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# What Is Reasonable for **Nonprofit Board Pay?**

Many board members of for-profit corporations [receive pay](#) for their work in guiding the company. However, the situation is very different in the nonprofit sector.

Although there is no prohibition on paying members of these nonprofit boards, the IRS does require that compensation be reasonable<sup>1</sup> and, to the IRS, that means that the compensation should be the amount that would ordinarily be paid for like services by a like enterprise under like circumstances.

This is the same requirement that covers all executive compensation by charitable nonprofits. If compensation is typical for similar organizations and backed up with [data](#), then the IRS will have no basis for questions.

## BACKGROUND

Some associations representing organizations in the nonprofit sector (such as Independent Sector and BoardSource) have long recommended that board members serve without pay.

For example, Independent Sector's "[Principles for Good Governance and Ethical Practice](#)" includes a statement that:

*Board members are generally expected to serve without compensation, other than reimbursement for expenses incurred to fulfill their board duties. A charitable organization that provides compensation to its board members should use appropriate comparability data to determine the amount to be paid, document the decision and provide full disclosure to anyone, upon request, of the amount and rationale for the compensation.*

A study of more than 1,000 grantmakers released by the [Council on Foundations](#) in September 2014 found that 20% pay board member fees and, for those receiving fees, the median amount was \$71,438. According to the COF:

*Trustee compensation can be a tricky issue. While it is legal for grant makers to pay their boards, excessive or unreasonable compensation could violate federal and state laws that were enacted decades ago to ensure foundations were using most of their money for charitable purposes. Foundations pay close attention to the laws governing board pay and so COF decided to include such information in its annual*

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<sup>1</sup>According to the IRS, "the organization must not be organized or operated for the benefit of private interests, and no part of a section 501(c)(3) organization's net earnings may inure to the benefit of any private shareholder or individual. If the organization engages in an excess benefit transaction with a person having substantial influence over the organization, an excise tax may be imposed on the person and any organization managers agreeing to the transaction. Section 501(c)(4) of the Internal Revenue Code expressly prohibits inurement of the net earnings of an entity otherwise described in that paragraph to the benefit of any private shareholder or individual. Moreover, the Code imposes excise taxes on excess benefit transactions between a disqualified person and any organization described in section 501(c)(4)" For more details, see <http://www.irs.gov>.

*survey for the first time. It is important to see what's appropriate compensation in their own field, so if they wanted to compensate, they would have the tools to help set reasonable levels.<sup>2</sup>*

Although nonprofit board service is usually a volunteer activity, some feel that compensation is justified when the responsibilities of board members are especially time consuming or include legal responsibilities. Some also argue that compensation makes it possible for individuals of very limited financial means to participate as board members.<sup>3</sup> It is not illegal for a nonprofit to compensate its board members with reasonable fees unless prohibited by the organization's bylaws. If compensation is authorized, compensation amounts need to be set by independent directors or an independent compensation committee with input from [outside advisors](#). It is very important that board compensation be comparable to that of other nonprofit organizations and not deemed excessive by the IRS.

The message from the IRS is the same as on other compensation: If your organization pays its board members, make sure you have relevant comparables to justify those payments – that means, what do similar organizations in similar situations pay their directors?

## **NONPROFIT BOARD MEMBER PAY** – A LOOK AT FORM 990 DATA

ERI creates a database of [Form 990 information](#), including financial measures such as revenues and assets, as well as compensation, for use in the [Nonprofit Comparables Assessor™](#). This is a software program that calculates average competitive compensation levels for the executive jobs reported on the form, based on characteristics such as revenue size, type of organization, and geographic location, with values chosen by the user.

The compensation data are from Forms 990 digitized by ERI from images purchased from the IRS. ERI's software identifies comparable organizations and calculates what compensation at the organization of interest would be expected based on the comparables. [Customers](#) include many regulators (the IRS with multiple licenses and state charity officials) and many large nonprofits, as well as the lawyers, accountants, and consultants who serve the nonprofit sector.

For the purposes of this analysis, compensation has been defined as more than \$10,000 reported on the Form 990 – this definition was chosen to eliminate board members who receive reimbursement for expenses, so that the compensation data will include pay for services provided as a director to the organization. The data were also reviewed to remove paid employees improperly reported as board members.

