

CHARITY NAVIGATOR

2016 Charity CEO Compensation Study

October 2016



Introduction

Running a multi-million dollar charity is complex business. It requires an individual that possesses an understanding of the issues that are unique to the charity's mission as well as a high level of fundraising and management expertise. Attracting and retaining that type of talent requires a competitive level of compensation as dictated by the marketplace.

Each charity's board of directors is responsible for establishing the CEO's compensation. The board must ensure that the compensation is both desirable enough to secure quality leadership while at the same time is deemed 'reasonable' by the IRS. To establish 'reasonable' compensation, the IRS recommends that charities (1) have an independent compensation committee on the board, (2) review compensation practices at charities that are similar in total expenses, mission and location, and (3) document the process.

This report, Charity Navigator's tenth *Charity CEO Compensation Study*, is designed to serve as a tool for board members seeking benchmarking data and for donors who want to gain a better understanding of nonprofit compensation practices. The CEO compensation data in this report is based on the 2014 salary data provide on the FYE 2014 and FYE 2015 Forms 990 by 4,587 charities in Charity Navigator's database of nearly 8,000 rated charities¹. At a high level, our analysis revealed that the top leaders of these charities earned a median salary in the low to mid six figures² in 2014 representing a compensation increase of 3% over the previous year³.

Footnotes

¹Charities included in this study report at least \$500,000 in public support and more than \$1,000,000 in total revenue for their two most recent fiscal years. For more information on what types of organizations Charity Navigator evaluates, please click [here](#). Also, read the appendix to learn which charities were excluded from the study.

²Based on the data found in each charity's most recently filed Form 990, we include salary, cash bonuses, and expense accounts when we measure a CEO's compensation. We do not include contributions to benefit plans or deferred compensation that is allocated to be paid in later years. Deferred compensation is often accrued over many years and then is paid as a lump sum in one year. As such, we do include deferred compensation as part of the compensation figure in the year in which it is actually paid out to the employee and/or when it is expensed per the 990.

³Based on comparison salary data for the 3,452 charities that report the same person as CEO for both all of 2014 and 2013. As such, charities were excluded in year-on-year salary comparisons if the CEO changed and/ or if the CEO was only employed for part of 2013.

Methodology

Median versus Mean

In earlier versions of this study, we reported on the mean value of CEO compensation (simple average). Since our 2010 study, we've been reporting on the median value (the middle value of a set of numbers) of CEO compensation. We prefer to use the median (meaning half the salaries in the dataset are greater and half are lower) as it is less sensitive to extreme compensation packages than the mean and is a more representative figure of the center of a series of salaries.

Statistical Models

In this year's report, we use statistical modeling to predict salary based on expenses, category (also called mission), and geographic region. These models represent a statistical "best guess." For more detail, see the appendix.

Exclusions

There are nearly 8,000 charities in our database. In order to paint a more accurate picture of the compensation landscape among these public charities, we restricted our current-year analyses to 4,587 charities. Of those, 3,452 had sufficient data for year-on-year comparisons. See the Appendix for more information about sample exclusions.

