes	yes	yes	no
	e. Allowances for NON-vouchered expenses (books, car, study allowances etc.)		yes	yes	yes	no
	f. Other (i.e. overtime pay, etc.)		yes	yes	yes	yes
	(BOP Form ENR-111 line 6)					
11	**Manse Rental Value (BOP Form ENR-111 line 7)**		yes	no	yes	no
12	**TOTAL ANNUAL EFFECTIVE SALARY (BOP Form ENR-111 line 8)**					

13	**Compensation Not Included In Effective Salary**					
	a. Church matching contribution to BOP 403(b), **If pastor contributes to the plan**		no	no	no	yes
	b. Housing assistance programs, downpayment assistance, loans etc. where church is reimbursed when pastor sells home		no	no	no	no
	c. SECA allowance (50% of social security tax)		no	yes	yes	yes
	d. Imputed value of "death benefit" reported on employees W2		no	yes	yes	no
	e. Manse utilities paid directly by church		no	no	no	yes
	f. Gift contributions to Pastors' BOP 403(b)		no	no	no	yes
	g. Employer contribution to Healthcare Reimbursement Account (HRA) (formally established by employer under IRS section 105)		no	no	no	yes
14	**Voluntary Salary Reductions Through Payroll Deduction Plans**					
	a. Employee's contribution "BOP Retirement Savings Plan"					
	b. Flexible spending aAccount funded by a documented voluntary employee salary reduction plan.					
	Total Compensation (no manse) (2013 minimum is $45.220)					
	Total Compensation (excluding manse value) 2013 minimum is $32,979					
15	**Professional Expense Reimbursements (with accountable plan)**		no	no	no	no
	a. Auto (mileage reimb rate at IRS)		no	no	no	no
	b. Books/professional expense reimbursements		no	no	no	no
	c. Continuing education expense reimb. (minimum is $750)		no	no	no	no
	d. Work-related entertainment and gifts		no	no	no	no
	e. Work related telephone, internet, cellphone maximum		no	no	no	no
	f. Allowances for NON-vouchered expenses (books, car, study allowances etc.) (must be included in effective salary)	recorded on line 10d	yes	yes	yes	no
	g. Relocation expense reimbursement		no	some yes	no	no
16	**Benefits Plans Dues Paid by Employer**					
	a. Board of Pension "Traditional Benefits Plan" full participation (medical, pension, death and disability) (33% of effective salary in 2013)		no	no	no	no
	b. Board of Pension "Traditional Benefits Plan" limited participation (medical, death and disability)		no	no	no	no
	c. Board of Pension "Affiliated Benefits Plan"		no	no	no	no
	d. Other benefits plan premiums paid by employer		no	no	no	no
17	**Specific Personnel Provisions Applicable to the Call.**					
	a. Sick leave (days/yr)					
	b. Emergency leave/personal time off (days/yr)					
	c. Holidays (days/yr)					
	d. Parental leave					
	e. Long term illness and disability					
	f. Sabbatical					
	g. Severance					
	h. Annual vacation: (min of 4 weeks, including 4 Sundays)					
	i. Continuing education (min of 2 weeks, cumulative for to 3 years)					
18	**Specific Agreements/Provisions (to be filed with Presbytery)**					
	a. All applicable church policies					
	b. Shared equity agreement					
	c. Down payment assistance					
	d. Terms of call annual update (by 3/31)					
	e. Benefits plan if not BOP					
19	a. The terms of call was approved by the congregation on					
	b. Pastor's signature/date					
	c.Clerk of Session signature/date					
	d. COM signature/date					

Terms of Call Recommendations

Terms of Call should include all items that affect the pastor's compensation, the basis for the BOP dues, information for the IRS, SECA, and Colorado tax returns, as well as agreements between the pastor and congregation relating to severance, sabbatical leave, loans, shared equity agreements, etc. **Presbytery (through its COM) requires that the pastor submit this annual form to Presbytery by March 31, COM must approve all terms of call and, annually, changes to all terms of call**. The following is intended to guide COM liaisons and churches through the terms of call process. Brief comments and COM recommendations relating to the attached sample terms of call are as follows. Detailed discussion of these topics can be found in the COM guidelines.

