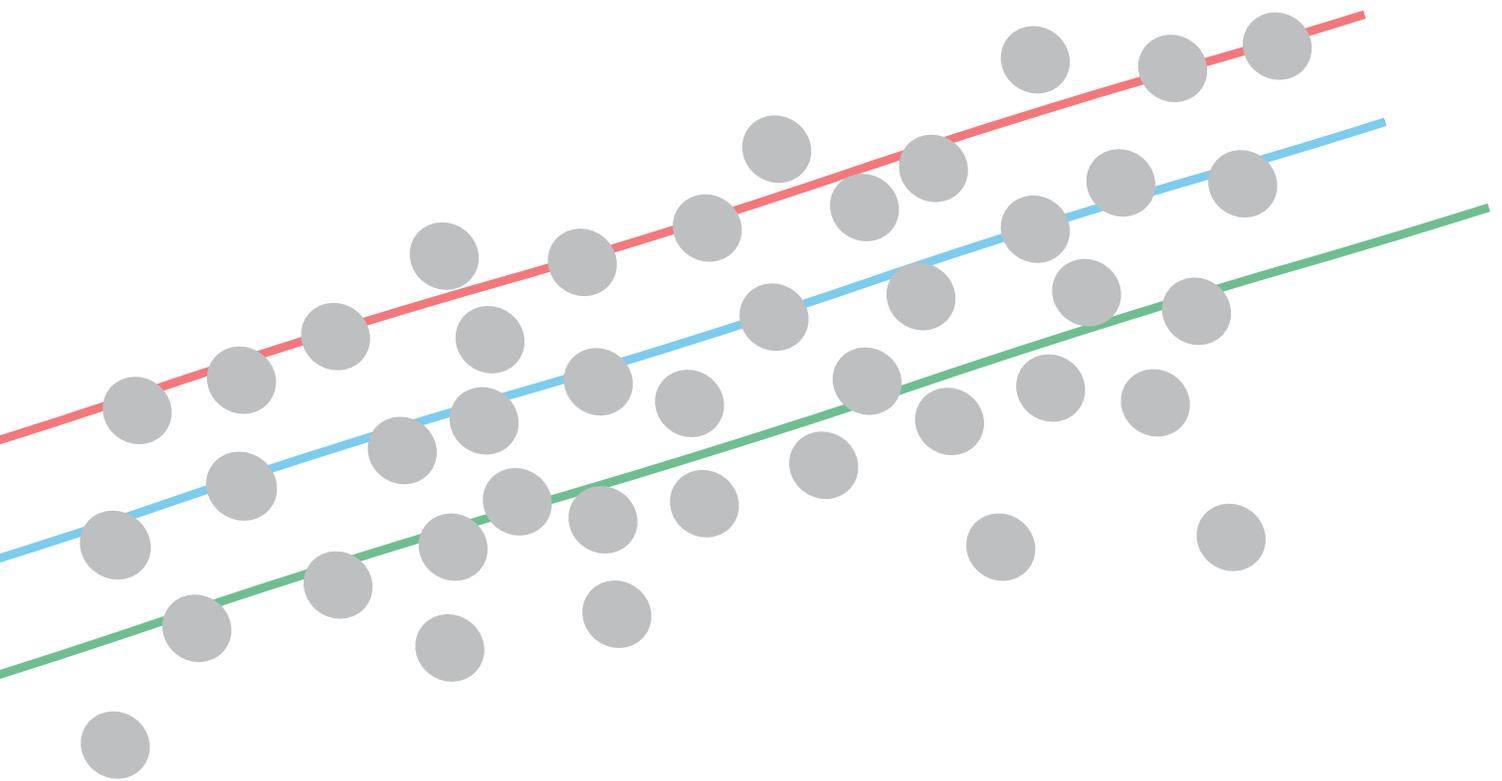


# Pay For Insurance Company Board Members



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While there is debate and controversy over the incidence and amount of compensation for board members in the nonprofit sector, the focus is on the largest group of tax-exempt organizations (i.e., the c3s known as charities), as IRS regulations call for compensation to be based on data from comparable organizations.

