

# Foundation Expenses and Compensation

Interim Report  
2005



The Urban Institute



THE FOUNDATION CENTER



GuideStar.org

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## About the Project Datasets

This report is based on summary data from two datasets. The first is a foundation-level dataset that includes the 10,000 largest independent, corporate, and community foundations (ranked by giving) as reported for 2001 on Forms 990-PF and 990, which are filed annually with the Internal Revenue Service, and supplemented by research conducted by the Foundation Center. The second dataset consists of the 51,533 individual officers, directors, trustees, key employees, and institutional trustees reported on Forms 990-PF and 990 for the same 10,000 foundations.

GuideStar keypunches items from the IRS Forms 990-PF and 990, including compensation and expenses, for its web-based data repository on nonprofits. The Foundation Center builds searchable databases of financial, grant, and program information on foundations using surveys, foundation reports, and Forms 990-PF and 990. The Urban Institute's Center on Nonprofits and Philanthropy develops research databases from IRS data and other sources, uses them for research on nonprofit organizations and philanthropy, and makes them available to researchers on its website. The project databases include improvements from the ongoing work of all three partners.

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## Introduction

This interim report provides a summary of the findings to date from the Foundation Expenses and Compensation Study, a partnership of the Urban Institute, the Foundation Center, and GuideStar. The study considers the expense and compensation patterns of the 10,000 largest independent, corporate, and community foundations (ranked by giving) in 2001.

This interim report focuses on: (1) charitable expenses as a percentage of qualifying distributions (those that count toward the required payout) for independent foundations and (2) compensation levels across all foundation types, including aggregate compensation as a percentage of giving and levels of individual trustee, institutional trustee, and executive compensation. A key purpose of the research is to identify foundation characteristics and operating styles that affect

levels of expenses and compensation, including foundation type, size, staffing, scope of giving, and direct charitable activities.<sup>1</sup>

Data are primarily drawn from Forms 990-PF and 990, which are filed annually with the Internal Revenue Service. These data are supplemented by annual surveys conducted by the Foundation Center.

The largest 10,000 U.S. grantmaking foundations represent 16 percent of the total 61,810 independent, corporate, and community foundations identified by the Foundation Center in 2001. These foundations account for 78 percent of all foundation giving and 77 percent of all foundation assets. As indicated in figure 1, a large majority of the largest foundations are independent, a category that includes family foundations.<sup>2</sup>

**Figure 1.** Aggregate Finances of the 10,000 Largest Foundations (2001)  
by Foundation Type

	Independent	Corporate	Community	Totals
Number	8,876	807	317	10,000
Assets (MV)	\$333.7 B	\$ 13.2 B	\$ 25.2 B	\$372.1 B
Total Giving <sup>3</sup>	\$ 19.2 B	\$ 2.9 B	\$ 1.9 B	\$ 24.0 B
Charitable Operating and Administrative Expenses <sup>4</sup>	\$ 1.5 B	\$201 M	\$169 M	\$ 1.9 B
Qualifying Distributions <sup>5</sup>	\$ 21.2 B	\$ 3.1 B	\$ 2.1 B	\$ 26.4 B

# Charitable Operating and Administrative Expenses

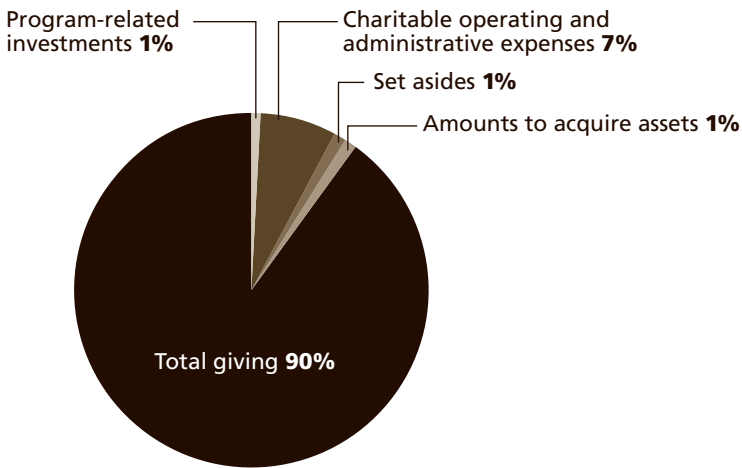
Charitable operating and administrative expenses are costs incurred by foundations related to their charitable mission, including expenses for grants administration and non-grant charitable activities. The principal categories of charitable operating and administrative expenses are compensation and benefits; professional, legal, and accounting fees; occupancy costs; printing and publication costs; travel; and taxes.<sup>6</sup>

- Among independent foundations in the study, 27.2 percent reported no charitable operating and administrative expenses.

- The median amount of charitable operating and administrative expenses for independent foundations that reported these expenses was \$16,935; the 75th percentile for independent foundations reporting these expenses was \$74,141.

As illustrated in figure 2, charitable operating and administrative expenses are one component of qualifying distributions. Qualifying distributions are all disbursements that count toward the payout requirement. In addition to charitable operating and administrative expenses, they include grants, charitable loans and other program-related investments, set asides, and amounts paid to acquire assets used for charitable purposes.