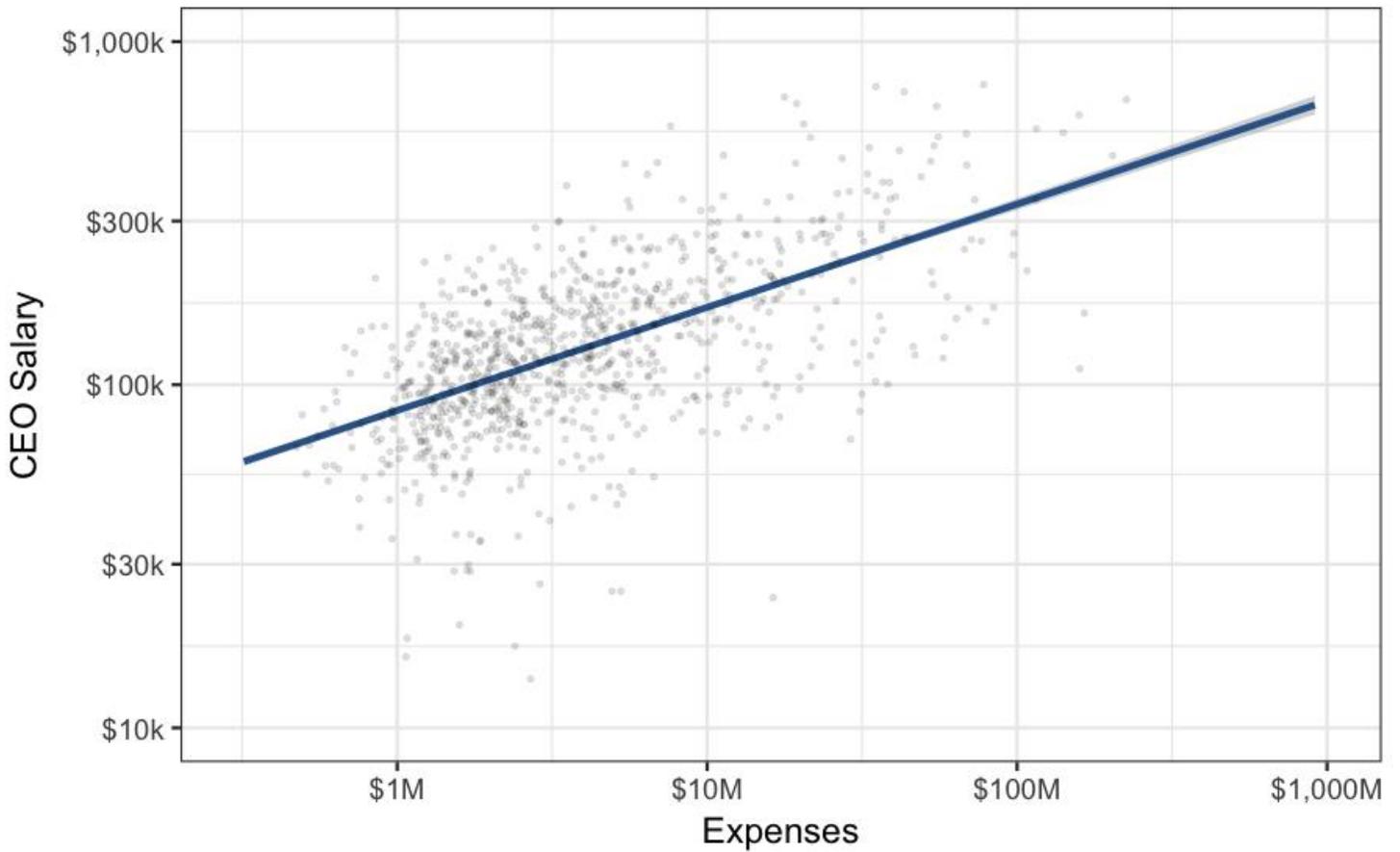
Comparisons to Prior Studies

This study differs in two significant ways from previous studies. First, we have replaced our size designations with a continuous scale. Second, we have examined the causes of CEO compensation through more rigorous statistical methods. Consequently, this year's study cannot be compared directly to any prior iterations of this report.

Total Expenses

Not surprisingly, there is a predictable relationship between the total annual expenses of a charity and the CEO's compensation - the bigger the charity's budget the higher the compensation.

