

Educational Debt Relative to Ministerial Salaries

The purpose of this handout is to aid the student in seeing educational debt relative to an anticipated starting salary in ministry.

Significant debt is a problem in American society and is especially a problem for those entering full-time ministry. As opposed to other professions that require a graduate degree, full-time ministry positions generally have lower salaries. This makes it difficult to pay back substantial educational debt. By reducing debt, a student is also more open to consider various ministry possibilities as some organizations, such as some missions agencies, will not employ students with a great amount of debt. Further, some smaller churches may not be able to pay enough to cover living expenses and debt repayment expenses in a salary package.

Students pursuing a degree at RTS need to consider all types of debt, including educational debt. Of course, educational debt includes both undergraduate and graduate loans. At RTS, many students have undergraduate debt, but few take out loans for studies at RTS.

RTS has recently obtained pastoral salary data from two denominations where many of our graduates serve in ministry. **An average entry-level starting salary of an ordained minister is \$45,000 annually (or \$3,750/month) for the combination of salary and housing (excluding benefits).** From the \$3,750/month, the new minister would have to pay tithe, taxes, FICA, housing, utilities, car payments, insurance, food, credit card debt, clothes, entertainment, educational debt, etc. (Please note that the above examples were using *average* entry-level starting salaries. Some starting salaries will be lower.) **Many in the financial planning industry recommend that student loan payments should not exceed 8% of income (salary and housing, excluding benefits).**

To get an approximation of what the monthly payment would be for educational loans, see the related amortization table. Currently, many students with undergraduate loans will be paying approximately 4% interest (APR) over a ten year period. Those with graduate loans may be paying 8% interest (APR) over a ten year period. (Please note that these percentage rates and the time of repayment vary significantly depending on many issues.)

The following are two examples of loan repayment related to entry-level ministerial salaries:

Assume an RTS student has \$10,000 undergraduate debt and accumulates \$10,000 debt while at RTS. From the amortization table, the undergraduate monthly payment would be \$101, the graduate payment \$121, for a total of \$222. Based on the above average starting monthly salary of \$3,750, the educational debt is a moderate percentage of the salary (6%). This 6% does not exceed the recommended 8% of income.

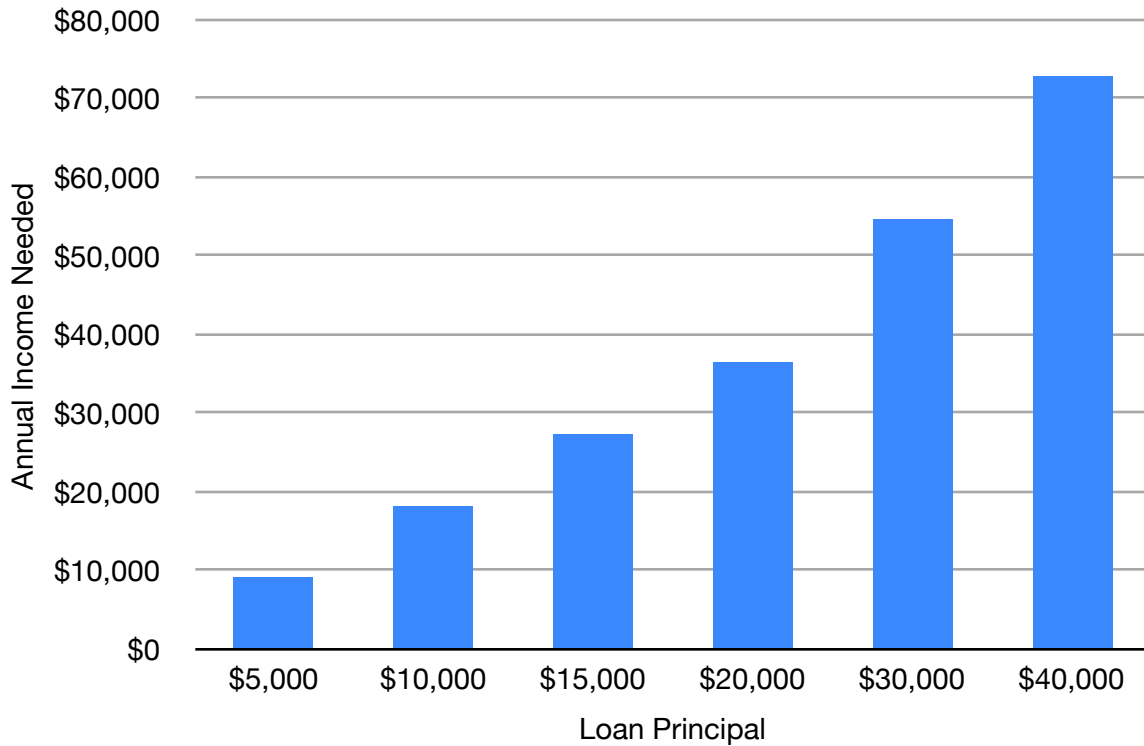
Assume an RTS student has \$40,000 undergraduate debt and no graduate debt. From the chart, the monthly payment would be \$405. Based on the average monthly salary of \$3,750, the educational debt is a substantially large percentage of the salary (11%). This 11% exceeds the recommended 8% of income.

Included for the student's use is the related bar graph. The bar graph assumes educational debt will be paid off at 8% APR over ten years. It shows the annual income needed not to exceed the recommended 8% of income (salary and housing, excluding benefits).

Amortization Table:

10 Year Plan : rate of payment for student debt given fixed percentage rate						
Amount Borrowed	4% Fixed Interest Rate			8% Fixed Interest Rate		
	Monthly Payment	Total Interest Paid	Total Repaid	Monthly Payment	Total Interest Paid	Total Repaid
\$5,000	\$51	\$1,075	\$6,075	\$61	\$2,280	\$7,280
\$10,000	\$101	\$2,149	\$12,149	\$121	\$4,559	\$14,559
\$15,000	\$152	\$3,224	\$18,224	\$182	\$6,839	\$21,839
\$20,000	\$202	\$4,299	\$24,299	\$243	\$9,119	\$29,119
\$30,000	\$304	\$6,448	\$36,448	\$364	\$13,678	\$43,678
\$40,000	\$405	\$8,598	\$48,598	\$485	\$18,237	\$58,237

Approximate annual income needed to maintain an 8% fixed rate loan over 10 years using the '8% of income (salary and housing, excluding benefits)' recommendation.¹



¹ Adapted from Anthony Ruger, Sharon Miller, and Kim Early, "The Gathering Storm: The Educational Debt of Theological Students," *Auburn Studies* 12 (2005).