

Trends in Executive Compensation and Wage and Salary Administration

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Real People Realizing Potential – CP of NYS 2008 Annual Conference
October 20, 2008

Findings and Trends

- Executive Compensation
 - Executive Pay Environment
 - About the Market
- Wage and Salary
 - About the Market
 - Strategies and Concerns



Aligning Strategies and Rewards

- Compensation Design Dynamics



Elements of Pay

- Base Salary
- Short-term Incentives
- Long-term Incentives
- Deferred Compensation/Capital Accumulation (457(b), 457(f), split dollar, trusts, Professional Roth)
- Perquisites (contract, severance, auto)
- Non-monetary



Deferred Compensation

Important, costly, complex, disadvantageous

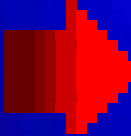
- 457(b): \$15,500, non-qualified deferred, execs
- 457(f): No limit, substantial risk of forfeiture and 409A
- 457(e): Not a deferred plan, bona fide severance pay plan
- Life insurance options: Professional Roth, grandfathered/ new Split Dollar

Professional Roth Strategy

- Because of unique limitations on non-profits, offers an attractive alternative or supplement to 457(b), 457(f) , split dollar
- Participants select the amount and timing of their contributions.
- Taxes on investment gains are deferred until withdrawal.
- The Plan has no annual limits on contributions, vesting requirements, age requirements or penalties on distributions. The Plan is protected from employer creditors and is portable for the employee.
- Contributions are held in individual employee accounts. Employees can chose from among more than 60 investment alternatives.
- Distributions from the Plan, if properly structured, can be received as non-taxable income.

