

TRENDS IN EXECUTIVE COMPENSATION AND BENEFITS

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 - Current Environment
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Introduction

- In today's environment, it is not only Boards and CEOs of publicly-traded companies that are receiving intense scrutiny; the tax exempt world is facing increased attention from the IRS, key stakeholders, and the national press as well.
- What you pay is critical, but it is just as important to assess:
 - How you arrived at that decision;
 - What are the forms of payment; and
 - What is the ultimate total value of compensation derived by the executive.
- Although there were no major regulatory changes in 2011, Tax Exempt Organizations should continue to examine and fine-tune their governance and disclosure practices as well as keep abreast of developments and practices that are gaining traction.



Executive Compensation

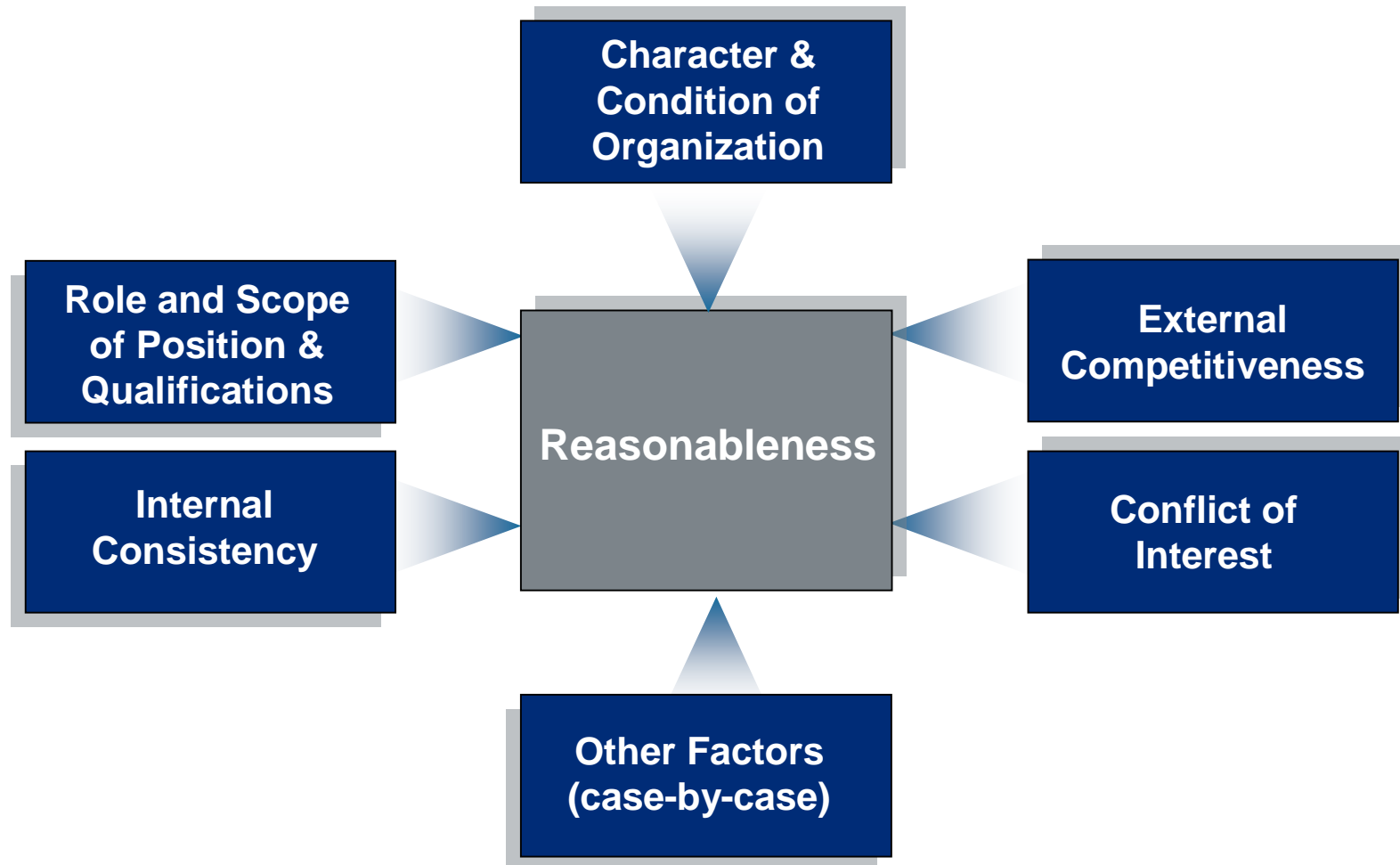
Intermediate Sanctions

Statutory background

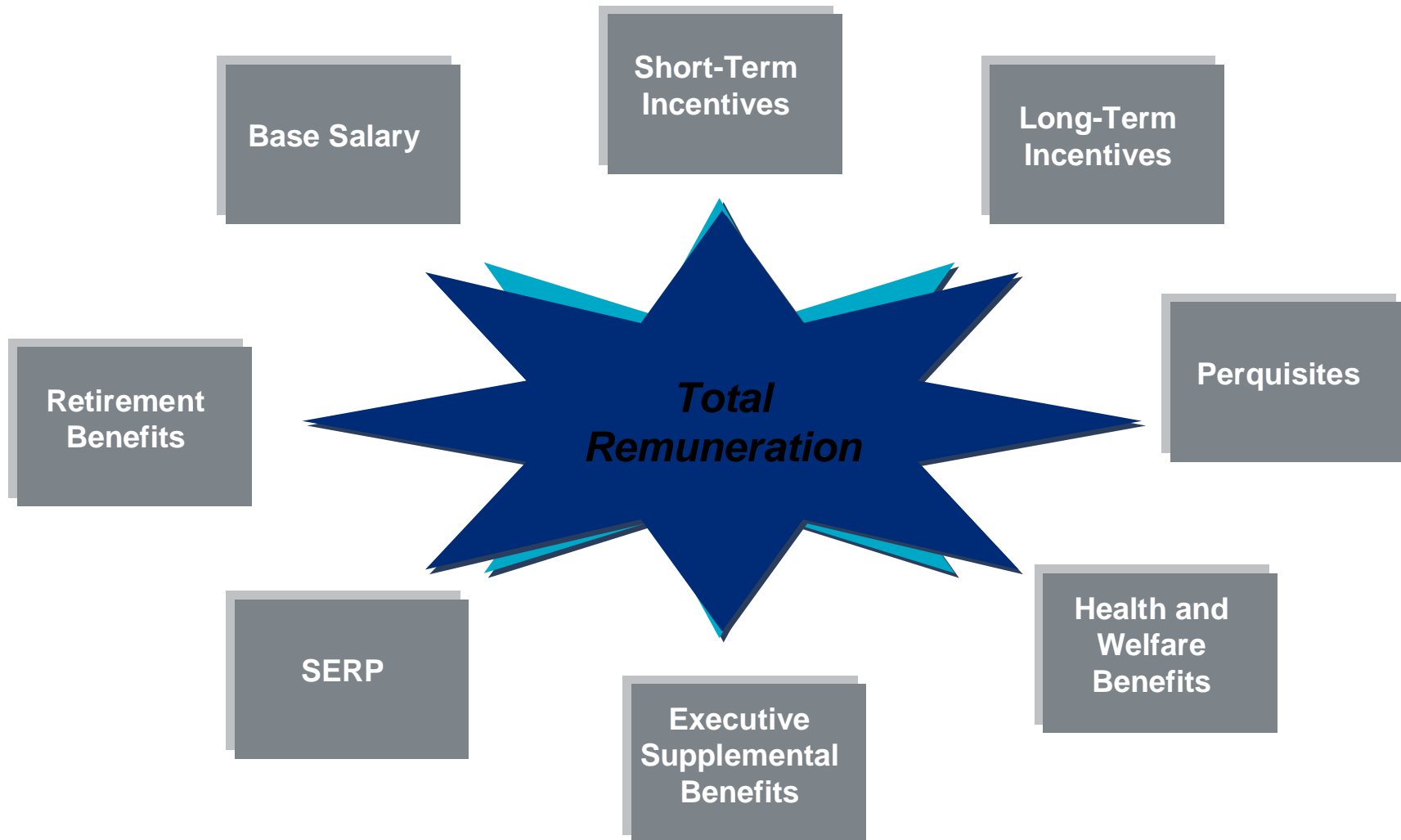
- No part of a 501(c)(3) organization's net earnings may inure to the benefit of any private shareholder or individual.
- Section 4958 imposes tax penalties on a "disqualified person" who enters into an "excess benefit transaction" with a public charity.
 - Disqualified person is liable for 25% tax and an additional 200% tax if the violation is not corrected within strict time limits.
 - Organization managers who "knowingly approve" the transaction are liable for an additional 10% tax, up to \$20,000 per occurrence.
- **Rebuttable Presumption of Reasonableness** – A compensation arrangement is presumed to be reasonable where:
 - An independent authorized body approves the compensation arrangement *before* it is paid;
 - The authorized body relies on appropriate data as to comparability; and
 - The authorized body adequately documents the basis for its determination concurrently with the making its decision.

Determining reasonableness

*Reasonableness is determinable
when all relevant factors are considered*



Determining Reasonableness



What Should TEOs Be Doing?

- Review and refine the process for determining reasonable compensation
- Focus on the details of benefits and perquisites
- Carefully undertake Form 990 and other disclosure practices
- Stay current with practices from the public company sector
- Devote time to tracking IRS and other developments

990 reporting

- Form 990 reporting requirements, effective for Tax Year 2008, reflect the first major overhaul of the form since 1979.
- The main IRS objectives of the form are to:
 - Enhance transparency
 - Promote compliance (this includes compliance with the various tax laws on reasonable compensation for executives and directors)
 - Minimize reporting burdens
- Under the revised form, compensation and governance disclosure is much more extensive.
 - Reinforces the message that Form 990s are a “Board document.”
 - The Board should be involved in the preparation of the Form 990 and the overall filing.
 - Good governance practices should be reflected in the filing.

Governance Best Practices

- Mercer recently conducted a survey of executive compensation governance in not-for-profit organizations.
- The following are the top 10 best practices in governance according to the survey respondents:
 1. Establish a **Compensation Committee Charter** delineating the role, responsibilities and scope of the Committee that evidence institutional control over executive compensation.
 2. Establish a **calendar of activities** with multiple meetings demonstrating active governance.
 3. Formalize the organization's executive **compensation philosophy**.
 4. Promote **transparency** by disclosing executive compensation in detail through tally sheets and reviews of Form 990 prior to filing.
 5. Obtain the **safe harbors** available under current regulations.

