

The Shortcomings of a Lump Sum Approach to Compensation

Many churches in the PCA create call packages using the “Lump Sum” approach. A church taking this approach will provide a lump sum dollar amount to their new minister (often greater than or equal to the lump sum given to the previous minister). A minister is then responsible to determine how that money is spent on him and his family. While the lump sum approach may appear gracious at first glance, most people in secular vocations would reject such an arrangement.

The lump sum approach for many of our churches, is really more of a payment method than a true compensation approach. If it were a compensation approach, churches would use appropriate methodologies to formulate the lump sum amount. Taking the time to create a thorough compensation package is not an easy task! An exhaustive approach may take into consideration local living expenses, tax rates, housing cost, schooling of children, the cost of benefit plans, and more. Because of the complexity, many churches resort to the lump sum approach. Rarely does this approach serve the best interest of our ministers.

So, what is specifically wrong with this compensation approach? First, the “Lump Sum” approach may create a larger tax liability for PCA ministers. A minister may be paying for benefits on an after-tax basis resulting in the payment of unnecessary taxation. Instead, the church should directly pay the benefits, wherever possible, on a pre-tax basis, thus avoiding this tax expense.

Secondly, the “Lump Sum” approach can be unintentionally misleading to both ministers and Sessions. The confusion centers on the difference between “total compensation” (i.e. lump sum amount) and “salary.” A salary figure refers to the base pay an employee receives in exchange for their work. This is the amount people quote when a person asks them how much they earn. Compensation, on the other hand, refers to monetary and non-monetary pay a person receives for performing their job, such as salary, benefits (i.e. medical, retirement, life insurance, long term disability insurance), bonuses and perks. Salary is only one of several components included in a

person’s compensation. While most people are familiar with their salary figure, many do not know the dollar value of their total compensation.

When a minister is quoted a lump sum figure by a church, he often misconstrues it to be the amount of his “salary.” This is understandable given that most new hires are quoted a salary figure and not a total compensation dollar amount. This is the root of the problem. The lump sum figure tends to give our ministers the false impression that they have more in discretionary income than the call may actually provide. Often, this leads to budgeting mistakes. For example, ministers who purchase and finance a home based on the lump sum amount may quickly discover that they are “house poor,” with insufficient income to adequately maintain their home, save for retirement, or provide other important benefits for their families. And ministers aren’t the only ones to think lump sum figures are synonymous with salary figures. Church leaders often confuse these terms as well and mistakenly conclude that their minister’s salary is more than sufficient when that might not be the case.

Thirdly, when calls are approved by the congregation, “Lump Sum” amounts are stated publicly. Understandably, most congregational members also conclude that this figure is the minister’s salary.

This creates a difficult, uncomfortable, and unfair situation for the minister, and may potentially hinder his ministry with individuals who erroneously conclude that he is “overpaid.” Because this issue is so widely misunderstood, we urge leaders to carefully consider how to most effectively communicate the call package. The congregation must approve the financial details of the call in order for those details to be presented to Presbytery. This cannot be avoided. But leaders ought to avoid the written or verbal use of a “Lump Sum” amount when publicly presenting the call package to the congregation. Whether package details are printed in a handout, or shown on an overhead screen, the call should be verbally presented in a summary manner focusing on the individual components of compensation being provided—cash salary &

Moreover, after approving and adopting an annual budget, many Sessions also present their budget to their congregation. And, for similar reasons, it is also important that the budget not present to the congregation the minister's total compensation as a 'Lump Sum' amount on one line. Budgets should account for call package components separately (i.e. salaries, housing allowance, employment taxes, insurance benefits, retirement benefits, books, travel, educational, and other business or reimbursable expenses), according to the best practices in order to provide clarity and transparency. This approach to annual budget presentations should also help church members better understand the minister's actual compensation.

It would be impossible for this document to answer every potential question about a minister's salary. By God's grace, however, there are several resources available for ministries and churches needing assistance in the PCA. PCA Retirement & Benefits, Inc. has significant experience in the area of ministerial compensation and benefits. In addition, the PCA Administrative Committee conducts an annual compensation survey for the denomination, and most Presbyteries have at least one church business administrator who has dealt with most of the typical questions asked. You are not alone, and your questions will be gladly received.