Lines 1-12 match the information that is reported annually to the Board of Pension for all employees enrolled in the Board of of Pension Benefits Plans.
(Line 4) COM recommends that part-time be expressed as a % of full-time based on a nominal 40-50 hr workweek. The BOP report should list hrs/week scheduled to work.
(Line 5) COM recommends that the taxes on the 50% SECA allowance and the taxes on the imputed value of the death benefit be included in the pastor's cash salary (suggested at 20%)
(line 6.b.3) Manse utilities paid directly by the church are not considered as a part of effective salary, however, they are included in the Presbytery minimum
(Line 7a, 7b, 13a) If deferred compensation is included in the call, COM recommends that the pastor contributes to the BOP 403(b) retirement savings plan through payroll deduction and that the church contributes matching contributions.
(Line 9 and 13c) SECA. COM recommends that 50% of SECA is included in the cash salary and that churches include the 50% SECA allowance in the terms of call for pastors participating in social security on line 13b.
(Line 10) The IRS recognizes certain tax-favored plans for out of pocket medical expenses. Both the Flexible Spending Account (FSA) and the Healthcare Reimbursement Accounts (HRA) require formal plan documentation (available on the BOP web page).
(Line 11) Manse rental value. BOP requires this to be, at a minimum, 30% of all other components of the effective salalary (for BOP participants).
(Line 13d) The imputed value of the death benefit is calculated using the BOP calculator.
(Line 14) Voluntary Salary Reductions (via payroll deductions) are usually used to reduce the taxable income.
(Line 15)The IRS and the BOP consider allowances (line 4d) as income, whereas reimbursements of business expenses are not. COM recommends that business related expenses by reimbursed via a voucher and proof of expenditure accountable plan, as this reduces the employees federal tax burden and the churches BOP dues . If these reimbursements are reported as "allowances" they become a part of effective salary and need to be reported on line 10d.
(Line 17a,b,c) Typically this is covered in the church specific employee manual
(line 17d,e, f,g) Where church specific policies are not available, or where there is no specific provision in the call/contract, the applicable policies from the presbytery may be referenced.
(Line 18) Document any specific agreements

This worksheet can be used to prepare the BOP form ENR111 and ENR-110, the "official record" of terms of call (by adding the appropriate signatures of the pastor, the clerk of session and the COM indicatinfg that these terms have ben approved by a congregation vote), as the annual terms of call update required by Presbytery.

Appendix B: Resources for Determining Fair Compensation

Resources are available to develop a competitive or "market rate" pastor compensation package. Examples are listed below. Note: Using these resources still results in a wide range of results. However, they may be used as a starting point. Adjusting the published data for regional differences has a great influence on the results and must not be overlooked.

1. Board of Pensions (BOP) Salary Surveys (www.pensions.org) provide tables that list the 25%, median, and 75% of effective salary for pastors serving various size congregations church-wide and for different Synods.
2. The BOP also publishes the median salary for all fulltime pastors serving congregations annually each June that reflects the church-wide changes from the previous year. BOP uses this information to set the minimum and maximum dues basis for the coming year.
3. The Bureau of Labor Statistics provides median wage estimates for national and regional occupations. The Denver Presbytery COM uses the data for clergy from this report to establish the factor it uses when adjusting BOP published church-wide data for the Presbytery (Denver/Aurora) area.
4. The "Compensation Handbook for Church Staff" is available at the Presbytery office and provides compensation statistics that consider church budget, worship attendance, church setting, education and years employed.
5. The "National Church Staff Compensation Survey" is also available at the Presbytery office, and considers similar factors in their compensation surveys.
6. The Mountain States Employer's Council publishes an annual survey for Non-Profit and Foundation Compensation. It is available at the Presbytery office.
7. Annual "cost of living" adjustments could be based on the change in the BOP median salary or using the cost of living index (CPI) or a three year rolling average of either to dampen what could otherwise be significant swings from year to year.
8. The following table lists some of the data that may be useful when adjusting compensation for inflation.

Calendar Year	2009	2010	2011	2012	2013
CPI increase per calendar year	-.7	2.0	3.6		
3 prev. yr. rolling ave.				1.63	
BOP 25percentile pastors with <6yrs, 50-100 mbr. churches			$39,000	$40,000	$40,320
BOP median for current year	$50,800	$52,200	$52,900	$53,300	$54,000
BOP inc. over prev. yr. year	3.7%	2.8%	1.3%	.8%	1.3%
3 prev. yr rolling BOP inc.					
Proposed increase				New basis	1.3%
Denver min.	$43,837	$43837	$44,407	$44,640	$45,220
Denver min. with manse				$32,556	$32,979

Using the resourced listed above will result in a range of compensation figures that is quite wide, but can be used as a "reality check" by a personnel committee. Comparing compensation based on similar job functions and considering geographic differences in cost of living are important factors to consider as well.

Appendix C: Housing Allowance

Ministers Qualifying for Housing Allowances

Ordained active, disabled, and retired ministers and Certified Ruling Elders (CREs) who were granted sacramental functions by a Presbytery qualify for housing allowances. Board of Pension benefits plan payments such as pension, disability payments, BoP sponsored retirement savings plan distributions (403(b)(9)) are considered clergy housing allowance. The Board of Pension (www.pensions.org) publishes a "Tax Guide for Minister" annually that provides information on tax issues that includes the following advise relating to housing allowances:

Ministers who own or rent a home

The most important tax benefit available to ministers who own or rent their homes is the housing allowance exclusion. 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 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 annual 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. Please note that the expenses listed above are not an all-inclusive list.