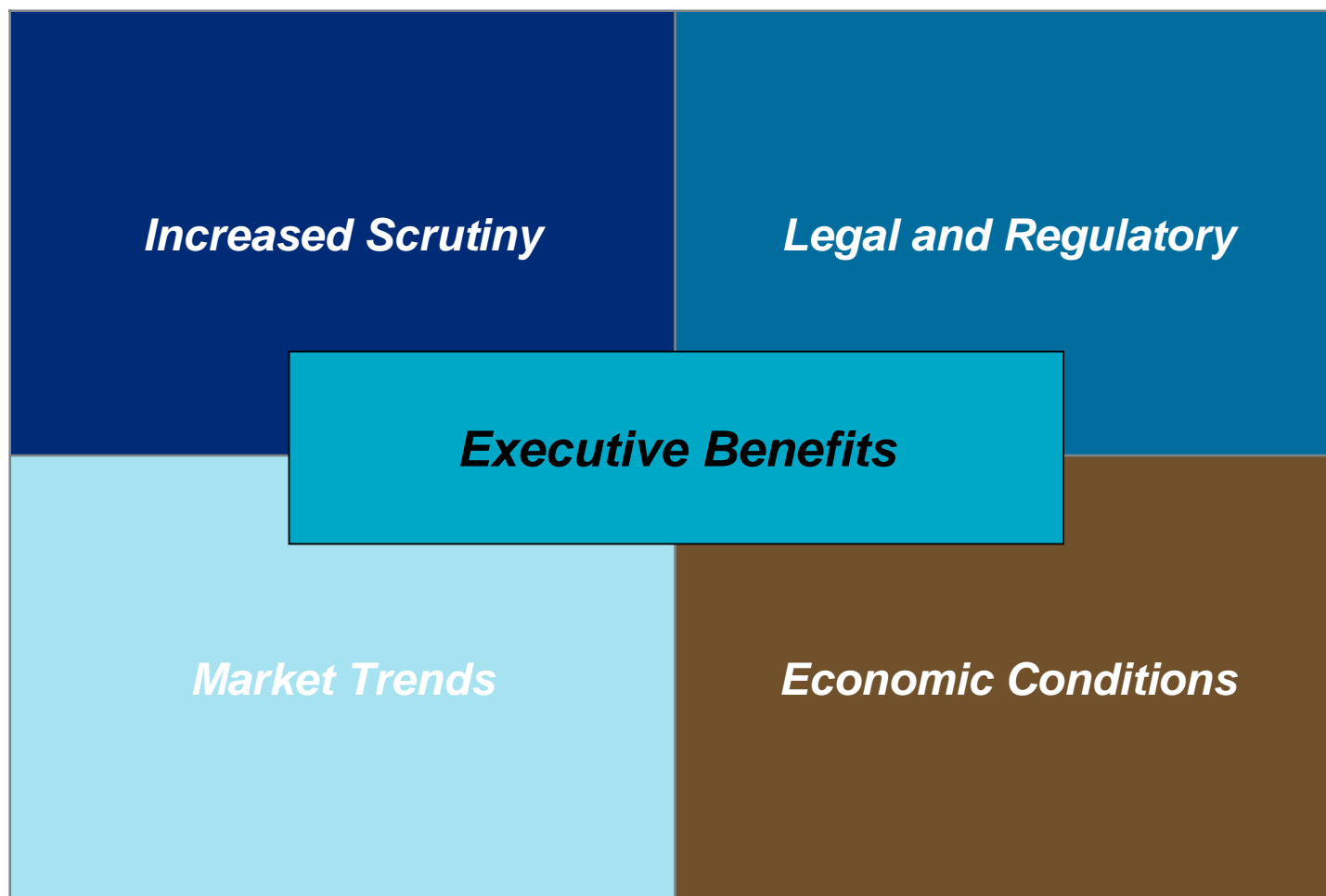
Governance Best Practices *(continued)*

6. Develop **effective incentive arrangements**, including documented goals, award caps, and alignment of pay with organization mission, values, and performance.
7. Include for-profits in compensation comparisons on a **very selective basis**, when there is demonstrated evidence that they influence the talent market.
8. Approval of not only the CEO's compensation, but of other **disqualified persons** as well.
9. **Annual reviews** of market data to determine the competitiveness and reasonableness of total remuneration.
10. Direct engagement and active use of a **compensation consultant** by the Compensation Committee.



Executive Benefits

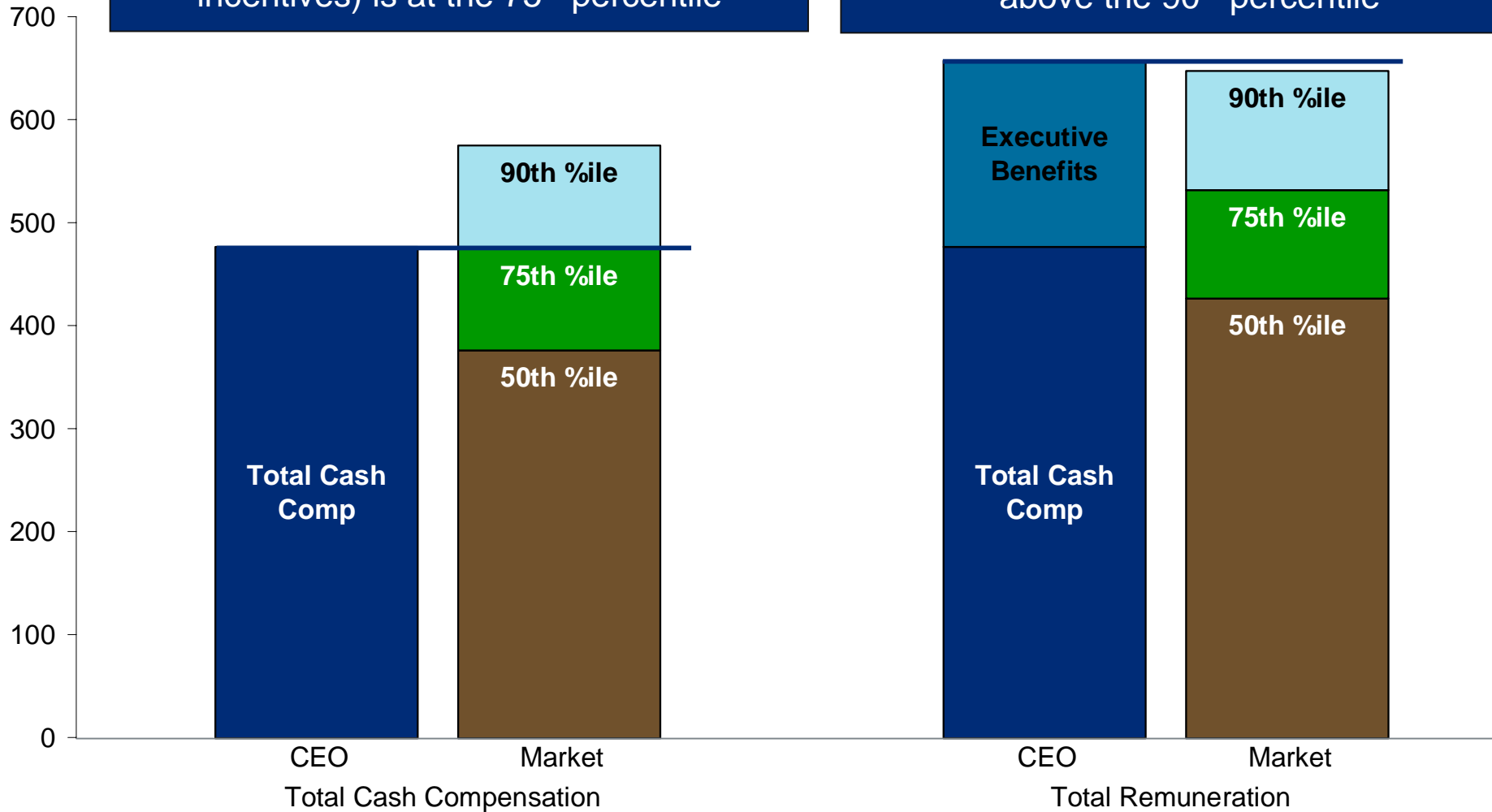
Issues impacting executive benefits at tax-exempt organizations



