Pay Raises for Charity Leaders Keep Pace With Inflation

Government's scrutiny of nonprofit compensation is cited as key reason for stagnant wages, in the Chronicle's survey of big organizations

By Brennen Jensen, Leah Kerkman, and Cassie J. Moore

Leaders of the nation's largest nonprofit groups received pay increases that kept up with inflation last year -- but no more than that, according to The Chronicle's 13th annual survey of compensation and benefits. Increased scrutiny of compensation by government officials was a key reason for the stagnant wages, but executive recruiters say 2005 could be a very different year. They say executive salaries are on the rise due to sharp turnover in top jobs at major charities.

Top officials at the nation's biggest charities and foundations received a median salary increase of 3.7 percent, which was roughly the rate of inflation last year, the Chronicle survey found.

The chief executives at the 226 organizations that provided data for 2004 and 2003 earned a median of $319,119, meaning that half made more and half made less. Leaders of charities fared slightly better than heads of foundations in garnering pay raises. Nonprofit leaders made a median salary of $316,619 and received a median increase of nearly 4 percent.

The median salary for leaders of community foundations, operating foundations, and private foundations grew by 3.6 percent, to $326,810. Still, leaders of private foundations are faring much better than leaders of other nonprofit groups. The median salary paid to chief executives at private foundations was $409,051.

The Chronicle's survey was based on information provided by organizations that raised the most money from private sources in 2003. Also included were the 50 wealthiest private foundations, the 20 largest operating foundations, and the 15 community foundations that raised the most money.

Top Earners

For the third straight year, raises awarded to nonprofit executives just slightly outpaced what their counterparts in private industry received. Salaries for corporate executives rose 3.6 percent last year, the same percentage as in 2003, according to a survey by WorldatWork, a nonprofit association in Scottsdale, Ariz., that conducts research on compensation. From 1998 to 2001, however, the leaders of nonprofit groups saw their pay grow faster than corporate executives' by as much as 2.8 percentage points per year.

Nonprofit recruiters and others in the charity and foundation world say that a big reason for the cooling down of salary growth is the attention that high salaries have received from lawmakers and the Internal Revenue Service.

In June 2004, the IRS began examining more than 1,200 organizations that paid their executives $1-million or more or otherwise appeared to be awarding excessive compensation and benefits.

"The project started as the result of a lot of media attention about the compensation of CEO's in various nonprofit organizations," says Martha Sullivan, director of the IRS's Exempt Organizations Division.
Charities and foundations of various sizes have received letters from the IRS requesting information about their compensation practices, and how they accounted for those expenditures on their tax forms. Government analysis of the collected data won't conclude until this winter, but Ms. Sullivan says a fairly significant number of groups have already had to amend their tax forms, or provide additional documentation as a result of the inquiries.

"Next year we hope the results of this project will better enable us to target cases where compensation clearly looks unreasonable," she adds.

On Capitol Hill, the Senate Finance Committee has been calling attention to the pay of nonprofit executives, and said it was considering taking steps to crack down on charities that paid their officials too much.

The action in Washington has meant that "boards are absolutely being more cautious and more transparent," says Charles Ingersoll, a recruiter at Korn/Ferry International's Washington office who specializes in placing nonprofit executives. "They're basing compensation on benchmarking against other institutions and performance, so they can justify it to contributors and their communities."

As in past years, the highest-paid executives in the Chronicle survey worked for hospitals. Herbert Pardes, president of NewYork-Presbyterian Hospital, earned more than any other chief executive in the survey. He made $2,482,265 in 2003, the most recent year for which the hospital has filed its financial report.

Dr. Pardes was followed by Harold Varmus, president of Memorial Sloan-Kettering Cancer Center, in New York, who was paid $1,744,080 last year. Kenneth Davis, president of Mount Sinai Medical Center, in New York, made $1,580,337 last year, and the chief executive officer of the Cleveland Clinic Foundation, Floyd D. Loop, made $1,555,516 in 2003, the last year for which data were available. The fifth-highest-paid executive in the survey was James J. Mongan, chief executive officer of Partners HealthCare System, in Boston, with a salary last year of $1,369,750.

Both the Cleveland Clinic and NewYork-Presbyterian were among the dozens of nonprofit hospitals sued last year by Richard Scruggs, an Oxford, Miss., lawyer, who alleges that they have failed in their charitable mission by overcharging uninsured patients. Documents related to the suits also describe the hospitals as "paying their CEO's million-dollar inflated salaries." Many of the lawsuits have been dismissed by federal courts. A spokeswoman for Mr. Scruggs's law firm, however, says the effort continues and that the remaining cases are "moving along through the court system," with some of the dismissed suits being reintroduced into state courts. The hospitals that were sued have all defended their activities.

