Compensation Design Discussion

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GuideStone®

Agenda

01 Introductions / Overview

02 Compensation Structures

03 Employee Benefits

04 Setting a Salary

05 Documentation

Goals for this meeting

- Review compensation structure best practices and market-based salary analysis
- Provide additional resources for ministerial compensation
- **GuideStone.org/CompensationPlanning**

2

Compensation Structures

Compensation Structures

Benefits paid by employers reduce the tax burden on the minister

Lump Sum Package	Salary + Benefits
Provide a lump sum to the minister that they can allocate toward benefits as they see fit. **Benefits:** • Offers maximum flexibility • Simple for the church to administer	The church pays for (or supplements) benefits in addition to salary, shielding the minister’s income from taxes. **Benefits:** • Reduces the minister’s tax burden • Simplifies benefits decisions for ministers

Compensation Structure

Lump Sum Package Approach	
Cash salary, net of housing allowance	$45,000
Housing allowance	$20,000
Medical insurance premiums paid by minister	$21,500
Church Retirement Plan Contributions (EE)	$6,500
Car expenses (nonaccountable plan)	$2,000
Business & travel expenses (nonaccountable plan)	$2,500
Ministry expenses (nonaccountable plan)	$1,000
Continuing education expenses (nonaccountable plan)	$1,500
Church Spends	**$100,000**
Tax Impact of Package Approach	
$73,500 subject to tax (all items except housing allowance and church retirement plan contributions)	
Assuming 13% tax rate*, **$9,555 tax liability** (without considering SECA or deductions)	
Take-Home Cash	**$35,445**

Salary & Benefits Approach	
Cash salary, net of housing allowance	$45,000
Housing allowance	$20,000
Medical insurance premiums paid by church	$21,500
Retirement plan paid by church contributors	$6,500
Car expenses (accountable plan)	$2,000
Business & travel expenses (accountable plan)	$2,500
Ministry expenses (accountable plan)	$1,000
Continuing education expenses (accountable plan)	$1,500
Church Spends	**$100,000**
Tax Impact of Salary & Benefits Approach	
$45,000 subject to tax (only cash salary)	
Assuming 11% tax rate*, **$4,950 tax liability** (without considering SECA or deductions)	
Take-Home Cash	**$40,050**

3

Employee Benefits

Holistic Employee Benefits

Well-designed benefits support wellbeing and enable faithful, sustainable ministry

Income

- ✓ Cash Salary
- ✓ Housing Allowance
- ✓ Social Security Offset
- ✓ Regular Cost-of-Living Adjustments

Retirement

- ✓ 403(b) Employer Contributions

Health

- ✓ Medical
- ✓ Dental
- ✓ Vision
- ✓ Life
- ✓ Disability
- ✓ Accidental Death & Dismemberment

Other

- ✓ Time Off
- ✓ Accountable Reimbursement Plan
- ✓ Sabbatical

Employee Benefits

Each benefit directly provided by a church helps reduce the minister’s tax burden

Benefits with No Additional Cost	Benefits with Modest Additional Cost	Benefits with Greater Additional Cost
✓ Cash Salary	✓ Cost-of-Living Adjustments	✓ Medical Coverage
✓ **Housing Allowance**	✓ 403(b) Employer Contributions	✓ Social Security Offset
✓ **Accountable Expense Reimbursement Plan**	✓ Life Coverage	
✓ A 403(b) Retirement Plan	✓ Disability Coverage	
✓ Time Off	✓ Accidental Death & Dismemberment Coverage	
✓ Sabbatical	✓ Dental Coverage	
	✓ Vision Coverage	

Accountable Reimbursement Plans (ARP)

Ministers' work expenses should not be a burden to them. As such, the expenses should be fully paid for by the church and should not impact a minister's personal income.

Examples of ministry-related expenses include:

- Vehicle use for business purposes
- Meetings, workshops and conferences
- Books, publications, technology, and audio or video resources
- Continuing education opportunities
- Provisions for ministry-related hospitality

Addressing Ministry-Related Expenses with an Accountable Reimbursement Plan (ARP):
An ARP is a plan you create to help explain terms, conditions and tax rules related to allowable ministry expenses. With this plan, the church creates a reimbursement budget, the minister turns in an expense report, and the church reimburses the minister. Ministers pay no taxes on reimbursements, and they are not included on a Form W-2.