Contact Lawrence Associates for further information

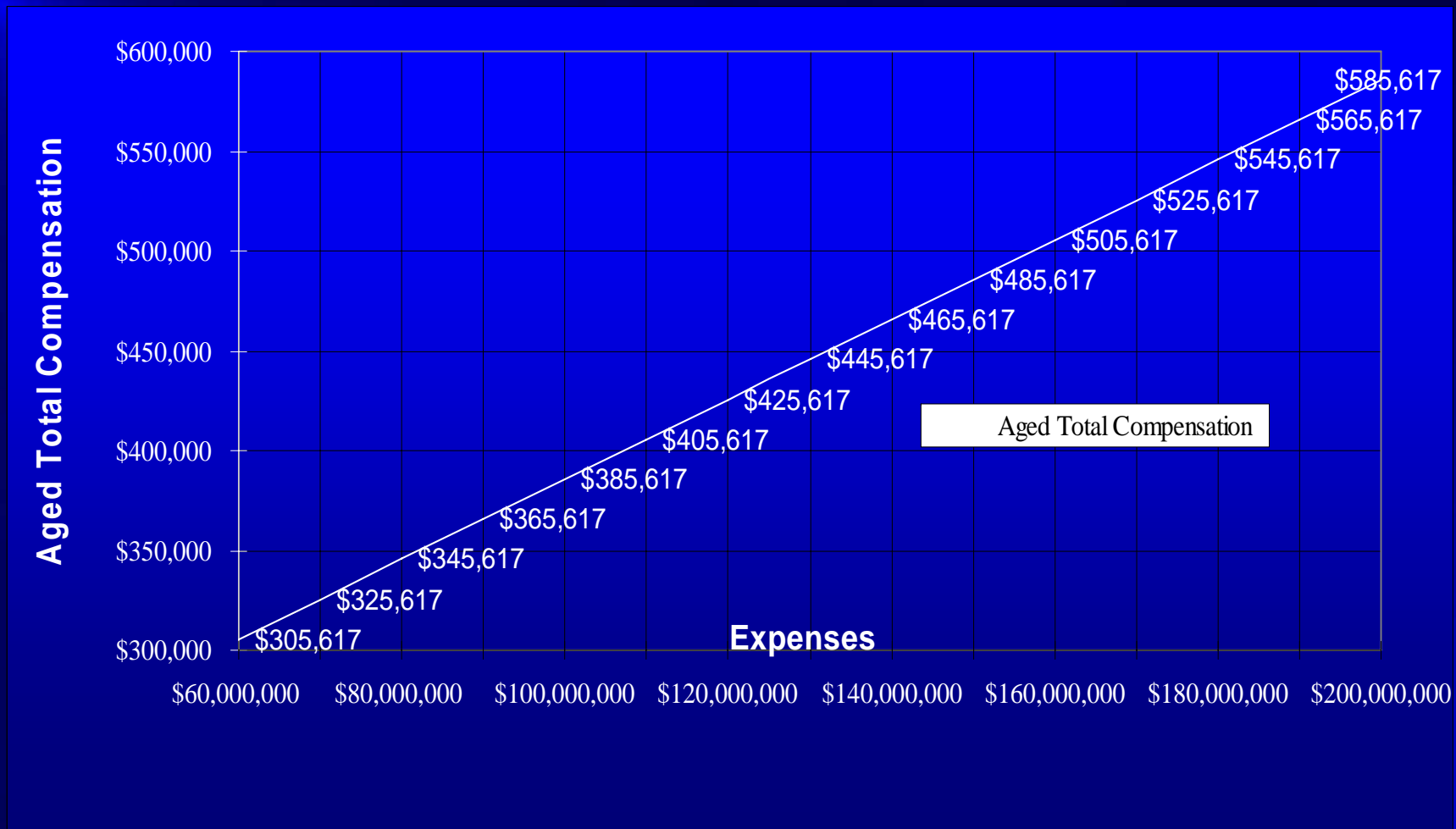
Executive Market Factors

- Factors Affecting Base Salary
 - Geographic Region
 - Competitors
 -  Organization Size
 - Performance
 - Scope of Work
 - Organizational Dynamics

Regression Analysis of Hospital CEO Pay



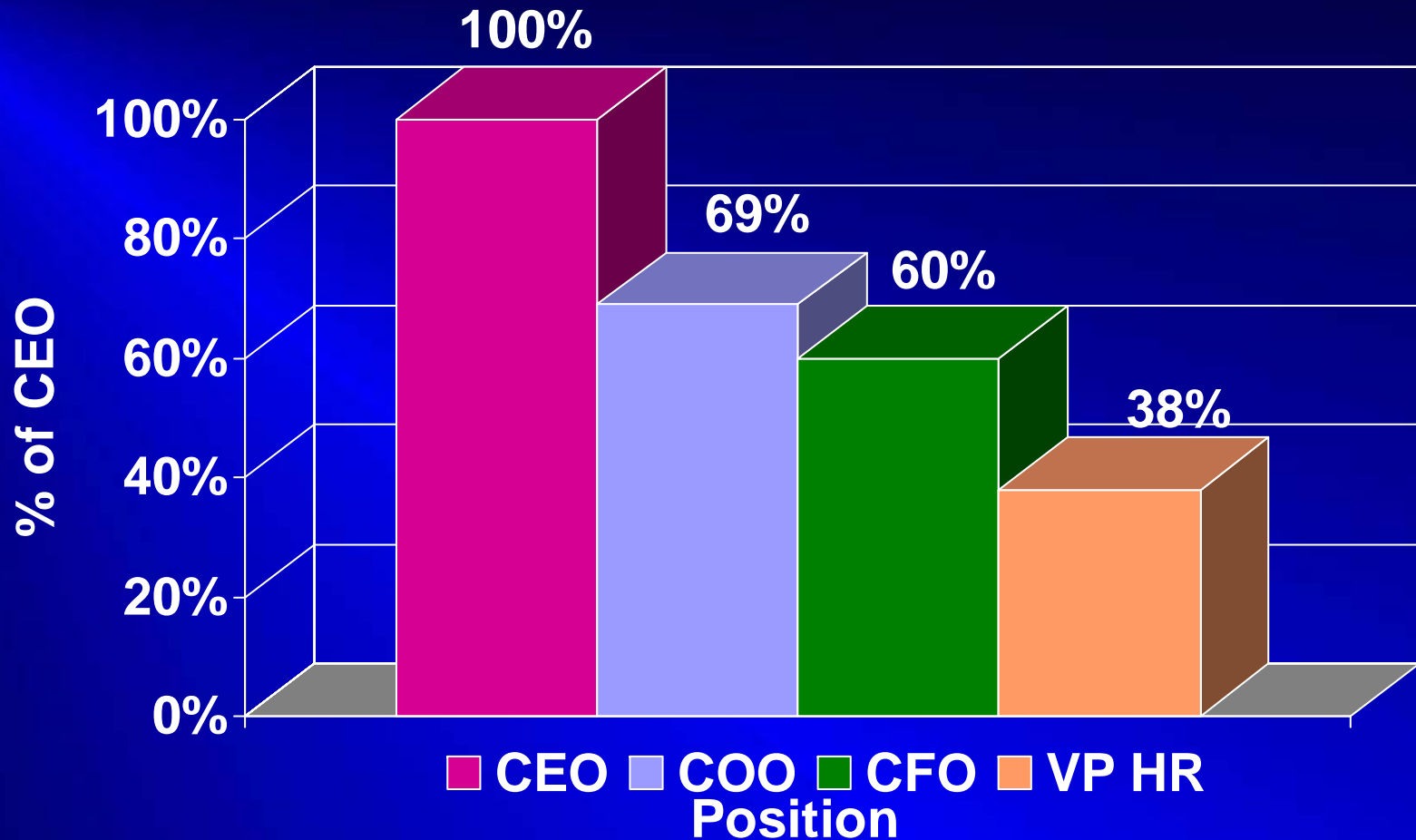
Regression Analysis of IRS Form 990 CEO Total Compensation for Selected CP and Similar Organizations



