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THE TRUTH ABOUT STATISTICS: WHY HEAD COMPENSATION INFORMATION FAILS TO DELIVER

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It is important that a school benchmark officially the head's compensation annually and be able to defend that placement if necessary for the school, the community, the IRS and even the media. Outside professional counsel further ensures that the compensation of senior administrators demonstrates compliance with the Intermediate Sanctions Act and reflects the realities of the marketplace and replacement costs.

To know how to compensate heads and other senior administrators, schools have often relied historically on data supplied by heads and business managers to NAIS or regional associations. The accuracy of association's statistics depends on voluntary compliance in filling out the forms AND a willingness to provide complete information.

In our firm's experience, association statistics tend to underreport actual compensation for heads because:

1. Deferred compensation is not included at all, or the voluntary and elective deferral by the individual is not shown, even if the school's contribution is included. (Usually it is not.)
2. Assistance in buying a home is either never reported, inaccurately reported or reported only once even when annual contributions may be made.
3. Assistance for the education of one's children is often not reported, especially if it refers to the education at another school or a university.
4. Spousal income, though infrequent, is seldom reported.
5. Club memberships, assistance for financial and tax planning, and a wide range of other benefits are frequently omitted.

The 990 tax return forms for 501(c) organizations, made public since the Intermediate Sanctions Act was passed in 1996, are now reported on line. Guidestar is an excellent service that merely posts the information that the Schools and other not-for-profits provide. Most people who turn to Guidestar as a source are unaware, however, of the inconsistencies or the incompleteness of the



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underlying data and the reporting peculiarities.

Most 990 reports are two to three years out of date. In many cases, the top five employees listed do not include the highest paid officers. Why? The head and a few other senior managers may be listed with the board of trustees in another area of the 990 form. In some cases, compensation is grouped for several individuals. In a number of independent schools, there is a separate 501 © 3 trust or foundation where the head's and other senior manager compensation may be listed rather than under the school's name.

Schools with church relationships or association may not report. While most of those schools are not required to do so because of a legitimate relationship to a religious institution, a number can claim only tenuous connections.

Most 990's do not include school owned housing because the head does not exercise control over its value. Where a house exists the head is expected to live there as a condition of employment, whether it be a mansion or a very humble abode.

Because deferred compensation plans, whether funded or unfunded, are to be listed on the 990 according to recent IRS guidelines, these plans ARE appearing with increasing frequency. Why do some auditors and tax attorneys of prominent US firms still not report it? Some deferred compensation plans appear to be "gentleman's" agreements of an INTENT to pay at departure and subject to real risk of forfeiture.

While the trend is a notable increase in reporting deferred compensation on the 990 form, most schools that do report deferred compensation provide the school contribution (and head contribution if there is such), on an annual basis, not the cumulative amount.

Very few 990 forms which this firm has reviewed include detail on variety of other benefits which may be listed as a lump sum under "other benefits".

Overall, the 990 reporting procedures increasingly have conveyed a much more accurate picture. However, in this Firms' experience, they are still under reporting actual income, in some cases substantially.

Currently, the only methods to gain even more accurate data are: 1. Retain an outside firm to conduct an independent targeted survey assuming that those who participate submit accurate data; 2. Conduct confidential conversations by phone or in person with the head or chair; 3 Use a source of information that has reviewed and benchmarked head compensation for hundreds of schools over time, and thereby has a confidential proprietary base of information. Littleford & Associates has been uniquely successful and very effective in garnering data through the latter two



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modes.

Reviewing the head's compensation package, contract AND a head evaluation process by a compensation/evaluation committee of the board are an important ANNUAL obligation of the board of trustees. This exercise further ensures that a school is able to retain a talented individual and to convey the message that the head is valued.

John Littleford
Senior Partner