

# Pay for Charity Executives: What Changed Between 2009 and 2012?



111 Academy Drive, Suite 270  
Irvine, CA 92617  
800-627-3697  
[www.erieri.com](http://www.erieri.com)

# Pay for Charity Executives: What Changed Between 2009 and 2012?

*By Chris Chasteen, PhD, and Linda M. Lampkin*

## Introduction

In 2009, charities were beginning to recover from a national recession that impacted revenues throughout the nonprofit sector. By 2012, many had become more financially stable, maintaining or increasing services and revenues. Because of the change in the national economy and in the nonprofit sector generally in these years, ERI has updated its research on [2009 charity compensation](#). Using data on compensation of executives reported annually to the IRS on Forms 990 filed by charities, this research paper analyzes how average compensation increased from 2009 to 2012 and if the incidence of highly paid executives has changed.

Questions about charity executive pay are still being debated, and Form 990 data – the most complete and accurate observations available – are still available only as images, requiring a huge investment of time and money for analysis. A recent [GAO report](#) on the work of the Exempt Organization division of the IRS recommended that Congress consider expanding the mandate for charities to electronically file their tax returns, and IRS agreed with GAO's recommendations. The expectation is that expanded e-filing will result in more accurate and complete data available in a timely manner, allowing the IRS to more easily identify areas of noncompliance while also providing data for analysis by researchers interested in the nonprofit sector.

Although the Forms 990 filed annually are public documents (posted on the Internet at a number of nonprofit and for-profit websites, but not by the IRS), only the images of the forms are available; to create a database of compensation information that can be analyzed, the data from the images must be scanned or typed, an overwhelmingly time consuming task for most researchers.

### **These research questions are considered in this whitepaper:**

- How did charity CEO compensation change from 2009 to 2012?
- Were there differences in increases for CEOs in different sizes and types of charities?
- What is the incidence of higher than expected compensation for charity CEOs?
- Were certain sizes and types of charities more likely to have higher than expected compensation?
- Has the incidence of higher than expected CEO compensation changed from 2009 to 2012?

## Comparison of Salaries in 2009 and 2012 for Charity CEOs

In the field of executive compensation, the two key factors generally recognized as the most influential in determining compensation levels for a given job title are size and industry – in the for-profit sector, these translate to level of company revenues and the industrial code associated with the product or service (usually a NAICS or SIC code). In the nonprofit world, the comparable factors are revenues as reported on the Form 990 and subsector, as indicated by a National Taxonomy of Exempt Entities (NTEE) code, the nonprofit classification system created by nonprofit experts and practitioners and maintained by the National Center for Charitable Statistics at the Urban Institute.

ERI creates a database of Form 990 information, including revenues and direct cash and total compensation, for use in the Nonprofit Comparables Assessor (CA) application that calculates average competitive compensation levels for the executive jobs reported on the form, allowing the user to choose characteristics such as revenue size, type of organization, and geographic location to find the closest comparable organizations. The compensation database is created with data from Forms 990 leased in ERI's digitizing process and from GuideStar. CA customers include many regulators, including the IRS with multiple licenses and state charity officials, and many large nonprofits, as well as the lawyers, accountants, and consultants who serve the nonprofit sector<sup>1</sup>.

For this analysis, ERI chose all returns filed for 2012 with compensation observations for the CEO position. The total number of charitable organizations reporting compensation on their Forms 990 increased only slightly, from 96,130 in 2009 to 97,056 in 2012, an increase of only about 1%. But this masks the fact that, during this time period, the IRS revoked tax-exempt status for a huge number of inactive organizations that had not filed Form 990 in three years, a change that primarily impacted smaller organizations.

<sup>1</sup>For more information, see <http://www.eri.com/nonprofitcomparablesassessor>.

## Changes in CEO Compensation from 2009 to 2012 by Size of Charity

While the Internal Revenue Code provides for over 30 types of tax-exempt status for nonprofits, only those exempt under IRC 501(c)(3) – known as C3s – are called public charities. The distinguishing characteristic of C3s is that they are tax-exempt organizations to which donors can make tax-deductible donations. These public charities are the organizations covered by the IRS regulations on “unreasonable compensation” for executives.

The table below shows the mean, median, and standard deviation (SD) of direct cash compensation payments for CEO salary observations by size of charity, as measured by annual revenue ranges.