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<sup>2</sup>[http://philanthropy.com/article/20-of-Grant-Makers-Pay/149097/?cid=pw&utm\\_source=pw&utm\\_medium=en](http://philanthropy.com/article/20-of-Grant-Makers-Pay/149097/?cid=pw&utm_source=pw&utm_medium=en)

<sup>3</sup>See more discussion in Nonprofit Board Members: Paid or Volunteer? By Mike Conover in BDO USA, LLP's "Nonprofit Standard" newsletter (Summer 2011). Copyright © 2011 BDO USA, LLP. All rights reserved. [www.bdo.com](http://www.bdo.com)

## RESEARCH QUESTIONS

ERI's Form 990 database has been used to analyze the following questions:

- How prevalent is compensation for board members of tax-exempt organizations?
- Does the incidence of pay vary by size or type of nonprofit?
- Do charities (exempt under IRC section 501(c)(3), which allows donations to be tax deductible for the donor) typically pay board members?
- Does the incidence of pay for charity board members vary by size or type of organization?

## INCIDENCE OF COMPENSATION FOR NONPROFIT BOARD MEMBERS

Table 1 below shows all nonprofits in the ERI database reporting CEO compensation in their 2011 Forms 990 (and does not include those filing Forms 990 and 990 EZ that do not have paid staff members and the very small Form 990-N “post card” filers)<sup>4</sup>. Charities represent 73% of all the exempt organizations in the database and have 74% of all the directors listed on the forms. Although not well known, there are actually many different types of [tax-exempt organizations](#).

For the nearly 151,000 charities in the 2011 database, less than 3% of the organizations report paying their board members. It is more common for some types of organizations exempt under different IRC subsections to pay their directors (for example, c5 – labor and agricultural, c12 – benevolent life insurance, etc., and c15 – mutual insurance), but these types of tax-exempt organizations are a relatively small part of the nonprofit sector. In general, only a small proportion of board members of all tax-exempt organizations seem to be paid; however, the IRS regulations on penalties for excessive compensation cover only c3 and c4 organizations.

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<sup>4</sup>See [www.irs.gov](http://www.irs.gov) for information on filing requirements.

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**Table 1. Board Member Compensation in Tax-Exempt Organizations by IRC Code, 2011**

IRC Subsection for Tax Exemption	Org Count	Board Member Count	# Orgs with Paid Board Members	% Orgs with Paid Board Members	# Paid Board Members in these Orgs	% of Board Members Paid
<b>3 – Charities</b>	<b>150,980</b>	<b>1,735,487</b>	<b>4,274</b>	<b>2.8</b>	<b>5,513</b>	<b>0.3</b>
4 – Civic Leagues, Social Welfare Organizations, and Local Associations of Employees	7,290	68,010	229	3.1	487	0.7
5 – Labor, Agricultural and Horticultural Organizations	8,156	82,867	1,202	14.7	2,160	2.6
6 – Business Leagues, Chambers of Commerce, Real Estate Boards, etc.	15,887	261,815	396	2.5	683	0.3
7 – Social and Recreational Clubs	7,183	61,958	115	1.6	130	0.2
8 – Fraternal Beneficiary Societies and Associations	3,167	29,906	186	5.9	324	1.1
9 – Voluntary Employee Beneficiary Associations	3,458	23,522	57	1.6	109	0.5
10 – Domestic Fraternal Societies and Associations	561	4,731	37	6.6	40	0.8
12 – Benevolent Life Insurance Associations, Mutual Ditch or Irrigation Companies, Mutual or Cooperative Telephone Companies, etc.	2,474	16,658	595	24.1	2,871	17.2
13 – Cemetery Companies	856	6,068	95	11.1	179	2.9
14 – State-Chartered Credit Unions, Mutual Reserve Funds	2,227	17,704	62	2.8	154	0.9
15 – Mutual Insurance Companies or Associations	166	1,031	25	15.1	30	2.9
Tax Exempt – All Other Subsections	3,897	35,203	68	1.7	80	0.2
<b>Total</b>	<b>206,302</b>	<b>2,344,960</b>	<b>7,341</b>	<b>3.6</b>	<b>12,760</b>	<b>0.5</b>

## INCIDENCE OF BOARD MEMBER COMPENSATION IN CHARITIES BY SIZE

Table 2a below provides a more detailed look at compensation of charity board members by size. It appears that both the smallest and the largest reporting charitable organizations are slightly more likely to pay their board members, but overall percentages are still around 3%. In smaller organizations, perhaps directors put in more hours and assume greater responsibility where there are few staff members. Also, larger organizations are more complex, requiring more skills and expertise from their directors, and might actually compete for board members with for-profit companies where pay is typical. But, on the whole, the number of charities paying board members, regardless of size, is still very low.