Board members of for-profit corporations typically receive pay for their work in guiding the company. But, as revealed in ERI's recent research paper, "What is Reasonable Nonprofit Board Pay" ([http://downloads.erieri.com.s3.amazonaws.com/pdf/what\\_is\\_reasonable\\_nonprofit\\_board\\_pay.pdf](http://downloads.erieri.com.s3.amazonaws.com/pdf/what_is_reasonable_nonprofit_board_pay.pdf)), the situation is very different in the nonprofit sector. Although there is no prohibition on paying members of these nonprofit boards, the IRS does require that compensation be reasonable (see <http://www.irs.gov> for more details) and, for charitable organizations, that means that the compensation should be the amount that would ordinarily be paid for like services by a like enterprise under like circumstances.

ERI used its database of Form 990 information, including financial measures such as revenues and assets, as well as compensation, in the Nonprofit Comparables Assessor to examine the incidence of payment of board members, with these findings:

- Less than 4% of all tax-exempt organizations report paying their board members.
- Charitable organizations, exempt under IRC Section 501c3, represent 73% of all tax-exempt organizations and less than 3% report paying their board members.
- Other organizations exempt under other IRC subsections are more likely to pay their board members (for example, labor groups, life and mutual insurance companies, etc.), but the incidence of payment is still low; these organizations are not covered by IRS regulations that provide penalties for excessive compensation.

To find out if director pay is more common in nonprofit organizations that are similar to for-profit companies, compensation data from nonprofits exempt from taxes as c15s – mutual insurance companies or associations – were reviewed. People serving as board members of c15s may also have skills and experience similar to those needed by for-profit insurance companies.

Table 1 shows the incidence of director pay for the 166 c15s in the ERI database of Forms 990 for 2011. While these are a very small proportion of the total tax-exempt sector, the proportion of paid directors is higher than for other nonprofits.

**Table 1. Board Member Pay in Nonprofit Mutual Insurance Companies, 2011**

IRC Subsection for Tax-exemption	Org Count	Board Member Count	# Orgs with Paid Bd Mbrs	% Orgs with Paid Bd Mbrs	# Paid Bd Mbrs in These Orgs	% of Bd Mbrs Paid
15 – Mutual Insurance Companies or Associations	166	1,031	25	15.1	30	2.9
Total	206,302	2,344,960	7,341	3.6	12,760	0.5

These c15s are much smaller than the for-profit companies, most with assets of less than \$5 million. The average for the paid directors was a little under \$19,000 per year; the highest paid director received \$25,000 per year.

Then ERI’s Salary Assessor was used to find compensation data for Outside Board Members of insurance companies, as shown in Table 2 below.

**Table 2. Total Compensation of Outside Board Members, US Average (in US\$)**

Assets	25th Percentile	Survey Mean	75th Percentile
5,000,000	64,334	93,193	128,031
1,000,000	57,694	83,348	114,245

Although these companies may be similar in name and purpose, obviously tax-exempt mutual insurance companies are very different from their for-profit counterparts. One example is pay for board members. Not only are the directors all paid for their services, they also get paid more than four times than their nonprofit counterparts. A comparison of salaries for the CEOs revealed a huge difference in executive compensation also. Table 3 compares the CEO compensation between insurance companies in the for-profit and nonprofit sectors.

**Table 3. Compensation for CEOs of Insurance Companies, US Average (in US\$)**

Assets	Mean	
	For Profit	Nonprofit
10,000,000	249,785	115,580
5,000,000	208,931	97,464
1,000,000	140,190	65,605

Learn more about director pay in nonprofits in ERI’s new research paper, “What is Reasonable Nonprofit Board Pay” ([http://downloads.erieri.com.s3.amazonaws.com/pdf/what\\_is\\_reasonable\\_nonprofit\\_board\\_pay.pdf](http://downloads.erieri.com.s3.amazonaws.com/pdf/what_is_reasonable_nonprofit_board_pay.pdf)).



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