

Ministerial Compensation: Pointers and Pitfalls

for Search Committees and Negotiating Teams

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



UNITARIAN
UNIVERSALIST

Your Hosts

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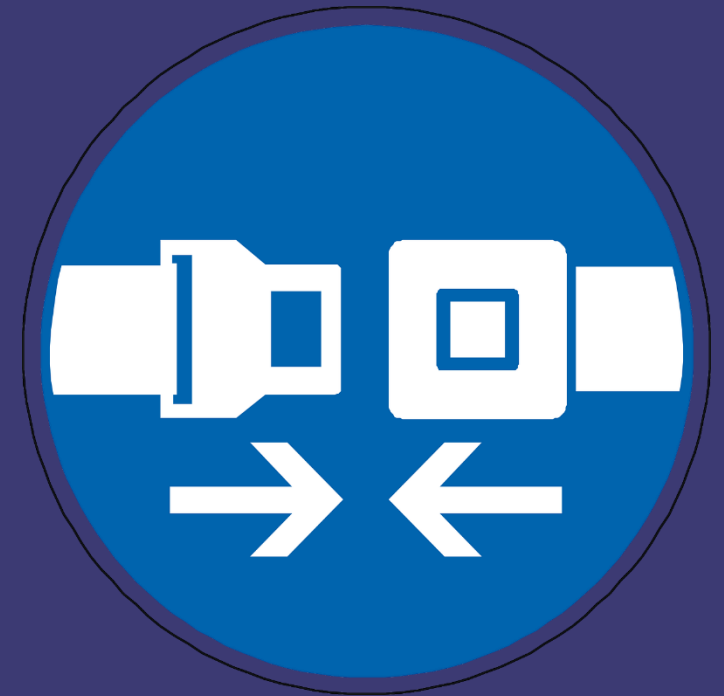
Rev. Keith Kron

Transitions Director



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...

Form **W-2** Wage and Tax Statement
Copy 1 - For State, City, or Local Tax Department

2019

Department of the Treasury - Internal Revenue Service

Employee or Independent Contractor?

“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:

6 Kids, don't try this at home.

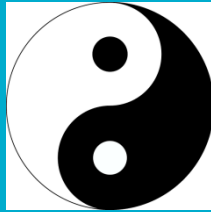
- UUA resources available
- Make sure your payroll company understands ministerial tax provisions
- Ministers urged to find an accountant who knows ministerial taxes (at least at first)



Payroll & Taxes

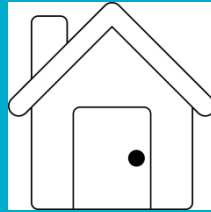
Three Special Tax Provisions for Ministers

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.

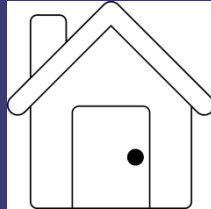
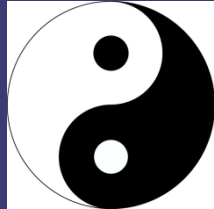
Withholding Optional



- 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



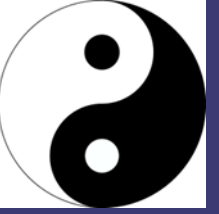
Payment in lieu of FICA



Housing allowance may be paid in a separate check.

Jan calls this the "self-employment tax offset."

Payroll & Taxes



That “dual tax status” thing

**A minister is an
Employee**

For income tax purposes
(state and federal)

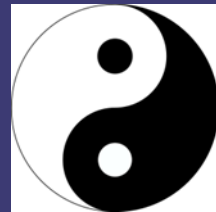
...and for nearly all other purposes.

BUT...

Self-employed

For Social Security/Medicare tax purposes

...which is why they pay estimated quarterly taxes.



Payroll & Taxes

Dual Tax Status

Regular Employees

Social Security/Medicare tax = 15.3%

FICA

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

Ministers

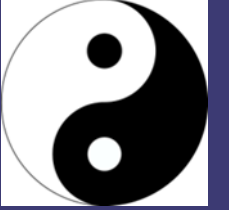
Social Security/Medicare tax = 15.3%

SECA

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

AND SO...