**Figure 2.** Qualifying Distributions of Independent Foundations (N = 8,876)



Total amount = \$21.2 billion

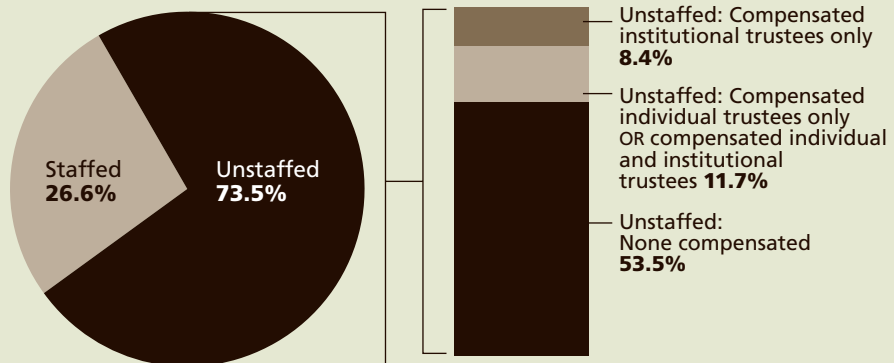
The sum of charitable operating and administrative expenses represents 7 percent of qualifying distributions for the 8,876 largest independent foundations. This section of the report focuses on how charitable operating and administrative expenses as a

percentage of qualifying distributions vary by foundation operating characteristics and activities, such as staffing, scope of giving (local, national, or national-international), and engagement in direct charitable activities.

### Staffing Configurations of Independent Foundations

Foundations administer grants and programs through the efforts of a mix of people, including paid staff; consultants; representatives from banks, law firms, and investment firms; compensated and uncompensated trustees; and other volunteers. Only about one-quarter (2,350) of the independent foundations in the study reported having paid staff in 2001. This leaves nearly three-quarters that operated through the efforts of trustees and volunteers.

The majority of unstaffed independent foundations (4,745) operate without paying compensation to anyone. Of the 8,876 independent foundations in the study, 743 (8.4 percent) compensated banks and other institutional trustees only. Another 1,039 (11.7 percent) compensated individual trustees only or a combination of individual and institutional trustees rather than paying staff to operate the foundation.



N = 8,876

### Influence of Paid Staff

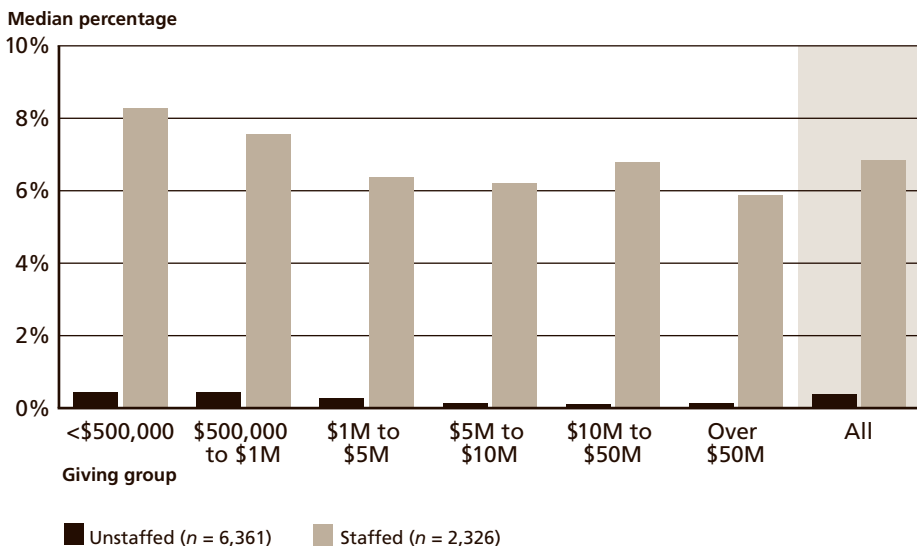
As illustrated in the inset, roughly one-quarter of independent foundations have paid staff. The next two figures show the impact of paid staff on the relationship between charitable operating and administrative expenses and qualifying distributions. To consider the influence of size of foundation on expenses, we divide foundations in the study into six “giving groups.” Giving groups are defined by the total amount of money given out in grants in 2001, ranging from under \$500,000 to over \$50 million.

- Staffed foundations spent substantially higher percentages of qualifying distributions on charitable operating and administrative expenses. This finding holds in all giving groups.

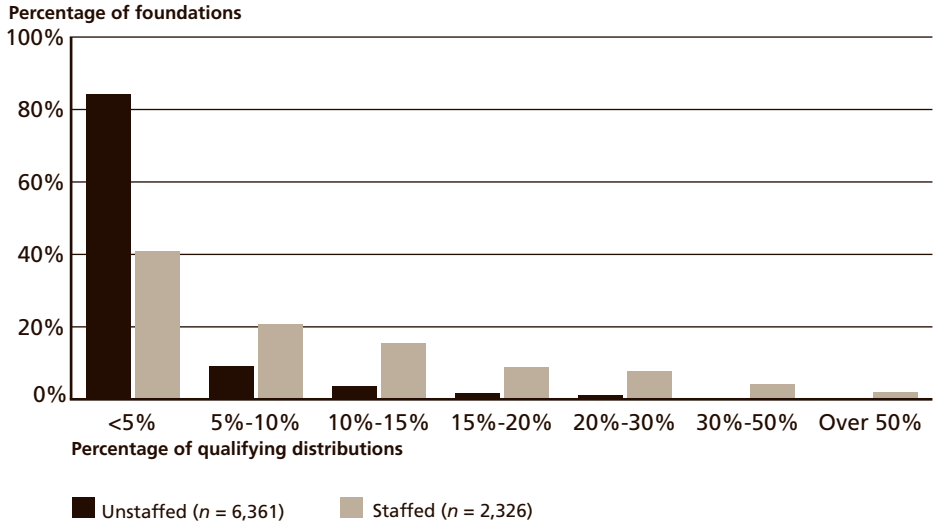
- For staffed foundations, however, the median percentage declined by giving size from 8.3 percent for the smallest givers to 5.9 percent for those giving \$50 million or more, suggesting an economy of scale.
- For unstaffed foundations the pattern is similar, although expenses are tiny for all giving groups.