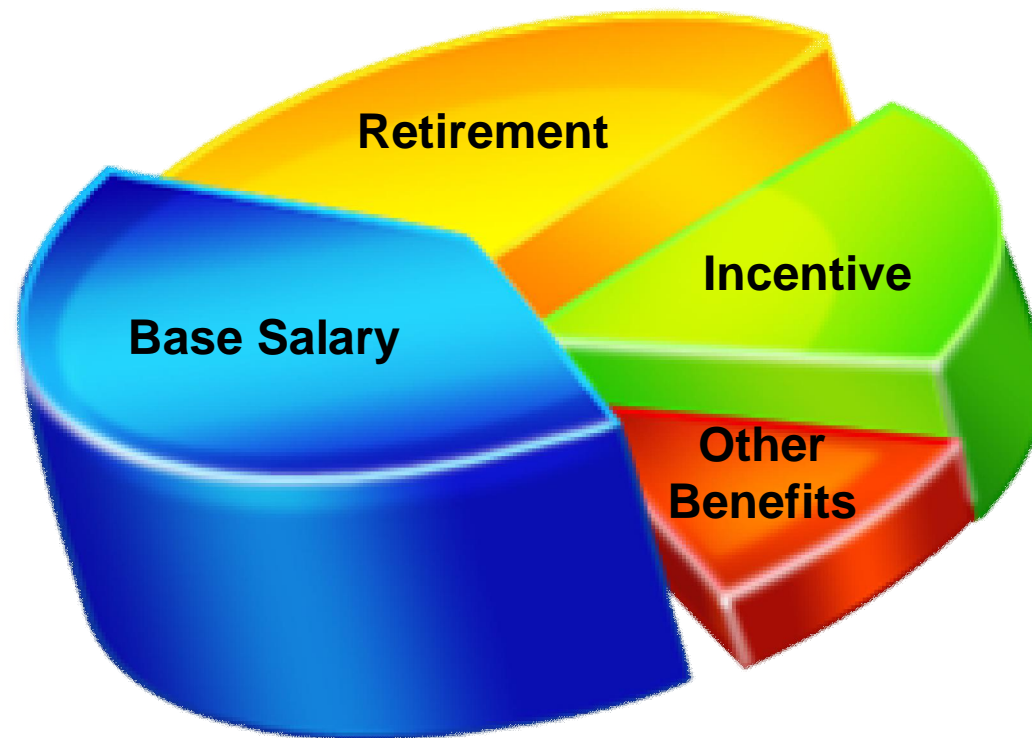
Benefits can have a meaningful impact on total pay positioning

Total cash compensation (salary and incentives) is at the 75th percentile

Total remuneration (including benefits) is above the 90th percentile



Retirement represents a sizeable portion of an executive's compensation package



What types of retirement plans are common?

	Qualified Plans	Nonqualified Plans
<i>Eligibility</i>	<ul style="list-style-type: none">• All employees• Subject to discrimination testing	<ul style="list-style-type: none">• Only for executives• Can discriminate in favor of any participant
<i>Limits</i>	<ul style="list-style-type: none">• Limits on pay (only includes pay under \$250,000) and benefits	<ul style="list-style-type: none">• No limits on pay or benefits
<i>Also known as...</i>	<ul style="list-style-type: none">• Pension plan• 401(k) / 403(b)	<ul style="list-style-type: none">• Deferred compensation• SERPs• Make whole benefits

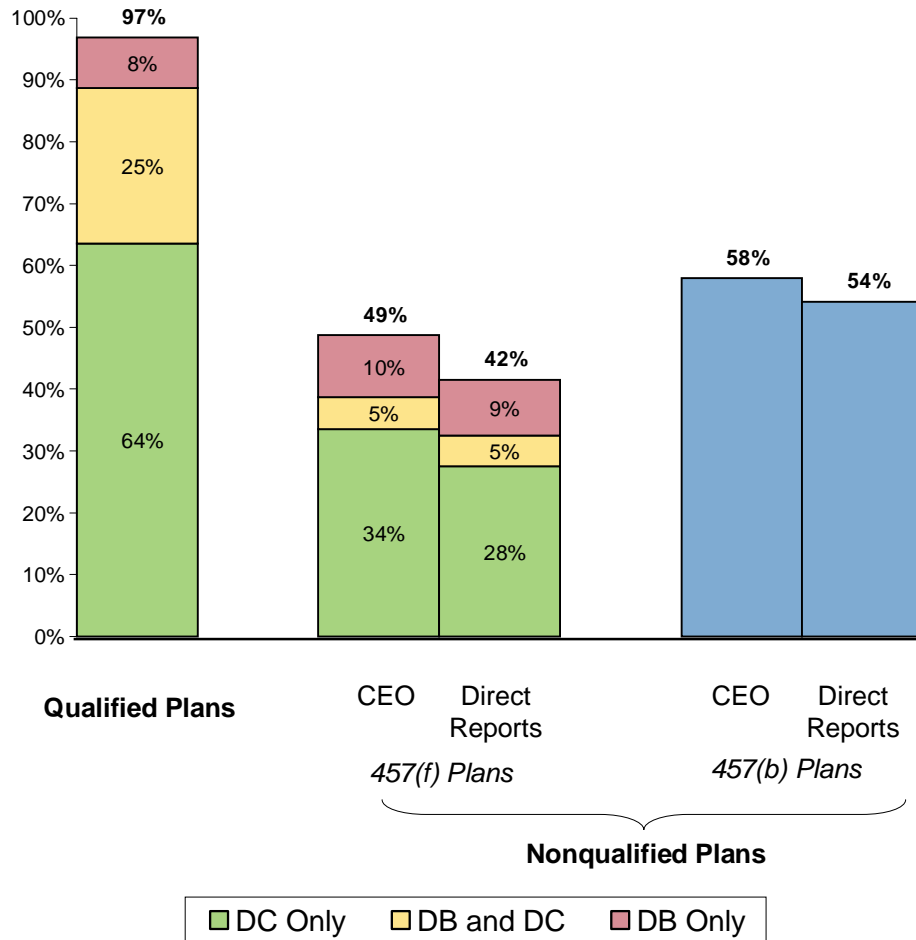
What is a nonqualified deferred compensation plan?

- Section 457 of the Internal Revenue Code sets forth the deferred compensation rules applicable to tax-exempt organizations.