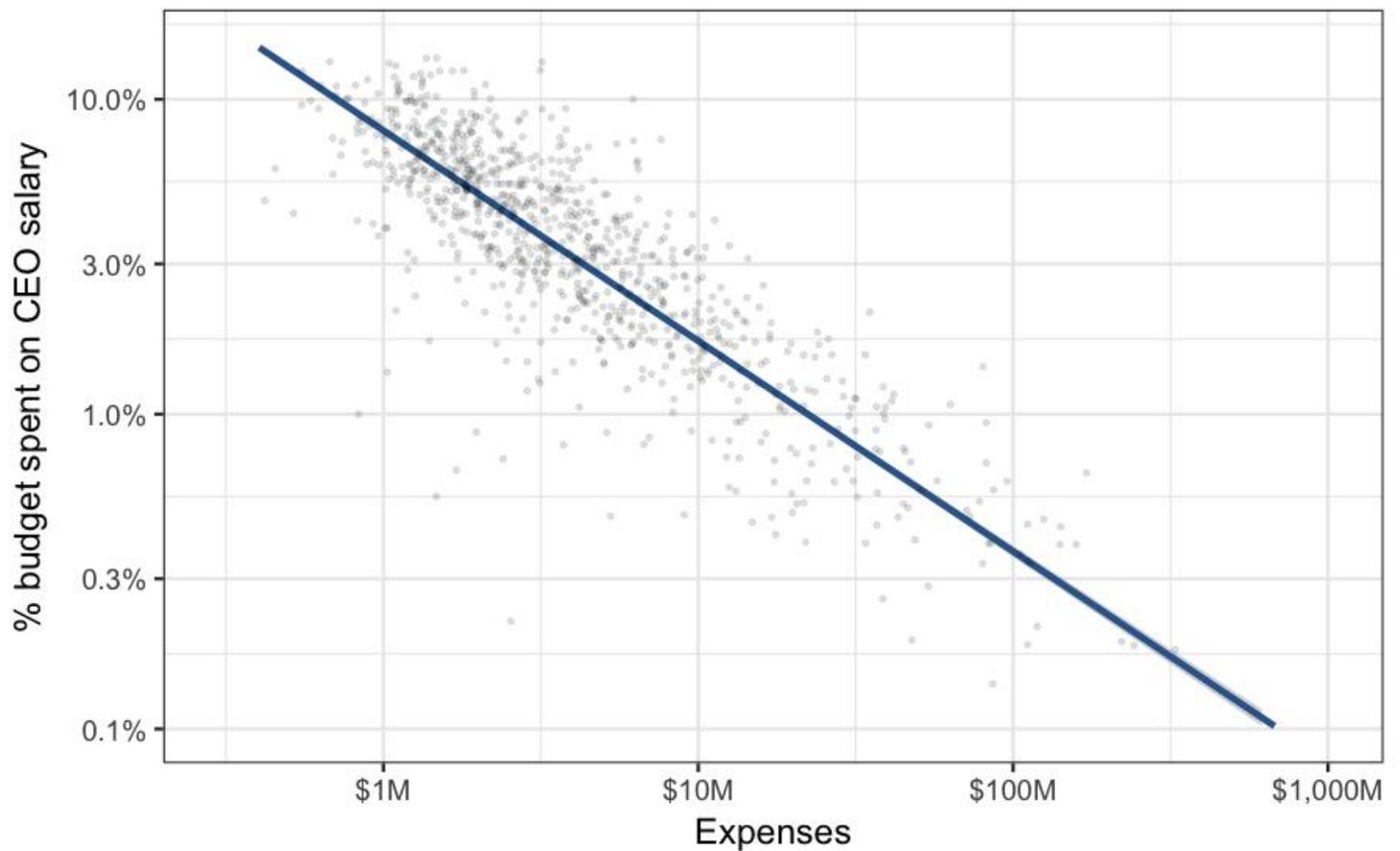
Annual expenses vs CEO salary



Total Expenses (cont.)

Looking at the percentage of a charity’s total expenses spent on CEO compensation in the following chart, we see that as the charity’s total expenses increase, the smaller the percentage of the budget spent on the CEO’s compensation.

Annual expenses vs Relative CEO cost burden



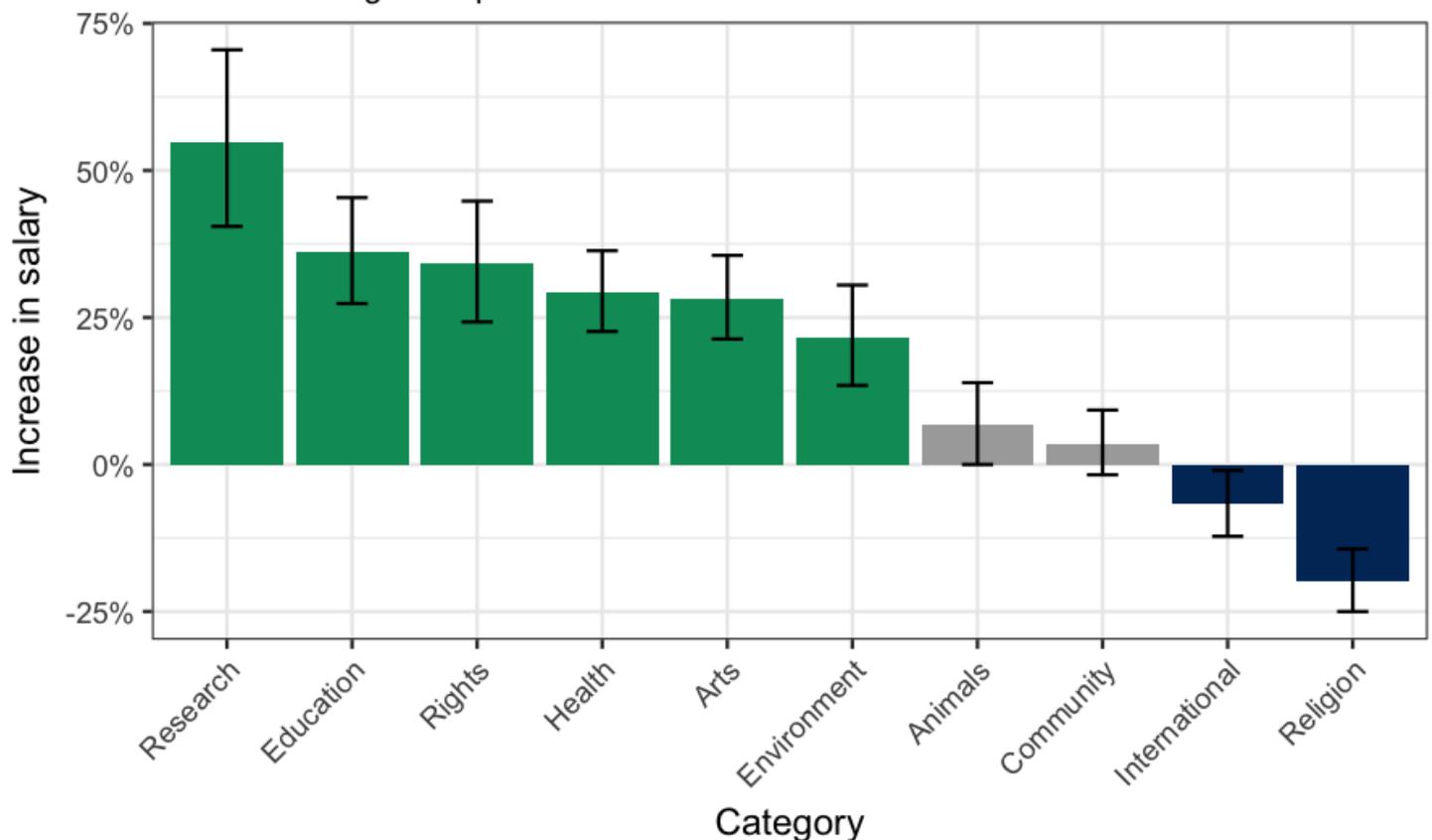
Charitable Mission

As we've demonstrated, the compensation a CEO receives largely depends on the charity's total expenses. But the types of programs and services offered by the charity (called mission or category in this report) also has an affect on compensation.