Whereas the medians reported in figure 3 show typical charitable operating and administrative expense percentages, figure 4 shows the distribution of these foundations (regardless of giving size) across ranges of charitable operating and administrative expenses as a percentage of qualifying distributions.

**Figure 3.** Charitable Operating and Administrative Expenses as a Percentage of Qualifying Distributions for Staffed and Unstaffed Independent Foundations (*N* = 8,687)<sup>7</sup>



**Figure 4.** Range of Charitable Operating and Administrative Expenses as a Percentage of Qualifying Distributions: Staffed vs. Unstaffed Independent Foundations (N = 8,687)



- For both staffed and unstaffed independent foundations, the largest single range category was 0 to 5 percent; 84.2 percent of unstaffed foundations and 40.9 percent of staffed foundations fell into this range.
- At the other end of the distributions, 96 (1.5 percent) unstaffed foundations and 325 (14.0 percent) staffed foundations had charitable operating and administrative expenses of 20 percent or more of qualifying distributions.

Since paid staff represent a substantial charitable operating and administrative expense, the next two figures focus only on staffed independent foundations. The intent is to focus in on the expense patterns of foundations with similar operating styles.

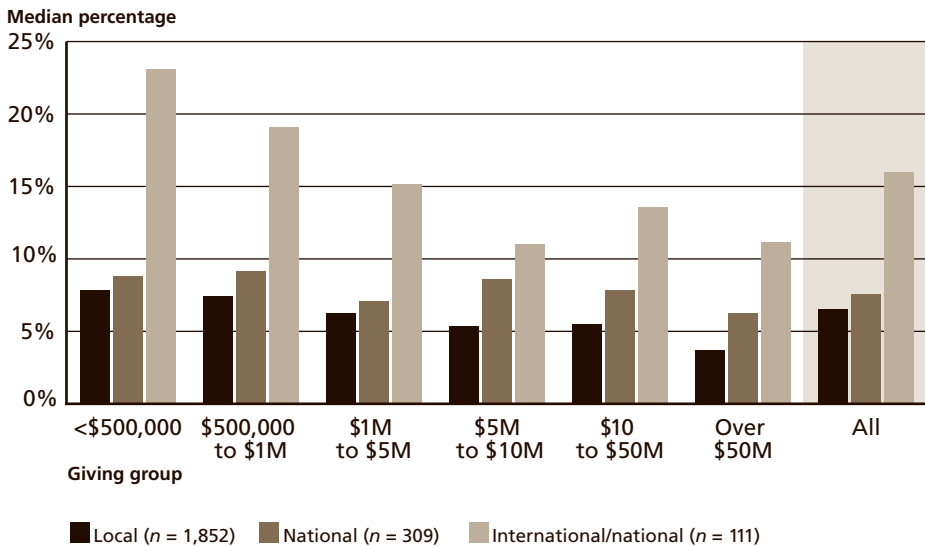
## Influence of Geographic Scope of Giving

The influence of scope of giving on expense ratios is the subject of figure 5. The Foundation Center ascertains the geographic scope of the largest 25,000 foundations from survey responses and foundation grants lists. Most staffed independent foundations give locally: 1,852 (81.5 percent) primarily gave only locally or within their state, 309 (13.6 percent) gave nationally, and 111 (4.9 percent) gave on a national and international basis.

- Foundations that gave internationally incurred higher costs than those that limited their giving to the local or national level.

- The higher cost of international giving is consistent across giving groups. Nevertheless, median expense ratios for international funders decline with giving levels from 23.1 percent for the smallest giving group to 11.2 percent for the largest giving group.
- This economy of scale holds for local givers as well; however, the trend does not hold for national level givers.
- The difference between the cost ratios for international versus local and national organizations was greatest for foundations giving less than \$500,000 in annual grants.

**Figure 5.** Charitable Operating and Administrative Expenses as a Percentage of Qualifying Distributions by Geographic Scope of Giving (Staffed Independent Foundations,  $N = 2,272$ )

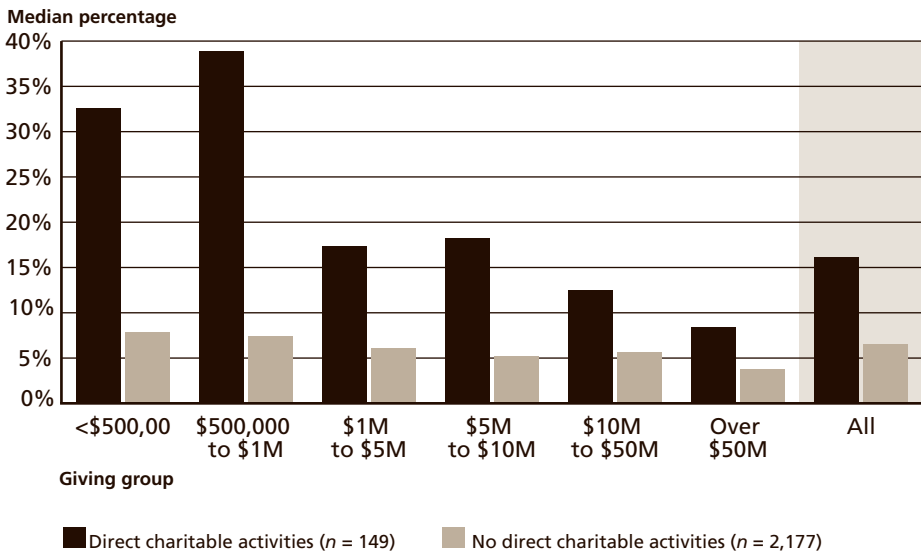


## Influence of Direct Charitable Activities

Figure 6 illustrates how the share of charitable operating and administrative expenses differs between staffed independent foundations with and without direct charitable activities. Direct charitable activities include charitable services, research, fellowships, awards, and conferences organized by the foundation.<sup>8</sup> Only about 214 foundations of the top 10,000 reported these kinds of foundation-administered programs in the Foundation Center survey or on Form 990-PF, including 149 staffed independent foundations.<sup>9</sup>