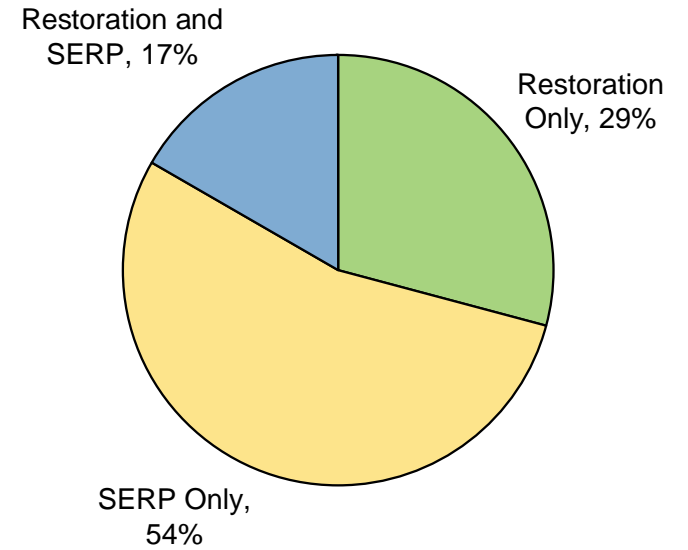
Eligible Plans – 457(b)	Ineligible Plans – 457(f)
<ul style="list-style-type: none">• Eligible plans permit deferrals/ contributions of up to \$17,000 in 2012 (indexed for inflation)• The benefit is taxed when it is made available to the participant (for example, termination)• This is an unsecured benefit with any earmarked assets subject to the risk of the employer's insolvency	<ul style="list-style-type: none">• Contributions/accruals under ineligible plans are not limited to a specified amount• The present value or account balance is taxed when no longer subject to substantial risk of forfeiture (that is, benefit is taxed when vested)• This is an unsecured benefit with any earmarked assets subject to the risk of the employer's insolvency

How prevalent are these plans?