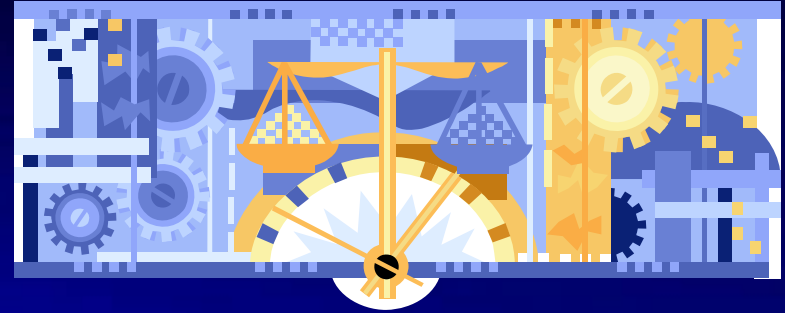
Selected Forms 990

- American Cancer Society inc (National Home Office)
- American Lung Association of New York State, Inc.
- Center for Disability Services, Inc.
- Cerebral Palsy of Massachusetts, Inc.
- Cerebral Palsy of Westchester Inc
- Community Living Services, Inc.
- Cystic Fibrosis Foundation - Headquarters
- Developmental Disabilities Institute Inc
- Easter Seals, Inc.
- Elwyn
- Federation Employment and Guidance Service Inc
- HeartShare Human Services of New York
- Interagency Council of Mental Retardation & Developmental Disabilities Agencies
- Jawonio Inc
- Lifespire, Inc.
- Lighthouse International
- Macomb-Oakland Regional Center, Inc.
- Muscular Dystrophy Association Inc
- National Multiple Sclerosis Society
- New York State Associations of Community and Residential Agencies, Inc.
- NYSARC, Inc. Montgomery County Chapter
- NYSARC, Inc. New York City Chapter
- People Inc.
- SCO Family of Services (Formerly St. Christopher-Ottillie)
- The Jewish Guild for the Blind
- The Susan G. Komen Breast Cancer Foundation Inc
- United Cerebral Palsy and Handicapped Persons Assoc of the Utica Area Inc
- United Cerebral Palsy Association of Greater Suffolk Inc
- United Cerebral Palsy Association of Nassau County Inc
- United Cerebral Palsy Associations of New York State Inc.
- United Cerebral Palsy Associations, Inc.
- United Cerebral Palsy of NYC, Inc.
- United Cerebral Palsy of Queens
- United Jewish Appeal - Federation of Jewish Philanthropies of New York Inc
- Young Adult Institute, Inc.