**Table 2a. Board Member Compensation in Charities by Size, 2011**

Revenue	Org Count	# Orgs with Paid Board Members	% Orgs with Paid Board Members	Board Members Count	Paid Board Members	% of Board Members Paid
<\$500k	66,332	2,171	3.3	601,957	2,394	0.3
\$500k to \$1 mil	26,301	750	2.9	285,048	863	0.7
\$1 mil to \$5 mil	37,294	751	2.0	480,445	1,010	2.6
\$5 mil to \$10 mil	8,563	161	1.9	128,869	222	0.3
>\$10 mil	12,489	441	3.5	238,168	1,024	0.2
Total	150,980	4,274	2.8	1,735,487	5,513	0.3

Board compensation for foundations, a specific type of charity, is sometimes a concern and sometimes even a subject of public outcry.<sup>5</sup> Using asset size, the most appropriate measure of size for foundations, the 6,837 organizations with paid CEOs classified as Philanthropy, Voluntarism, and Grantmaking in the [ERI database](#) are grouped by asset size in Table 2b below. The distribution of paid board members by asset size reveals again that the overall percentage is low, but slighter higher in the small and largest foundations.

<sup>5</sup>See discussion at <http://www.philanthropy.com/article/Foundation-Trustees/147863/>.

**Table 2b. Board Member Compensation in Philanthropy, Voluntarism, and Grantmaking**

Assets	Org Count	# Orgs with Paid Board Members	% Orgs with Paid BD MBRs	BD MBR Count	Paid BD MBRs	% of BD MBRs Paid
<\$500k	2,120	70	3.3	20,169	72	0.4
\$500k to \$1 mil	822	21	2.6	10,172	21	0.2
\$1 mil to \$5 mil	1,975	29	1.5	26,720	31	0.1
\$5 mil to \$10 mil	672	11	1.6	9,438	17	0.2
>\$10 mil	1,248	36	2.9	22,290	191	0.9
Total	6,837	167	2.4	88,789	332	0.4

## INCIDENCE OF BOARD MEMBER COMPENSATION IN TAX-EXEMPT ORGANIZATIONS OTHER THAN CHARITIES

The incidence of board member compensation in tax-exempt organizations other than charities is outlined in Table 3. The percentages are slightly higher than for the c3 group but rise with increasing size. In fact, the incidence of paid directors in the group of organizations with more than \$10 million in annual revenues increases to nearly 21%.

**Table 3. Board Member Compensation in Tax-Exempt Organizations Other Than Charities by Size, 2011**

Assets	Org Count	# Orgs with Paid Board Members	% Orgs with Paid Board Members	Board Members Count	Paid Board Members	% of Board Members Paid
<\$500k	29,595	1,198	4.0	271,750	1,456	0.5
\$500k to \$1 mil	8,994	449	5.0	103,337	630	0.6
\$1 mil to \$5 mil	10,986	568	5.2	147,929	1,035	0.7
\$5 mil to \$10 mil	2,332	141	6.0	33,157	390	1.2
>\$10 mil	3,415	711	20.8	53,300	3,736	7.0
Total	55,322	3,607	5.5	609,473	7,247	1.2

## INCIDENCE OF BOARD MEMBER COMPENSATION IN CHARITIES BY TYPE

Although there are small differences in the incidence of board compensation among various sizes of charities, Table 4 below illustrates that there are also differences among different types of organizations, as classified using the National Taxonomy of Exempt Entities<sup>6</sup>, the classification system used by the IRS, and in ERI's [Nonprofit Comparables Assessor™](#). Hospitals tend to pay their directors more than other types of charities; the incidence of pay in universities is also higher than in other types of charities. The type of charity that comprises the largest segment of the charities and, in fact, the entire nonprofit sector – Human Services – shows a lower-than-average incidence of paid board members.

