



**CLERGY COMPENSATION POLICY
THE EPISCOPAL DIOCESE OF MICHIGAN
CALENDAR YEAR 2023**

Introduction

The Diocese of Michigan requires a formal Letter of Agreement for each clergy person called and compensated by a congregation in this diocese. This agreement helps to clearly define expectations of both clergy and the congregation and can prevent misunderstandings and conflict. Each agreement must be consistent with the diocesan format, approved by the Bishop, and filed in the diocesan office. Please contact one of the bishop's staff persons listed at the end of this document for an appropriate template for an agreement with a rector, vicar, priest-in-charge, interim priest, long term supply priest, assistant, associate, or curate and for help with further developing the terms of the agreement.

Three components of clergy compensation, benefits and expense reimbursement generally need to be addressed in the Covenant of Call:

- a) *Minimum Direct Compensation* (salary, housing¹ and SECA tax reimbursement);
- b) *Benefits* (insurance, pension, etc.); and
- c) *Professional Expenses* (mileage, travel, education, entertainment, etc.).

This Guide is provided to help congregations to consider and fix each of these components in a usual, customary, fair, and competitive manner.

Congregations need to be sure that they are offering a competitive wage that will continue to bring clergy to serve the needs of the congregation and community. Clergy are to be paid an amount that recognizes their professional training and experience and the demands of the position. And congregations must be diligent in ensuring their clergy's compensation is maintained and equitable compared to their community. Determining a fair level of clergy compensation, and how that is sourced, will require care, prayer, and discernment of mission and ministry needs by congregational leaders on the part of the church community.

¹ For purposes of Direct Compensation, housing may include church-provided housing, a cash allowance for housing, utilities and/or an Equity Allowance as described on pages 4-5 below.

A congregation may request that the diocesan Canon for Finance, Mark Miliotto, at mmiliotto@edomi.org or 313-833-4427, or another financial consultant meet with the wardens, treasurer and any other appropriate people to help the congregation understand the state of its current business, financial and compensation practices. A review of financial results may also help a congregation ascertain and plan the scope of its future ministry. Financial consultants can help guide a congregation toward a place of vitality in preparation for its mission and ministry.

Minimum Direct Compensation

The components of direct clergy compensation are based on the special federal income tax system applicable to clergy employees and to the further definitions and structures applied by the Church Pension Group (CPG) serving the Episcopal Church. For these purposes, Direct Compensation includes cash salary, housing, and Self-Employed Contribution Act tax (SECA) reimbursement. These components are discussed in more detail below.

Diocesan Council establishes the 2023 Minimum Direct Compensation for full-time clergy serving congregations in the Diocese of Michigan during 2023 as follows. A 4% Cost of Living (COLA) increase has been factored in for 2023.

Minimum Cash Salary without church provided housing	\$ 56,894
7.65% SECA reimbursement	<u>\$ 4,352</u>
Minimum Direct Compensation	\$ 61,246
Minimum Cash Salary with church provided housing	\$ 47,112

This standard is the required "minimum" compensation that a congregation shall pay full time clergy and each governing body may increase compensation beyond these minimum standards as deemed appropriate for their congregation. In compensating clergy, congregations are encouraged to value years of service, professional skills and experience, and duties and responsibilities, including whether the priest is in charge of the congregation (Rector or Vicar vs. Associate or Curate), the size (i.e., average Sunday attendance), and the budget of the congregation.

Any congregation with paid clergy that is not currently meeting the minimum compensation standard will develop a three-year plan to reach this standard. Congregations will consult with a member of the bishop's staff for assistance in developing the plan.

Diocesan Council recommends an appropriate Cost of Living Adjustment each year for all continuing clergy persons and lay employees.² Each congregation is encouraged to evaluate cost of living in its own community and make upward adjustments as necessary. Typically cost of living is higher in urban or suburban settings, but not always. In reality a Cost of Living Adjustment aims merely to keep a person economically whole. In addition, Diocesan Council

² Applicable consumer price indexes for the previous or current calendar year may be a factor in determining annual Cost of Living Adjustments (COLA). The most relevant indexes for Southeast Michigan are (a) the Consumer Price Index - All Urban Consumers (CPI-U) for Detroit-Ann Arbor-Warren, MI and (b) the Consumer Price Index Urban Wage Earners and Clerical Workers (CPI-W), which is used by the Social Security Administration to calculate Cost of Living Adjustments for Social Security beneficiaries. Go to <https://www.bls.gov/cpi/data.htm> for details.

strongly encourages congregations to consider salary increases above Cost of Living Adjustments for performance, merit or seniority or for increased responsibility or duties.