The following chart holds total expenses constant and compares expected compensations in each category to an expected compensation in Human Services. This demonstrates, for example, that a charity in the Research category would be expected to compensate its CEO roughly 50% more than a charity with similar expenses in the Human Services category.

Salary difference by category (vs. Human Services)

After controlling for expenses



The black bars in this chart represent the 95% confidence interval; see the appendix for more information.

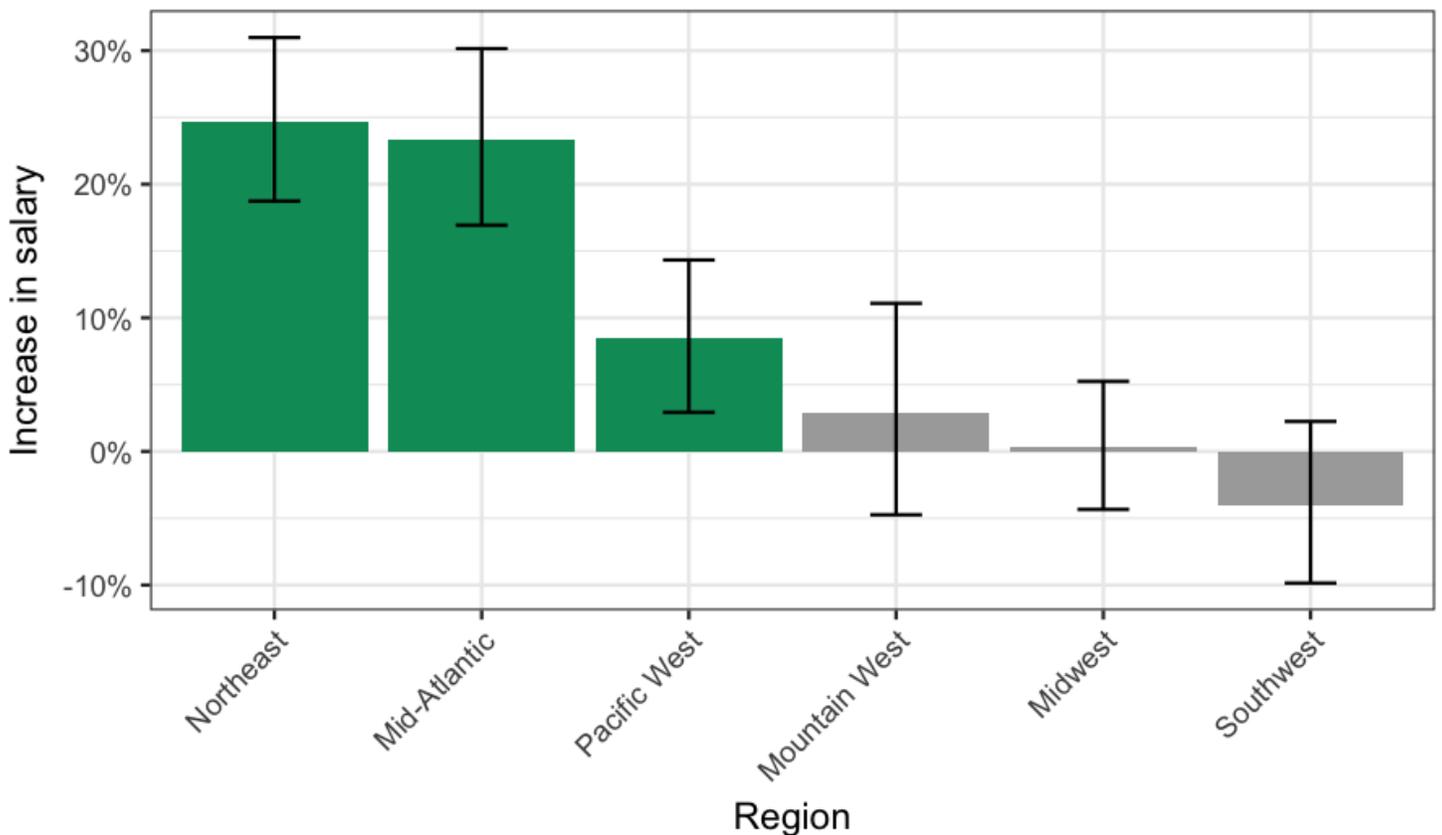
Region

Just like the for-profit sector, salaries at nonprofits differ based on where the organization is located⁴.

The following chart holds total expenses constant and compares expected compensations in each region to an expected compensation in the South. The chart below shows that CEO compensation is appreciably higher in the Northeast and Mid-Atlantic than in the rest of the country.

