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Top Nonprofit Executives See Healthy Pay Raises

Salaries increased by 4.8% in 2005, Chronicle survey finds; officers at hospital and arts groups topped the list of highest earners

By Noelle Barton, Maria Di Mento, and Alvin P. Sanoff

The median pay of leaders of the nation's largest nonprofit organizations rose faster than inflation last year, according to *The Chronicle*'s 14th annual survey of compensation and benefits.

Top officials of the biggest charities and foundations received a median increase of 4.8 percent in 2005, while inflation rose at a rate of 3.4 percent. That is a healthier increase than last year's, when the *Chronicle* survey found that the median raise was 3.7 percent, one percentage point higher than the rate of inflation. (A median increase means half of the raises were higher, and half lower.)

The median compensation for chief executives was $327,575, based on information from 241 organizations that provided data for both years. In 2004, the median salary was $316,058.

The rise in nonprofit-executive pay outpaced that received by chief executives of the 500 biggest American companies, according to a new *Forbes* magazine survey. *Forbes* found that business leaders made a median of $2.4-million in salary and bonuses in 2005, an increase of not quite 2.9 percent over the magazine's survey results of the previous year.

The *Chronicle* survey was based on information provided by 332 organizations that raised the most money from private sources in 2004, as well as grant makers that held the most in assets last year. The median income of the charities that provided data was $157.7-million. The median assets of community foundations in the survey was $502.9-million; the median assets of the private and operating foundations was $1.9-billion.

Compensation Leaders

As in previous *Chronicle* surveys, the most highly paid leaders in 2005 were the executives of hospitals and medical centers. Harold Varmus, chief executive officer of Memorial Sloan-Kettering Cancer Center, in New York, topped the list with compensation of $2,491,450.

He was followed by James J. Mongan, chief executive officer of the Partners Healthcare System, in Boston, which includes Massachusetts General Hospital. His pay totaled $1,518,113. Next was Peter Traber, chief executive officer of Baylor College of Medicine, in Houston, who earned $1,237,200.

But the fourth and fifth most highly paid chief executives in the survey overall marked a departure from the traditional pattern.

They came from the world of arts and culture rather than from health organizations. Michael Kaiser, president of the John F. Kennedy Center for the Performing Arts, in Washington, earned $1,029,691 — a 33.2-percent jump over his previous year's compensation of $773,022. Mr. Kaiser received two bonuses last year, one of which was earned in 2004, which helped account for the raise.

Mr. Kaiser was followed on the survey's list of top earners by Barry Munitz, former president of the J. Paul Getty Trust, in Los Angeles, whose compensation totaled $962,526.

Mr. Munitz resigned from his post in February amid allegations of misuse of funds and an investigation of his spending by the California attorney general.

The investigation was sparked by a series of *Los Angeles Times* articles last year about the perks Mr. Munitz had received from his employer — including, the newspaper said, a $72,000 Porsche — and about allegations that he had used the organization's money to do favors for friends.

When Mr. Munitz stepped down, he agreed to forgo a $2-million severance package and to return $250,000 to settle all claims with the trust. The Getty Trust, which supports the Getty museum, reported assets of $9.6-billion in 2005 — making it the wealthiest operating foundation in America.

At private foundations, the most highly paid chief executive was Martha Lamkin, president of the Lumina Foundation for Education, in Indianapolis. She received a salary of $780,326.

Two other heads of private foundations earned more than $700,000: Carl Schramm, chief executive of the Ewing Marion Kauffman Foundation, in Kansas City, Mo., and Susan V. Berresford, president of the Ford Foundation. At 57 private foundations surveyed by *The Chronicle*, top executives made a median of $341,397, a 2.83-percent rise from 2004.

The *Chronicle* survey does not necessarily show the highest salaries in the nonprofit world. Executives of smaller organizations might be paid more than leaders of the wealthiest groups.

A Generational Shift

Compensation for charity leaders has been growing steadily over the past five years, in part because the incomes of charities have been rising.

In the past five years at 126 charities for which *The Chronicle* has data, the top two executives at charities and foundations have been earning about the same portion of their organization's income each year, between one-quarter and one-third of 1 percent.

At the same time, because of the increase in these organizations' incomes, the median compensation of the top two officials, combined, has risen by about $100,000, from about $482,000 to $582,000.

The growth of nonprofit organizations, however, is not the only reason that pay is increasing — and many experts expect salaries to jump significantly over the coming decade. As many nonprofit leaders reach retirement age and younger leaders are hired, the new generation is putting pressure on organizations to increase salaries.