Part-time and Interim Clergy

The minimum direct compensation for clergy serving a congregation on a part-time basis shall be the same percentage of a full-time commitment that the clergy person is serving the congregation.³ Congregations and clergy serving in less than full-time positions must be very clear about compensation and non-discretionary work time obligations. Compensation should compare with hours “on the job,” so that no clergy is paid for part-time work but is expected by others, or is willing, to work full time. Such expectations are unethical and such work patterns are unhealthy. For clergy who work part time, secular employment may be necessary to meet basic living expenses. Affected clergy and congregations are urged to work closely together to avoid any misunderstandings about clergy availability.

The same standards shall apply to Interim Clergy as to full-time or part-time clergy.

Social Security (SECA) as Part of Minimum Direct Compensation

Clergy are required to contribute toward Social Security at the current self-employment rate, which is adjusted periodically by the federal government. **Congregations are required to fund the difference between the rate of employee FICA and the rate of self-employment SECA as a component of cash compensation to the clergyperson.**⁴ This has the effect of enabling clergy to contribute towards social security at the same rate as salaried employees. This SECA allowance becomes additional taxable income on the clergyperson’s W-2 form and is reportable to the Church Pension Group as a part of total cash compensation, along with cash, housing and utilities allowance, to ensure accurate billing for pension premiums. To arrive at a SECA number many clergy and congregations use a multiplier of 7.65% against the total of salary, housing and utilities. Please check with the IRS or your tax advisor if you have a question about SECA.

Supply Clergy

Diocesan Council establishes a minimum compensation rate for supply clergy as follows: For a single service, \$150 plus travel at the current IRS rate. For two services or a service and a Christian formation class, \$200 plus travel at the current IRS rate. For additional services, you may negotiate. If you have clergy from another denomination with whom we are in full communion available for supply they should be reimbursed according to these diocesan guidelines. Please note that if clergy from another denomination are not listed on our approved Supply List, you must seek approval from the Bishop’s office. ELCA clergy may have a different scale for supply.

³ For example, a clergy person who works half time (20 hours or 6 units per week) would receive 50% of the Minimum Direct Compensation. For these purposes, “units” are mornings, afternoons, or evenings worked in various combinations, reflecting the demands of ministry.

⁴ To meet this requirement, a congregation may simply re-allocate a portion of cash salary to SECA as long as the minimum standard for direct minimum compensation is met.

Housing and Utilities as Part of Minimum Direct Compensation

Federal tax law allows for clergy to be granted housing and to exclude the value of this housing from federal income tax liability (but not from SECA liability as discussed below).⁵ The Housing component of compensation can take different forms:

- a) *Church-provided housing.* The congregation provides a rectory and pays all maintenance and remodeling expenses necessary to keep the property in a reasonable condition. Congregations should expect to maintain clergy housing in a manner equivalent to church property, and as well as they would keep their own homes. Clergy and congregations should be quite clear about who is responsible for identifying and executing repairs, improvements, and redecoration projects in order to avoid conflict and to maintain a positive degree of well-being for both property owner and clergy (and clergy family) resident. To estimate the reasonable value of church-provided housing, CPG uses an amount equal to 30% of cash salary. This is a reasonable proxy for purposes of determining minimum direct compensation.
- b) *Designated Housing Allowance.* The amount of a clergy housing allowance must be approved in advance of its implementation by the governing body, and, if the amount changes, a new motion must be passed before the change can take effect. The amount is determined by the cleric and affirmed by the governing body of the congregation. Normally motions are passed in December **each year** for the coming year. It is the clergy person's responsibility to maintain accurate records of actual housing costs for tax purposes and to propose the amount of the housing allowance. With this amount, clergy rent or purchase, maintain and furnish his or her dwelling if the church does not provide one. The amount of this allowance may not be greater than the fair rental value of the dwelling including furnishings and utilities. Utilities are understood to include electricity, heating fuel, water, telephone, etc. In either case, the amount must be specifically designated, by action of the governing body duly taken, as a Housing Allowance.
- c) *Equity Allowance:* When a cleric lives in church provided housing, it is appropriate to consider a percentage of the cash salary and SECA as an equity allowance. The equity allowance will allow the cleric to build equity savings as they might from actual home ownership. At least 5% is an appropriate starting point. The value of the Equity Allowance or Tax-Sheltered Annuity is considered part of the diocesan minimum direct compensation.