Prevalence of Retirement Plans

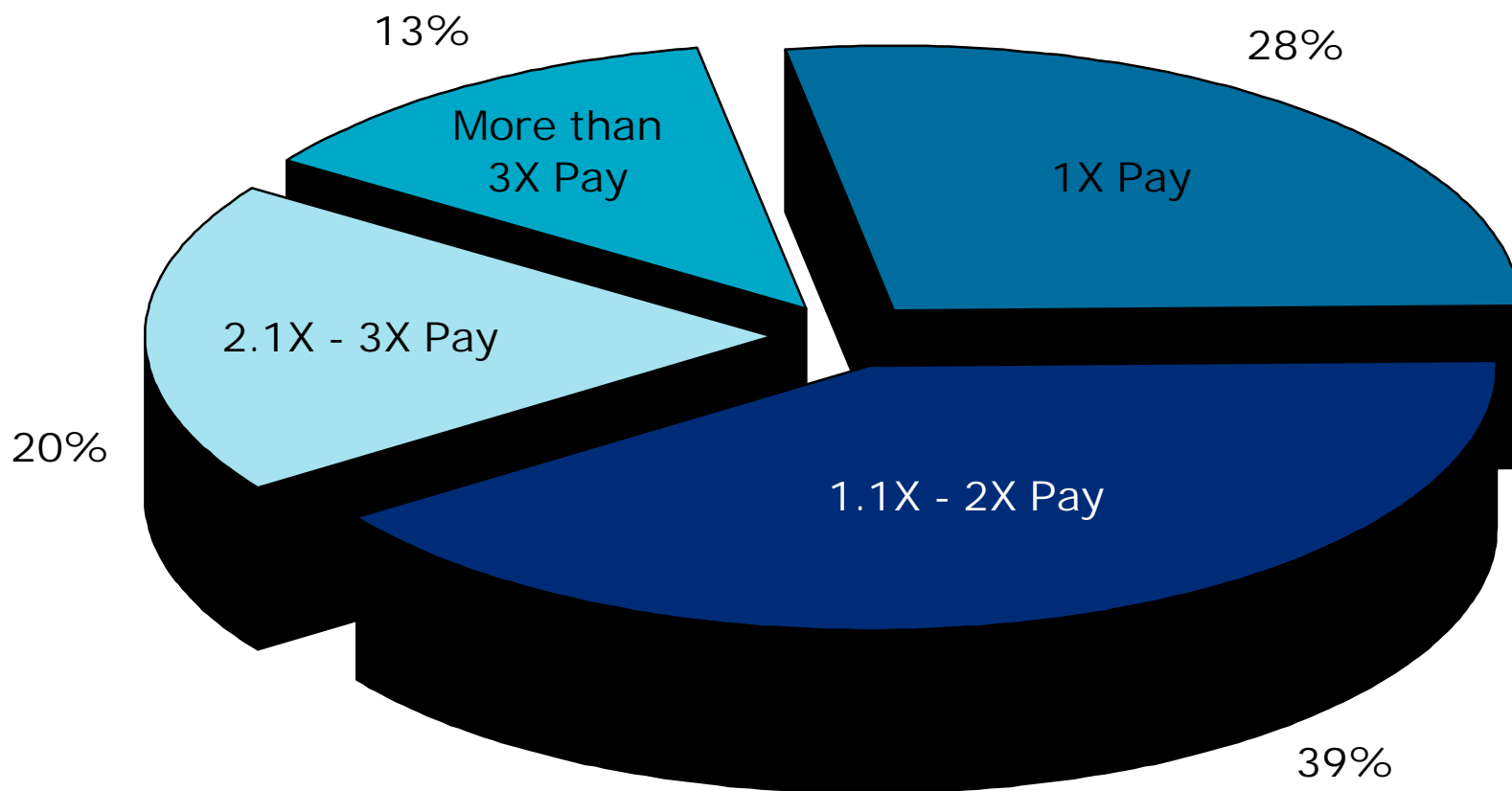


Prevalence of Restorations/SERPs



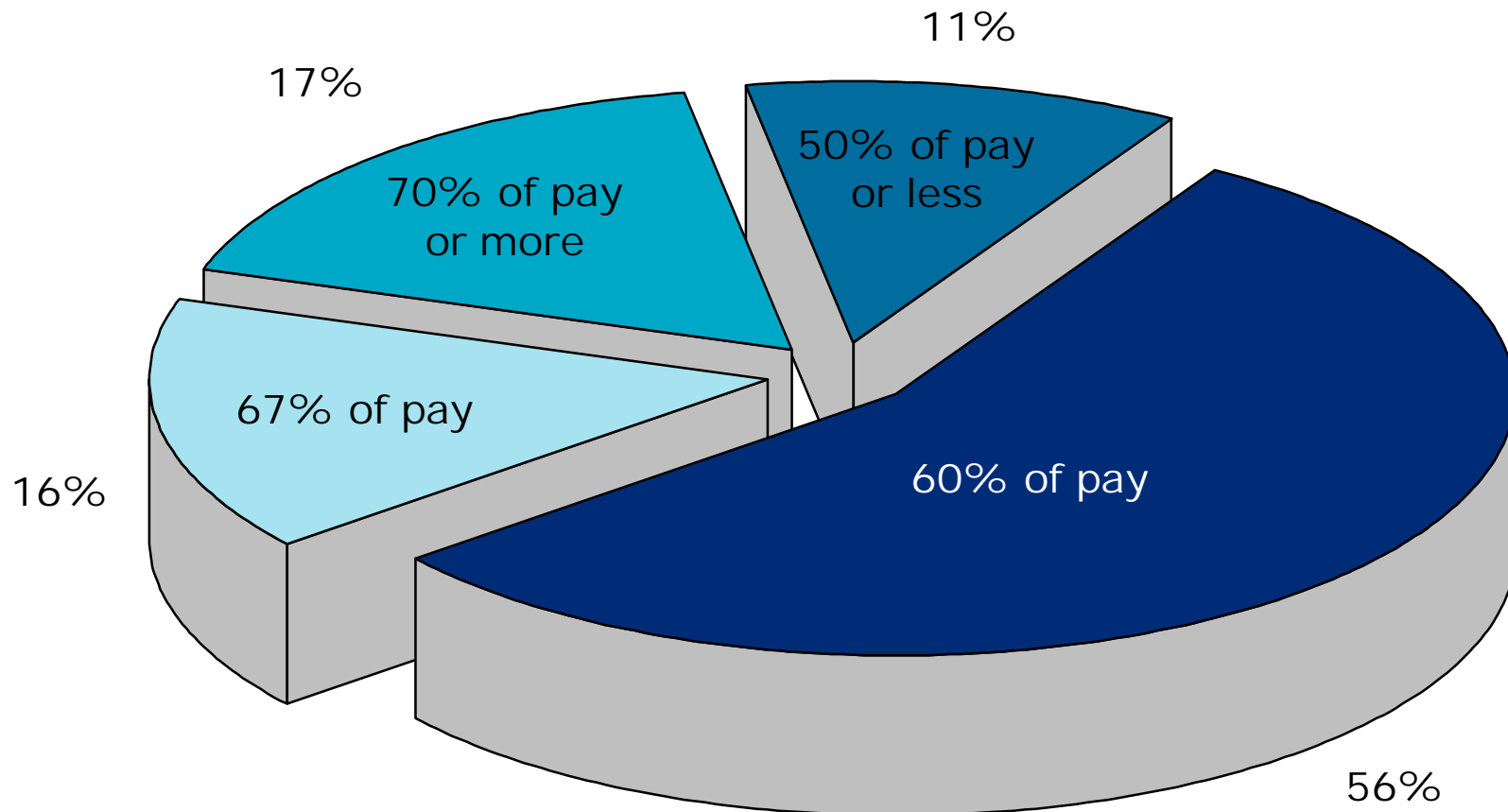
Approximately 40% of organizations provide executives with supplemental employer-paid life insurance coverage for active employees

