



Paying Your Pastor: Understanding Cost of Living, COLA & COLI

Calculating a cost-of-living adjustment can be daunting, especially for small-to-midsize churches evaluating compensation for their staff.

This white paper attempts to bring clarity to a complicated but important matter. It explains what the cost of living entails, how it's calculated, and how it should shape compensation. With these insights, you will be able to make informed decisions regarding your pastor's salary and other church employee salaries.

What is Cost of Living?

The cost of living is the amount of money needed to cover basic expenses such as housing, food, taxes, and healthcare in a certain place and time. Two correlating follow-up questions are: how much does it cost to live and thrive in your community? How far should a pastor's or church employee's salary stretch in your area?

The Cost-of-Living Index (COLI) used by ChurchSalary compares the relative cost of 60 goods and services to the national average. This index tells you how much more the average cost of living is in your county or metropolitan area as a percentage.

A cost-of-living adjustment (COLA) exists to either adjust nationwide salary figures to suit your location and/or adjust salaries on an annual basis to offset inflation, more specifically, core inflation. For those managing church salaries, there may be a temptation to simply multiply salaries at your church by one (or both) of these figures. However, for the following reasons, your church may need to draw on multiple data points when calculating a COLA.

- Employees at your church likely reside in different neighborhoods, ZIP codes, and even multiple counties. Because the cost of living is heavily influenced by housing and this cost is never uniform, you may need to use more than one COLI number or combine them together.
- Just because Social Security recipients may receive a substantial increase this year doesn't mean compensation will (or should) increase by the same amount. The Social Security Administration bases its COLA on the Consumer Price Index for Urban Workers (CPI-U). Because CPI is subject to volatile price swings and cannot model consumer behavior changes, most economists rely on Core CPI or the PCE index. [Learn more about inflation indexes here.](#)

While COLA is a percent adjustment that accounts for either yearly inflation or the localization of salaries found in nationwide compensation surveys, COLI captures how much higher or lower goods and services cost in your area relative to the national average.

Calculation Methodology for Cost of Living

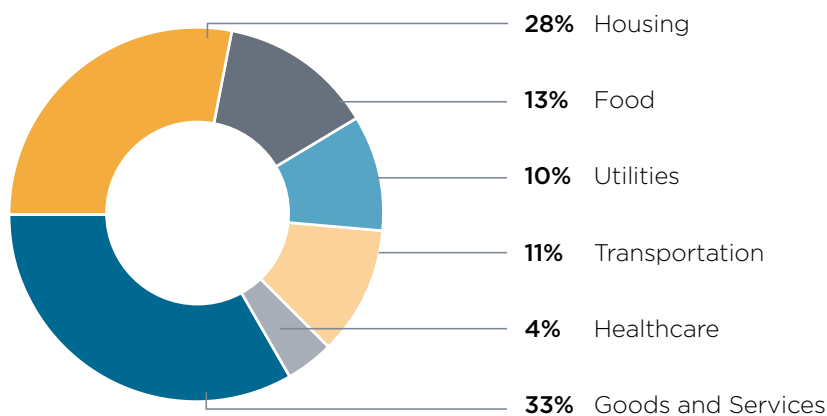
There are different methodologies for calculating the cost of living in a given area. Many websites offer free cost-of-living metrics, which are calculated using publicly available data. These free indexes combine government data, such as grocery, gas, and housing price indexes as well as housing cost-to-income ratios and median home values. Because the formula varies from website to website, these free indexes cannot be compared with one another and differ from website to website. This can confuse users.

The cost-of-living index (COLI) used by ChurchSalary is based on a ZIP code-level survey of the cost of consumer goods and services. It's the only index that uses a local-level measurement methodology that utilizes survey data from 300 independent researchers. This survey data is analyzed and published by [The Council for Community and Economic Research \(C2ER\)](#). C2ER's work has earned the respect of the US Census Bureau, the US Bureau of Labor Statistics, and CNN Money.

Because it measures the relative difference in the cost of living between locations and the national average, the COLI provided by C2ER is a good way to estimate how far a salary will stretch—i.e., the purchasing power of an average national salary in your community.