⁵ Following a year-long legal challenge by the Freedom From Religion Foundation, the U.S. Court of Appeals, 7th Circuit, acted on Nov. 13, 2014, to preserve the housing allowance exclusion for clergy. The Court's action reverses the Nov. 22, 2013, decision of federal district judge Barbara Crabb, who struck down the housing allowance exclusion as an unconstitutional preference for religion under the First Amendment.

Benefits

Medical, Dental, & Group Life

In accordance with the Diocese of Michigan Clergy and Lay HR Handbook, congregations are responsible for providing health care benefits (medical and dental insurance) for eligible clergy and lay employees and their spouse/dependent children.

At each annual Open Enrollment period, an array of medical plans will be offered for eligible clergy and lay employees through the Episcopal Medical Trust. A minimum coverage plan will be established by the diocesan office during the Open Enrollment period for which the congregation will pay premiums. Congregations (agencies/institutions) can opt to pay the full premium for a more benefit rich plan offered, or clergy may “buy up”, at their own expense, via payroll deduction.

Please note: The Diocese of Michigan does require parity in medical benefits coverage for lay employees and clergy. That is, all clergy and lay employees within a congregation must be offered equal levels of coverage and cost sharing of premiums, proportionate to hours worked.

Diocesan Council has taken this into account in comparing minimum compensation standards with other dioceses.

Additional coverages for group life and dental insurance are also a part of clergy and lay compensation packages. Some clergy are eligible for short and long term disability (including maternity leave) through the Church Pension Group (CPG). Please call CPG at (866) 802-6333 for more information.

Clergy and lay employees working between 30 and 40 hours per week may participate in the health care plans with the congregation contributing a pro-rata amount of the premium.

Consumer Driven Health Plans (CDHP) which require employer contributions to a health savings account (HSA) may also be offered as a part of the medical plan selections. The formula for determining an equitable contribution to a Health Savings Account (HSA) can be obtained by contacting Mark Miliotto, Canon for Finance at mmiliotto@edomi.org.

Of course, all consideration must be given to all existing Letters of Agreements when discussing implementation of premium cost sharing for your clergy and lay employees.

As provided in the diocese’s Employee Handbook, congregations must permit eligible full-time clergy and lay employees who opt out of medical insurance coverage from the congregation and elect coverage through their spouse’s medical plan to have the congregation make a monthly contribution to a Section 403(b) plan. The amount of the contribution to the 403(b) plan will be established annually by the diocesan office and will be based on the premiums for the insurance plans available. This contribution is made in lieu of a health benefit and is not considered part of Minimum Direct Compensation.

Additional information on health care benefits can be found at:

<https://www.edomi.org/church-admin/hr/>

Pension

The pension provided for clergy by the Church Pension Group is a wonderful and increasingly rare and valuable benefit. Participation in the Pension Fund is not elective, and contributions are paid by the congregation. The current contribution for clergy is set at 18% of the total cash stipend, housing, utilities, and SECA reimbursement.⁶

Congregational treasurers are required to notify the Pension Fund office of all compensation changes, so that the full contribution can be assessed and the full benefit to the employee ensured. The change of compensation form may be found on the Church Pension Fund website: www.cpg.org. If correct compensation is not filed there is only a two year window to make corrections.