**Life Insurance
Total Employer-paid Coverage as a Multiple of Pay
(Total Group and Executive Coverage)**

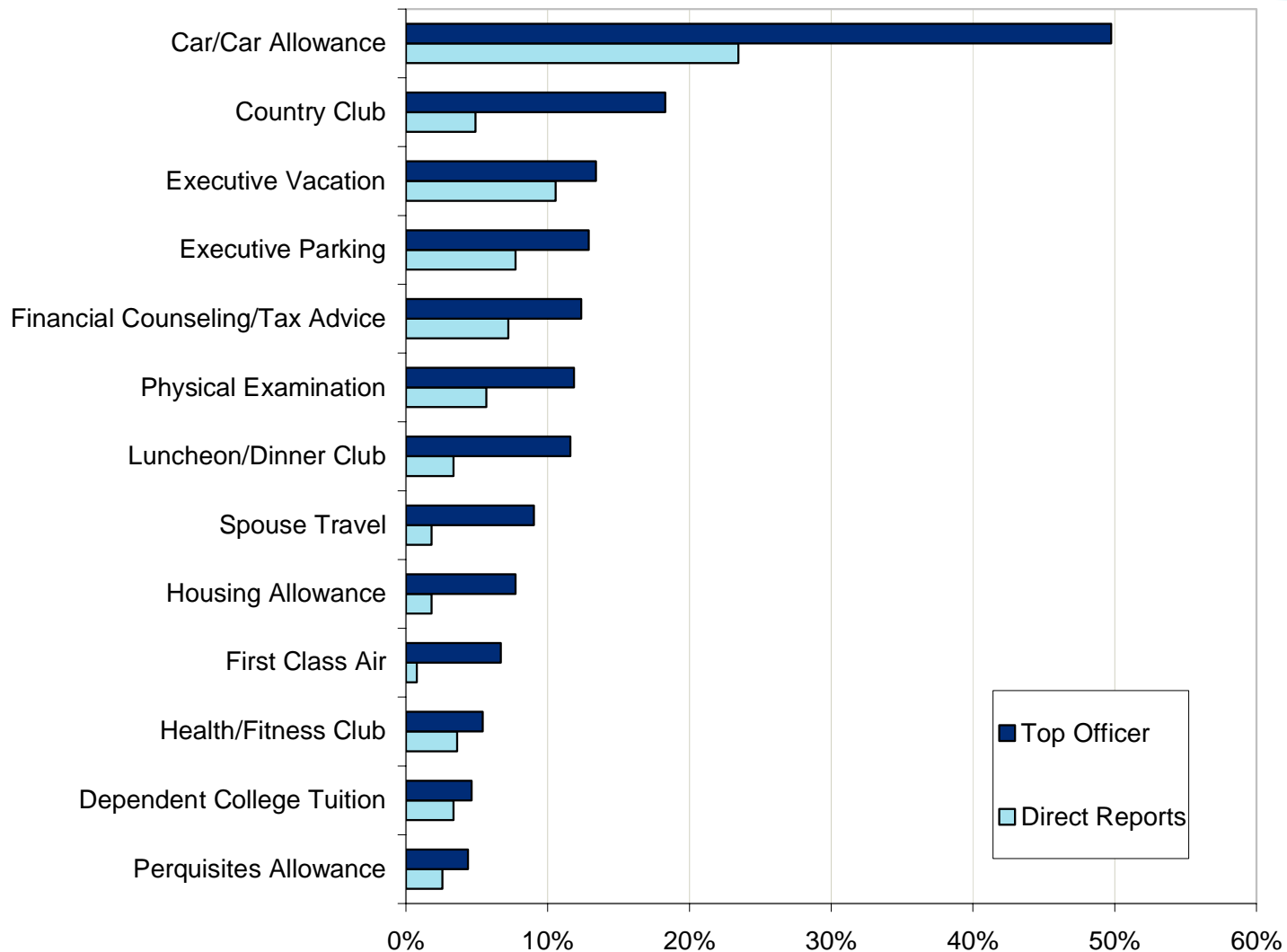


Approximately one-third of organizations provide supplemental long-term disability coverage to executives