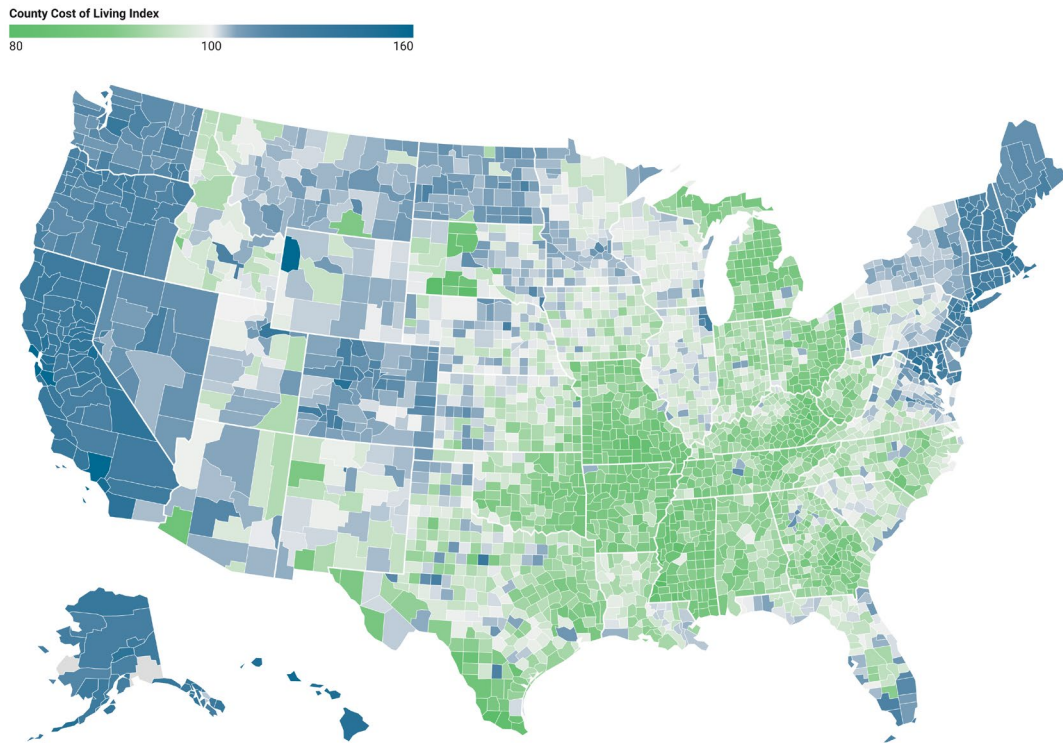
What Does COLI Measure?

C2ER's COLI measures the relative price levels of 60 goods and services divided into six main categories:



Measurements for each ZIP code are averaged together to produce a national average (or mean) and each ZIP code is then indexed relative to this mean (100). For example, the COLI in Evans, Georgia (30907), in 2020 was estimated to be 102 or 2 percent above the national average of 100. The map below visualizes COLI for each county in the US.

To get a feel for COLI figures across the United States, see the 2021 map below.



Data: Copyright, 2021, The Council for Community and Economic Research ([C2ER](#))
Map: Aaron M. Hill | Source: [ChurchSalary](#)

What Doesn't COLI Measure?

Inflation

Due to its methodology COLI cannot measure inflation. This is because COLI is indexed based on a nationwide average that always equals 100. COLI is like a picture of boats on the sea. You can use the picture to calculate the relative height of boats but not whether the sea level is rising.

All households

The standard of living—and therefore the cost of living for different households—varies between different socioeconomic classes. Some households can choose to not purchase certain goods and services, while some expenses are necessary for all households. As a result, even though goods and services is the largest category (33%), regional differences in housing (28%) and utilities (11%) may have a larger impact on the standard of living in your community than the cost of haircuts and milk.

This inability to capture expenses evenly for all households extends to the specific subset of households that are surveyed. Notably, according to C2ER, the index captures price differences for “professional and executive households in the top income quintile.” In other words, it measures the cost of goods and services experienced by the top 20 percent of households. In 2018, according to the US Census Bureau, the top quintile started at households earning \$130,001 and the average income for these households was \$233,895. But why survey these households?

One reason why C2ER measures “professionals and executive households” is because some major expenses, particularly homeownership, are more uniformly experienced by them. Homeownership rates are more uniform among the top income quintiles because, in some communities, lower-income households simply cannot afford to purchase a home. Because COLI measures expenses for wealthier households, C2ER notes that “homeownership costs are more heavily weighted than they would be if the Index reflected a household of clerical workers or the average costs for urban consumers.”

Local & State Taxes

Before applying this index, churches and individuals should bear in mind that COLI does not measure local and state taxes. The reason for this is simple: they are incredibly complex and there is a “multiplicity” of laws to navigate. If you are using COLI to move, make sure you investigate local income and property taxes.

Cost of Living & Your Pastor's Salary

There are several things to bear in mind before you apply COLI to salaries at your church.

- The index partially accounts for the cost of housing in your community—but not every variable. Remember that the index reflects price differences for housing from zip code to zip code among the top 20% of households. It does not tell you about the cost of housing in your community relative to income, nor the average home price. Also, consider how housing prices in your community may differ between different neighborhoods and streets.
- Remember that COLI measures expenses, not income. There is no clear and simple relationship between COLI and income; no neat formula to reverse engineer a localized salary from COLI.

To calculate a fair and reasonable COLA, your church should:

- Capture data at relevant geographic levels.
- Discuss these numbers with your personnel team.
- Contextualize this data using knowledge of your community.
- Then, calculate COLA for your pastor and other church employees.

Remember to calculate two COLAs--one that accounts for location and another for inflation. Your location won't change every year but inflation will. Whatever you decide, document your process and/or reasoning. Sharing this with your staff will foster trust and transparency.

Let ChurchSalary do the heavy lifting for you. Get one or more custom reports that include localized salary recommendations based on location, salary comparison, employment profile, benefits package, cost of living comparison, median household income, and salary ranges for eighteen common church positions. [See sample report.](#)

ChurchSalary

MAKE AN INFORMED DECISION

ChurchSalary provides data-backed reports to help churches make informed decisions about staff salary and compensation. Reports include helpful national and local information for virtually every church employee from executive pastor and youth director to church-run daycare teachers and custodians.



Nationwide picture of salaries for similar employees



Localized recommendations for salaried pastors



Comparison of factors such as education and experience



Demographic analysis of benefits for similar employees



Cost of living comparison



Salary ranges for comparable jobs outside the church

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