Accountable Reimbursement Plans (ARP)

How to create an ARP:

1. Decide what expenses will be covered, outline a plan, and incorporate in the church budget.

2. Instruct ministers to submit an expense report within 60 days of incurring an expense.

3. Reimburse ministers at least once a month for all approved expenses.

See pages 9-10 of GuideStone's [Compensation Planning Guide]

SAMPLE: ACCOUNTABLE REIMBURSEMENT PLAN

1. The church hereby establishes an accountable reimbursement plan for all ministers and employees with the following terms and conditions intended to comply with all applicable tax rules. The church will reimburse only reasonable ministry-related business expenses incurred by a minister or employee. Subject to budget limitations, these expenses will include:
    - Business use of automobile, up to the current IRS standard mileage rate
    - Business travel away from home, including transportation, lodging and meals on overnight trips
    - Convention, conference and workshop expenses
    - Continuing education expenses
    - Subscriptions, books and technology if related to ministry or employment
    - Entertainment/hospitality expenses, if business connection requirement is met
2. The minister or employee will account for each allowable expense in writing at least every 60 days. Documentation will include the amount, date, place, business purpose and business relationship of any person entertained for each expense. A receipt will accompany the documentation.
3. The minister or employee will return advances that exceed actual business expenses within 120 days.
4. Under this accountable arrangement, the church will not report reimbursed amounts as taxable income on the minister's or employee's *Form W-2*. The minister or employee should not report reimbursed amounts as income on his or her federal income tax return.

SAMPLE: EXPENSE REPORT

Employee name: Rev. John Smith

For the month of: January

Date	Description of Expense	Business Purpose	Amount
January 17–18	Mileage to conference	Mileage (457 x .655)*	$299.34
January 17	Meals at conference	Meals	$ 53.25
January 17–18	Hotel	Lodging	$ 120.00
January 17	Sunday school teacher's guide	Ministry expense/books	$ 53.00
		Subtotal	**$525.59**
		Minus advance	$200.00
		Total reimbursement due	**$325.59**

*This figure is subject to change on an annual basis. For the latest update, visit *IRS.gov* and search for current-year mileage rates.

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- ✓ Cash Salary
- ✓ Housing Allowance
- ✓ Accountable Expense Reimbursement Plan
- ✓ A 403(b) Retirement Plan
- ✓ Time Off
- ✓ Sabbatical

Benefits with Modest Additional Cost

- ✓ Cost-of-Living Adjustments
- ✓ 403(b) Employer Contributions
- ✓ Life Coverage
- ✓ Disability Coverage
- ✓ Accidental Death & Dismemberment Coverage
- ✓ Dental Coverage
- ✓ Vision Coverage

Benefits with Greater Additional Cost

- ✓ Medical Coverage
- ✓ Social Security Offset

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Benefits with Greater Additional Cost

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- ✓ Social Security Offset

Recommended Employee Benefits

Benefit	Recommendation
Cash Salary	In line with market
Housing Allowance	Amount requested by minister *(actual expenses or fair rental value)*
Social Security Offset	Approximately half of SECA rate (5%-7.65%)
Cost-of-Living Adjustment	2-4% salary increase each year
403(b) Employer Contributions	5% non-match contribution plus a 5% match

Benefit	Recommendation
Medical	Employer covers 100% of employee premium, 75% of family premium, as able
Dental	Available for employee to purchase with premium paid pre-tax
Vision	Available for employee to purchase with premium paid pre-tax
Life	1-2x salary provided by employer; additional available for employee to purchase
Disability	Full STD and LTD at 60% of income; premiums paid 100% by employer
Time Off	At least 3 weeks off, with increases based on length of service
ARP	Ministry-related expenses reimbursed based on clear written guidelines (not part of salary)

4

Setting a Salary

Inputs for Market Salary Estimate

Inputs for Salary Estimate:

- ZIP code
- Town Population
- Church Budget
- Weekly Attendance
- Full-Time employees

* Role/Position

Market-Based Salary Benchmark

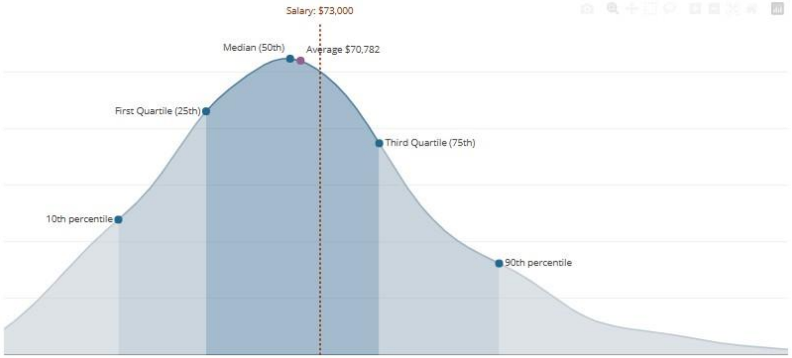
Music Family Pastor

ChurchSalary.com anticipates a salary range of **~$60,000-$80,000** for ministers in churches of similar size and location.

The 2024 SBC Compensation Study reported a range of $60,000-$80,000.

Given employee experience and education, along with town's economic profile, GuideStone interprets salary benchmark as falling generally around the 50th percentile, indicating a range of **$65,000-$75,000**.