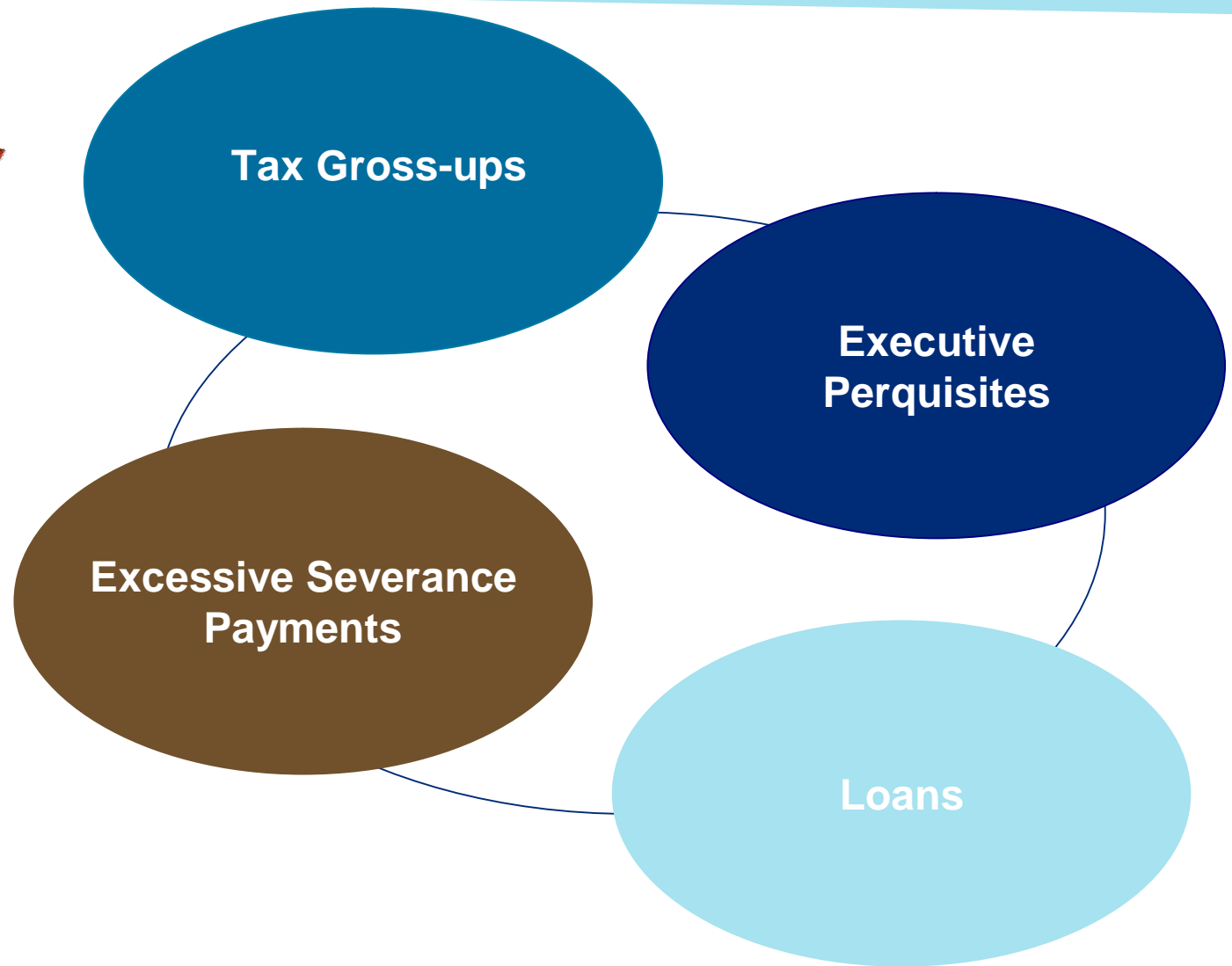
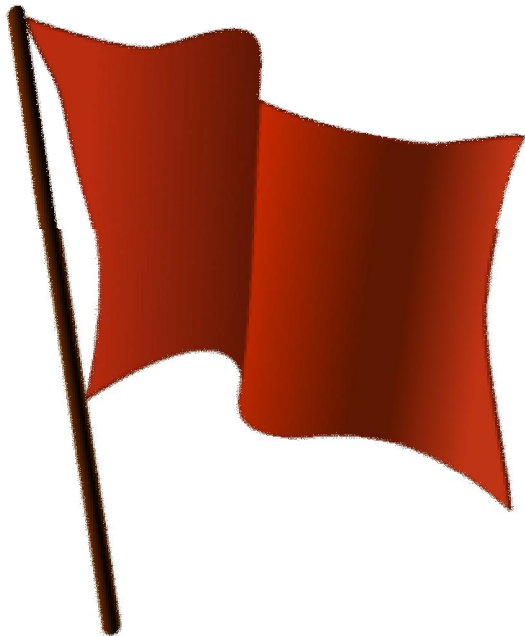
**Long-term Disability
Total Employer-paid Coverage as a Percent of Pay
(Total Group and Executive Coverage)**



