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Upfront

Going Overboard

Are foundations paying trustees too much money?

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BOARD CULTURE

Going Overboard

Are foundations paying trustees too much money?

While thousands among the lower and middle class serve on the boards of nonprofit organizations without compensation, a large number of wealthy foundation trustees are paid handsomely for their charitable work. Why should the standards for compensation be so different between foundations and nonprofits? What is the rationale for foundation trustee fees? These are the questions asked by “Foundation Trustee Fees: Use and Abuse,” a study published by the Georgetown Public Policy Institute.

The study reports that 238 foundations in 1998 paid nearly \$45 million in trustee fees, the majority to individual board members. Some accounts of trustee compensation are comparable to stories of Wall Street excesses. Freedom Forum Inc., for instance, paid Allen H. Neuharth, its founder and current part-time trustee, \$504,254 – \$200,000 in fees, benefits of \$116,314, and expense allowances of \$187,940.

Researchers Christine Ahn, a program coordinator at Food First, Pablo Eisenberg, a senior fellow at Georgetown’s Center for Public and Nonprofit Leadership, and Channapha Khamvongsa, a program associate at the Ford Foundation, analyzed the 1998 tax filings of 238 U.S. foundations.

Their data showed that trustee compensation is the norm, with 64 percent of large foundations and 79 percent of smaller ones paying trustee fees. Fourteen of the large foundations paid their trustees more than \$100,000 apiece. The highest fee, \$232,619, was paid by the Ira and

Doris Kukin Foundation. Not surprisingly, the study noted, trustee fees accounted for 99 percent of the Kukin Foundation’s administrative expenses.

Ambiguous regulations are partly to blame. “According to the IRS, trustees, even family members, can be paid for services to a foundation that are reasonable, necessary, and not excessive. There are, however, no firm criteria for evaluating what is reasonable, necessary, and not excessive,” according to the authors. “Such vagueness leaves the door open to potential ethical problems and blatant abuse by trustees.”

The study points out that the W.M. Keck Foundation, for instance, has 26 board members, each of whom received between \$18,000 and \$30,000 in compensation, or more than \$600,000 a year in trustee fees. At least three board trustees were members of the Keck family, while four were members of the Day family.

Some foundations have argued that the corporate world justifies trustee fees. Since trustees are generally important, busy people, they need to be compensated for their time. Such compensation also reminds them to take their job seriously. Other foundations claim that they need to pay fees to recruit the “right” trustees. The study, however, points out that if so many well-respected foundations – Commonwealth, David and Lucile Packard, Hewlett, and the Rockefeller Brothers Fund, to mention a few – do not compensate their trustees, why

should others?

Instead, the authors proposed that “it is the culture” of certain foundations that drives trustee fees. There are plenty of qualified people from all strata of society – including blue-collar workers, teachers, and community leaders – who would make excellent trustees and may need only modest compensation. The authors also proposed policy changes such as capping trustee fees, excluding fees as part of their annual payout, and tightening the language on IRS forms.

Since the paper’s publication, Eisenberg has been most surprised by the lack of response to it. “That’s the story,” he said. “I’m getting inundated with calls from furious nonprofits, but no one from major foundations or any of the representatives of the foundations ... are publicly responding.”

—Abraham Nachbaur

Trustee Fees Paid by Large Foundations (partial list)

Kimbell Art Foundation	\$750,000
Annenberg Foundation	\$500,000
Booth Ferris Foundation	\$462,153
Richard King Mellon	\$282,454
May and Stanley Smith Charitable Trust	\$250,000

Foundations That Do Not Pay Trustees (partial list)

Commonwealth Foundation
Hewlett Foundation
Rockefeller Brothers Fund