Ministers who live in a church-owned manse

Ministers who live rent-free in a church-owned manse may exclude the lesser of the following amounts provided the exclusion is not greater than reasonable pay for their services: 1. The housing allowance designated by the church in advance of the payment of the compensation; or 2. Actual housing expenses not paid by the church (including utilities, furnishings, repairs, and improvements). Ministers who live rent-free in church manses should not include the fair rental value of the parsonage as income for federal income taxes. If these ministers incur any out-of-pocket expenses in maintaining the manse (such as utilities, property taxes, insurance, furnishings, or lawn care), they should be sure that their employing church designates in advance a portion of their annual compensation as a manse allowance. The amount so designated is not reported as wages on the minister's Form W-2 at the end of the year. (If the allowance exceeds the actual expenses, the difference must be reported as income by the minister.) This is a very important tax benefit for ministers living in church provided manses. Unfortunately, many of these ministers are not aware of this benefit or are not taking advantage of it.

When a manse is provided, the Board of Pension requires that the manse rental value be at least 30% of all other compensation included in the effective salary. This corresponds to 23% of the effective salary.

How much should a church designate as a housing allowance?

The rules for determining housing allowance are set by the IRS and limit the allowance claimed to the lesser of:

1. The fair rental value, furnished, including appurtenances, plus actual cost of utilities.
2. Amount actually spent.
3. Employer-designated amount in advance of payment. (Always specify this in the call).
4. The "reasonable compensation" of the pastor, not to exceed 100% of salary.

It is the responsibility of the pastor to ensure that the housing allowance claimed meets the IRS requirements.

Many churches base the allowance on their minister's estimate of actual housing expenses for the new year. The "Tax Guide for Ministers" available on the BOP website gives specific guidance on what to include in the housing allowance. For ministers who own their homes, they suggest that down payment, mortgage payments, property taxes, property insurance, utilities, furnishings and appliances, repairs and improvements, maintenance, and miscellaneous be included. Many churches designate an allowance in excess of the anticipated expenses itemized by the minister. Basing the allowance solely on a minister's actual expenses penalizes the minister if actual housing expenses turn out to be higher than expected. In other words, the allowance should take into account unexpected housing costs or inaccurate projections of expenses. CREs may be able to exclude income designated as a housing allowance if they meet the IRS requirements for ministers (summarized above); the employing church designates a portion of the CRE's salary as housing allowance, in advance of payment; and the CRE complies with the requirements for documentation of the housing expenses outlined above.

COM Recommendations

1. Housing allowances are an integral part of a pastor's compensation package and included in the effective salary for calculating Board of Pension dues. COM recommends that the IRS allowable housing allowance be listed on the pastor's terms of call as the designated "housing allowance".

2. When utility and furnishing allowances are provided in addition to the manse, these allowances are to be included in the effective salary but are not a part of the IRS reportable income, but are included in the basis for calculating SECA. If the church pays for utilities and maintenance directly, those costs are not included in the effective salary, nor the Pastor's W2. COM recommends that manse related utilities and maintenance be paid directly by the church.

3. For the purpose of establishing the Presbytery minimum compensation, when a manse is provided, the manse rental value shall be assumed to be the fair rental value of a 2 bedroom apartment in the Denver/Aurora area as reported by HUD on hud.gov

COM Policy

All housing allowance related expenses reimbursed to the pastor and the manse rental value are included in the Presbytery minimum compensation requirement.

On-line resources for checking fair market rental costs in metropolitan areas are available from several sources and may be useful when determining the housing allowance on an initial call when actual data is not yet available:

1. HUD fair market rental data is available at www.huduser.org/portal/datasets/fmr2011F_ScheduleB_rev2 For example, a 2 Bedroom rental in the Denver/Boulder/Broomfield metro area is $1007 per month, and the fair market rent for a three bedroom house in the area (Adams, Arapahoe,

Broomfield, Clear Creek, Denver, Douglas, Elbert, Gilpin, Jefferson, Park= $1430; Eagle=$1711; Kiowa= $781).

