

Executive Compensation: More at the Top

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As part of its ongoing efforts to encourage transparency and strict accountability for foundations, NCRP has examined the financial compensation that the largest foundations provide to their executives, board members, and employees. Among others things, we reviewed the positions awarded the highest levels of compensation, how compensation is distributed to the top brass and the rest of the staff, and how foundation payroll expenses stack up against grantmaking—in other words, what does a foundation value?

We identified the top 100 foundations by asset size in 2003, as published by the Foundation Center. Using this list, we obtained IRS 990-PF data for the fiscal year ending in 2002 available on www.GuideStar.org.¹ Because of their unique revenue streams and grantmaking strategies, we excluded community foundations from this analysis. Also, because this excludes organizations for which someone with no compensation makes the top five, it does not exclude the two foundations with only four employees. Our foundation sample size is 72 at its lowest, when we include only foundations that compensate at least five individuals. In addition, there were two foundations (J. Seward Johnson, Sr. Charitable Trusts and The Pew Charitable Trusts) we had to exclude for lack of adequate information: their 2002 tax information was not available through the GuideStar database. We were left with a sample of 77

foundations and subsequently focused our research on the compensation and roles of the top five highest-paid people.² We dubbed these top earners “executives,” though this category includes any of the best-paid management, officers, trustees, and staff. We counted as compensation their salaries, retirement contributions, and all other appraisable benefits and expense account funds.

In this preliminary summary of our research, we offer insight into overall trends in executive compensation, as well as reflect on the glaring reporting and data problems found in the 990-PF form. Additional results will be released in a full report at a later date.

PRELIMINARY FINDINGS

Compensation to top executives varies considerably among large foundations. The highest-paid foundation individual in our sample was paid \$1,212,132; one nonprofit foundation split nearly \$4 million of compensation among its top five executives. Of the foundations that offer compensation, the lowest compensation to the top-paid individual was the Freeman Foundation’s Graeme Freeman, who, as full-time executive director, was paid \$127,500. This is about 10 percent of the compensation given to the top-paid individual in the sample, \$1,212,132 to Thomas M. Lofton, chairman and director of the Lilly Endowment Inc.

Even more revealing, perhaps, is how

Salaries of Top Five Highest-Paid Individuals as Reported on IRS Form 990-PF, Based on a Sample of 77 Organizations³

	Highest Paid	Second Highest	Third Highest	Fourth Highest	Fifth Highest	Top Five	Total Staff
Maximum	\$1,212,132	\$860,202	\$692,507	\$619,416	\$613,784	\$3,998,041	\$67,959,653
Average	\$440,073	\$287,665	\$220,358	\$192,044	\$176,685	\$1,209,828	\$6,055,793
Median	\$352,439	\$239,154	\$188,529	\$159,224	\$144,948	\$997,368	\$2,755,232
Minimum	\$12,000	\$51,528	\$25,000	\$132	\$30,000	\$235,601	\$348,878
Standard deviation	\$266,060	\$166,097	\$127,738	\$116,519	\$108,353	\$743,990	\$9,642,338

much top foundation executives earn per hour (assuming 40-hour weeks and 52 weeks per year⁴). Thomas Lofton of the Lilly Endowment pulled in an hourly wage of \$583 an hour. A retiring executive, Dennis Collins of the Irvine Foundation, got the third-highest compensation in our sample. He was a full-time president, chief executive officer, and director for one month before becoming a part-time transition adviser for the next 11 months of the tax year; assuming he worked 20 hours per week for the final 48 weeks, his compensation translated to an hourly wage of \$819.60, or 159 times the federal minimum wage.

In our sample, the total compensation for the top five highest-paid individuals ranged from zero, at organizations that do not pay board members and list no compensated employees (the Hall Family Foundation and the Michael and Susan Dell Foundation), to \$3,998,041 at the Lilly Endowment. The median total compensation for the top five individuals was \$997,368. Together, the 77 foundations spent \$93,156,826 on their top five executives. The middle of the pack⁵ executive makes about \$210,754 a year.

FOUNDATION ROLES

What do executives do for their money? And which positions get paid the most? Although investment professionals consistently have the highest salaries in our sample, the majority of the highest-paid people are noninvestment professionals (which include executives⁶ and management) and board members. As for the top 10 highest-compensated individuals, we found that nine were executives—one was a trustee—and three had investment duties. This predominance of executives parallels what we discovered for all of the top-compensated individuals at foundations—34 percent were solely executives, and 54 percent were both in management and on boards. Program officers, who work directly with some aspect of grantmaking, education, or the foundation's charitable purpose, rarely make it into this top five in terms of salary; when they do, their pay is much lower than executives, management, and board members.