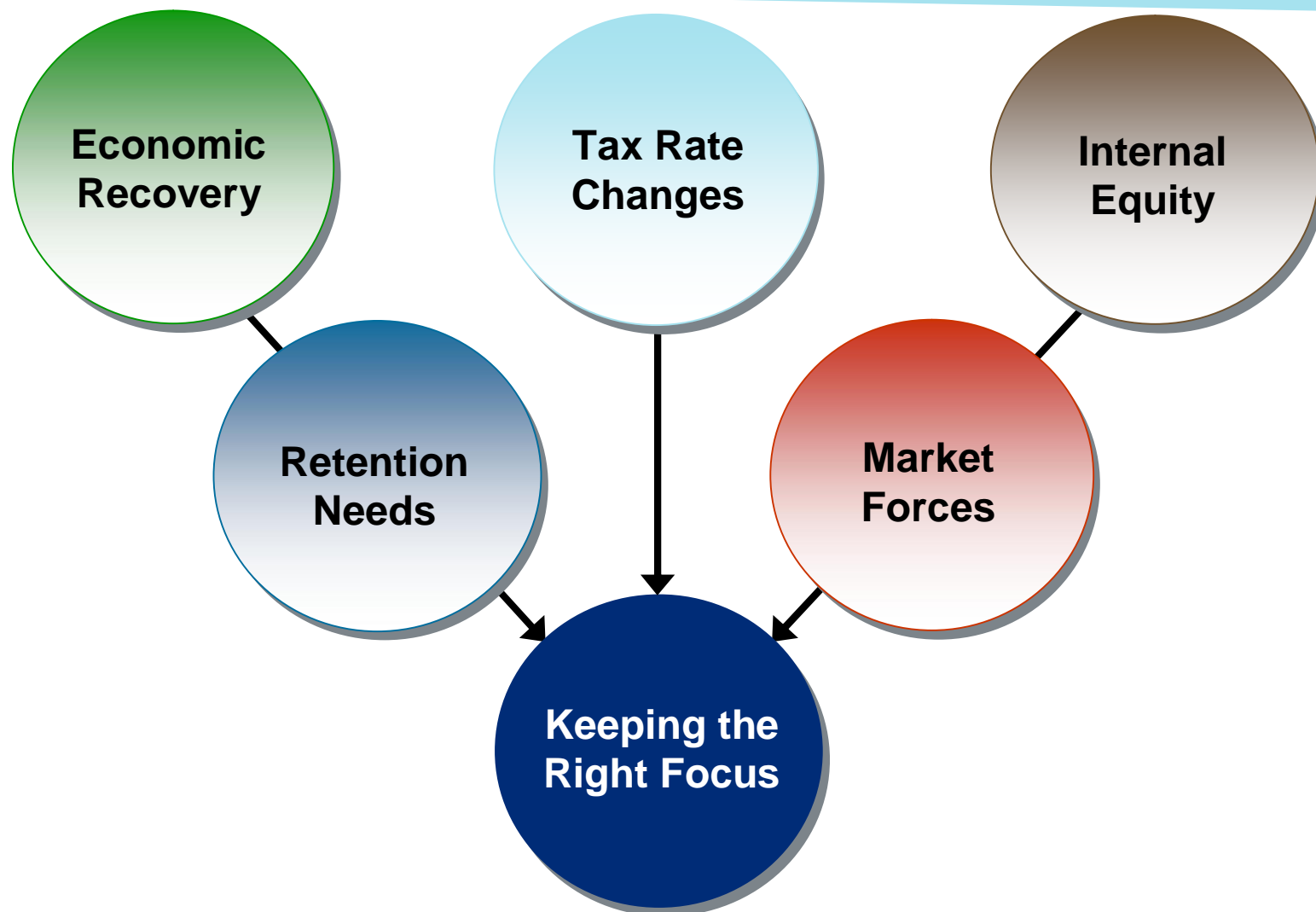
Perquisites continue to trend downward due to possible negative stakeholder optics



Avoid “red flag” practices that could increase risk



What's on the horizon: staying focused





How Mercer Can Help

Why Mercer?

- Mercer, an independent compensation consulting firm, offers an executive compensation study for Goodwills that includes an in-depth analysis of the competitive market for disqualified individuals. Disqualified individuals are those in a position to exercise substantial influence over the affairs of the organization (i.e., CEO, CFO).
- This study will assess competitiveness and reasonableness of the current pay and benefits program for disqualified individuals. As part of the study, Mercer will:
 - Evaluate compensation and benefit levels for up to seven senior executives;
 - Compare Goodwill pay levels and benefits to the competitive market;
 - Identify any gaps between the market and the Goodwill executive programs; and
 - Prepare an assessment report.

Mercer Executive Compensation Study

Cost

- Mercer is offering 4 studies at reduced rates if Goodwill members enroll together. Studies done on an individual basis would be priced individually.
- **Basic Option- \$4,500:** Includes a custom report detailing the background, methodology and results of the executive compensation assessment. The competitive assessment will include a comparison of Goodwill's labor market with not-for-profit industry data, Goodwill Industry data and for-profit industry data.
- **Standard Option- \$10,000:** In addition to the data mentioned in the Basic Option, this option includes a customized IRS form 990 filings for the top positions at tax-exempt organizations with a mission and revenue size similar to that of the Goodwill affiliate.
- **Standard Plus Option- \$12,500:** In addition to the data mentioned in the Standard Option, this option includes a summary of the Goodwill's benefit plans, market practice (prevalence and levels where available) and observations. Goodwill data will be collected via completion of an online survey questionnaire and market data will be based on Mercer's Tax-Exempt Organization survey.
- **Premium Option- \$15,500:** In addition to the data mentioned in the Standard Plus Option, this option includes calculating annual benefit values for the Goodwill organization to derive total remuneration (base + bonus + benefits) values as compared to market total remuneration.
- *NOTE: The pricing above assumes up to 7 executives. Each additional executive included in the Basic and Standard options is an additional \$500. Each additional executive included in the Standard Plus or Premium options is an additional \$1,000 (\$500 for the comp and \$500 for the benefit).*

Mercer Executive Compensation Study

Past Participants – Partial List

ABVI - Goodwill Industries of Greater Rochester
Easter Seals – Goodwill Northern Rocky Mountain
Goodwill Columbus
Goodwill Easter Seals Miami Valley
Goodwill Industries of Central Indiana
Goodwill Industries of Colorado Springs
Goodwill Industries of Central Texas
Goodwill Industries of Danville
Goodwill Industries of Delaware & Delaware Country
Goodwill Industries of Denver
Goodwill Industries of Greater Cleveland and East Central Ohio
Goodwill Industries of Greater Nebraska
Goodwill Industries of Greater Washington
Goodwill Industries of Greater Grand Rapids
Goodwill industries of Hawaii
Goodwill Industries of Kentucky
Goodwill Industries of Lane and South Coast Counties
Goodwill Industries of Lower South Carolina
Goodwill Industries of Upper South Carolina
Goodwill Industries of Middle Tennessee
Goodwill Industries of North Florida
Goodwill Industries of Northern Louisiana
Goodwill Industries of Eastern Nebraska and Southwest Iowa
Goodwill Industries of Northwest Iowa
Goodwill industries of Northeast Iowa
Goodwill Industries of Northern New England
Goodwill Industries of Northwest North Carolina
Goodwill Industries of Omaha
Goodwill Industries of Pittsburgh
Goodwill Industries of Redwood Empire
Goodwill Industries of Sacramento Valley and Northern Nevada
Goodwill Industries of Southeast Iowa
Goodwill Industries of Southern Arizona
Goodwill Industries of Southern Piedmont
Goodwill Industries of Southern Nevada
Goodwill of Southern Rivers
Goodwill Industries of the Chesapeake
Goodwill Industries of the Conemaugh Valley
Goodwill Industries of the Keystone Area
Goodwill Industries of the Heartland
Goodwill Industries of West Michigan
Gulfstream Goodwill Industries
Land of Lincoln Goodwill Industries
Michigan Heartland Goodwill industries
Morgan Memorial Goodwill Industries
Tacoma Goodwill Industries
Youngstown Area Goodwill Industries



Questions?