More than 40 of the 332 chief executives in *The Chronicle*'s survey have left their organizations. That pattern is being felt throughout the nonprofit world, and by 2016 more than 80,000 new senior managers will need to be hired at nonprofit organizations, according to a study by the Bridgespan Group, a consulting firm in Boston (*The Chronicle,* April 6).

Susan Egmont, a recruiter in Boston who specializes in nonprofit clients, says that many veteran nonprofit leaders held down their pay in difficult economic times, "but when there is a transition at the top, it sometimes requires a significant pay increase to get back to market level."

Baby boomers moving into retirement have had an impact on the supply-and-demand equation in the nonprofit executive job market, says James Abruzzo, who oversees searches for nonprofit leaders at DHR International, a Chicago recruitment company. "You have a continually expanding pool of nonprofits and, at the same time, the number of retirements continues to go up," he says. For example, he notes, "when you are recruiting a new foundation head, you can't attract a person by offering an average increase in pay. You have to offer 15, 20, or 25 percent more than the person has been earning."

He says that at one museum for which he recently conducted a search, which he chose not to name: "They decided they wanted to bring in a star. They ended up paying 80 percent more than where they had started off when they began their search."

Trent Stamp, executive director of Charity Navigator, a watchdog organization in Mahwah, N.J., says he has seen "a lot of cases where jobs are advertised as offering a certain salary and then you find that the CEO ends up making a lot more than that. I think organizations often realize that they have to pony up more than they intended when it comes to getting the person they want."

'Window Dressing'

In recent years, some experts have said that salary growth among nonprofit leaders has been dampened by the unfavorable attention that excessive compensation has received from Congress and the Internal Revenue Service. In 2004, the tax agency began an examination designed to determine whether nonprofit organizations were paying their leaders too much, focusing especially on salaries of $1-million or more, but it has not yet released the results.

The agency has contacted or studied about 1,600 organizations so far, says Bruce I. Friedland, an IRS spokesman, in an e-mail message in response to a *Chronicle* inquiry.

"While we don't want to get ahead of ourselves until the report is complete, the IRS has seen some problems in the area of loans to executives and in reporting accuracy," he says.

But the slow pace of the review has caused some nonprofit groups to stop worrying about whether salaries will be questioned, and is another reason that salaries have recently grown more rapidly, some recruiters say.

"I don't hear anybody talking about the IRS report at all," says Ms. Egmont.

Mr. Stamp says he doubts that the agency's findings will result in much fallout regarding executive salaries.

"The IRS investigation is window dressing," he says. "They are not after real sustainable change. I can't envision the day when the IRS comes in and tells a reputable organization that it is paying the CEO too much."

However, Brian Vogel, principal of Quatt Associates, a Washington company that advises nonprofit groups and other employers on compensation, says he believes many charities and foundations are paying attention to what the IRS might do.

"Organizations are extremely mindful of the IRS," he says. "They want to make sure the salaries they pay are consistent with those of the marketplace."

He says he has advised clients to back away when an individual asks for a salary substantially above what peers at comparable institutions are earning — a tactic that sometimes results in the individual settling for less money.

Among all types of grant makers, leaders of community foundations achieved the biggest median raise in pay last year.

The chief executives of the 17 community funds in the survey earned a median of $225,000, and saw a median increase of 9.4-percent from 2004.

Lorie Slutsky, president of the New York Community Trust, was the most highly paid chief executive in the community-foundation world, at $551,200.

At private foundations, the median compensation was $341,397, with a median increase of 2.8 percent.

Among charities, presidents of private colleges received the biggest increases in compensation. The 23 college leaders earned a median of $572,750, with a median gain of 7.7-percent over 2004.

Gordon Gee, chancellor of Vanderbilt University, in Nashville, led the way among the leaders of higher-education institutions, earning $905,296.

The top executives at 10 youth organizations saw the second-highest raises among charity leaders: They made a median of $238,684, and saw a median gain of 7.2 percent over their 2004 compensation. Among youth-group leaders, the most highly paid was Roy Williams, chief scout executive of the Boy Scouts of America, in Irving, Tex., who earned $552,378.

Following are how executives at other types of groups fared:

- Glenn D. Lowry, director of the Museum of Modern Art, in New York, was the biggest earner among museum and library leaders, with compensation of $875,301. At 13 museums and libraries in the survey, chief executives earned $464,170; their median raise was 4.1 percent.

- M. Cass Wheeler of the American Heart Association, in Dallas, who earned $656,608, made more than any of the other health-charity leaders. The median pay for the 18 health charities on the list was $351,366; their median increase was 5.6 percent.
- Edwin Feulner Jr., president of the Heritage Foundation, a think tank in Washington, received compensation totaling $633,849. At the 10 public-affairs groups in the survey, leaders made a median of $273,507, with a median increase of 5.7 percent.
- Marcia Evans, who stepped down as president of the American Red Cross in December 2005, made $493,616, more than any other social-service leader. Top executives of the 20 social-services groups in the survey earned a median of $197,208; the median increase was 3.8 percent from 2004.