**Table 1. Charity CEO Salaries by Revenue Range, 2012**

Revenue	Number of C3s with Compensation	Mean	Median	SD
\$100k to \$500k	17,181	\$56,075	\$50,230	\$49,384
\$500k to \$1m	12,864	\$72,233	\$65,665	\$38,201
\$1m to \$5m	22,596	\$104,136	\$90,461	\$64,055
\$5m to 10m	6,370	\$148,361	\$127,367	\$101,482
\$10m +	11,004	\$312,842	\$204,577	\$419,605

The data on mean and median salaries reported above, as in 2009, do not provide support for claims of widespread unreasonable compensation in the sector. However, the larger the organization, the more need there may be for further review of individual organizations. For example, there are large differences between the mean and median and huge standard deviations for the over \$10 million category, indicating that salaries vary widely in this group.

To see how compensation levels compared in 2009 and 2012 for those organizations in which the CEO remained the same over the three-year period, the names of CEOs were checked for matches in 2009 and 2012. The average compensation levels for same CEOs for different sizes of organizations are shown in Table 2. The table reveals a striking difference in the rates of increase by size of organization – the bigger the charity, the higher the rate of increase.

**Table 2: Comparison of Average Salaries of Same CEOs by Revenue Range, 2009 and 2012**

Revenue	N	2009 Mean Compensation	2012 Mean Compensation	Increase (%)	Average Annual Increase (%)
\$500k to \$1m	4,726	\$74,847	\$81,055	8.3	2.7
\$1m to \$5m	10,201	\$107,881	\$118,994	10.3	3.3
\$5m to 10m	3,260	\$148,983	\$167,912	12.7	4.1
\$10m +	5,551	\$265,904	\$323,706	21.7	6.8

## Changes in CEO Compensation from 2009 to 2012 by Type of Charity

A look at the average salaries by type of charity also shows huge variations in average salaries. Table 3 lists the average CEO compensation by selected NTEE groupings often used by nonprofit researchers. In general, these mean and median salaries for CEOs tend to be modest, but the categories of Hospitals and Universities are clearly higher than most others.

**Table 3. Average Charity CEO Salaries by Type of Charity in Selected NTEE Groups, 2012**

NTEE	N	Mean	Median	SD
Arts	6,130	\$95,493	\$70,000	\$94,039
Education (excluding Universities)	7,018	\$112,245	\$83,895	\$141,377
Health (excluding Hospitals)	5,276	\$158,889	\$110,113	\$206,170
Hospitals	2,016	\$551,473	\$329,421	\$750,683
Human Services	14,080	\$97,507	\$78,061	\$88,891
Public/Societal Benefit	898	\$137,942	\$99,377	\$166,397
Universities	1,068	\$314,547	\$248,508	\$337,507
All Other Organizations	33,608	\$103,645	\$77,945	\$111,826

Table 4 shows what happened to CEO salaries for those CEOs whose names were listed in both 2009 and 2012 filings. Although hospitals and universities recorded higher than typical increases for charitable organizations, the group of organizations classified as Public/Societal Benefit also gave larger increases than other types of charities.

**Table 4. Comparison of Average Charity Salaries for Same CEOs, by Type of Charity, 2009 and 2012**

NTEE	N	2009 Mean Compensation	2012 Mean Compensation	Change (%)	Average Annual Increase (%)
Arts	1,809	\$92,864	\$102,739	10.6	3.4
Education (excluding Universities)	2,442	\$113,462	\$124,810	10.0	3.2
Health (excluding Hospitals)	2,000	\$151,225	\$174,444	15.4	4.9
Hospitals	754	\$483,871	\$619,452	28.0	8.6
Human Services	5,488	\$100,518	\$108,544	8.0	2.6
Public/Societal Benefit	1,221	\$162,763	\$205,497	26.3	8.1
Universities	449	\$273,011	\$333,190	22.0	6.9
All Other Organizations	14,302	\$119,523	\$135,000	12.9	4.1

## The Incidence of High CEO Salaries

The IRS says nonprofits must pay employees “reasonable compensation,” and penalties for paying more include taxes on the employees who receive the “excess” compensation and even the organization managers who approve the payments. In extreme cases, the organization could even lose its tax-exempt status.

While compensation must be reasonable, the IRS gives few specific guidelines. The stated criterion is that total compensation must be compared with what would be paid for like services by like enterprises under like circumstances. This analysis must be done for each nonprofit executive<sup>2</sup>.

ERI’s research using 2009 990 compensation data found the following:

- The highest paid CEOs – defined as those paid more than 2 standard deviations above the average salary – are a very small proportion of all nonprofit organizations.
- Higher than expected compensation was not evenly distributed by type and size of the charity. Hospitals had the greatest number of CEOs paid higher than 2 standard deviations above the mean, at all revenue sizes. The categories of health (excluding hospitals) and public/societal benefit organizations also had more CEOs above the 2 SD range than all charities.