Salary difference by region (vs. US south)

After controlling for expenses



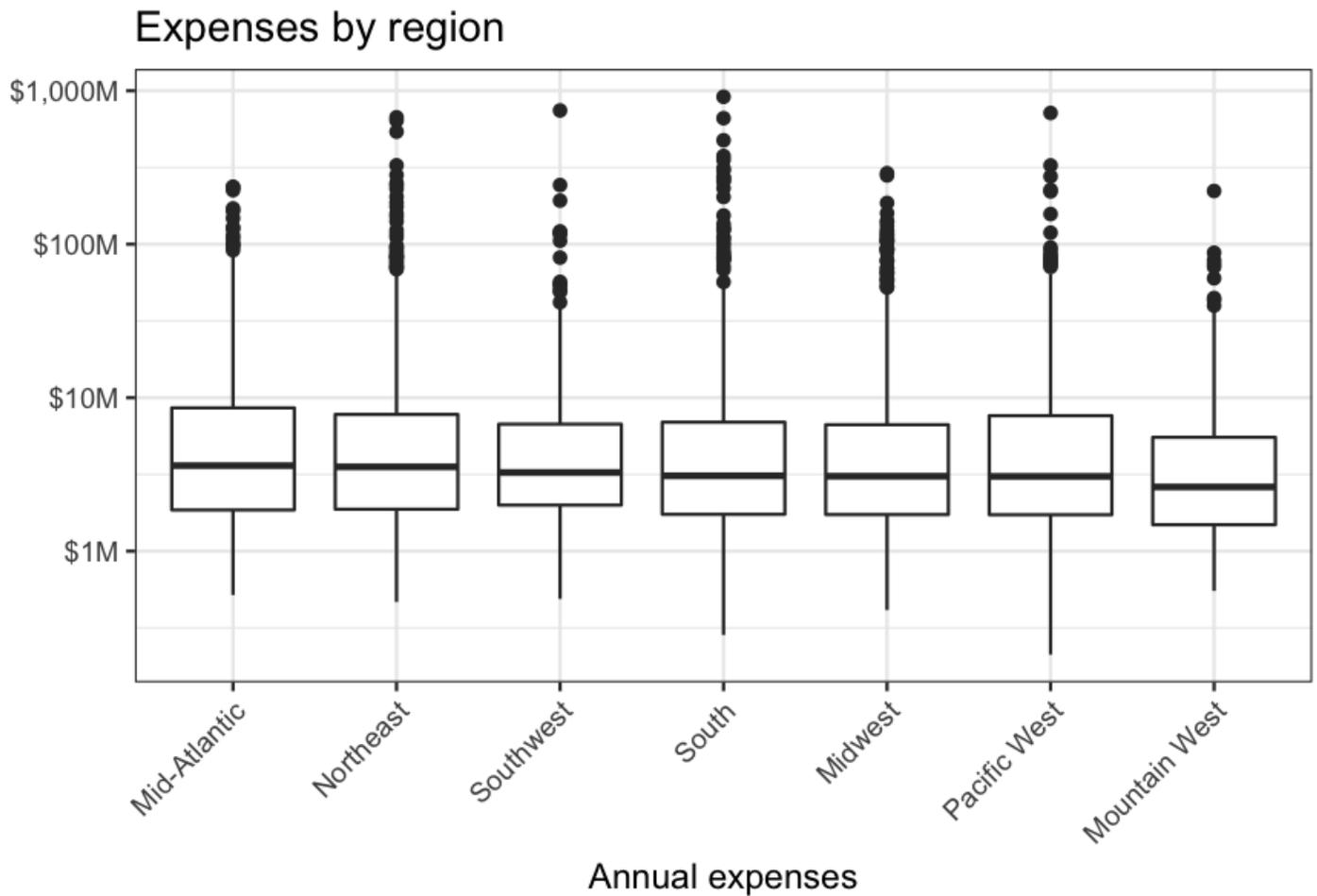
The black bars in this chart represent the 95% confidence interval; see the appendix for more information.

Footnote

⁴The Appendix at the end of this study includes a description of the states included in each region.

Region (cont.)

As the following graph shows, the higher pay in the Northeast and Mid-Atlanta holds true despite total expenses that are more or less the same across all of the regions. The variation in the cost of living in different regions may be driving the necessity for charities to spend more to attract talent in the Mid-Atlantic and Northeast.