Base Salaries as % of CEO - Equity



Accountability



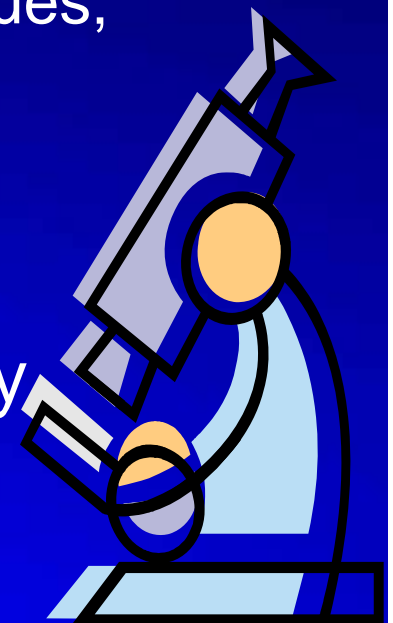
- IRC Section 409A
- Public Availability of Form 990 and **NEW** Disclosures
- Intermediate Sanctions
 - Excess benefit transactions to Disqualified Persons
 - Rebuttable presumption of reasonableness
 - Reasonable compensation

IRC Section 409A

- Rules on “Deferred” Compensation
 - If not in compliance, all amounts will be *currently* included in income
- Broad coverage
 - Nonqualified plans in general
 - Bonuses, severance
- Final date for compliance to 12/31/08

IRS Form 990 Focus on Governance**2008**Open to Public
Inspection

- Puts compensation “front and center” in Tax Year 2008
- New Schedule J focuses on:
 - W-2 income, not FY
 - Enumerated perks (e.g. first class air; club dues; housing)
 - Severance
 - Deferred compensation
 - Equity and other elements
- Policy questions – policies not mandatory but will their absence be notable on the Form 990?



- Approaches to establishing CEO compensation (check all that apply)
 - Compensation Committee
 - Independent Compensation Consultant
 - Form 990 of Other Organizations
 - Written Employment Contract
 - Compensation Survey or Study
 - Approval by the Board or Compensation Committee

IRS Form 990 Focus on Governance**2008****Open to Public
Inspection**

- Written policy regarding payment or reimbursement or provision of specified expenses. Does the organization have a written conflict of interest policy?
- Officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts and regularly and consistently monitor and enforce compliance?
- Copy of Form 990 provided governing body before it is filed?
- Process includes “review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision” ?
- Compensation payments or accruals contingent upon the revenues or net earnings? Any other form of non-fixed payment?
- Board member and family member direct or indirect business relationship?

IRS Intermediate Sanctions

Why Do We Care?

- Penalty (“Excise”) taxes on the “excess”
- *Personal* liability
- 25% tax on the *recipient*
 - 200% if not corrected by deadline
- 10% tax on the manager(s) who “knowingly” approved the transaction, up to \$20,000 aggregate
- Bad publicity



Intermediate Sanctions

- Why “Intermediate”?
 - Gives IRS a remedy between doing nothing and revoking Exempt status
- Rule: *Cannot provide “Excess Benefit” to “Disqualified Person”*
- HR and Compensation professionals can assist the Board and senior management in complying

Rebuttable Presumption of Reasonableness (Safe Harbor)

Payments are considered reasonable IF

1. Advance approval by an authorized, disinterested group of the organization.
2. Appropriate comparability data is used.
3. The decision is documented by the later of 60 days or before the next meeting of the group.

