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Massachusetts Attorney General Calls for More Data on CEO Pay

By Doug Donovan

The attorney general of Massachusetts is calling on nonprofits to report more extensive and timely information about chief executives’ salaries, in hopes of slowing the rate of pay increases for charity leaders.

That’s not the only policy change Massachusetts leaders are trying to make related to executive pay: State Sen. Mark Montigny has introduced legislation to limit executives’ annual pay to $500,000 at charities with more than $1-million in revenue, a measure similar to one he has failed to get passed for the past eight years.

Attorney General Martha Coakley, who is running for governor, does not go so far as to call for a limit on pay, but a new report by her office says that requiring more detailed disclosures about how pay is set “will moderate the rate of increase in executive compensation.”

Her office studied leaders’ pay at the state’s 25 largest charities and found that “CEO compensation is generally high.”

Pay for top executives at those 25 organizations—mostly hospitals and universities with revenue well over $1-billion—ranged from $487,397 to $8.8-million.

Severance an Issue

The report does not say that any of the organizations violated Internal Revenue Service rules for establishing reasonable salaries. But the attorney general was not happy to see that severance payments remained common in the chief-executive contracts examined. Severance payments by Blue Cross and Blue Shield of Massachusetts in 2011 caused a public outcry that spurred the report.

The report suggests that nonprofits “seriously consider eliminating” severance provisions that the attorney general’s office believes are “unwarranted and potentially damaging to the charitable organizations that allow them in CEO contracts.”

The report also questions federal reporting rules deemed confusing and says the IRS guidelines “alone may not assure reasonable compensation.”

“Despite the care these organizations took in setting CEO compensation, we found little evidence that the process restrained CEO compensation or its growth,” her report states.

More reporting requirements may “lead to more moderate rates of increase in CEO compensation, allowing more charitable resources to be devoted to the organization’s charitable mission,” the report adds. “That might also decrease the disparity between CEO pay and that of the rest of the work force, a disparity that has generally increased in the United States in recent years and is a cause of concern to many.”

Critical Response

Ms. Coakley's report has drawn criticism.

Dan Pallotta, a marketing consultant who advocates for charity CEOs to be paid competitively with business leaders, said Ms. Coakley failed to consider the value that leaders bring to organizations with huge resources, and the benefits the nonprofits bring society.

"Salary information in isolation without a cost-benefit analysis is meaningless," said Mr. Pallotta. "If someone is producing no value and is being paid $60,000, then they're extremely expensive. But if someone is making $600,000 and they're producing enormous value, they may be inexpensive."

He said Ms. Coakley, like other elected officials, seize on top salaries at nonprofits and "realize this issue is popular with voters."

Timelier Reporting

Ms. Coakley, who is paid a $133,000 salary, did acknowledge in her official statement about the report that nonprofits have to offer competitive pay: "These organizations must compete with national for-profit companies for CEO talent while also staying true to their charitable mission."

But she wants charities to be more clear about how they determine salaries so that donors can be assured their money is being well spent.

Her report urges nonprofit boards to do more to set salaries beyond comparing their organizations with similarly sized businesses and nonprofits. Boards should also, she said, evaluate the reasonableness of compensation at comparable charities, include an analysis of how the total pay of a charity's CEO compares with that of its rank-and-file workers, and consider the level of public support a charity gets from its tax exemption, she said.

The report proposes that nonprofits in Massachusetts be required to report a few months after the calendar year ends how much they pay their leaders. She said that federal law now allows pay to be reported as much as two years after it was received, and called that "an obstacle to transparency."

Rick Jakious, head of the Massachusetts Nonprofit Network, said the state's charities already provide enough information about CEO pay.

"We are an exemplar for how transparent we are about executive compensation," said Mr. Jakious. "We need to be cautious about adding more reporting requirements."