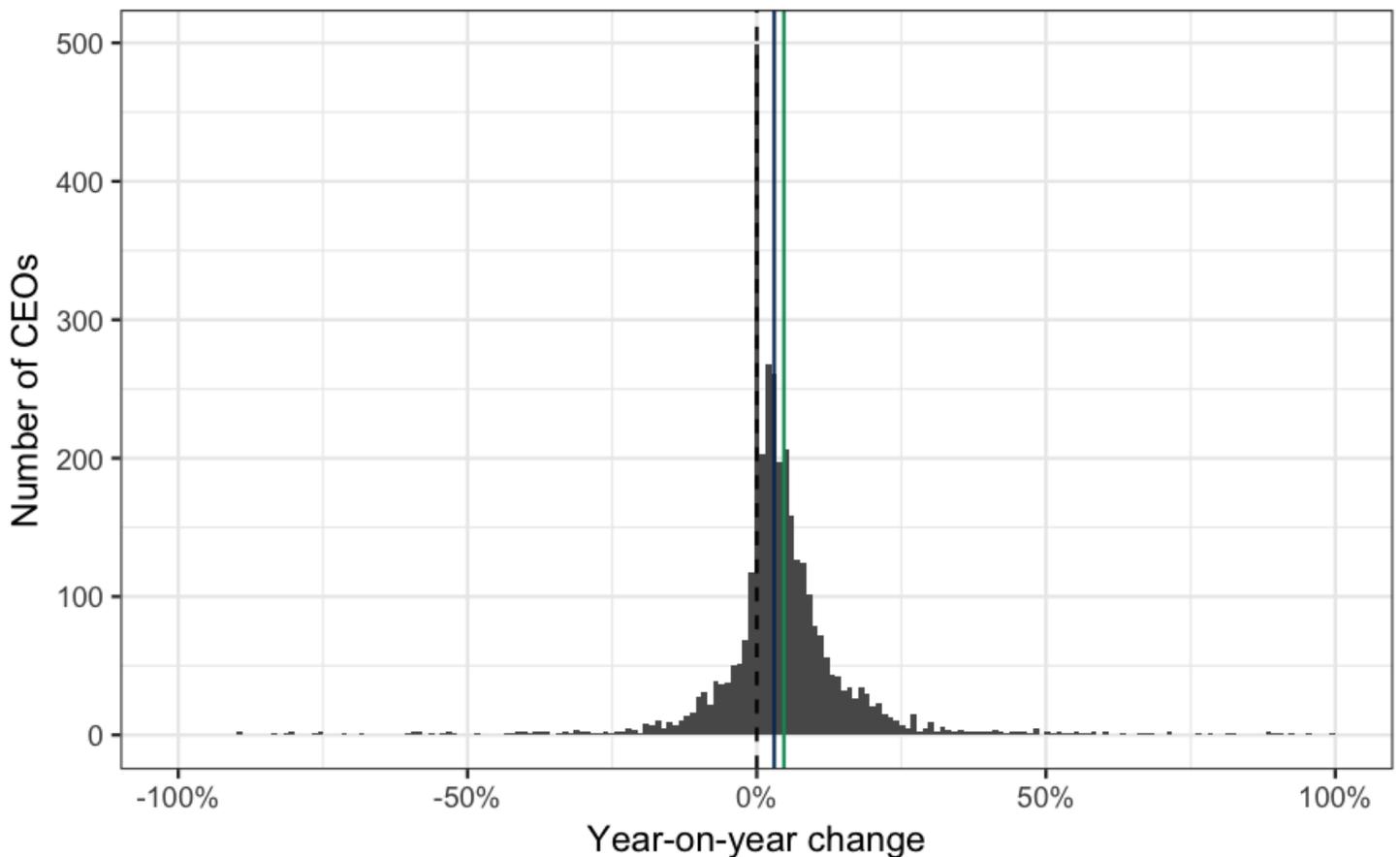


Year-On-Year Change

The median increase in CEO Compensation from 2013 to 2014 is 3%.

Year-on-year percentage change in CEO salary is not explained by the variables (mission, total expenses and region) examined in this study. But as the following graph demonstrates, more CEOs received raises than those that received pay cuts. The green line represents the 3% median increase and the blue line represents the 4.7% mean (or average) increase.

CEO salary: Year-on-year change



Largest Compensation Packages

Seven Figure Compensation Packages

Of the 4,587 charities included in the study, only 10 rewarded their top executive with \$1 million or more in compensation (when including one-time payouts). In our last study (which examined 2012 data) there were 12.

- All 10 are large charities with total expenses >\$13.5 million
- They are located in the South (1), Pacific West (1), Mountain West (1), Southwest (2), Mid-Atlantic (2) and Northeast (3).
- This list is comprised of 1 Community Development, 1 Education, 1 Human and Civil Rights, 1 Research and Public Policy, 2 International, 2 Human Services and 2 Health charities.

Half A Million In Pay

The study also revealed that 66 charities paid their CEOs between \$500,000 and \$1 million. In our review of 2012 compensation packages there were 67.

- 60 of these are large charities with total expenses >\$13.5 million and 6 of are medium sized charities with total expenses between \$3.5 and \$13.5 million.
- They are located in the Mountain West (2), Southwest (2), Midwest (7), Pacific West (7), South (8), Mid-Atlantic (15) and the Northeast (25).
- This group is diverse in its area of focus as it consists of 2 Environment, 2 Religion, 3 Human and Civil Rights, 4 Animal charities, 5 Education, 6 International, 6 Research and Public Policy, 7 Community Development, 8 Arts, Culture, Humanities, 9 Human Services and 14 Health.

Loans to Related Parties

Making loans to related parties such as key officers, staff, or Board members, is not standard practice in the sector as it diverts the charity's funds away from its charitable mission and can lead to real and perceived conflict-of-interest problems. This practice is discouraged by sector trade groups which point to the Sarbanes-Oxley Act when they call for charities to refrain from making loans to directors and executives. The IRS is concerned enough with the practice that it requires charities to disclose on their Form 990 any loans to or from current and former officers, directors, trustees, key employees, and other "disqualified persons." Some state laws go so far as to prohibit loans to board members and officers.