Clergy are the primary beneficiaries and must carefully review their annual certificates when they are mailed from the Church Pension Group to ensure accuracy of reported income amounts and years of credited service. Please always verify that the change in compensation form signed by the priest and the treasurer is filed each year. Congregation treasurers and congregations are encouraged to contact the Church Pension Group, at www.cpg.org or 800-223-6602, to review the range of pension benefits in order to see what their contributions provide.⁷

Work Weeks and Time Away

Full-time clergy should keep their average “official” workweek to 40 - 45hours Part-time clergy should make adjustments proportional to the number of hours for which they are contracted. Although this limit may be exceeded from time to time given the nature of congregation ministry, clergy and congregations should be clear that such times are an exception rather than the rule.

Clergy have many official obligations placed upon them both by the congregation and by the diocese, which collectively require significant amounts of time including evenings and Saturdays. Vestries and congregations should bear in mind that clergy, by their ordination vows, have a place in the “councils of the church,” taking a part in service on the diocesan level. While these commitments seem to take time from congregational life, the community connection and support provided through these ministries also create a more faithful, healthy, and effective church.

⁷ As clergy prepare for retirement, careful planning is required and contact with both the diocesan office and the Clergy Pension Group should be initiated well in advance. Clergy need to consult with their personal financial and tax advisors to determine the adequacy of plan benefits for retirement and for help with choosing any options at the time of retirement.

Of importance, collegial relationships within the diocese are a necessary part of a clergy person's work and are strongly encouraged and developed. In each deanery, the clergy are encouraged to gather regularly, usually once a month. Clergy are encouraged to gather at other times with the Bishop for study days, clergy conferences, clergy/spouse or partner gatherings, diocesan convention, and other meetings involving clergy within the diocese. Clergy are required to attend Diocesan Convention and should not schedule funerals, weddings or make any plans on that weekend. New Call, New Start is a required program for clergy beginning new ministries. These activities are encouraged to develop connections and relationships and for the nurturing of wellness among the clergy. Such healthy relationships can strengthen a sense of ministry and of God's call to the community of the ordained.

Few vocations are on call in the way that clergy are, so "down" time and respect for it is very important. Congregations share in the responsibility to see, and indeed must insist, that clergy have time to engage in discretionary activities that feed themselves, their spirits and their households in a way which can be an example to the entire community. Clergy and congregations must clearly define the periods of leave to which clergy are entitled. These should include at least weekly time off, annual continuing education time, vacation time, sick leave, spiritual retreat and sabbatical leave.

Weekly time off: Diocesan wellness guidelines stipulate that clergy are to receive two days off per week, including at least 24 consecutive hours off per week as a Sabbath day. Clergy are expected to practice this weekly Sabbath day (24 full hours) to feed their souls and spirits in a way that satisfies and replenishes them, and this time is to be respected by the congregation.

Vacation: Full-time clergy are due four (4) weeks of paid vacation time per year, including five (5) Sundays. This is meant to be time away from all congregational duties. Congregations may wish to offer additional time off. Part time clergy are also entitled to the equivalent of 4 week of paid vacation time per year, including 5 Sundays, calculated proportionally.

Continuing education: The General Convention of The Episcopal Church passed a resolution regarding the number of hours of continuing education that all clergy should, at a minimum, participate in annually. Professional development of the clergy is ignored at personal and congregational peril. The diocese makes certain funds available for clergy continuing education and offers several local opportunities per year for clergy continuing education at no or minimal cost. Congregations are expected to support a clergy person's professional development for purposes of mutual well-being and for the enrichment of their common life. Such investment of money and time will be of benefit to all. A designated amount of time (generally up to two weeks) for continuing education should be provided. Congregations are responsible for including a minimum of \$1000 continuing education funds as a budget line item for clergy. This will include participation in the College for Congregational Development. Consideration must also be given to supply clergy expense during continuing education time, since it is not always possible or desirable for a clergyperson to return from a weeklong event with a sermon in his or her pocket!

Sick leave: Full time clergy are entitled to twelve (12) days of paid sick leave per calendar year for their own illness that prevents them from working. Regular part time exempt employees are entitled to proportionate sick days.

Spiritual retreat: Clergy should be encouraged to take regular time for spiritual retreat away from the congregation at least annually. Clergy spouses/partners might also be considered when considering retreat reimbursement, although such money should be considered as income and reported as a taxable benefit.

Family and Medical Leave Act (FMLA): The congregations of the Diocese of Michigan will allow unpaid leave in accordance with the FMLA provided by the U. S. Department of Labor.