Of the top 10 compensated individuals in our sample, not one was a program officer or had a job title that suggested involvement in running programs or grantmaking. The highest-paid foundation employee who had programmatic duties is ranked 13th overall, earning \$692,507 (the Lilly Endowment's third-highest-paid

employee), as the vice president for community development. In fact, of the 390 top-paid employees in our sample, only about 25 percent had job titles indicating they did any work with programs, and only four of these were the top-paid employees at their own foundations. The average compensation for program officers in the top five of their organizations is \$177,413, not quite two-thirds of the average pay of others in our sample who play another role.⁷

SALARIES ACCORDING TO JOB ROLE, FOR ALL COMPENSATED INDIVIDUALS⁸

To examine more closely how executives in different or multiple roles are compensated, we analyzed all of the salaries in the sample by the kind of job with which they were associated. Some individuals played several different roles at one foundation. The people who play multiple roles earn some of the highest salaries, but it is often unclear whether they are paid primarily for one or all roles.

The highest "noninvestment professional" earners or executives⁹ in our sample are typically on the board or in management. Indeed, board members and executives have the highest compensation—each individual for each category earns an average of more than a million dollars. Such sky-high pay is nowhere near routine, but when it does happen, it goes to individuals in those roles.

Executives who play multiple roles at their foundations had the highest maximum and average compensation packages, as well as some of the lowest (including 10 individuals who are not compensated). Occasionally, the compensation for specific roles is apparent from the 990-PFs, but usually the information was not adequate to make this distinction. However, it is still useful to correlate how much individuals are making with the tasks they perform. Even if the position of board member is itself unpaid at a foundation, it can be helpful to know whether those on the board are pulling in large salaries from their other work at the foundation.

Of the 91 individuals who held multiple roles, 82 percent served as a trustee or board member, in addition to at least one other role. The most popular combination, which occurred almost 90 percent of the time among the highest-paid people at each foundation who hold multiple roles (24 out of 27) and 78 percent of the time among top five people playing multiple roles, was noninvestment professional and board member. Compensation in this

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group spanned nearly a million dollars, from zero to \$917,949.

GRANTMAKING AND FOUNDATION EXPENDITURES

In our sample, the value of grants paid was closely linked to a foundation's total expenses. For the typical foundation, 84.8 percent of expenses were grants or gifts to outside organizations, no matter how large their assets.

In contrast, investment expenses and officer and board pay have little relation to the size of the foundation or its annual expenses. Investment expenses of the typical foundation averaged about 5 percent of total expenses, though at the Kimbell Art Foundation, they ran as high as 32.3 percent of total expenses; officer and board member pay was routinely 1 percent of expenses, reaching 8.8 percent at Freedom Forum Inc.¹⁰ The remaining expenses tend to be operating and administrative costs, such as outside professional fees, taxes, rent, and printing and publications.

NAMING NAMES: The 10 Highest-Compensated Individuals at the Largest 77 Foundations (Tax Year 2002)

Foundation executive	Foundation (rank in gross assets)	Executive's total compensation (hourly wage ¹¹)
1. Thomas M. Lofton, chairman and director	Lilly Endowment Inc. (2)	\$1,212,132 (\$582.76)
2. Steven Schroeder, president	The Robert Wood Johnson Foundation (5)	\$1,025,104 (\$492.84)
3. Dennis Collins, president, chief executive officer, director, and transition adviser	The James Irvine Foundation (38)	\$917,949 (\$441.32) ¹²
4. Linda Strumpf, vice president and chief investment officer	The Ford Foundation (3)	\$884,345 (\$425.17)
5. N. Clay Robbins, president and director	Lilly Endowment Inc. (2)	\$860,202 (\$413.56)
6. Susan V. Berresford, president and trustee	The Ford Foundation (3)	\$828,681 (\$398.40)
7. Lyn Hutton, vice president and chief financial officer	John D. and Catherine T. MacArthur Foundation (10)	\$765,324 (\$367.94)
8. William C. Richardson, president and chief executive officer	W.K. Kellogg Foundation (7)	\$736,864 (\$354.26)
9. Donna J. Dean, treasurer and chief investment officer	Rockefeller Foundation (14)	\$728,642 (\$350.30)
10. Robert E. Swaney Jr., vice president for investments	Charles Stewart Mott Foundation (19)	\$717,060 (\$344.74)

LIMITATIONS OF THE 990 DATA: FOOD FOR THOUGHT

Some clear trends have emerged from studying executive pay at America's largest foundations. While we saw that compensation to top executives varies tremendously among large foundations, from the austere to the exorbitant, we also see conspicuous practices strikingly disharmonious with foundations' bottom line missions of grantmaking for the public good, such as rewarding investment officers more than program officers, and compensating board members or upper management more than any other group of employees.

The data collected from current 990-PF forms only scratches the surface. The design of the 990-PF forms actually hinders accurate and efficient collection of foundation activity data, and in this case specifically, compensation data. First, operating and community foundations, as well as some private and corporate foundations, are required to file form 990, not 990-PF. A number of foundations in our sample did not follow this rule. Second, in terms of the reported information itself, we had to limit this study to the top five people at each foundation because the 990-PF asks only for information on the five highest-compensated employees, and all officers and board members. The form provides little information about compensation for other employees, contractors, or contracting firms beyond the five highest-paid that are not listed. Although foundations are required to list employees who earn at least \$50,000 a year, foundations are not required to indicate how much above that amount those employees make.