In response to the increased IRS scrutiny of nonprofit organizations' compensation practices -- especially those groups with staff members earning more than $1-million annually -- the Healthcare Financial Management Association, a Washington trade group that represents financial executives at nonprofit and for-profit hospitals, has been working with its members on ways to avoid conflict of interest and the appearance of impropriety.

"We've done training to help members document how their salaries are determined, and to make sure that board and human-resources policies are followed," says Richard Gundling, a vice president at the association. "There's a difference between being highly compensated, and having excessive pay. It boils down to having executive-compensation polices in place that are documented, and an active and engaged board that approves the different salary levels."

**Raises and Bonuses**

Among those who received the largest salary increases last year was Robin Mahfood, president and co-founder of Food for the Poor, a Christian international aid group in Deerfield Beach, Fla. He received a
72.6-percent raise, which took his salary from $173,962 in 2003 to $300,197 last year.

Angel Aloma, Food for the Poor’s executive director, wrote in an e-mail response to *The Chronicle’s* questions that Mr. Mahfood had initially taken a large salary cut when he left his family business to head the charity in 2000. Mr. Mahfood took over for his brother, Ferdinand Mahfood, who resigned after it was revealed that he had given more than $275,000 in Food for the Poor funds to a pair of female employees with whom he had had affairs. The Mahfood family ultimately reimbursed the charity for the misappropriated funds.

Mr. Aloma said Mr. Mahfood had helped the organization, which generated $182-million in income in 2000, to expand during the tough economic times and tumult that followed the terrorist attacks of September 11, 2001.

"Considering both the disadvantages under which he labored and contrasting it to the tremendous growth, it is no wonder that the board saw fit to adjust Mr. Mahfood's salary to a level befitting a successful CEO of an organization that brought in over $643-million last year," Mr. Aloma added.

Another executive who received significantly more in 2004 was Elizabeth Glassman, chief executive officer of the Terra Foundation for the Arts, an operating foundation in Chicago. She earned 32 percent more in 2004, through a combination of a $60,120 raise in salary and a $60,000 bonus. Ms. Glassman's total compensation was $324,120.

The compensation of 41 chief executives fell last year, though in most cases the drop was due to a large deferred-compensation payment or bonus that had been made in 2003. For example, Peter C. Marzio, director of the Museum of Fine Arts, Houston, earned 40 percent less in 2004 because, as a cost-cutting measure, he did not get the $250,000 bonus he received the prior year. His compensation was $365,000 in 2004, compared with $615,000 in 2003. In 2000, however, Mr. Marzio received a $1.7-million bonus, which made him one of the highest-paid charity leaders that year.

Among the survey's other findings:

- At 58 organizations, an employee other than the chief executive officer was the highest paid. In 14 of those cases, that employee was a physician or a medical-school professor. For example, David N. Silvers, clinical professor of dermatology at Columbia University earned $3,721,741 last year, while Columbia's president, Lee C. Bollinger, earned $611,000. At eight organizations -- all either colleges or foundations -- the chief investment officer made more than the chief executive officer.

- Twenty employees at nonprofit organizations made more than $1-million, and six made more than $2-million. All worked at either hospitals or universities, except for Leonard Slatkin, music director at the National Symphony Orchestra, in Washington, who earned $1,113,846 last year from the John F. Kennedy Center for the Performing Arts.

- Susan V. Berresford, president of the Ford Foundation, who made $684,478 last year, was the top earner among private-foundation leaders, followed by Thomas Lofton, president of the Lilly Endowment, who made $678,125. They head two of the country's wealthiest private foundations.

- Sixty-one top executives reported more than $100,000 in fringe benefits -- though some of the reported figures included dollar amounts that were ultimately not paid because certain contractual conditions, such as performance goals, were not met. Barry Munitz, president of the J. Paul Getty Trust, in Los Angeles, is among the executives who received the most in fringe benefits last year. In addition to compensation of $701,119, Mr. Munitz earned $525,574 in fringe benefits, including pension payments, a car allowance, and health-care costs. The California attorney general's office is
investigating the trust's financial activities, after articles in the Los Angeles Times raised questions about its compensation practices. Trust officials deny any wrongdoing. The trust, with assets of more than $9-billion, is the wealthiest operating foundation in the United States.