- Staffed independent foundations that engage in direct charitable activities had higher median expense-to-qualifying distribution ratios than those that did not engage in direct charitable activities.
- Charitable expense ratios declined sharply with amount of giving from a median of more than 30 percent for those that gave less than \$1 million to less than 10 percent for those that gave in excess of \$50 million.
- Operating programs generally require larger staffs than grantmaking programs; as noted above, staffing itself represents a higher cost for small foundations.

**Figure 6.** Charitable Operating and Administrative Expenses as a Percentage of Qualifying Distributions: Direct Charitable Activities (Staffed Independent Foundations, *N* = 2,326)



# Compensation

This interim report considers two measures of compensation levels: aggregate compensation that is included in qualifying distributions, and individual level trustee and executive compensation.

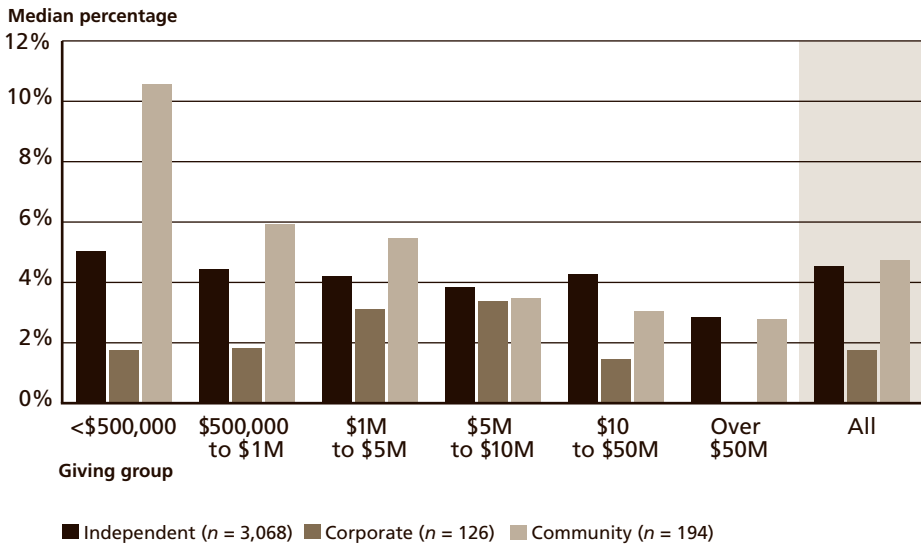
## Aggregate Compensation

Aggregate compensation includes staff salaries and benefits and all forms of trustee remuneration and reimbursement that are included in qualifying distributions.<sup>10</sup> To derive a value of compensation that has meaning across foundations of various sizes, we divide aggregate compensation by total giving and express the ratio as a percentage.

Figures 7 and 8 illustrate how the percentage of aggregate compensation to giving varies by foundation type.

- Two-thirds (66.1 percent) of the 10,000 largest foundations did not report any aggregate compensation; among the nearly 3,400 that did, compensation patterns varied by foundation type.<sup>11</sup>
- The median percentage of compensation to giving was higher for community and independent foundations (roughly 5 percent) and lower for corporate foundations (nearly 2 percent).

**Figure 7.** Percentage of Compensation to Total Giving for Foundations that Compensate



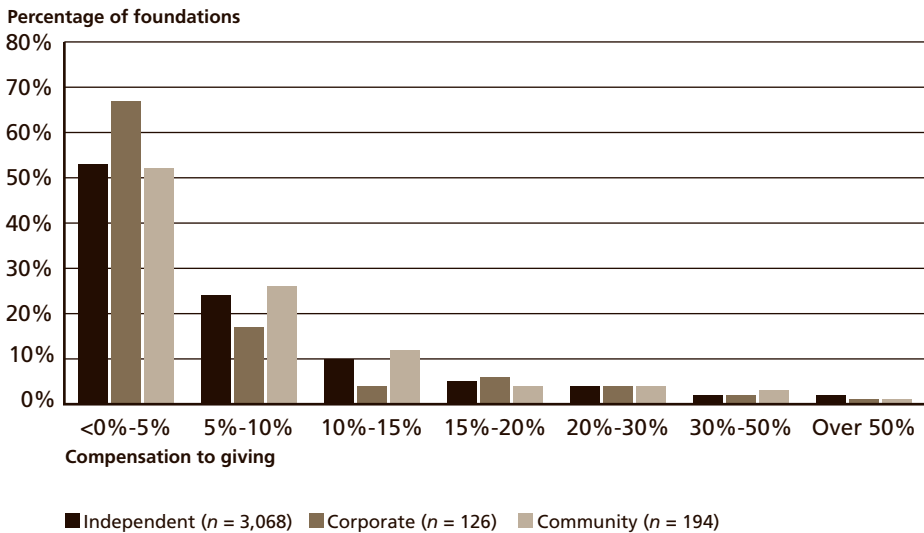
- Among community foundations, compensation percentages declined by giving group, suggesting economies of scale related to these expenses.
- The median percentage of compensation to giving for independent foundations that gave \$50 million or over was 3 percent, compared with roughly 5 percent for the smallest givers.