Payroll & Taxes

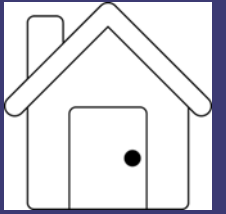


Dual Tax Status

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.

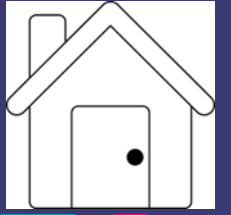
Payroll & Taxes



Housing Allowance



Payroll & Taxes



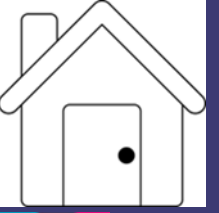
Housing Allowance

- 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
NOT
figured as
% of salary**

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

Payroll & Taxes

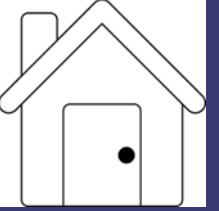


Housing Allowance

Common allowable expenses

- Rent or mortgage payment
- Real estate taxes
- Renter's insurance
- Utilities
- Furnishings
- Appliances
- Repairs
- Yard maintenance

Payroll & Taxes

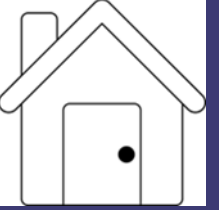


Housing Allowance

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

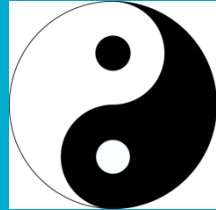
- Minister NOT REQUIRED to have taxes withheld
- May CHOOSE to have taxes withheld
- Taxes withheld are applied to **income taxes**, *not self-employment tax*

Self-employment tax is for Social Security and Medicare: SECA.
Ministers must pay SECA through quarterly payments.

Payroll & Taxes

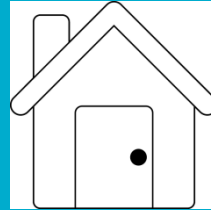
Cost to congregation of special ministerial tax provisions

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

Benefits

Eligibility set by Plan Rules,
not by congregational policy.

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)

Benefits

UUA Plan :Annual enrollment or within **30 days** of hire

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**

Gold = highest premium, lowest out of pocket costs
Bronze = lowest premium, highest out of pocket

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

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 enrollment or
within **60 days** of hire

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

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

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

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

*Must offer with
Life Insurance*

Enroll within **60 days**
of hire

Recommendation:

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

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

Must offer with LTD

Enroll within **60 days**
of hire

Recommendation:

Congregation pays the premium

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

UU ministers are
immediately
eligible for
employer
contributions

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**

What percentage employer contribution is in your Employer Participation Agreement?

Does your congregation offer a match?

** As specified in the Employer Participation Agreement on file with our Office

Retirement Plan: Employer Participation Agreement

Pages 2 and 3
of 5

Your Ministerial Agreement
must be consistent with your
Employer Participation
Agreement

Employer Participation Agreement - UU Organizations Retirement Plan January 1, 2018

A. Employer Elections: Our congregation/organization makes the following legally binding elections on behalf of our employees. (You **MUST** mark a response under each election; incomplete Agreements delay processing and will be returned for completion.)

1. **Election #1 - Auto-Enrollment:** Unless the employee affirmatively elects otherwise, you, the Employer may opt to enroll your employee(s) in the Plan (regardless of hours worked), deduct a certain percentage of the Employee's own compensation (see below), and forward those employee deferrals to TIAA for crediting to the employee's account. Whether or not you choose to become an Auto-Enroll employer, you are responsible for properly informing your employees about the Plan and its applicable provisions, and documenting when you so informed each of your employees. You may utilize the Employee Contributions Agreement (found online at uu.org) to document the employees' decisions to authorize elective contributions or to decline to do so. You must make them on their behalf. (Generally, employers electing to administer Auto-Enroll in order to encourage employees to save for their own eventual retirement and to increase participation in the retirement plan.)