In our entire database of approximately 8,023 rated charities, 4% (330) report loans to their officers.⁵

Compensation Trends

The following graph show the trends in charity CEO compensation for the years 2008 (corresponds to the 2010 CEO Compensation Study), 2010 (corresponds to the 2012 Study), 2011 (corresponds to the 2013 Study), 2012 (corresponds to the 2014 Study) and 2014 (from this Study). This table specifically shows the percent change in compensation for the same CEO from one year to the next. The graph is consistent with what we've heard from compensation experts in the field. That is, charity CEO salaries are slowly increasing since the recession.

	2008	2010	2011	2012	2014
Median Change in CEO Compensation over Prior Year	4.7%	1.5%	2.5%	2.6%	3.0%

Footnote

⁵Our analysis does not distinguish between loans to CEOs versus other key officers, staff and Board members so this figure doesn't specifically indicate only loans to CEOs.

Conclusions

The charities in our study reported a median total CEO compensation of \$123,462 in 2014. These same charities reported a median 3% increase in CEO compensation from 2013 to 2014 indicating that charities are still being conservative with compensation increases. Of the factors we examined, by far the largest driver of CEO salary is overall expenses. The charity's mission (category) and location also play a role.

Appendix

Advice for Donors

We offer the following tips to help you assess the compensation of a charity's top leader.

1. **Consider the performance of the charity in relation to the CEO's pay.** If you come across a charity whose CEO pay is higher than other similar charities, don't immediately dismiss that charity's request for funding. You're better off supporting a charity that is fiscally efficient, accountable and transparent, achieving its programmatic goals and paying its CEO well, than a charity that has substandard fiscal health, fails to live up to its mission, but under-pays its CEO. Charity Navigator's ratings can be of help in your research into the charity's Financial Health and commitment to being Accountable & Transparent. If possible, also conduct your own review of the charity's performance to determine if it is delivering on its intended results.

2. **Obtain comparison data.** Use the information provided in this study to compare a CEO's salary to other similarly sized charities, as well as those in the same category and region.
 - i. Our 2016 [Metro Market Study](#) provides median CEO salaries for 30 large cities.
 - ii. [Charity Navigator registered users](#) can compare the CEO salaries of specific charities on their "My Charities" page and on each charity's rating page by clicking on the "Compare These Charities" link.
 - iii. Registered users can also access Charity Navigator's [Sector Analyzer Tool](#) to calculate the *average* CEO pay by cause and state.

(tips continue on next page ⇨)

Appendix (cont.)

Advice for Donors

- 3. Find out if the charity has a Compensation Committee.** Drawing on its experience in investigating charities, the IRS has redesigned the Form 990 (the informational tax return that charities must file annually and the document that Charity Navigator utilizes to obtain a majority of the necessary data to rate each charity) to provide more transparency regarding executive compensation practices. At Charity Navigator we agree with the IRS that it is important for each charity to conduct an independent review of its CEO's compensation using comparative data. As such, we have included this as part of our [Accountability & Transparency Methodology](#) (launched in September 2011) so you can determine if a charity follows this best practice. If the charity you are considering has not yet been rated by us, then we encourage you to review its Form 990 or contact it directly to inquire if it has a compensation committee in place and how it makes salary decisions.
- 3. Be skeptical of charities that report zero CEO compensation.** There are very few individuals that can afford to work full-time managing complex, multi-million dollar organizations without receiving any compensation. If a charity you are considering reports no compensation for its CEO, then we recommend you contact it directly- using the information we provide- to learn how it has been able to attract and retain a competent leader without paying that individual. It might have a legitimate answer. However, it may be that the charity failed to appropriately report the CEO's salary to the IRS or respond to our analysts' requests for that data.

Advice for Charities

We are not alone in recommending that charity Boards include an independent compensation committee which is responsible for reviewing the CEO's performance and ensuring that the CEO's compensation is appropriate. We offer this report and the other tools available on our free website as a starting point in that committee's endeavors to set a reasonable level of pay. But this study should not be a substitute for hiring an outside expert to conduct a compensation study (especially for charities over \$1 million in annual revenue).

Appendix (cont.)

Statistical Models

This report is based on a series of linear regression analyses. For current-year statistics, the dependent variable was log-transformed CEO salary (including bonuses as described above). For year-on-year statistics, the dependent variable was year-on-year fold-change, defined as (current salary / prior year salary) - 1. Expenses were log-transformed in all analyses.

Current-Year Results

An expenses-only model, regressing salary on expenses, revealed a strong ($r^2=0.34$) association between these two quantities that was significant at the $p<0.001$ level. Adding category alone and region alone to this model resulted in an adjusted r^2 of 0.40 and 0.36, respectively. Reference groups for these regressions were as shown in the plots above and were chosen for ease of interpretation.

Expenses + category model. No significant difference was observed between salaries in the Education and International categories and those in reference category (Human Services). Animal salaries were significantly different at a $p<0.05$ level; salaries from all other categories were significantly different at a $p<0.001$ level.