Figure 8 illustrates the distribution of independent, corporate, and community foundations across ranges

of the percentage of compensation to giving.

- Of the nearly 3,400 foundations that reported compensation, roughly four in five reported compensation at less than 10 percent of giving. Most fell below 5 percent.
- Nevertheless, a small number of foundations reported compensation to giving greater than 30 percent. A handful, mainly independent foundations, reported compensation to giving over 50 percent.<sup>12</sup>

**Figure 8.** Range of Compensation to Giving for Foundations that Report Compensation



## Trustee and Executive Compensation

The remaining examination of compensation focuses on compensation paid to individual trustees, institutional trustees, and foundation executives. Data for this analysis come from Part VIII of Form 990-PF and Part V of Form 990, where foundations report the titles, hours, and compensation of officers, directors, trustees, and key employees.<sup>13</sup> Compensation includes any combination of remuneration, fringe benefits (current or deferred), and expense accounts.<sup>14, 15</sup>

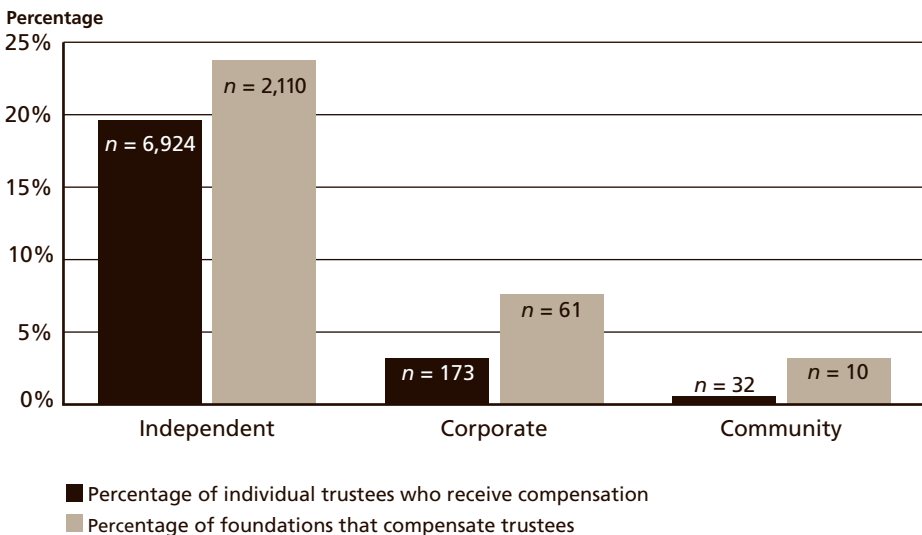
### Individual Trustee Compensation

Individual trustees are members of a foundation's governing board who spend a limited amount of time primarily providing governance for the foundation. Since Forms 990-PF and 990 do not ask foundations to separate

trustees from key staff, users must make inferences about the primary role of such officers listed on the form. We considered the titles, hours worked, salaries, benefits package, and relative position in the foundation to tag each as either a staff member or a trustee. Trustees provide governance and do not function as regular staff. The 10,000 foundations in the study reported a total of 46,526 trustees, not including staff members who also serve as trustees.

- Trustee compensation patterns vary by foundation type.
- Nearly one-fourth (23.8 percent) of independent foundations compensated trustees, while only 7.6 percent of corporate foundations and 3.2 percent of community foundations did so.<sup>16</sup>

**Figure 9.** Individual Trustee Compensation Patterns

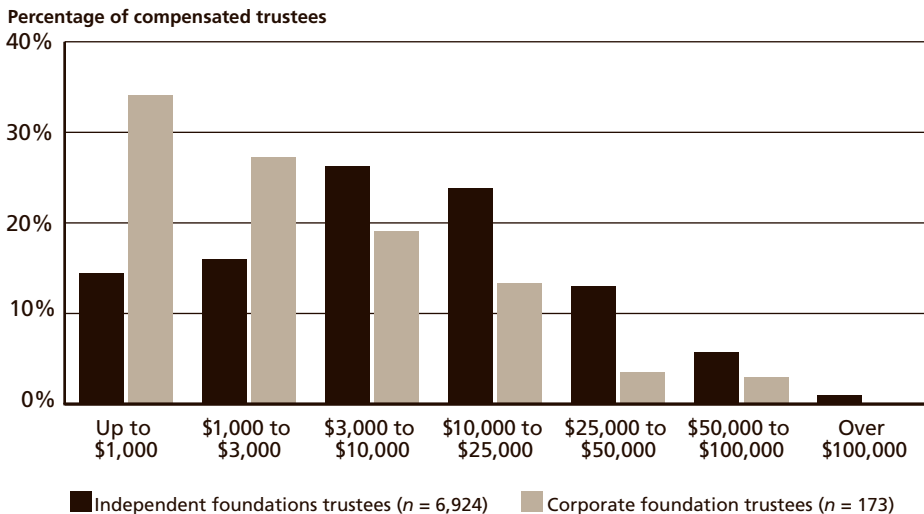


- Of the 2,181 foundations that compensated trustees, 2,110 were independent foundations.
- Nearly 20 percent of independent foundation trustees received compensation, while only 3.2 percent of corporate foundation trustees and less than 1 percent of community foundation trustees were compensated. Of the 7,140 compensated individual trustees, 97 percent represented independent foundations.
- The 7,140 compensated individual trustees received \$111.6 million in compensation in 2001.
- Among the 7,140 compensated individual trustees serving the 10,000 largest foundations in 2001, the median compensation was \$7,750; the 75th percentile was \$20,036.
- The average (mean) compensation in 2001 was \$15,637; when uncompensated trustees are included, the mean drops to \$2,417.
- Eighty percent of the 173 compensated corporate foundation trustees received less than \$10,000 in remuneration, benefits, and expense allowances. One-third received less than \$1,000, suggesting that they were mainly reimbursed for expenses.