Additional Findings

The *Chronicle* survey revealed other details about nonprofit executive compensation in 2005:

- Charities paid a median 0.29 percent of income to cover the compensation of their top officials.
- Of the organizations in the survey, 283 provided a total $26.5-million in fringe benefits to their top executive. In some cases, those benefits were earmarked for the executive but will not be awarded until an executive has served for a certain amount of time or met performance goals. The median amount awarded was $46,415, and 68 groups awarded more than $100,000 in such benefits to their top executives.
- Of the 35 organizations that reported deferred compensation paid to their top executive in 2004 and 2005, the median amount given in that form was $60,049 in 2005. Those groups paid a total of $3.8-million in deferred compensation in 2005, an increase of 21 percent over the amount they deferred in 2004.

The Bonus Factor

The survey found that the median bonus paid to nonprofit chief executives increased to $50,000 in 2005, up from $40,000 the year before at the 19 organizations that provided bonus data for each year.

But only a small number of organizations paid bonuses: Of the 304 organizations that reported data for 2005, 42 reported paying their top executives a bonus as part of their compensation or benefits.

Mr. Lowry, head of the Museum of Modern Art, received a bonus of $283,250 in 2005. Ruth Kaplan, deputy director for marketing and communications at the museum, says the bonus was in recognition of Mr. Lowry's successful leadership of the museum's 10-year major renovation project, which included an $850-million capital campaign.

The organization also reported giving a $400,000 bonus to Jean Solomon, its executive director of construction.

The second largest bonus last year was paid to Peter C. Marzio, director of the Museum of Fine Arts, Houston. Mr. Marzio received $275,000 in recognition of his fund-raising achievements.

"What I was told by the compensation committee is that the endowment had more than doubled in the past couple of years because of major gifts the museum had received, and that the bonus was in recognition of that accomplishment," he says.

The museum's endowment was worth $768.4-million in 2005.

The third largest bonus paid to a chief executive last year went to Gary E. Knell, chief executive officer of Sesame Workshop, in New York, who received $210,000.

Trish Callahan, vice president of human resources at the organization, says the bonus was based on a consultant's recommendation. "Every year the consultant evaluates pay practices in comparable not-for-profits in New York and came up with a number that the board supported," she says. "It is more of an incentive than a bonus," she says, and reflects the organization's fiscal performance.

Sesame Workshop reported an income of $107-million in its 2005 fiscal year, up from the $96.8-million in 2004.

The largest bonus reported by any organization in the survey was paid to Lawrence Hoagland Jr., chief investment officer of the William and Flora Hewlett Foundation, in Menlo Park, Calif. He received two: a $223,230 bonus for staying on the job for a minimum number of years and a $300,000 performance bonus for 2004, both of which were paid in the 2005 fiscal year.

The performance bonus is based on how the investment assets Mr. Hoagland oversees perform, says Eric Brown, the foundation's director of communications; in 2005, Hewlett reported assets of more than $7.3-billion, up from $6.5-billion in 2004.

Such perks are necessary to retain talented money managers, says Mr. Brown. "It's extremely difficult to keep investment managers in this amazingly competitive field," he says. "We've had two senior members of our investment team go to the private sector in the past year. People who work for foundations could make a lot of money in the private sector."

As in years past, the survey found that the top executive was not always the most highly paid employee at a nonprofit organization.

In many cases, chief investment officers earned more than their bosses. Yale University's main money manager, David Swensen, was paid $1,290,199, compared with the university's president, Richard Levin, who earned $618,822. The Ford Foundation's vice president and chief investment officer, Linda Strumpf, earned $913,504, about $210,000 more than her boss, Ms. Berresford.

Experts believe that this year's rise in pay is just the start of a long-term trend. Mr. Abruzzo predicts that, over the next five years, growing demand for top talent will translate into higher salaries, proliferation of performance bonuses, and more deferred-compensation plans.

Mr. Stamp— who, according to Charity Navigator's Form 990 filing for 2005, receives no monetary compensation— believes that pressures on nonprofit organizations from the outside, especially from the press, potential donors, and government, have made running those organizations increasingly difficult.

"We no longer treat these just as do-gooder jobs anybody can do," he says. "You need people with business backgrounds who can do the jobs responsibly." And that, he adds, translates into higher pay.

In this environment, he says, "organizations are willing to pay to retain good people — and to take good people away from others."