990S & GOVERNMENT OVERSIGHT: THE KEY TO TRANSPARENCY

A radical overhaul of the 990 is needed to reveal important information about foundations for necessary oversight and transparency. Changes need to be made to the form so that the collected data could easily point to potential self-dealing and conflicts of interest among foundation board and staff and consulting firms. Improvement of the 990-PF would mean accurate and complete tracking of numerous compensation, salary, and giving trends in the philanthropic sector. It is also absolutely crucial to ensuring transparency and accountability of the philanthropic sector.

Part and parcel to an overhaul of the 990 is providing sufficient resources to the Internal Revenue Service and state government officials to efficient-

Foundation Compensation to Top Five Earners (Tax Year 2002)

Foundation (rank in gross assets)	Compensation to top five earners	Total staff salary	Percentage of total staff compensation that goes to top five earners
1. Lilly Endowment Inc. (2)	\$3,998,041	\$9,873,320	40.5
2. The Ford Foundation (3)	\$3,470,192	\$67,959,663	5.1
3. The Robert Wood Johnson Foundation (5)	\$3,018,732	\$30,305,397	10
4. John D. and Catherine T. MacArthur Foundation (10)	\$2,490,672	\$23,074,365	10.8
5. The James Irvine Foundation (38)	\$2,299,185	\$5,301,880	43.4
6. Charles Stewart Mott Foundation (19)	\$2,129,986	\$13,512,882	15.8
7. The Commonwealth Fund (85)	\$2,102,144	\$6,837,538	30.7
8. The William and Flora Hewlett Foundation (8)	\$2,097,970	\$11,039,354	19
9. Alfred P. Sloan Foundation (30)	\$2,064,240	\$4,923,529	41.9
10. Carnegie Corporation of New York (22)	\$1,999,970	\$9,657,221	20.7

ly and consistently enforce proper and accurate filing among foundations. Without sufficient funding, the IRS can do little to nothing about foundations' haphazard compliance in filing the 990s.

NCRP's difficulties in our ongoing research on foundation trustee compensation is clear evidence of the inconsistencies of the 990. As long as the current 990 is in use, and as long as the IRS is not fully funded and is not able to, at minimum, enforce accurate and timely compliance, and at best, investigate and prosecute foundation abuse of their tax-exempt status and any self-dealing, the full extent of foundation behavior remains unseen and open to abuse and excess. ☺

Notes

1. For the purpose of uniformity, we used 2002 990-PF data. Some foundations end their fiscal year in July 2002, others in December 2002. Regardless, many foundations submit their tax forms late. All of these factors slow down GuideStar's process of digitizing and publishing tax data online. Using 2002 990-PFs allowed us to obtain complete information with data all from the same year.
2. Because operating foundations run their own charitable programs and use the bulk of their resources to support these programs, they make few grants to outside organizations. This analysis explores the compensation trends of nonoperating foundations.
3. This excludes organizations for which someone with no compensation makes the top five; it does not exclude the two foundations with only four employees. Our foundation sample size is 72 at its lowest, when we include only foundations that compensate at least five individuals.
4. This produces a conservative estimate of their "hourly wage"; though the 990-PF requires reporting hours worked, reporting is spotty. However, because most

of those in our sample noted roughly 40 hours a week (or wrote "full-time," to the contrary of what directions specify), our assumption is reasonable.

5. The median value for all positions in our sample.
6. We are assuming that any financial executive would be categorized as an investment professional.
7. \$267,021 is the average pay for positions in the sample, excluding positions which are purely program related. The median compensation for the sample, excluding program officers, is \$230,396, while the median pay for program officers is \$141,115.
8. Those who earn no compensation are counted in the bottom row, but their numbers are excluded from the calculations of averages, medians, and minima. It would be inappropriate to include those zero values in the calculations, since only unusual circumstances put these volunteers on a list of highly paid foundation executives. This chart also excludes the banks and management companies that the Walton Foundation, the Kate B. Reynolds Charitable Trust, the J. Bulow Campbell Foundation, and the McCune Family Foundation list, since those are not individuals.
9. We are assuming here that any financial executive would be categorized as an investment professional.
10. Calculated with the sample means of Form 990 Line 24b (investment expenses), Line 13 (compensation to officers, directors, trustees, etc.), and Line 26 (total expenses).
11. Based on 40 hours a week, 52 weeks a year.
12. Collins headed the Irvine Foundation for one month, full time, and then served as the part-time transition adviser for 11 months of the tax year, as part of a severance plan. Assuming he worked 20 hours per week for 48 weeks in his adviser role, Collins earned \$819.60 an hour throughout the year.

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