2. The Department of Defense http://www.defensetravel.dod.mil/site/bah.cfm leads to lists showing housing (including utilities) for the Denver metro area for a single status 1st Lt. as $1,410 per month and assumes a 2BR townhouse rental.
3. The Colorado Department of Local Affairs provides quarterly reports on average rental rates by county for various size rental units at http://dola.colorado.gov/cdh/vacancy/metrodenverintro.htm For example, in the Denver metro area monthly rental rates were $656.95 for efficiency, $798.11 for 1BR, $876.64 for 2BR1Bath, $1076.70 for 2BR2Bath, $1,285.56 for 3BR, $1,002.19 for other and a total for all of $912.68
4. Utility cost estimates can be found on the US Census website http://www.census.gov/prod/2011pubs/h150-09.pdf The most recent data is for 2009 and lists selected housing costs by region. For the west, median monthly costs for housing is $1,145 or 25% of income, electricity is $85 gas is $54, property insurance is $54 water is $43 and trash is $25.
5. Other sources of utility costs may be obtained from the utility providers' customer service offices. Documenting actual utility expenses is strongly recommended as this will assist in any dispute with the IRS over the expenses claimed.

The following table suggests what component of housing allowance is included in the effective salary, IRS earned income, SECA basis, and included in the Presbytery required minimum compensation:

	Effective Salary	IRS Earned Income	Social Security Tax Basis (SECA)	Presby. Min.
Housing Allowance (renting or purchasing)	yes	no	yes	yes
Manse Rental Value (23% of effective salary)	yes	no	yes	yes
Manse utility/maint. Paid directly by church	no	no	no	yes
Manse Utility Reimbursement/ used Allowance	yes	no	yes	yes
Manse Utility unused Allowance	yes	yes	yes	yes

Appendix D: Home Purchase Assistance / Equity Allowance

Home Purchase Assistance

Denver Presbytery recognizes the fact that home values within the presbytery are significantly higher than in many other areas of the country and vary greatly within the Presbytery between rural and resort communities. Some form of home purchase assistance by the church may be necessary for a pastor to be able to move from a lower housing cost area in the country and purchase a home near (within 20 minutes) the church.

There are several options available for a church to address these issues in a call:

1. Increase the total cash salary to make it possible for the pastor to purchase rather than rent a home.
   Pros:
   - easy to implement
   - the minister accrues equity in the home

   Con:
   - the increased compensation becomes a part of the "Effective Salary" and is subject to Board of Pension required dues as well as increasing the pastor's taxable income and SECA tax.

2. Enter into one of the shared equity loan arrangements suggested by the 216th GA appointed shared equity work group charged to explore the creation of a fund to provide shared equity loans for pastors serving churches where the average cost of a home is twice the US average. They concluded that other than helping with fundraising campaigns and loaning funds to congregations (through PILP), the most likely sources of funds for sharing in equity purchases of clergy housing are congregations, presbyteries and in some cases synods. The work group outlined various possibilities as follows (Excerpts from this "Shared Equity Work Group" report are in italics):

Shared Appreciation Programs:

The pastor uses funds provided by others ("investors") to increase the down payment beyond the pastor's own economic means to the necessary level to make the mortgage loan payments affordable by the pastor. The investors receive no interest or monthly payments and receive only a percentage of the real estate value when the real estate is sold at a specified date in the future. The investors' interest in the real estate is subordinate to the first mortgage lenders interest but is senior to the pastor's interest in the real estate. All of the foregoing terms can be reset through active negotiation between the investors and the pastor.

The "investors" could be individuals within the church or the church itself. The church may designate funds realized from the sale of a manse, or property, or from a special funds campaign for this purpose.

Pros-

- Church may realize a higher rate of return than with other forms of investment (i.e. a loan).
- The financial risk to the church may be secured by a second mortgage
- Congregation and pastor share in real estate market risk.

Cons-

- Structuring the agreement is complicated and may need the assistance of legal counsel, tax accountant and mortgage lenders. Approval process for capital improvements, operating cost sharing (i.e. taxes and insurance), maintenance issues need to be a part of the agreement.
- Difficult to settle when a pastor leaves service due to death or long term disability but the family wishes to continue residing in the home.

Loan Programs:

The congregation loans the pastor a lump sum to help with the new home purchase. Repayment can be deferred for a certain length of time (i.e. when the home is sold or when the pastor leaves) or forgiven over a pre-determined period.

Interest can be at a normal market rate, at below market rate, interest free, or deferred to when the house is sold. The church can reimburse the pastor for some or all of the interest payments.

Pros-

- Simple to implement

Cons-

- The churches fund for subsequent loans to future pastors does not grow with housing market appreciation.
- Loan to pastor is probably unsecured.
- Loans with a "forgiveness clause" may create an unhealthy relationship between pastor and congregation.
- Savings to the pastor from interest-free or interest-reduced loans and interest reimbursements to the pastor are included in the BOP effective salary calculation.

