

5 Common Questions About Nonprofit CEO Compensation

By Stan Reiff, Partner, and Kelsey Helmick, Executive Compensation Program Consultant

In the unique world of nonprofits, many decision-makers may be unsure of how to determine appropriate compensation for their organization's executives, particularly the CEO. This uncertainty is understandable. Organizations must navigate IRS rules, public scrutiny, and other considerations while being good stewards of the organization's resources.

Below, we provide answers to common questions about setting nonprofit CEO compensation. This includes questions about how to determine a peer group for compensation comparisons, approach cost of living or merit increases, and more.

Q: How do we determine which “peers” we should use for comparison? Does the CEO determine the peers, or do we?

A: The board members, committee members, or other leaders responsible for setting the CEO's compensation should determine which peers to use for comparison. The peer group should consist of organizations similar to yours as measured by annual budget, number of employees, and complexity. The peers also should be from a similar geographic area. A pastor of a rural church with a \$1 million annual budget might be friends with a pastor of a church in New York City with a \$20 million annual budget, but they would not be considered peers in terms of compensation.

Q: Should our CEO receive a higher or lower cost of living adjustment or merit increase than the rest of our executives and employees?

A: In general, this depends on your organization's financial health. During the COVID-19 pandemic and the economic uncertainty of the past few years, inflation has disproportionately impacted lower-compensated employees compared to executives. We observed several organizations provide increases and spot bonuses to non-executive employees and freeze those increases for executives.

If your organization is financially healthy and consistent increases or bonuses across the organization are feasible, the board or committee should weigh the options. This includes considering how offering the CEO a higher percentage increase than employees would be perceived and whether the CEO's compensation would still be considered “reasonable” under tax law. (You can learn more about the IRS requirements for executive compensation [here](#).)

Q: Should the size of our organization affect compensation increases for our CEO?

A: Data from Candid (formerly GuideStar) and the Economic Research Institute (ERI) indicates that the size of a nonprofit organization does have an impact on CEO compensation increases.

Candid's 2022 Nonprofit Compensation Report shows that median increases in incumbent CEO compensation between 2019 and 2020 (the most recent fully available data) were slightly higher as organization size increased, as shown on the next page.

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Organization's Annual Budget	Median Compensation Increase for Incumbent CEO
Less than \$250,000	0.9%
\$250,000 to \$500,000	2.2%
\$500,000 to \$1 million	2.7%
\$1 million to \$2.5 million	3.0%
\$2.5 million to \$5 million	3.2%
\$5 million to \$10 million	3.4%
\$10 million to \$25 million	3.7%
\$25 million to \$50 million	3.7%
Over \$50 million	3.8%

ERI's "2023 CEO Pay Trends in the Nonprofit World" whitepaper focuses on nonprofit CEOs' median and mean compensation amounts relative to organization size rather than increases from year to year. These figures include nonprofits across all industries:

Organization's Annual Budget	Median CEO Compensation	Mean CEO Compensation
Less than \$1 million	\$65,000	\$74,117
\$1 million to \$9.99 million	\$109,000	\$131,549
\$10 million to \$99.9 million	\$196,282	\$250,469
Over \$100 million	\$483,858	\$727,308

For religious nonprofits, the most recent ERI data shows that the median CEO compensation was \$71,557 and the mean was \$95,134. These are the lowest median and mean compensation figures of all nonprofit industries in the report.

Q: What do we do if our CEO doesn't want a pay increase?

A: We have worked with many CEOs and lead pastors who have a sacrificial view of their work and pay. They desire to be good stewards of donor and congregational funds and want to lead by example. However, we also have worked with many CEOs and lead pastors who reached the end of their careers and realized that they had not been able to save enough to retire. Compensation committees and boards have reached out to us right before their CEO retired to ask what they could do to ensure the CEO had everything he or she needed for retirement. But at that point, it is very difficult to make up for lost time.

To avoid this mad dash to the finish, we recommend that the committee or board explore deferred compensation options that would provide more of a cushion in retirement. Examples include:

- Increasing or maxing out employer contributions to a 401(k) or 403(b) plan
- Encouraging the CEO to max out his or her contributions to their 401(k) or 403(b)
- Considering some of the additional, more complex instruments available to assist with a more comprehensive deferred compensation plan

Q: How can we ensure that the discussions we are having and the decisions we are making now will be carried forward for years to come?

A: This is an important consideration. The simple answer is to put it in writing with two brief documents:

- A compensation philosophy explaining what your organization believes about compensation; and
- A compensation policy outlining how your organization will approach compensation in light of your compensation philosophy.

We can recount many examples of the importance of having a [comprehensive compensation philosophy and policy](#) in place. Having this discussion and putting these elements into the board or committee records — and reviewing these documents annually — will give decision-makers a starting point for future discussions and guidelines for making compensation-related decisions.

If you would like to talk with us about any of the topics discussed here or are interested in having us conduct a [compensation study](#) for any of your executives or employees, please [contact us](#). We are here to help.

Additional Resources:

[Planning for Success: Key Factors for Nonprofit Executive Compensation](#)

[How to Create a Compensation Philosophy and Policy for Your Organization](#)

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Stan's professional experience includes over 35 years in ministry operations, public accounting, government accounting, and international missions. He provides strategic leadership of the firm's professional advisory and consulting services, including research on emerging issues in the faith-based nonprofit sector and the development and implementation of products and services in response to those needs.

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Kelsey joined CapinCrouse in 2019 and has over 10 years of experience working in and with faith-based nonprofit organizations, which has given her a passion for meaningful organizational design and intentional culture creation. Her background in applied psychology, marketing, and management inform her work with CapinCrouse clients in the areas of compensation, human resources, and organizational behavior.

About CapinCrouse

As a national full-service CPA and consulting firm devoted to serving nonprofit organizations, CapinCrouse provides professional solutions to organizations whose outcomes are measured in lives changed. For over 50 years, the firm has served domestic and international outreach organizations, universities and seminaries, foundations, media ministries, rescue missions, relief and development organizations, churches and denominations, and many others by providing support in the key areas of financial integrity and security. With a network of offices across the nation, CapinCrouse has the resources of a large firm and the personal touch of a local firm. Learn more at capincrouse.com.

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