Figure 10 illustrates the distribution of individual trustees serving in independent and corporate foundations across various ranges of compensation. The 32 compensated community foundation trustees are too few to include in this analysis.

- The largest categories of independent foundation trustees were paid in the ranges of \$3,000 to \$10,000 and \$10,000 to \$25,000; nearly four-fifths of independent foundation trustees received less than \$25,000.

**Figure 10.** Compensation Ranges for Compensated Individual Trustees



- At the high end of the spectrum, 1 percent of independent foundation trustees (69 individuals) received over \$100,000; the highest paid individual trustee in 2001 received \$211,538.

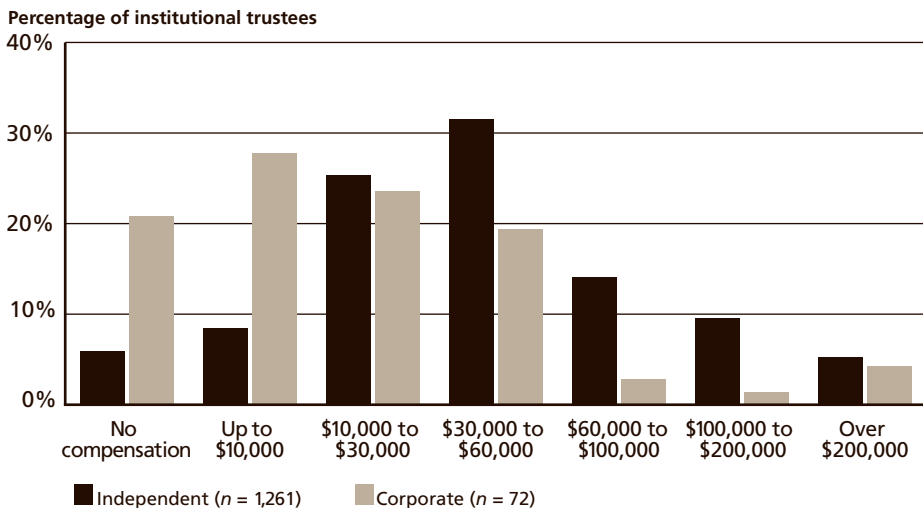
### Institutional Trustee Compensation

Of the 10,000 foundations in the study, 1,213 listed a bank, law firm, investment firm, or other institution among their trustees.<sup>17</sup> Some foundations listed more than one institutional trustee, so the number of institutional trustees numbered 1,340. Institutional trustees typically play important managerial roles in foundations: managing assets, keeping books, providing legal representation, and filing regulatory documents. Among all foundations in the study, 743 provided compensation to an institutional trustee only, suggesting that these institutions were running the foundations (see inset on page 3).

Figure 11 illustrates the distribution of institutional trustees in independent and corporate foundations across various ranges of compensation. The seven compensated institutional trustees listed by community foundations were too few to include in this analysis.

- Of the 1,340 institutional trustees reported, 1,250 (93.3 percent) received compensation; these included 1,186 independent foundation trustees and 57 corporate foundation trustees. These institutional trustees collectively received \$83.2 million.
- Institutional trustees typically received higher compensation than individual trustees; the median compensated institutional trustee received \$39,049.

**Figure 11.** Compensation Ranges for Institutional Trustees



- Institutional trustees received higher compensation from independent foundations than from corporate foundations: the largest category of independent foundation institutional trustees were paid in the \$30,000 to \$60,000 range, compared with less than \$10,000 for corporate foundation trustees.<sup>18</sup>
- Five received in excess of \$1 million in 2001; 191 institutional trustees received over \$100,000 each.

### Foundation Executive Compensation

We define foundation executives as presidents, chief executive officers, and executive directors who regularly spend a substantial amount of time operating the affairs of the foundation. While some executives also serve on

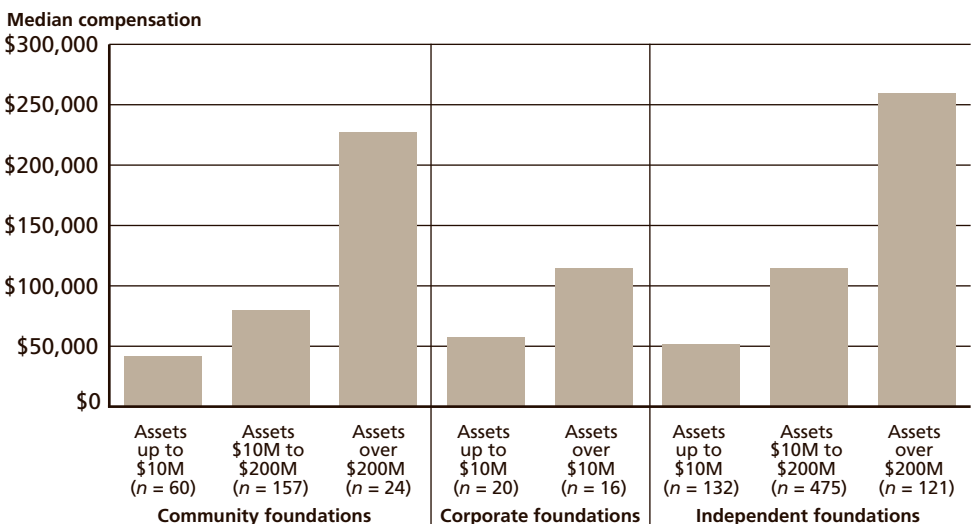
their foundation’s governing board, they are counted here as staff and are not included in analyses of trustees.