Lease With Option to Purchase Programs:

*The investors (*or congregation*) own the real estate and lease it to the pastor. The pastor has a right to purchase the real estate at a point or points in the future at an agreed price; the investors generally get a fixed return under the lease assuming the purchase option is exercised. The pastor enjoys most of the appreciation in the value of the real estate.*

Pros-

- Simple to document.

Cons-

- Congregation must own property.
- If the purchase option is exercised, it does not help the congregation keep up with an increasing housing market, and reduces funds available for the next pastor.

Home Equity Allowance

For calls where a manse is provided or where the pastor is renting rather than purchasing a home, a home equity provision may be included in the call. The goal of the home equity provision should be to allow the pastor to own a home (not necessarily in this area) upon retirement. It is assumed that a normal working career spans 40 years, and that each annual part of the home equity component of a call where the pastor lives in a manse or rents, represents 1/40 of a median home price in the USA as reported annually by the national board of realtors. (www.realtor.org/). The GA taskforce indicates that non-qualified as well as qualified compensation programs can be used to establish supplemental retirement benefits that are intended to provide the pastor with funds to substitute, at least in part for the equity returns the pastor has missed by not owning his/her real estate.

Nonqualified Compensation Programs:

The simplest way to structure this is to fund a BOP 403(b) supplemental retirement program to create a fund for this purpose. COM recommends that the annual contributions are 1/40 of the median home in the US and adjust this annually.

These contributions can be 100% by the church or a matching plan between the church and the pastor. If the payments to the BOP administered 403(b) supplemental retirement plan are shared by the pastor and the church, the church matching contribution is not considered effective salary. Properly structured, the pastor has no tax consequences until payments are actually received. These payments at retirement are treated as “housing allowance” for income tax purposes.

Qualified Compensation Programs:

Qualified compensation programs are not available through the BOP, are complicated and must be set up by the employing organization. These programs are subject to IRS Qualified Retirement Plan regulations.

The solution for any given church must meet the needs of the pastor and the congregation. For the Pastor it must meet his/her families housing need and provide a share in the appreciation of the housing market. For the congregation it must reduce the congregation’s cost and exposure to an increasing housing market risk.

For churches with a manse, the solution involving a manse in combination with a supplemental retirement program protects the congregation against real estate risk, while providing the pastor with a “stake” in the real estate appreciation spiral.

Documenting all of these “shared” programs and contracts between the church and the pastor outlining home purchase assistance and equity allowances is critical, especially when it comes to the time when the pastor leaves or sells the home, or becomes disabled or dies.

COM requires that any home purchase assistance, shared equity agreements, and home equity agreements be documented at the time of the call and become a part of the call.

COM strongly urges churches to consider obtaining professional advice when including any of the above provisions for home equity into a “Term of Call” and including the contractual details of these provisions in the “Terms of Call” when calling a pastor.

Appendix E: Board of Pensions Benefit Plans Summary

The Benefits Plan of the Presbyterian Church (U.S.A.) is designed to care for and provide benefit protection for the community of Benefits Plan members as a whole. The Board of Pensions of the Presbyterian Church (U.S.A.), (BOP) as the Plan administrator, is the corporate embodiment of the church's sense of community in caring for church workers.

The Board of Pensions web page www.pensions.org provides details and is an invaluable resource for church treasurers, personnel committees and pastor nominating committees (PNC). Benefits Plan Overview Product Sheets are available on the BOP website under PTS-602 (Healthcare), PTS-609 (Death Benefits), PTS-610 (Disability Benefits), PTS-608 (Pension Plan), PTS-600 (Retirement Savings Plan), PTS-622 (Assistance Program), and others.

The following table outlines what benefits are available through the Board of Pensions and which are mandated by G-2.0804 GAMC and Denver Presbytery provide the full participation in the traditional plan to employee ministers not serving in called and installed positions as well as lay and part-time employees as outlined in their respective employee manuals. Churches are free to provide (or not to provide) and negotiate benefit plans options for employees who are not mandated by the constitution of the PC(USA) subject to some limitations imposed by the BOP and the federal government. The procedures and necessary forms for enrolling employees in any of the BOP plans are available on the BOP website.

COM recommends that the benefit plans offered by the BOP be discussed during the negotiations between a PNC and the candidate and that the call / contract reflect the plans included.

