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Nonprofit CEO Pay Won't See Big Gains in 2012, Say Experts

By Ben Gose and Marisa López-Rivera

The median pay for executives of the nation's largest nonprofit organizations kept up with inflation in 2011—and some experts say that might be the best that charity leaders can hope for in the near future, as budget woes at both the federal and state levels are expected to hamper the revenues flowing to charities.

Chief executives at the nation's biggest charities and foundations received a median pay increase of 3.8 percent in 2011, according to *The Chronicle*'s annual survey of executive compensation and benefits. That's slightly better than the 3-percent inflation rate for the year.

Compensation consultants and executive recruiters say similar-size increases—probably 2.5 to 3.5 percent—are likely this year and in 2013, although especially prized executives might fare better.

Ken Berger, president of the nonprofit watchdog Charity Navigator, says expected cuts in spending by the federal government and many state governments will have a direct impact on what top executives earn. Many charities receive a larger proportion of their budgets from government contracts and grants than from private donations or payments for services.

"The way the game is played, salaries are based on growth," Mr. Berger says. "If there's anemic growth or a decline, well, there go the salaries."

Sharing the Pain

The 2011 figures are based on salaries provided by 132 of the nation's biggest charities and foundations.

Far more nonprofits shared their 2010 figures, the most recent year for which most organizations have filed their annual tax returns. That year, chief executives at 282 large organizations received a median increase in total pay, including retirement and benefits, of 2.7 percent, the survey found.

In the years after the onset of the 2008-9 recession, many chief executives willingly took a pay cut or accepted a salary freeze to demonstrate to employees that they were willing to share in the pain. But the all-together-now ethos may be starting to fray.

Brian Vogel, a compensation consultant in Washington, says he has seen some charities continue to give raises to top executives, even as they phase out the idea that staff members should receive a raise each year.

"It's a competitive marketplace, and the chief executive is in the board's direct line of sight," Mr. Vogel says. "If the board is going to give an increase to anyone, they're going to give it to the CEO."

Yet the experience of CARE's chief executive, Helene Gayle, illustrates that during a time of declining revenue, not even the top executive will be spared. The international relief organization had total revenue of nearly $708-million in the year ending June 2008, but by June 2011, that total had dropped to just under $590-million.

Ms. Gayle and other top executives took 10-percent pay cuts in 2009—higher than the 8-percent cuts endured by other staff members—and those cuts have only gradually been restored for both executives and lower-level staff. Ms. Gayle's base salary today, $419,284, is no higher than it was in 2008.

Brian Feagans, a CARE spokesman, said that some staff members are expected to receive merit raises this year, the first raises the group has awarded since 2008. Ms. Gayle, he says, will be evaluated by the board later in the year.

"We won't know whether she will receive any increased compensation until then," Mr. Feagans says.

Luring Top Performers

Not all charities are grappling with declining revenues, and some recruiters say their nonprofit clients are increasingly willing to stretch to attract or retain top performers.

"People are recognizing that these positions are pivotal, and, within boundaries, they're beginning to pay at the higher end," says David Edell, an executive recruiter in New York.

Pete Smith, a compensation consultant for nonprofits in Washington, says some boards are paying more because settling for a less-expensive leader who assembles a mediocre team will prove far more costly in the long run.

"If you can do with 20 really good people what 40 average people would take to get done, and you pay the 20 really good people 20 percent more, your payroll costs are still a lot less," Mr. Smith says. "Very well-run organizations are operating on that principle—they're not afraid to pay above the average."

Direct Relief International, which provides medicine and supplies to poor people and those hurt by disasters, increased the base salary of Thomas Tighe, its chief executive, by 40 percent over two years.

Mr. Tighe made $341,347 in 2011, up from $247,600 in 2009.

Bhupi Singh, the charity's chief financial officer, says the increase reflects a philosophical change, with the board now putting most of Mr. Tighe's compensation into base salary. Given the $97,500 bonus Mr. Tighe received in 2009, the sharp increase in compensation evaporates. Mr. Tighe didn't receive a bonus in 2011.

Even so, Mr. Tighe's compensation has climbed sharply in the past decade. In 2001, he earned $143,800. Mr. Singh says the level of salary increases lags behind Direct Relief's heady growth—its income today, including the value of donated goods it receives, is $405-million, five times as much as in 2001.

"The complexity of the organization has changed incredibly since then," Mr. Singh says.

$1-Million-Plus

The highest earners in *The Chronicle's* survey now routinely make more than $1-million.

In 2010, 23 chief executives passed that threshold, led by Herbert Pardes, who retired as chief executive of NewYork-Presbyterian Hospital in 2011. Mr. Pardes earned $4,304,346 during 2010, including a bonus of nearly $2-million.

His compensation "reflects his extraordinary success leading one of the largest and most comprehensive health-care organizations in the world," says Myrna Manners, a hospital spokeswoman.

Still, Mr. Pardes does not make as much as the typical chief executive of one of America's largest for-profit corporations.

Median total compensation for chief executives of companies in the Standard & Poor's 500 was $9.6-million in 2011, according to Equilar, a Redwood City, Calif., company that studies executive pay. Their pay is also rising more quickly than that of nonprofit executives—28 percent in 2010 and 6.2 percent more in 2011.

Even though nonprofit pay levels are so different, state regulators continue to show concern about the size of some pay packages.

Several states have embarked on efforts to cap salaries for nonprofit executives—or at least limit the amount of salary that can be paid with state money. (See article on Page 7.)

The state efforts reflect some skepticism about how well the Internal Revenue Service is monitoring executive pay at nonprofits.

The IRS has detailed a process through which charities can demonstrate that executive pay is reasonable, primarily by comparing the pay of their CEO's with salaries earned by executives at similar charities or for-profit companies.

But some critics say the IRS may have inadvertently unleashed a Lake Wobegon effect, with a disproportionate number of boards believing that their top executives deserve above-average pay.

In July, the New Hampshire attorney general criticized a "logrolling effect" among hospitals in the state, after a study found that many of them attempted to keep the pay of their CEO's among the top 25 percent for their peer group.

The study, which had been commissioned by the attorney general, found that large salaries were not correlated with performance measures or the amount of charity care provided.

"When you go back and look at the minutes of board meetings, often there's little discussion or deliberation," says Anthony Blenkinsop, who heads the charitable-trusts unit in the attorney general's office. "One hospital decides to raise its salary, and then the next hospital looks at that in a data set and says, 'We should raise ours, too.'"

'No Secrets Anymore'

The phenomenon isn't confined to hospitals. Vartan Gregorian, the longtime president of the Carnegie Corporation, has generally resisted raises, according to George Soule, a foundation spokesman.

But in 2011, the foundation's board "insisted" that Mr. Gregorian accept a raise that would put his compensation among the top quarter of CEO's of 21 similar-size private foundations, Mr. Soule says. The 2011 raise elevated his base salary by 27 percent, to $690,000.

Another reason pay is escalating, say some nonprofit leaders, is that so many job seekers now know about GuideStar, which posts tax forms from more than 1.9 million nonprofit organizations on its Web site. Job candidates routinely peruse the site to see how much an outgoing chief executive has made, says Charles Ingersoll Jr., a recruiter at Korn/Ferry International's Washington office.

A charity that hopes to save money when tapping a young executive to replace a veteran might find that the newcomer has other ideas.

"The candidate might say, 'This is a $50-million organization, and if you want me, I need to be paid what the current executive is being paid," Mr. Ingersoll says.

He adds: "There are no secrets anymore."