Of the 2,923 foundations reporting paid staff, 1,009 foundations listed a paid staff member with the title executive director, president, or chief executive officer.<sup>19, 20</sup> Only paid staff are included in the analysis; uncompensated executives are not included.

Figure 12 shows the median compensation of foundation executives across different asset categories for independent, corporate, and community foundations.

- Asset size exerts a greater influence on executive compensation than foundation type. While the median

**Figure 12.** Median Compensation of Foundation Executives by Foundation Type and Asset Size



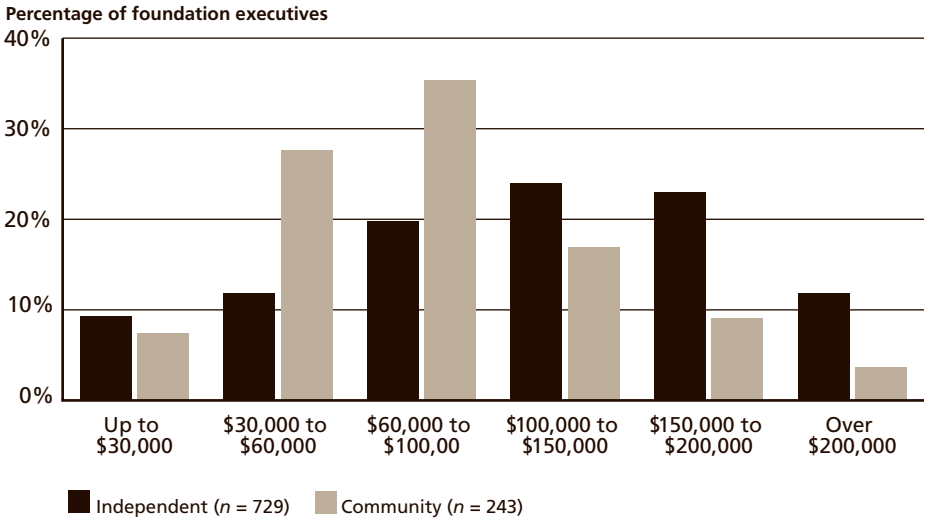
salary of executives overall was \$100,209, the median executive compensation in foundations with over \$200 million in assets was \$200,000. In contrast, the median executive in foundations with less than \$10 million in assets received approximately \$50,000 in compensation in 2001.<sup>21</sup>

- Compensation paid to executive staff in 2001 ranged widely from a low of \$88 paid to an executive director and trustee with a 20-hour workweek to highs of over \$1 million paid to three presidents. The top compensated executive in 2001 received nearly \$2 million, due largely to a \$1.5 million bonus for his participation in the sale of appreciated foundation assets.

Figure 13 illustrates the distribution of compensation for foundation executives in independent and community foundations. The 37 compensated executives listed in corporate foundation 990-PFs are too few to establish a trend across compensation categories.

- Community foundation executive compensation peaked in the \$60,000 to \$100,000 range, with one-third of compensated executives falling into this category.
- Executive compensation in independent foundations was more evenly dispersed across compensation categories ranging from \$60,000 to \$200,000.

**Figure 13.** Compensation Ranges for Foundation Executives



## Conclusions

U.S. grantmaking foundations vary substantially in the ways they accomplish their work, the geographic scope of their grantmaking, and the kinds of programs they undertake. Independent, corporate, and community foundations, by definition, have different auspices, governance, and structural characteristics. This report documents how major differences in operating styles affect the expense levels of independent foundations, which represent a large majority of the largest foundations. These findings suggest that, along with foundation type and size, the missions and goals of foundations that lead to different staffing levels and types of expenses are important characteristics to consider when assessing the charitable expenditures of foundations.

Among the independent foundations documented in this report, employment of paid staff has a substantial impact on charitable operating costs. Size is also an important factor. Staffed foundations with the lowest giving levels, for example, spend proportionally more on charitable operating and administrative expenses. Grantmaking scope also affects charitable operating costs. International/national giving results in higher median operating costs for all sizes of staffed foundations. Finally, staffed foundations that engage in direct charitable activities beyond grantmaking,

such as operating a facility or conducting research, have higher median charitable expenses than those that do not engage in direct charitable activities. Similar to having paid staff, conducting international programs and engaging in direct charitable activities raises expense ratios more for the smaller than for the larger givers, suggesting economies of scale.

The report also considers compensation, the largest component of charitable expenses. Two-thirds of the 10,000 largest foundations do not report any compensation. Among those that do, the median percentage of compensation to giving is higher for independent and community foundations (roughly 5 percent) and lower for corporate foundations (nearly 2 percent). The largest foundations tend to compensate at the highest levels, yet their median percentages of compensation to giving are among the lowest. A handful of foundations report compensation at 50 percent or more of giving. A review of those reporting the highest percentages show that nearly all are staffed and more than half report direct charitable activities or other foundation-administered programs.

