Understanding the Pastor’s Compensation Package

SD Synod 2025

There are 2 main components to a minister’s Total Compensation: the Defined Compensation (Salary & Housing) & Benefits (Insurance & Pension)

1. Defined Compensation
   1. Base Salary (including additional considerations)
   2. Housing
      1. Parsonage – valued at 30% Base Salary
      2. Housing Allowance in lieu of Parsonage – lower of actual cost or 50% base salary without additional considerations
   3. Social Security Allowance = 7.65% of Base Salary + Housing
2. Benefits
   1. Health Insurance
   2. Pension
   3. Disability & Group Life Insurance

Portico Benefit Services is a separately incorporated ministry of the ELCA that manages the benefits for congregations, ministers, and lay staff.

1. Health Insurance - Premium factors
   1. Defined compensation (DC)
      1. With Parsonage: DC = Base Salary + 30% of base salary + Social Security Allowance
      2. Without Parsonage: DC = Base Salary + Housing Allowance + Social Security Allowance
   2. Age of Minister
   3. Member only, Member & spouse, or Family policy
   4. Level of Coverage
      1. Gold+
      2. Silver+
         1. HSA Level A ($900 single, $1800 family)
         2. HSA Level B ($600 single, $1200 family)
2. Pension – 10% of Defined Compensation for rostered ministers
3. Disability & Group Life – currently 1% of Defined Compensation

Understanding the Housing Allowance

Historically, congregations provided a parsonage for their minister. Pastors would transfer churches frequently. Also, many small communities had limited housing. A church owned parsonage removed the issue of housing from the call discernment. The parsonage was generally located close to the church. A pastor that had the use of a parsonage frequently was paid a lower salary since the congregation covered the housing costs.

Today, the use of parsonages is declining, especially in larger communities. The church supplied parsonage has been replaced by a housing allowance. Starting in 2024, the SD Synod recommends that the housing allowance is the lower of the actual housing costs incurred by the minister or 50% of base salary (before additional considerations.)

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| --- | --- | --- |
|  | Lower Cost Community | Higher Cost Community |
| Base Salary (newly ordained, 2025) | $43,272 | $43,272 |
| *housing costs per month* | *$1,500* | *$2,500* |
| *Actual Cost* | ***$18,000*** | *$30,000* |
| *50% of Base* | *$21,636* | ***$21,636*** |
| Housing Allowance - lower of actual cost or 50% of base | $18,000 | $21,636 |
|  |  |  |
| Base + Housing | $61,272 | $64,908 |
|  |  |  |
| Social Security Allowance (7.65% of Base + Housing) | $4,687 | $4,965 |
|
| TOTAL COMPENSATION | $65,959 | $69,873 |

Housing Allowance as Excludable Income from Pastor’s Gross Income

for Income Tax Purposes

In the United States, the IRS has deemed the value of a parsonage to be an income tax-free benefit to the minister. This tax benefit has been extended to a housing allowance paid in lieu of a parsonage if the housing allowance is designated for this purpose in the annual budget. The congregation must designate the housing & utility allowance. The amount of this allowance, which generally should not exceed the actual expenses paid by the pastor for mortgage payments, utilities, upkeep and repairs, taxes, insurance, and furnishings, may be excluded from the pastor’s taxable income. The pastor will however be required to pay the Social Security Tax (15.3%) on all salary including that amount designated as housing allowance.

The congregation council may use the following language when designating the housing allowance annually:

*Upon motion duly made and seconded, it was voted to designate $ of the 20\_\_ total cash salary of $ to be paid to Rev. as a housing allowance in response to the pastor’s request and acknowledgement that the allowance so designated will not exceed actual expenses for their home including mortgage payments, utilities, upkeep and repairs, taxes, insurance, and furnishings. Therefore, cash salary shall be $ . and housing allowance shall be $ .*

**It is strongly recommended that all rostered leaders and ministers understand IRS guidelines in determining the housing allowance. Portico provides helpful resources in understanding this. Ministers should consult a tax advisor.**

It is important to note and communicate to the congregation that naming a particular number or percent from the Total Defined Compensation as “housing allowance” in the budget does NOT affect the bottom line of the budget. The shifting of base salary to housing allowance is simply a tool for the minister to minimize income tax paid.

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| --- | --- | --- |
|  | Base Example | Example |
|  | Guideline salary | shift $3000 to housing |
|  |  | (Potential tax saving $450-600 for the pastor) |
| Base Salary (5th year 2025) | $47,135 | $44,135 |
| Housing Allowance | $20,000 | $23,000 |
| Social Security Allowance | $5,136 | $5,136 |
| **Total Compensation** | **$72,271** | **$72,271** |

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