Nationwide Salary Summary



Median Salary†	Salary Range
$69,577	$60,000 - $79,742

10th (Min)	25th	50th	Avg.	75th	90th (Max)
$50,000	$60,000	$69,577	$70,782	$79,742	$93,411

Localized Salary (Average)	Localized Housing Ratio (Average)
$70,890	38.5%

Localized Salary Range* (Salary Spread 65%)

Minimum	1st Qtr	Localized Midpoint	3rd Qtr	Maximum
$53,502	$62,196	$70,890	$79,584	$88,277

5

Documentation

Documentation

Ensure the following policies are clearly documented:

- ✓ **Expense policy** (Accountable Reimbursement Plan)
- ✓ **Employee benefits** details
  (403(b) contribution/match, medical, dental, life, etc.)
- ✓ **Housing allowance** and **social security** details
- ✓ **Salary details**
- ✓ Employee **performance review** policy
- ✓ **Personnel policies** (vacation, leave, pay periods, etc.)

RETHINKING YOUR MINISTRY'S RETIREMENT PLAN

GuideStone®

What do employees really care about?

The #1 concern of employees facing retirement is running out of money

RETIREMENT CONCERNS

- Running Out of Money **40%**
- Loss of Income **18%**
- Unable to Afford Medical Expenses **18%**
- Being Bored **13%**
- Loss of Structure **6%**
- Missing Co-Workers **4%**
- Something Else **2%**

Source: res.americancentury.com/docs/2020-retirement-plan-research-presentation.pdf

American Century Investments®

Retirement Benefits are Highly Valued

90%

Believe their **employer-sponsored retirement plan** is one of the most **important** benefits.

American Century Investments®

Source: res.americancentury.com/docs/2020-retirement-plan-research-presentation.pdf

What do employees expect from their employers?

Why don’t some employees participate?

The Main Barriers: What the Data Shows

- 2025 Survey of 186,000 Eligible Not Contributing Employee
- 60% of non-participation is driven by lack of plan awareness or understanding
- 30% of eligible employees report they do not know how the plan works or how to get started
- Only 23% cite affordability as their primary reason for not contributing

Source: https://www.ascensus.com/about-us/press-room/news/new-ascensus-research-reveals-why-millions-of-eligible-workers-do-not-contribute-to-their-retirement-plans/

Why Timing and Education Matter

- Time since eligibility is one of the strongest predictors of future participation
- Employees who remain unenrolled for 24 months are twice as likely to never participate
- 50% of non-participants say targeted education and clearer enrollment would motivate them to start saving

Source: https://www.ascensus.com/about-us/press-room/news/new-ascensus-research-reveals-why-millions-of-eligible-workers-do-not-contribute-to-their-retirement-plans/

What is the Goal?

What is a successful plan?

HOW DO I KNOW IF MY PLAN IS MOVING TOWARD SUCCESS?

Work toward **plan benchmarks:**

- **90%** of employees making contributions
- **15%** total contribution
- **90%** invested appropriately

Run retirement reports through the GuideStone Employer Access® Program (EAP).

MAXIMIZING EMPLOYEE RETIREMENT OUTCOMES

1. **Incentivize participation** through plan design
2. **Lower barriers of entry** through plan features
3. **Maximize influence** through plan education

Prepare your employees and strengthen your retirement plan using best practices.

INCENTIVIZE PARTICIPATION THROUGH PLAN DESIGN

5% Non-Match Employer Contribution

Employer Non-Matched Contribution Percentage		Employee Contribution Percentage		Employer Matching Contribution Percentage		**Total Contribution**
5%	+	0%	+	0%	=	5%

5% Match Employer Contribution

Employer Non-Matched Contribution Percentage		Employee Contribution Percentage		Employer Matching Contribution Percentage		**Total Contribution**
0%	+	5%	+	5%	=	10%

Employer Non-Match + Match Contribution

Employer Non-Matched Contribution Percentage		Employee Contribution Percentage		Employer Matching Contribution Percentage		**Total Contribution**
5%	+	5%	+	5%	=	15%

WHY PLAN DESIGN MATTERS

Strategic Plan Design

- **Improves** Retirement Outcomes
- **Attracts** and **Retains** Quality Employees
- **Maximizes** Employee Participation and Engagement
- **Demonstrates** Care

LOWER BARRIERS OF ENTRY THROUGH PLAN FEATURES

Motivate your employees to start saving immediately.

Implement automatic enrollment.

- Once enrolled, **91% of employees stay enrolled.**

Choose a vesting schedule instead of a waiting period.

- Employees can begin **contributing sooner** while still incentivizing longevity.

MAXIMIZE YOUR INFLUENCE THROUGH PLAN EDUCATION

Engage Employees Through Interaction

Encourage plan participation at times when employees are likely to act

- Onboarding
- Annual reviews
- New Year
- Regular reminders about financial wellness

Direct your employees to our online resources: GuideStone.org/MemberJourney

Webinars

Calculators

Articles

NEXT STEPS

- **Review** your plan and objectives (why?)
- **Create** success measures for your plan
- **Understand** budget capacity and impact
- **Modify** plan design to drive results
- **Discuss** plan options with GuideStone

As a plan sponsor, **the decisions you make today** will either improve or hinder the quality of life for your employees during their retirement.

GUIDESTONE RETIREMENT SOLUTIONS

GuideStone.org

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Connect with GuideStone:

GuideStone®