Trustee compensation practices also vary by foundation type. Over 80 percent of the more than 46,000 individual trustees serving foundations in the

study receive no compensation. Most of the 7,140 compensated individual trustees are found in independent foundations; in 2001, they collectively received \$111.6 million. Individual trustee compensation ranges from incidental reimbursements of expenses to payments of over \$100,000, with a median of \$7,750 in 2001. Institutional trustees, such as banks and law firms, receive much higher compensation, on average. Separating these two types of trustees and further distinguishing between compensated staff and non-staff trustees are important contributions of this study. Among paid staff, executive compensation varies by foundation size: a median of \$50,000 for the smallest and \$200,000 for the largest foundation chief executives, with a few executives receiving over a million dollars in 2001.

The research lays the foundation for a deeper analysis of the impact of key operating characteristics that distinguish foundations on compensation and charitable expenses. The final report of this phase of the study, to be released later this year, will consider additional characteristics, such as staff size and number and size of grants awarded. It will also examine factors that influence the expense levels of

corporate and community foundations. Once these differences in operating styles have been identified, they will provide a useful framework for examining expense and compensation patterns over multiple years.

While this study has already yielded insights on the impact of differences in foundation operating styles on charitable expenses, conducting this research has made us aware of many shortcomings in the current reporting of foundation information to the Internal Revenue Service. To allow for a more in-depth exploration of expenses and compensation, changes in Forms 990-PF and 990 are required, especially related to reporting of different types of expenses, direct charitable activities, and individual trustee and staff compensation. In addition, foundations need to do a better job complying with existing reporting requirements. While many provide detailed information about their activities and expenses, others do not. Investigators working on this project have already submitted recommendations about Forms 990-PF and 990 to the Panel on the Nonprofit Sector. The final report will include specific recommendations.

## NOTES

- <sup>1</sup> The final report, to be released later this year, will document the impact of such additional factors as staff size and number of grants awarded, as well as examine expense ratios of corporate and community foundations.
- <sup>2</sup> Since this study focuses on grantmaking foundations, operating foundations are not included. While they may do some grantmaking, operating foundations use the bulk of their resources to provide charitable services or to run charitable programs rather than distribute grants.
- <sup>3</sup> Total Giving: Part I, Line 25, Column D, Form 990-PF. For Community Foundations, Part II, Lines 22 & 23, Column B.
- <sup>4</sup> Charitable Operating and Administrative Expenses: Part I, Line 24, Column D, Form 990-PF. For Community Foundations, Part II, Lines 24–43, Column B.
- <sup>5</sup> Qualifying Distributions: Part XII, Line 4, Form 990-PF. For Community Foundations, we use total program expenditures (Part II, Line 44, Column B) as a proxy for qualifying distributions.
- <sup>6</sup> Investment management expenses are not included in charitable operating and administrative expenses.
- <sup>7</sup> Careful readers will note that 8,687 does not represent all 8,876 independent foundations in the study. Throughout the report, numbers vary because individual cases are missing data on a variable of interest. In figure 3, for example, some cases are lost because qualifying distributions are not known.
- <sup>8</sup> Examples of foundations that report substantial direct charitable activities include the Annie E. Casey Foundation, which operates a direct service branch called Casey Family Services; the W. K. Kellogg Foundation, which operates the Kellogg Youth Initiatives Partnership; and the Rockefeller Brothers Fund, which operates the Pocantico Conference Center and provides technical assistance to grantees.
- <sup>9</sup> Another 543 filled in information in Part IX-A mainly about their grant programs, suggesting that this part of the form is poorly understood and used inconsistently.
- <sup>10</sup> For private foundations, aggregate compensation includes Part I, Lines 13–15, Column D; for community foundations, it includes Part II, Lines 25–29, Column B. Aggregate compensation reported in the next two figures specifically excludes investment-related compensation.
- <sup>11</sup> Staff of some independent foundations may be paid out of a trust or other vehicle, while staff of corporate foundations may be paid directly by the sponsoring company.
- <sup>12</sup> Of the 20 independent foundations with the highest ratios of giving to compensation, 19 reported paid staff and 18 reported trustee or executive compensation. In addition, 10 foundations among the top 20 reported direct charitable activities in Part IX-A of Form 990-PF; two other foundations did not report direct charitable activities but showed substantial program-related activity.
- <sup>13</sup> This summary does not consider compensation of other categories of officers (such as vice presidents or chief financial officers) or of non-executive staff.
- <sup>14</sup> While compensation, benefits plans and deferred compensation, and expense accounts and other allowances are reported separately on Form 990-PF and Form 990, our working datafile does not capture these distinctions.
- <sup>15</sup> Trustee and executive compensation may include investment-related compensation.
- <sup>16</sup> These percentages apply only to the 10,000 largest U.S. foundations. Since compensation is more likely in larger foundations, percentages would be much lower if all foundations were considered.
- <sup>17</sup> Our data reveal nothing about the individuals employed by institutional trustees who provide management and investment services to foundations.
- <sup>18</sup> Corporate foundations were also much less likely to pay institutional trustees, suggesting that these institutions might be serving the foundation as part of other compensated activities rendered directly to the corporation.
- <sup>19</sup> When a foundation listed more than one executive staff member (for example, both an executive director and a president who functions as a staff member), we selected the one with the highest compensation. In some foundations, such employees as chief financial officers draw higher salaries than chief executive officers. For comparability purposes, however, only foundation executives were considered.
- <sup>20</sup> Many of these foundation executives are also members of the board of directors. They were included as staff in this analysis if their combination of salary, hours worked, benefits package, and relative position in the foundation suggested that they function as executive staff in addition to their trustee duties.
- <sup>21</sup> Only one corporate foundation (not included in figure 12) with assets of \$200 million or more reported executive compensation, suggesting that compensation of corporate foundation executives may be paid directly by the company.



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