Best practices in nonprofit executive compensation
James Abruzzo

- Develop a compensation philosophy for board approval
- Assure compliance with safe harbor components as described in intermediate sanctions
    - Form a compensation committee
    - Insure no conflict of interest exists among members of the committee – none of board members have any direct relationship with those whose compensation they are setting
    - Use comparability study to demonstrate reasonable compensation (see benchmarking –make this a connection to benchmarking section)
    - Document process of contract renewal, annual review process and bonus distributions (SOP and in Committee minutes)
- Simplify and eliminate ancillary perquisites (auto, spousal travel, etc.) by including the value in annual salary
- Maintain low increases in fixed compensation by increasing annual salary by predetermined "index" amount
    - *Predetermined index amount may be tied to CPI (of a predetermined prior period) or, in some cases, utilize indices such as the annual increase in average compensation increase as printed in the Chronicle of Philanthropy annual compensation issue (late September annual issue). This index is variable and has ranged, over the last ten years, between 3% and 6%. It is based on prior year increase as calculated by the Chronicle. Since the new form 990's may alter the reported amounts of executive compensation for 2008 and forward, this index in the future, may be significantly higher than previous range; meaning that with new 990s information will be more transparent and executives will need to report everything which may not have been reported in past; in which may want to; recommendation is to use of CPI for this reason; can limit to "not to exceed" CPI; use most current CPI as of 10/1 of each respective year.*
- Use compensation to achieve strategic goals and to retain top employees. For example:
    - Include performance (incentive) bonus as part of total compensation
    - Insure the total annual compensation is above the average or higher (for example, 75th percentile) Note: 75% is being used as an example, not a recommendation
    - Use 457 (f) or similar vehicle to motivate employee to fulfill length of contract
- While protecting the image of the organization and the public's funds, have Committee develop an open dialogue with the employee to understand his/her desires

[James Abruzzo: Negotiations]

- Depending on the age and desire of the executive, offer tax deferrals as part of the compensation package
    - Tax Deferred Plans
        - 457 (b) Employee has the opportunity to shelter an additional $15, 500 above the 403 (b) maximum. 457 (b) plan vests when the employee departs the organization but the amount may be rolled over and continues tax deferred
        - 457 (f) Employee may shelter an additional amount (up to total compensation) tax deferred
            - 457(f) plan, to qualify as tax deferred, must have a "risk of forfeiture." This is used by the employer as an incentive for the executive to remain during a specified period, usually the length of the contract
            - 457 (f) plan vests immediately following the defined period and appropriate taxes are due and withheld.