	Called and Installed Position, (Pastor, Co-Pastor, Associate Pastor, Designated Pastor)	Special Ministries and Temporary Contracted Positions, Interim, Supply	All Lay Exempt Employees within each class	All Lay Non-Exempt Employees within each class
BOP Traditional Benefits Plans Full Participation, Pension, Death and Disability, Medical				
	Mandated per G2.0804	Recommended	Employer Option	Employer Option
BOP Traditional Benefits Plan Limited (<3yr) Participation Death and Disability, Medical				
	Not available	Negotiated	Employer Option	Employer Option
BOP Affiliated Benefits Plan				
Medical only	Not Available	Negotiated	Employer Option	Employer Option
Medical and Death and Disability	Not Available	Negotiated	Employer Option	Employer Option
BOP Optional Benefits Plans				

Long-Term Care Insurance	Optional by Employee	Optional by Employee	Optional by Employee	Optional by Employee
Dental Insurance	Optional by Employee	Optional by Employee	Optional by Employee	Optional by Employee
Flexible Spending Account	Optional by Employee	Optional by Employee	Optional by Employee	Optional by Employee
403(b) Retirement Savings Account	Optional by Employee	Optional by Employee	Optional by Employee	Optional by Employee

Board of Pensions Coverage Options

The Board of Pensions offers the "Traditional Coverage" option, the "Affiliated Benefits Program", as well as optional benefits plans. Eligibility and coverage varies between these plans and needs to be considered when deciding which plan best meets the needs of a church, its employees and pastors.

1. **Traditional Benefits Program**

The traditional coverage is for those employers who wish to provide their employees with defined benefit retirement pension coverage in addition to the death and disability and medical benefits coverage. Two levels of participation are available, full and limited:

a) Full Participation

Churches are mandated to enroll "called and installed" clergy [Book of Order G-2.0804] in the full participation "Traditional Plan" providing pension, death and disability, and medical coverage.

Churches and other employing organizations may enroll non-mandated clergy and lay employees who work at least 20 hours a week in eligible church employment. They must be consistent in their Benefit Plan enrollment practices, providing the same level of benefits for employees in the same employment classification. (Employment classifications are defined by the BOP as Clergy, Exempt Lay and Non-Exempt Lay, with each having full-time and part-time subcategories.)

b) Limited participation

This option is available only to those employees in positions not mandated for full Benefits Plan participation. It provides medical and death and disability for the first three years of Benefit Plan participation with pension participation added on the third anniversary of limited participation.

This may be an option when a temporary position is being filled with a "non-called and installed" individual such as interim, temporary supply, or commissioned ruling elders (CRE), as long there are no other employees in the same employment classification enrolled in the Traditional plan.

2. BOP Coverage for non-mandated positions

Non-installed employees working 35 hrs per week must have a salary equal to the minimum pension basis to be eligible for benefits plan participation. For 2012 this is $13,325. The minimum salary requirement is pro-rated for employees working less than 35 hrs per week by hrs worked per week/35 times 13,325.

BOP full traditional coverage is mandated for all called and installed pastors. For pastors or Commission Ruling Elders, serving in temporary contract situations, such as interims, the church and the employee must agree on what benefits will be included in the contract. Generally, pastors serving in temporary pastoral relationships (full or part-time), such as interims, will be enrolled in the traditional BOP benefits plans by the employing church. Benefits for non-clergy exempt and non-exempt employees of a church need to be negotiated between the church and the employee. To avoid confusion over this issue, the session should state clearly in the position description what benefits are provided by the church. The BOP offers benefits through their "Affiliated Benefits Plan" and their "Optional Benefits Plans" that can meet a particular need. A church can also provide other benefit plans for their non-called employees that are not administered by the BOP.

The Affiliated Benefits Program

The Affiliated Benefits Program provides employing organizations the option of offering the same coverage as traditional coverage options under the Benefits Plan, with the exception of the defined-benefit pension component. It is open to churches and other employing organizations affiliated with the Presbyterian Church (U.S.A.). Medical coverage can be offered on a partially contributory or non-contributory basis.

This flexible program can be offered to employees who do not currently participate in traditional coverage under the Benefits Plan. These may include:

- *ministers not serving in called and installed positions*
- *lay and part-time workers, such as administrative and custodial staff*

Employees must work at least 20 hours a week. Members enrolled in traditional coverage for full or limited participation cannot transition to the Affiliated Benefits Program.

3. Optional Benefits Plans

Optional Benefits plans are available through the BOP and include dental program, supplemental death benefits, supplemental disability benefits, retirement savings plan, and long-term care insurance. In addition, flexible spending accounts and healthcare reimbursement accounts may be set up by the employer (forms are available on the BOP web site) and may result in tax favored treatment of out-of-pocket expenses for the employee.

4. **Part-Time Adjustments**

The Board of Pensions **defines** 1820 hrs/year as being full-time employment for the purposes of administering the Benefits Plans. This corresponds to 35hrs/week and is the basis by which the BOP adjusts part-time employee's hours to equivalent full-time for determining the medical benefit plan dues basis.