The IRS determination of what is excessive is on a case-by-case analysis. However, a count of the CEOs that receive compensation that falls more than 2 SDs from the average in various revenue

<sup>2</sup>See more detail at <http://www.irs.gov/pub/irs-pdf/i990.pdf>

ranges and in different types of organizations is useful in understanding the incidence of higher than expected CEO compensation. The percentage of CEOs with salaries that fell outside the 2 standard deviation criterion is detailed for the highest revenues ranges of charities in Table 5 below<sup>3</sup>.

**Table 5. Percent of Charities Reporting Salaries > 2 SDs in Higher Revenue Ranges, 2012**

Revenue Range	Number of C3s with Compensation	Charities with Salaries > 2 SDs (%)
\$1m to \$5m	22,596	3.3
\$5m to 10m	6,370	2.8
\$10m +	11,004	3.2

This table shows that roughly 3% of the organizations in all of these higher revenue ranges pay their CEOs more than 2 standard deviations from the mean. To further refine the analysis, the charities in these revenue ranges were divided into selected NTEE group. The results are shown in Table 6.

**Table 6. Percent of Charities Reporting CEO Salary > 2 SDs by NTEE and Revenue Range, 2012**

NTEE Group	Charities with Salaries > 2 SDs (%)		
	\$1m to \$5m	\$5m to 10m	\$10m +
Arts	2.6	2.3	1.7
Education (excluding Universities )	3.5	2.5	1.7
Universities	7.5	1.7	2.3
Health (excluding Hospitals)	5.4	3.5	2.2
Hospitals	22.2	17.4	14.4
Human Services	1.3	1.1	0.1
Public /Societal Benefit	9.1	8.6	6.0
All Other Organizations	3.5	3.0	1.1

<sup>3</sup>While the revenue ranges make sense visually, they have not been determined optimally for statistical analyses. In other words, there are any number of alternate revenue bands we could have constructed that may (or may not) have led to more apparent trends in the data.

This analysis shows that the clear differences in the percent of high compensation (defined as more than 2 standard deviations from the mean for the comparable group) among the types and sizes of charities still remain in 2012.

While Table 6 shows the incidence of the type and size of charity that has reported higher than expected compensation levels, Table 7 shows the actual number of organizations affected.

**Table 7. Number of Charities Reporting CEO Salary > 2 SDs by NTEE and Revenue Range, 2012**

NTEE Group	Number of Charities with Salaries > 2 SDs		
	\$1m to \$5m	\$5m to 10m	\$10m +
Arts	48	8	6
Education (excluding Universities )	88	18	15
Universities	6	1	20
Health (excluding Hospitals)	90	26	34
Hospitals	35	20	232
Human Services	64	18	3
Public Societal Benefit	29	6	5
All Other Organizations	387	80	38

The total of all organizations reporting high compensation is a little above 1,200, out of almost 100,000 organizations reporting compensation in 2012. Although the number of charities paying their CEOs more than 2 standard deviations above what would be expected grew slightly between 2009 and 2012, it still represents a very small percentage of charities. The table provides a clear blueprint for the most effective use of compliance resources.

## Summary

The comparison of charity CEO compensation data reported on the Form 990 by all charities in 2009 and 2012 revealed that average salaries grew for most organizations by about 3% per year. However, there was a higher rate of increase for larger organizations and for certain types of organizations, specifically hospitals and public/societal benefit organizations. In general, the average salaries would not be considered high by most observers.

Using a definition of compensation of greater than 2 standard deviations from the mean as an indication of excessive compensation, the proportion of charities paying such salaries is low. The results, of course, should only be used to give an indication of the extent of high compensation within the sector and to identify where these high-paying organizations would most likely be found. As the IRS says, unreasonable compensation is determined on a case by case basis, but this type of analysis can provide a starting point for compliance investigations.

While high compensation appears to be relatively rare, the occurrence is not evenly distributed when analyzed by type and size of charity. Hospitals, with typically higher compensation, have more than twice the rate of compensation greater than 2 standard deviations from the mean as compared with any other group regardless of revenue size. It appears that hospitals give less weight to organization size than other types of organization. A more detailed examination of factors determining CEO compensation in hospitals would be of interest.

In addition to hospitals, the categories of health (excluding hospitals) and public/societal benefit organizations also had more CEOs falling outside the 2 standard deviation range than charities as a whole. These categories include a larger number of charities, but their revenue levels tend to be much lower. These outliers should also be a focus of further research.

In conclusion, average compensation levels for charity CEOs seem relatively modest and did not increase dramatically from 2009 to 2012, even as the economy improved. The data do show that there are some exceptions, particularly with larger charities and those classified as hospitals and public societal benefit. This information can be used to focus compliance efforts by the IRS and others interested in ensuring that executive compensation in the nonprofit sector remains reasonable.



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