Expenses + region model. Salaries in the Mid-Atlantic and Northeast regions were significantly different from the reference region (South) at the $p<0.001$ level. Salaries in the Pacific West were different at the $p<0.01$ level. No other regions showed significant differences in salary from the reference.

Benchmark model. The benchmark model incorporates all three input variables (expenses, category, and region). Due to the resulting loss of statistical power, several coefficients do not reach the levels of significance observed in the previous models. This is reflected in the wide confidence bands shown in the benchmark plots.

Year-On-Year Results

We compared year-on-year salary fold change to expenses, category, and region. None of these variables explained more than 0.5% of variance in year-on-year wage changes, either individually or together.

Figures

Fits represent linear regressions; bars represent 95% confidence intervals. Where shown, scatter points represent a random sample of the observations (20%). Salary difference bar graphs represent regression coefficients, transformed to appropriate units, with bars representing 95% confidence intervals.

Appendix (cont.)

Compensation by Total Expenses, Category & Region

The charts linked below are meant to be informative to nonprofit boards who seek comparative analysis in establishing CEO compensation. Keep in mind the following points when reviewing these charts:

- **The grey bars indicate uncertainty about the "true" typical compensation.** The right answer could be anywhere in the grey range. For example, there is more confidence in the chart showing the "typical" compensation for an Environment charity in the Midwest than an Environmental charity in the Southwest.
- **The more data included in this study for a particular category and region combination, the smaller the grey range.** This is because the grey represents uncertainty. More specifically, we are 95% confident that the right answer is inside the grey band.
- **Outside of the range shown by each bar, we don't have any data.** For example, our model gives us an estimate for how a CEO is compensated at a \$100M Environmental charity in the South, but not in the Southwest.
- **The blue line represents the best estimate about the "true" typical compensation.**
- **The scale on the graphs is not linear.** On a logarithmic axis, like the one used in these charts, going up a fixed distance multiplies the value by a fixed amount. In other words, 3 is about halfway between 1 and 10. Likewise, 30 is about halfway between 10 and 100.

The following links will open up the graphs in a separate file.

- [Animals](#)
- [Arts, Culture, Humanities](#)
- [Community Development](#)
- [Education](#)
- [Environment](#)
- [Health](#)
- [Human and Civil Rights](#)
- [Human Services](#)
- [International](#)
- [Research and Public Policy](#)
- [Religion](#)

Appendix (cont.)

Exclusions

Charity records that were excluded from this study include:

- **Fiscal Year Ends**—This study examines 2014 CEO compensation for charities in Charity Navigator’s database that have Forms 990 for the fiscal years ending 2014 and 2015. Other fiscal years were excluded.
- **No CEO Reported**– The organization either did not report any leadership information on its Form 990 or it only reported the board of directors (no compensated staff).
- **No Compensation Reported** – Although there are a few actual volunteer CEOs that receive no pay, the current process by which we collect data precludes us from identifying which charities have nonpaid CEOs versus those that simply failed to report compensation on their Form 990. In the future, we may be able to isolate each group and offer some analysis on volunteer CEOs. But for this study, we’ve removed all the charities that reported no compensation for their CEOs as well as one charity that reported that its CEO only earned one dollar.
- **Affiliate Pay** – Some charities pay their leaders through multiple affiliated organizations. In these cases, we do publish the affiliate pay on the charity’s ratings page. However, we’ve excluded those records from this study, since we currently can not confirm how much of the affiliate pay is compensation for the CEO position as opposed to a separate job.
- **Older Data** – This study excludes the few charities in our database whose most recent financial data is from their fiscal year ending 2013 or earlier.
- **Prior or Interim CEO** – If the organization reported a prior or an interim CEO on the current Form 990, then there is a good chance that the current CEO served a partial term with partial pay. Including such records would skew the data towards lower pay and would be less accurate. So we have excluded these records.
- **New CEO with Lower Salary** – Similarly, if the current CEO is different than the prior CEO and has a salary at least 20% lower, we assume that there’s a good chance that the current CEO served a partial term and thus didn’t receive a full year’s pay. Again, we exclude these records so as not to skew the data to lower pay.

As a result of these exclusions, we restricted our analysis to 4,587 charities overall. And when we examined changes in compensation from 2013 to 2014, the exclusions reduced the sample size to 3,452.

Appendix (cont.)

Regions

The various regions in our study are defined as follows:

- **Mid-Atlantic:** New Jersey, Maryland, West Virginia, Washington, DC, Pennsylvania, Delaware
- **Midwest:** Ohio, Illinois, Missouri, Indiana, Michigan, Minnesota, Wisconsin, Kansas, Nebraska, Iowa, North Dakota, South Dakota
- **Mountain West:** Montana, Idaho, Wyoming, Utah, Colorado, Nevada
- **Northeast:** Rhode Island, New York, Connecticut, Maine, New Hampshire, Massachusetts, Vermont
- **Pacific West:** Oregon, Washington, California, Hawaii, Alaska
- **South:** Florida, Georgia, Mississippi, South Carolina, North Carolina, Virginia, Alabama, Tennessee, Louisiana, Arkansas, Kentucky, Virgin Islands, Puerto Rico
- **Southwest:** Oklahoma, New Mexico, Texas, Arizona