**Table 4. Board Member Compensation in Charities by Type (NTEE Group), 2011**

NTEE GROUP	Org Count	# Orgs with Paid Board Members	% Orgs with Paid Board Members	Board Member Count	Paid Board Members	% of Board Members Paid
Arts	13,243	430	3.2	166,381	793	0.5
Education (excl. Universities)	21,838	549	2.5	181,286	475	0.3
Universities	1,098	46	4.2	251,514	667	0.3
Health (excl. Hospitals)	20,823	590	2.8	25,240	61	0.2
Hospitals	2,578	164	6.4	241,043	879	0.4
Human Services	56,862	1,406	2.5	36,713	314	0.9
Public Societal Benefit	17,067	403	2.4	619,716	1,671	0.3
All Other Organizations	17,471	686	3.9	213,594	653	0.3
Total	150,980	4,274	2.8	1,735,487	5,513	0.3

## INCIDENCE OF BOARD MEMBERS COMPENSATION IN DIFFERENT TYPES OF CHARITIES BY SIZE

Finally, compensation for charity board members in different types of charities for different revenue levels is analyzed. Table 5a shows the percentage of charities by types and sizes that have paid directors, and Table 5b provides the actual numbers of organizations with

<sup>6</sup><http://nccs.urban.org/classification/NTEE.cfm>

paid directors by type and size of charity. These tables give a more detailed picture of which charities are likely to pay directors. Large hospitals are paying their directors more often, but still only 8% of them pay their directors. The number of board members receiving compensation is very small when the total number of people serving as directors of charities in the [ERI database](#) (over 1.7 million!) is considered.

**Table 5a. Percentage of Charities with Paid Board Members by Type and Size, 2011**

	NTEE GROUP	\$1m-\$5m	\$5m-\$10m	\$10m+
Arts		1.9	4.1	1.2
Education (excl. Universities)		1.9	1.6	2.6
Universities		3.2	2.6	3.8
Health (excl. Hospitals)		2.4	1.9	3.1
Hospitals		1.8	0.6	8.3
Human Services		1.8	1.7	1.7
Public Societal Benefit		2.0	2.1	4.7
All Other Organizations		2.8	1.9	3.9

**Table 5b. Number of Charities with Paid Board Members by Type and Size, 2011**

	NTEE GROUP	\$1m-\$5m	\$5m-\$10m	\$10m+
Arts		48	18	4
Education (excl. Universities)		117	24	40
Universities		4	2	29
Health (excl. Hospitals)		141	35	89
Hospitals		5	1	147
Human Services		255	53	62
Public Societal Benefit		83	17	45
All Other Organizations		98	11	25

## Summary of Findings

- Less than 4% of all tax-exempt organizations report paying their board members.
- Charitable organizations, exempt under IRC Section 501(c)(3), represent 73% of all tax-exempt organizations, and less than 3% report paying their board members.
- Other organizations exempt under other IRC subsections are more likely to pay their board members (for example, labor groups, life and mutual insurance companies, etc.), but the incidence of payment is still low; these organizations are not covered by IRS regulations that provide penalties for excessive compensation.
- When analyzed by annual revenues, the small and very large charitable organizations have a slightly higher incidence of payment for board members.
- Board member pay for foundations also shows a higher incidence for the small and the very large grantmakers, but is still less than 3.5% for all sizes, as measured by size of assets.

- For all other tax-exempts, the incidence of pay is markedly higher for the largest organizations.
- The charitable organizations most likely to pay board members are hospitals (6%), followed by universities (4%).

Debate and controversy over the incidence and amount of compensation for board members in the nonprofit sector is ongoing. IRS regulations require that, for the largest group of tax-exempt organizations (i.e., the c3s known as charities), compensation must be reasonable and based on data from comparable organizations. Based on this analysis of compensation for board members reported on the [Forms 990](#), care must be taken to collect data that supports compensation for board members and stands up to IRS scrutiny.

By Linda M. Lampkin and Christopher S. Chasteen, PhD

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