Since part-time calls are normally expressed as a % of full-time, and since COM considers full-time to be nominally 40 hrs per week, converting the % of full-time call/contract to hours worked per week as mandated for the report to the BOP impacts to both the employee and the church. The BOP converts reported % of full time to hrs/wk by multiplying the % by 35hrs, whereas a church might convert % to hrs by multiplying % by 40hrs. Thus, for a 50% call, the hrs/wk will be either 17.5 (calculated by the BOP method) or 20 (as reported by the church). A part-time call may be negotiated to list % of full-time and hrs/week that does not correspond to the COM recommended nominal 40hrs/week. Thus, a 50% call may be reported as 25hrs/week if that is agreed upon by the church, the pastor and approved by COM.

The medical benefits to the employee are not affected by the part-time status of the employee as long as the employee is a BOP plan member.

A part-time NON-INSTALLED worker must be scheduled to work a minimum of 20 hr/wk and be paid a minimum prorated minimum pension participation (divide the current year's minimum pension participation basis (13,325 for 2012) by 35 and multiply by the hours scheduled to work per week) to be eligible for participation in the BOP benefits plans. This 20hrs/wk limitation does NOT apply to installed positions regardless of hours worked.

Pension credits and death and disability benefits for part-time employees are based on their annual effective salary multiplied by 35 and divided by hrs/worked, or the median salary of the employees employment classification divided 35 and multiplied by hrs/wk), whichever is larger.

The BOP website www.pensions.org or their representative (by phone) can provide assistance in these matters.

COM recommends that part-time calls or contacts for clergy be expressed as % of full time and that 40 hrs/week be considered nominally full-time when calculating hrs/week scheduled to work for inclusion in the BOP annual "change in salary" report.

5. **Dues**

Traditional Benefits Plan Dues

Dues for the Medical Plan, Death and Disability Plan and the Pension Plan must be paid by the employing entity and are a function of the effective salary of the participant (subject to minimums and maximums). Dues for the optional dental, supplemental death, supplemental disability, long-term care, and retirement savings plan may be shared by the member or the employer.

Dues for the pension and death and disability plans are based on the effective salary of the employee.

Medical Plan dues for 2012 are 20.25% of the effective salary of the participant. Medical Plan dues for employees working fewer than 35 hrs per week are based on the full-time equivalent salary.

2012 Pension Plan dues are 11% of the effective salary and the Death and Disability dues are 1% of the effective salary. The minimum Pension and Death and Disability Plan dues basis for effective salary is 25% of the median effective salary reported annually by the BOP ($13,325 for 2012).

Affiliated Benefits Program Dues

These dues are determined annually by the BOP and published on their website (www.pensions.org/). The employing organization is responsible for the remittance of these dues to the BOP. Employing organizations will pay at least 50% of the medical plan dues, with the employee being responsible for the remainder. The dues are a function of the employee's family status (member only, member plus children, member and spouse, member and family).
Dues for the Death and Disability Plan are 100% the responsibility of the employer.

Optional Benefits Dues

The optional benefits dues are determined annually by the BOP and published on their website www.pensions.org/ . The employing organization is responsible for the remittance of these dues to the BOP.

Vacancy Dues

Whenever a pastoral relationship between a pastor, co-pastor or associate pastor and a church is dissolved, the church is required to pay "vacancy dues" until the earlier of 1) the installation of a new minister in the vacated position, 2) 12 months, or 3) the decision of the session not to conduct a search to replace the minister. Vacancy dues are 12% of the last installed minister's total annual effective salary.

Vacancy dues are not applicable if the vacant position is filled by a successor that participates in the Traditional or Affiliated Benefits Plan of the BOP. Administrative rule 307 of the BOP provides details and guidance on suspension and waiver criteria for vacancy dues. Involving the COM and Presbytery in this process is required.

Appendix F: Tax Considerations

Ministers are considered as employees for federal income tax and as self-employed for social security (SECA). The way a terms of call or contract is structured will affect the Board of Pensions dues, the total taxable income as well as the basis for calculating the social security payroll tax (SECA). The attached sample form of a "terms of call" identify what is included in each category.

The clergy exemption from social security is rarely used, and for "religious principles or conscience" exempts the pastor from paying into and receiving benefits from social security.