Note – new Form 990 asks if this process is used



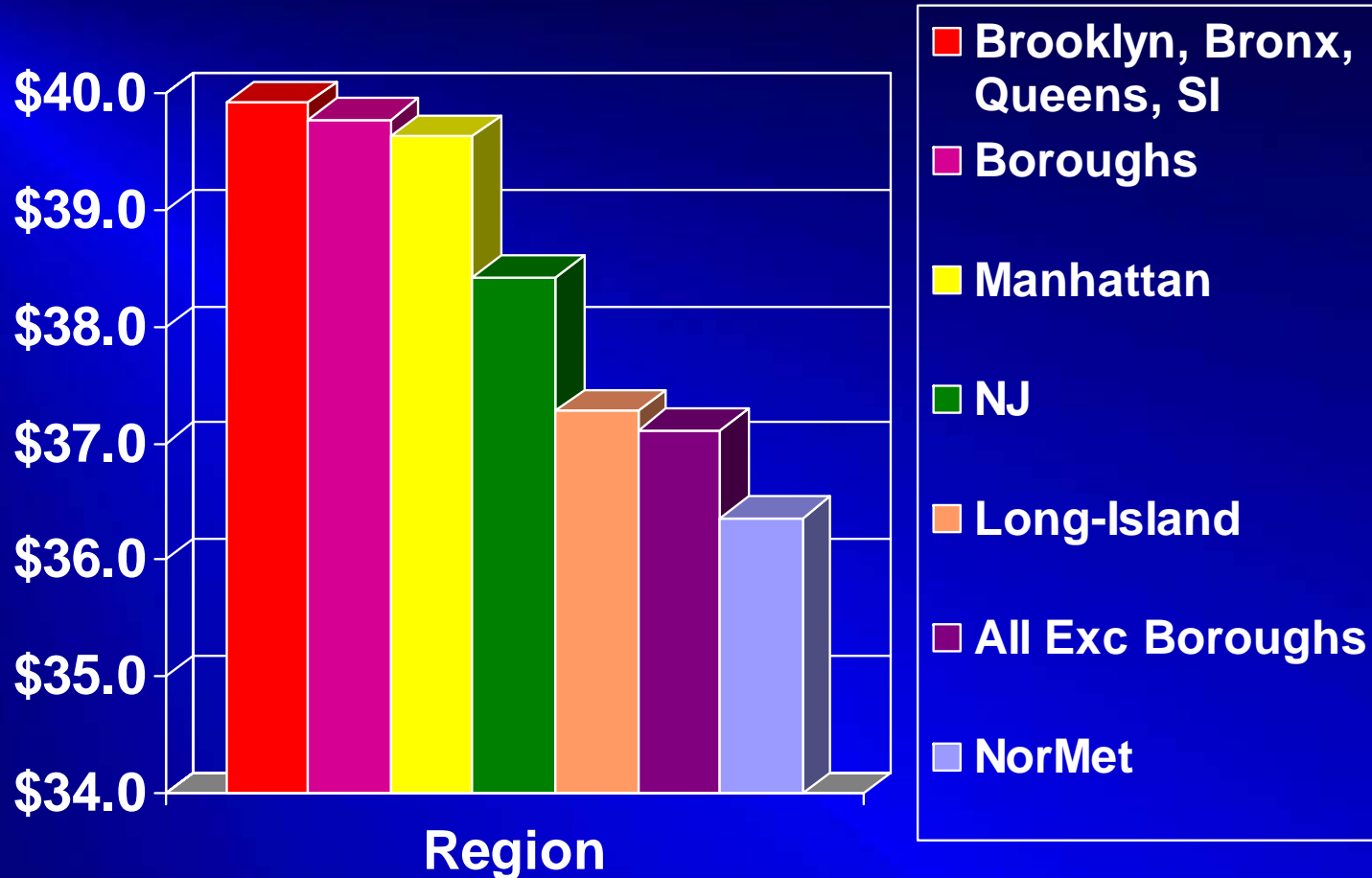
Wage and Salary Market Factors

- Factors Affecting Base Salary

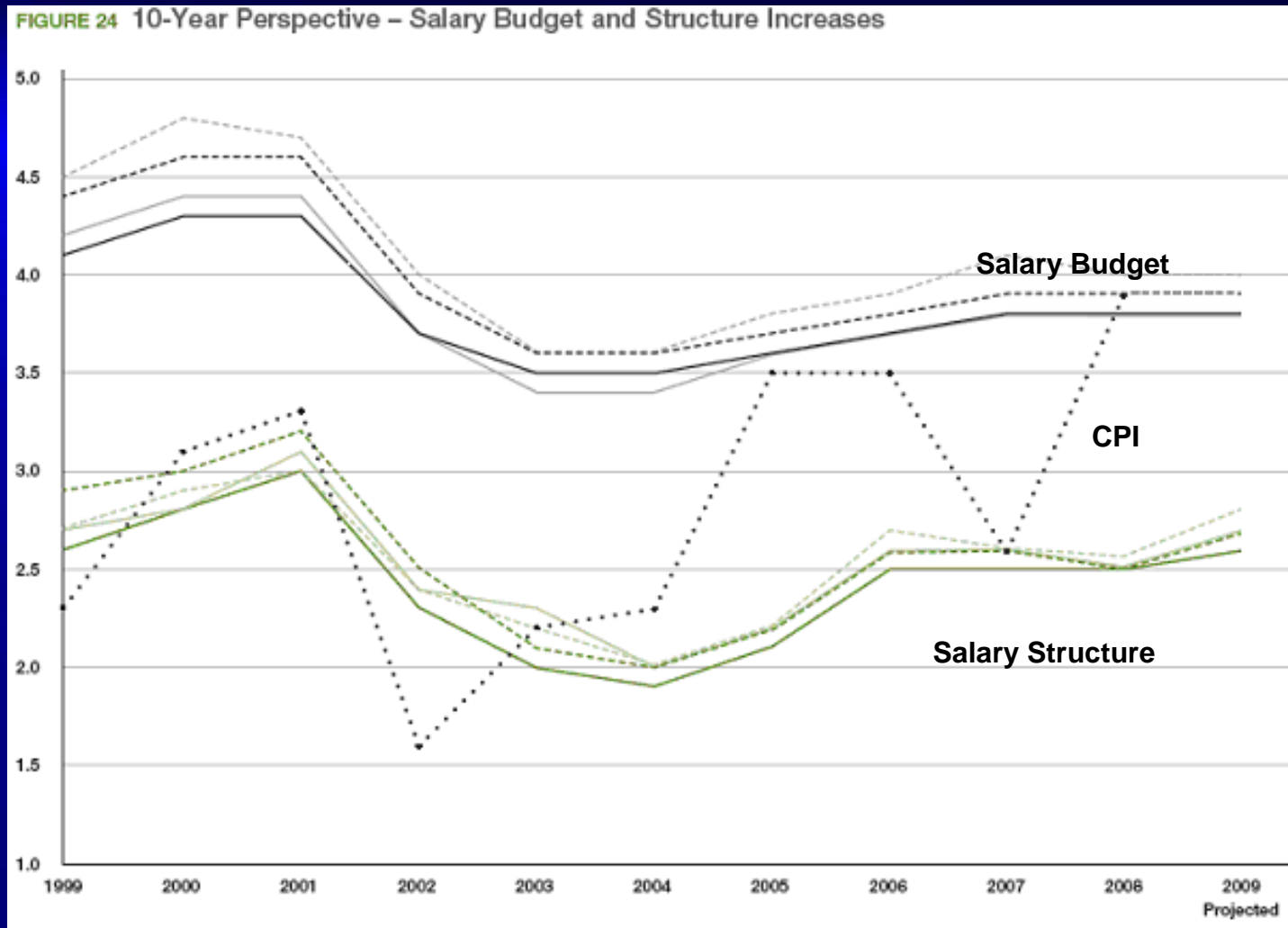
- Scope of Work
- Recruitment, Turnover/Retention
- Geographic Region
- Competitors
- Compensation Structure (Internal and External Equity)
- Performance, Years of Experience, Seniority
- Work/Life (It's not just about the compensation)



Geographic Comparison of RN Market Data



Salary Budget, Structure and CPI from 1999 - 2009



WorldatWork Supporting Data

	Salary Structure											
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 projected	
Nonexempt Hourly Nonunion	2.6%	2.8%	3.0%	2.3%	2.0%	1.9%	2.1%	2.5%	2.5%	2.5%	2.6%	
Nonexempt Salaried	2.7%	2.8%	3.1%	2.4%	2.3%	2.0%	2.2%	2.6%	2.6%	2.5%	2.7%	
Exempt Salaried	2.9%	3.0%	3.2%	2.5%	2.1%	2.0%	2.2%	2.6%	2.6%	2.5%	2.7%	
Officers/Executives	2.7%	2.9%	3.0%	2.4%	2.2%	2.0%	2.2%	2.7%	2.6%	2.6%	2.8%	

