

# How Churches Structure Financial Support for Ministers

## 1. Lump Sum Pay Package Approach

The church provides a total lump sum amount that is usually equal to the church's total cost to fund a ministry position. The minister is then responsible for determining the amount to be allocated for each item in the pay package. For example, the church may provide a \$ 50,000 total "package". The minister must then determine how much of that amount is allocated for expenses, retirement, insurance, housing, etc. The church is generally not as concerned with the breakdown of the package as much as the "bottom-line" total cost.

## REASONS A LUMP SUM PAY PACKAGE SHOULD *NOT* BE USED

1. It creates a false PERCEPTION of the true compensation.
2. It is often an unrealistic EXPECTATION to make of the minister.
3. It generally results in a higher TAX liability for the minister.
4. It results in increased RISK exposure for the minister and for the church.

## 2. An Employer Structured Financial Support Plan

This is the best approach. It is important for churches to move away from the "lump-sum package". As a responsible employer, a church should determine each element of the financial support plan. There may still be some flexibility and negotiation regarding certain elements.

## ADVANTAGES OF THIS APPROACH:

1. The church can know the "real compensation".
2. It recognizes the fact that many ministers have limited training and experience in financial matters. It does not force a minister to make major, life impacting decisions in an area where they may lack the needed expertise.
3. It helps assure that compensation will be correctly reported to the IRS and will generally reduce the taxes owed by the minister.
4. It increases the likelihood a minister will have adequate financial protection for themselves and their family. In turn, this may reduce the potential financial liability a church may assume in certain situations. This helps insure that church funds are spent appropriately.
5. Clearly defined policies of financial support may extend the tenure and effectiveness of church employees. A correctly designed financial support plan shows your church really cares for the people it calls to serve.