- Twenty-eight groups reported that they provided their executives with bonuses in 2004, awarding a median bonus of $48,800. Edwin J. Feulner, president of the Heritage Foundation, a conservative think tank in Washington, had the largest bonus, at $260,000. Mr. Feulner, who received the same amount in 2003, has been awarded bonuses of more than $200,000 every year since 1999. Don A. Young, executive vice president and the highest-paid executive at Ducks Unlimited, in Memphis, earned 43 percent more last year than in 2003, thanks largely to a $93,163 bonus. The charity's internal auditor, Adam Webster, wrote in an e-mail message to The Chronicle that the bonus was the result of a "variable compensation plan in which all employees participate."

- Of the 40 organizations that provided breakdowns of deferred compensation paid to their executives in 2003 and 2004, the median amount given in that form was $50,531 in 2004, a 35-percent increase from the amount those charities deferred for their top executives in 2003.

'A Huge Pressure Release'

The percentage of an organization's income or assets that went to pay the top two executives' total compensation varied. The median spending on compensation packages at charities in the survey was 0.4 percent of a given organization's income.

Organizations that spent the highest percentage of income on their top executives were the Franklin W. Olin College of Engineering, in Needham, Mass., which devoted 5.5 percent of its income to top compensation packages; the Simon Wiesenthal Center, in Los Angeles, which spent 4.1 percent of its budget on salaries, benefits, and expense accounts for its top two employees; and the American Enterprise Institute for Public Policy Research, in Washington, which spent 3.5 percent of its total revenue on top compensation packages. For 16 large charities and a few colleges, executive compensation accounts for less than 0.1 percent of the organization's income.

The median salary increase for top executives at nonprofit groups has declined or been nearly stagnant every year since 2001, when salaries of chief executives grew by 7.5 percent. Some compensation experts believe that, despite the continuing federal scrutiny of nonprofit compensation practices, salaries are likely to rise sharply in 2005 as the pace of executive turnover escalates.

"This year has been a huge pressure release," says David Edell, president of Development Resource Group, a New York recruiting company that works mostly with nonprofit groups. "We've been very busy. Groups and leaders are coming to us with the feeling that it's time to move forward, and therefore they're deciding to bring fresh talent aboard to achieve new goals."

An increase in the number of nonprofit executive retirements may also play a role. Mr. Ingersoll, of Korn/Ferry International, says many nonprofit executives in their 60s have resisted leaving their groups for personal financial reasons.

"They have been hanging on because when the markets went down, their own retirement investments didn't look so good, so they wanted to put in some more years," he says.

Now, he adds, "the market has ticked up a little bit, and more people are starting to feel it's time to retire."

When it comes to hiring top executives, nonprofit boards are unlikely to be able to pay new chief executives less than the amount earned by departing leaders, Mr. Edell says.
"I think salary levels will continue to be high," he says. "The salary increases of four and five years ago trickled down to the mid-managers -- the potential next executive group. Those people are going to have expectations of improving their compensation."

What remains uncertain is what impact Hurricane Katrina, together with an uncertain economic forecast, might have on nonprofit compensation and hiring decisions."It's too early to tell," says Mr. Ingersoll. "But I'm not expecting things to slow down."