While neither the COM nor the Presbytery are experts in tax matters, the following are topics may be considered when structuring a terms of call or a contract:

1. **Housing Allowance**
   The major tax benefit for clergy is the housing allowance provision of the tax code. It applies only to the primary residence, and exempts housing/utility/furnishings cost from the pastor's taxable income but not the basis for calculating SECA taxes. Utilities paid by the employer are included in the SECA tax basis. It is limited to the lesser of 1. The fair rental value, furnished, including appurtenances, plus actual cost of utilities; 2. The amount actually spent, 3. The employer designated amount in advance of payment, 4. 100% of salary.
2. **SECA.**
   While the 50% SECA allowance is taxable income, it is deductable from the federal taxable gross income on IRS form 1040. The basis for calculating the SECA tax differs from the "taxable income" used by the IRS and Colorado. Housing allowances and the manse rental value are included in SECA but are excluded for income tax purposes.
3. **Imputed Value of Death Benefit**
   Eligible survivors of a pastor who participated in the BOP plan receive a "death benefit" that is a function of the pastor's effective salary and age at the time of death. This benefit (in excess of $50,000) is fully taxable unless the "imputed value of the death benefit" is included on the pastor's W2. To avoid this potentially sizeable tax obligation, COM recommends that the imputed value of this death benefit be calculated per BOP "Taxation of Death Benefit Dues Calculator" and that it be reported on the pastor's W2 and that 20%of this be recorded on the terms of call to offset the current tax on this amount as income**. (**www.pensions.org select the "Treasurers and Administrators" tab and then the "Calculators" tab and select the "Taxation of Death Benefit Dues Calculator" for a simple way to determine the Imputed value for inclusion in the W2.)
4. **Out of Pocket Reimbursement Plans**
   The IRS recognizes certain tax-favored plans for out of pocket medical expenses. Both the Flexible Spending Account (FSA) and the Healthcare Reimbursement Accounts (HRA) require formal plan documentation (available on the BOP web page).
5. **Reimbursements vs. Allowances**
   The IRS and the BOP consider allowances as income, whereas reimbursements of business expenses are not. COM recommends that business related expenses by reimbursed via a voucher and proof of expenditure accountable plan, as this reduces the employees federal tax burden and the churches BOP dues .

6. **Denver Head Tax**
Churches located within the city and county of Denver must pay a head-tax for all of their employees. The following is an excerpt from www.denvergov/Portals/571/documents/TaxGuide/ for the Occupational Privilege Tax (OTC). "Employees who perform sufficient services in Denver to receive compensation of at least $500 per month meet the requirement of a taxable employee and are liable for the Employee OPT to be withheld by the employer at a rate of $5.75 per month. The employer is also required to pay the Business OPT at a rate of $4.00 per month for each taxable employee. Additionally, the employer is required to pay the Business OPT at a rate of $4.00 per month for each owner, partner, or manager engaged in business in Denver regardless of how much they earn."

7. **IRS Form 8800**
A non-refundable tax credit of up to 50% of 403(b) contributions up to $2,000 may be available to pastors if their income (AGI) is below $28,250 (filing individual) or $56,500 (filing jointly).

8. **Small Employer Healthcare Tax Credit**
This provision of the Patient Protection and Affordable Care Act (PPACA) may generate tax savings for small PC (U.S.A.) churches and employing organizations. Churches and other small employers that offer healthcare coverage for one or more of their employees through the Medical Plan of the Presbyterian Church (U.S.A.) or another health plan may qualify for the Tax Credit for tax years 2011 through 2013.
Small, tax-exempt employers with fewer than 25 full-time equivalent employees and average wages of less than $50,000 may be eligible for a credit of up to 25% of the employer's healthcare coverage costs. The maximum refundable credit is the amount the employer withheld from employee wages for federal income taxes and Medicare tax, plus the employer's share of Medicare taxes,
The Board has provided a worksheet, tables, examples, and links to other resources at www.pensions.org/taxcredit

9. **Deferred Compensation**
There are two ways to administer deferred compensation through the Board of Pension 403(b) plans:
(1)The church can simply enroll the pastor in the plan and pay a fixed amount into the plan, and pay BOP dues on that amount, or, (2) the pastor can contribute to the plan and the church can contribute a "matching" amount onto the plan. (For 2012 the combined maximum is $17,000 and there is no limit on how the "match" is determined). If option (2) is chosen, the church could increase the pastor's compensation to allow the pastor as well as the church to contribute and still reduce costs for the church and the pastor.

Example:
Using the May 2012 median home price in the US of $187,400 and creating a 403(b) for 1/40 of this would require payments of $4,735 total contributions to the BOP 403(b) account for the pastor.

Option (1) would have the church contribute this to the pastor's 403(b) and pay an additional 33% ($1,563 in 2013) of BOP dues ($1,563 in 2013), as this contribution is included in the "effective salary" for a total of $6,298. The pastor will have to pay state and federal income tax on this deferred compensation (assume 25% for $1,184). SECA taxes are due on this as well at 15.35% of $4,735= $727.
Option (2) could have the church pay the same $4,735 into the 403(b), and increase the pastor's cash salary by the BOP dues savings to the church ($1,563). This would have no effect on the church, but would increase the pastor's taxes (state, federal and SECA) by 1,563*(.25+.1535) = $631, leaving the pastor $932 to contribute to the 403(b). Clearly, this is a winning option.