Choose one of the two elections below.

We choose **NOT** to auto-enroll all employees. However, we will enroll (regardless of hours worked), as required by federal law, who elects to make a voluntary contribution to the retirement plan (e.g. an elective deferred contribution), and all who become eligible to receive employer contributions.

We choose to **auto-enroll** all current and future employees. In doing so, we will provide a copy of the **Employee Contributions Form** each year to all employees who does not affirmatively make a different election will be deemed to have elected the following percentage of their compensation (as defined under #4 below):

_____ 1% _____ 2% _____ 3% _____ 4% _____ 5% _____ 6%

2. **Election #2 - Base Employer Contribution:** As the Employer Contribution, we will remit the following whole percentage of the compensation base to each employee who has met the Plan's eligibility criteria. Please Note: Eligibility is governed by UUA Plan Provisions and not the employer's own HR/Personnel policies. **KEY POINT:** All employees eligible for employer contributions must receive the same percentage employer base contribution.

_____	5% (Required minimum)	_____	11%
_____	6%	_____	12%
_____	7%	_____	13%
_____	8%	_____	14%
_____	9%	_____	Other (specify)
_____	10%	_____	

3. **Election #3 - Matching Employer Contribution:** In addition to the base employer contribution selected in 2 above, we opt to also match eligible employees' elective salary deferrals (up to the percentage shown below). Note: the maximum match permitted is 6%.

_____	No Matching Contribution	_____	4%
_____	1%	_____	5%
_____	2%	_____	6%
_____	3%		

Employer Participation Agreement - UU Organizations Retirement Plan January 1, 2018

4. **Election #4 - Definition of Compensation:** Please indicate whether you will exclude any or none of the following from the retirement contribution compensation base (if excluding more than one, be sure to check all that you wish to exclude):

Or mark one or more of the following:

_____ No exclusions

_____ Exclude payment-in-lieu-of-FICA (paid to ministers),

_____ Exclude amounts paid to employees for federal and state income taxes owed on benefits provided by the employer for same-sex Spousal or domestic partner benefits, or

_____ Exclude the value of any employer-paid Long-term Disability and Life insurance premiums which are imputed as income to the employee

Employer Certification Regarding Employment Status: IRS regulations require that all ministers receiving employer contributions be employees and receive a W2. Note that most have a "dual tax status," and are employees for federal income tax purposes, but are not employees for Social Security purposes with respect to earnings from services performed in the course of their ministry. Regardless of their dual tax status, ministers should be treated as employees and receive a W2. For congregational-based ministers, this is a requirement.

We hereby certify that all individuals receiving employer contributions or making employee salary deferrals are employees of our congregation/organization, and thus receive a W2 (not a 1099).

6. **Employer Certification of Non-Discrimination:** The UU Organizations Retirement Plan requires the enrollment of any employee, regardless of hours of service, if the employee wishes to defer compensation into their retirement account. Further, the Plan requires that all employees eligible for employer contributions be enrolled, and receive the same percentage retirement contribution from the Employer.

We hereby certify that all employees wishing to participate in the Plan have been enrolled (or will be, if we are entirely new to the Plan), and that employer contributions are made for all employees eligible under the Plan. We certify that the same percentage retirement contribution is made for all employees eligible, and that the same percentage matching contribution is offered to all eligible employees.

7. **Employer Certification:** **Highly Compensated Employees:** The IRS requires certain annual testing to verify that the Plan is not primarily benefiting highly compensated employees. The IRS defines a highly compensated employee as one who earned more than a specified limit for the prior year. For ministers, the amount is W2 income only. Do not include the housing allowance. Complete the applicable lines below:

_____ None of our employees earned a salary of \$120,000 or more in the prior year. (# 7 continued on page 3)

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

- [Benefits 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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