Sabbatical: Sabbatical leave is a carefully planned period of time, usually three months after seven years of service in a diocesan-related ministry, in which the clergy or lay professional is granted leave away from normal duties in order to spend an extended period of time in study, reflection, and renewal. Sabbatical leave is not a vacation, nor is it only continuing education; it is to promote spiritual, intellectual, and emotional renewal and growth. Sabbaticals are also a time to reflect on one's life, ministry, mission, call and goals for the future, in order to be a more effective minister of the Gospel and shepherd God's people. See current EDOMI Employee Handbook Guidelines for eligibility details and Additional Guidelines & Resources for Sabbatical Planning (<https://www.edomi.org/church-admin/hr/employer-work-resources/>). Congregations are encouraged to plan time and accrue budget funds for clergy sabbaticals.

Congregations should be as flexible as possible in supporting the work of their clergy. For example, two career families are common and it is important to recognize that schedule flexibility and alternative dependent care arrangements may be required when considering a clergy's person's schedule.

Loans

Clergy may not accept loans from individual members of a congregation. Any loans made by the congregation to clergy to assist with housing at the time of a call must be described in the Letter of Agreement.

Loans by the congregation may be considered taxable income by the IRS and are reportable as such on the clergy person's W-2 issued by the church. In the case of an outright grant, the entire amount is reportable; in the case of a low-interest loan, the difference between the actual amount charged and the prevailing rate is reportable. If a loan is forgiven the amount loaned becomes taxable when the forgiveness occurs. Please check with the IRS or your tax advisor if you have a question about taxation of loans.

Professional Expenses

Auto

The diocese recommends reimbursing business mileage at the current IRS approved rate instead of providing an auto allowance. This rate is subject to change, even mid-year, so please check with the IRS or your tax advisor if you have a question as to the rate. In addition to mileage, most churches reimburse related documented out-of-pocket expenses, such as parking, tolls, etc. In every case, federal law requires maintenance of complete mileage logs for business travel including date, miles, and business purpose. Traveling from your home to a regular place of business (i.e., church) generally is treated as a nondeductible commuting expense and is not subject to mileage reimbursement.

Reimbursement of business mileage does not require church reporting unless the amount reimbursed is greater than the IRS rate, whereas providing an auto allowance must be reported on the clergy person's W-2. There may be some cases when leasing a vehicle is an appropriate option, but note that with a lease arrangement there are other taxation issues which must be understood and complied with. Leased vehicle use that is not business related must be reported as personal income for purposes of determining tax liability.

Cell Phones

Strict substantiation rules for employer provided cell phones have been repealed, making it easier for the phones to be treated as tax free fringes. Cell phones paid for by the church and given to clergy for their business use may therefore no longer be reportable and taxable income to the clergy. If church staff utilizes their personal cell phones for work, the congregation may wish to consider a monthly allowance of \$100 or 75% of the bill, whichever is less.

Hospitality Expenses

Congregations will include an amount in their annual budget to be used for reimbursement of hospitality expenses. Common expenses may include meals or hospitality for Newcomer's events, campaign asks, staff luncheons, etc.

Other Reimbursable Expenses

The congregation will generally reimburse clergy up to a certain amount for travel and other expenses incurred in the course of normal professional activities. The amount designated for this should be reviewed annually against actual costs. Planning and budgeting for such expenses will minimize unexpected and misunderstood requests for reimbursement.

Note that all moving expenses are taxable to the employee if paid by the church, and that all books, equipment, and other property purchased with church funds remain the property of the church upon the employee's departure or, again, there may be a tax liability to the employee. This is a policy of the Internal Revenue Service.

Clergy and congregations should be aware that any reimbursement might be taxable income if a full “accountable reimbursement” policy (with appropriate documentation of expenses and business purpose) is not followed by the church.

For assistance, please contact one of the bishop’s staff persons listed below:

The Rev. Canon Ellen Ekevag	eekevag@edomi.org	313.833.4421
Canon Jo Ann Hardy	jhardy@edomi.org	313.833.4422
Canon Mark Miliotto	mmiliotto@edomi.org	313.833.4427

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