	Salary Budget											
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 projected	
Nonexempt Hourly Nonunion	4.1%	4.3%	4.3%	3.7%	3.5%	3.5%	3.6%	3.7%	3.8%	3.8%	3.8%	
Nonexempt Salaried	4.2%	4.4%	4.4%	3.7%	3.4%	3.4%	3.6%	3.7%	3.8%	3.8%	3.8%	
Exempt Salaried	4.4%	4.6%	4.6%	3.9%	3.6%	3.6%	3.7%	3.8%	3.9%	3.9%	3.9%	
Officers/Executives	4.5%	4.8%	4.7%	4.0%	3.6%	3.6%	3.8%	3.9%	4.1%	4.0%	4.0%	

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 projected
Consumer Price Index (CPI)	2.3%	3.1%	3.3%	1.6%	2.2%	2.3%	3.5%	3.5%	2.6%	3.9%	—

- From the *WorldatWork Budget Survey*, “Figure 24: 10-Year Perspective – Salary Budget and Structure Increases,” on the next page, illustrates the relationships among movement in Salary Structure, Salary Budget and the CPI on a national level. As illustrated, salary budgets have historically moved at a greater pace than structures or the CPI, although the 3.9% CPI increase for 2008 is in the same range as the budget movements of 3.8% - 4.0%.

CEO Case Study

- The CP has net revenues of \$150M, an operating margin of -5%, and all union contracts are under negotiation.
- The new CEO came from North Dakota to NYC, for a base salary of \$120,000 with an annual incentive, few perquisites and a promised retirement plan. He also has a 15% long-term incentive that will be determined each year and paid out three years later.
- The performance objectives have not been determined, but things seem to be changing at a fierce pace.
- Due to an error in timing the most recently filed Form 990 includes two incentive payments and a one-time retirement payout to the prior CEO for reported cash of \$600,000.
- The newly-established Compensation Committee wants HR to assure they are meeting regulatory requirements, and are within the Intermediate Sanctions safe harbor.

Response to Case Study

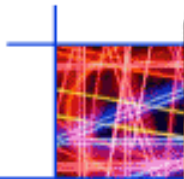
- Salary differential North Dakota to NYC of 74.9%
- Market competitiveness and rebuttable presumption (safe harbor)
- New hire provisions of Intermediate Sanctions?
- Discretionary incentives?
- Link performance objectives and structured incentives
- IRS 409A?
- Prepare Board Chair to speak with media about Form 990 in response to union and other inquiries
- Address compensation gaps (See regression for \$485,617 total)





Frequently Asked Question aka Do trustees have to do this? Being a CEO is a hard way to earn a living!

1. We're a nonprofit and we don't act unreasonably, so why all the fuss?
2. Our CEO walks on water, so shouldn't he/she be paid whatever it takes?
3. We recruit nationally, so our marketplace is national, right?
4. Do you really think the media or union will look at the compensation?
5. We're not sure how to draw a conclusion about performance using the Balanced Scorecard, but the CEO did a great job last year. What should the incentive payment be?
6. What is a reasonable merit increase to base salary? If the staff get 2.5%, should the CEO get that? If financial performance is a concern, should the executive team get no market/merit base salary adjustment and no incentive?



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Compensation Consultants

Compensation Consulting for a Competitive EdgeSM

Comprehensive compensation consulting solutions for boards, executives and managers of nonprofit organizations, spanning the continuum of healthcare, foundations, colleges and universities and many other nonprofit sectors.

- **Executive Compensation – competitive analysis; compensation strategy; incentive plan design; capital accumulation; perquisites; benefits, trustee education and response to media and public disclosure.**
- **IRS Intermediate Sanctions and Reasonable Compensation Review – analysis and certification under the IRS safe harbor rules.**
- **Wage and Salary Program Design and Incentive/Bonus Pay – variable pay/incentives; team, project, competency, skill-based pay; wage and salary program design; broadbanding; performance evaluation and other reward programs for management, staff and physicians.**
- **Custom Competitive Analysis & Surveys – competitive analysis, custom-designed competitive market surveys and analyses of all sizes.**

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