*Maria Di Mento contributed to this article.*

### Employees Who Made More Than $1-Million in Salary

<table>
<thead>
<tr>
<th>Organization</th>
<th>Employee</th>
<th>2004 Compensation</th>
</tr>
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<tbody>
<tr>
<td>Columbia University (New York)</td>
<td>David N. Silvers, Clinical Professor of Dermatology</td>
<td>$3,721,741</td>
</tr>
<tr>
<td>Cornell University (Ithaca, N.Y.)</td>
<td>Zev Rosenwaks, Professor of Medicine</td>
<td>$2,744,000</td>
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<tr>
<td>New York University</td>
<td>James Grifo, Professor, Obstetrics and Gynecology</td>
<td>$2,588,000</td>
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<tr>
<td>New York-Presbyterian Hospital*</td>
<td>Herbert Pardes, President</td>
<td>$2,482,265**</td>
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<tr>
<td>Mount Sinai Medical Center (New York)</td>
<td>David Adams, Professor</td>
<td>$2,026,165 1</td>
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<tr>
<td>University of Southern California (Los Angeles)</td>
<td>Peter Carroll, Head Football Coach</td>
<td>$2,008,154 2</td>
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<tr>
<td>Memorial Sloan-Kettering Cancer Center (New York)</td>
<td>Peter G. Cordeiro, Chief and Attending Plastic and Reconstructive Surgical Service</td>
<td>$1,754,573</td>
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<tr>
<td>Memorial Sloan-Kettering Cancer Center (New York)</td>
<td>Harold Varmus, President</td>
<td>$1,744,080</td>
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<tr>
<td>New York-Presbyterian Hospital*</td>
<td>Michael A. Berman, Hospital Director</td>
<td>$1,735,379**</td>
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<tr>
<td>Mount Sinai Medical Center (New York)</td>
<td>Kenneth Davis, President</td>
<td>$1,580,337</td>
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<td>Cleveland Clinic Foundation*</td>
<td>Floyd D. Loop, Chief Executive Officer</td>
<td>$1,555,516**</td>
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<tr>
<td>Cleveland Clinic Foundation*</td>
<td>Delos Cosgrove, Surgeon</td>
<td>$1,553,627**</td>
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<td>Stanford University (Calif.)</td>
<td>Frank Hanley, Professor, Cardiothoracic Surgery</td>
<td>$1,500,000</td>
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<tr>
<td>Partners HealthCare System (Boston)</td>
<td>James J. Mongan, Chief Executive Officer</td>
<td>$1,369,750 3</td>
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<tr>
<td>University of Pennsylvania (Philadelphia)</td>
<td>Louis Bucky, Physician</td>
<td>$1,363,037</td>
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<td>Yale University (New Haven, Conn.)</td>
<td>David F. Swensen, Chief Investment Officer</td>
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<td>Partners HealthCare System (Boston)</td>
<td>Jon P. Warner, Surgeon</td>
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<td>John F. Kennedy Center for the Performing Arts (Washington)</td>
<td>Leonard Slatkin, Music Director, National Symphony Orchestra</td>
<td>$1,113,846</td>
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<tr>
<td>Washington University in St. Louis</td>
<td>K. Daniel Riew, Professor of Orthopedic Surgery</td>
<td>$1,093,170 4</td>
</tr>
<tr>
<td>Boston University</td>
<td>Richard Shemin, Professor of Cardiothoracic Surgery</td>
<td>$1,092,393</td>
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</tbody>
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* Includes affiliates

** Compensation for fiscal 2003.

1. Includes $1,776,074 in professional receipts.
2. Includes $163,923 in deferred compensation.
3. Includes $350,000 bonus that Dr. Mongan could lose if he does not meet certain requirements of his compensation agreement.
4. Includes $498,170 bonus.

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I'm OK with raising the limit, but we must heavily tax the millionaire class. There are a lot of loop holes that need to be closed on the estate tax. Sam Walton died, yet his family is still worth billions. Some parents work hard to give everything they fought for to their children so they can get a leg up. However, each year inflation drops the value of the dollar, and that means the estate tax is actually getting more burdensome to small business owners, farmers and anyone with $5 million or more worth of assets. John Malintone. Keep Pace With Inflation With Best Investment for Inflation Protection. Milton Friedman. The government has two types of inflation bonds that are guaranteed to keep pace with inflation. This article drills into Government Inflation Bonds or I Bonds. Inflation Bonds Part 2, examines TIPS Bonds or Treasury Inflation Protected Government Bonds. Pay Off Debt. Increase Your Credit Score. About Us. Our Purpose: To make the world smarter, happier, and richer. Founded in 1993 by brothers Tom and David Gardner, The Motley Fool helps millions of people attain financial freedom through our website, podcasts, books, newspaper column, radio show, and premium investing services. Who Is the Motley Fool? About Us. In short, your Social Security benefit isn't keeping pace with inflation because the tether designed to measure inflation is inherently flawed with regard to the very group of people Social Security is designed to protect. Motley Fool Returns. Stock Advisor S&P 500. 605%. 135%. Join Stock Advisor. Discounted offers are only available to new members. How much should someone be paid to run a charity? The question, inevitable if somehow unseemly, is now squarely in the public eye as a result of revelations that the ousted president of the United Way of America makes $463,000 in salary and benefits. The generosity of the United Way, the nation's largest network of local charity drives, extends to the top executives of its affiliates around the country. A charitable executive's salary reflects the built-in dissonance of that marriage. It is far below compensation in the for-profit sector, well above wages paid to government officials. And the money comes from the contributions of people who, in general, make much less. 'Salary Becomes a Burden'. 2005. "Pay Raises for Charity Leaders Keep Pace with Inflation." The Chronicle of Philanthropy 17(24). The Re-Emerging Art of Funding Innovation. It also examines the impact of the recession on these organizations and the cutbacks they have made to keep their programs operating. While contracting problems are not new, many are exacerbated by the deep recession that [Show full abstract] has reduced government budgets and private contributions.