Not-for-Profit Law

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Charity Salaries in Perspective

In early October, the departure of high-profile Toronto Hospital for Sick Children Foundation president Michael O'Mahoney occasioned yet another press article on charitable sector compensation. Although focusing on fundraisers, the *Globe and Mail* article cited salary figures of several presidents and C.E.O.s working for national charities.

There is no doubt that the salaries of O'Mahoney, his successor, and his colleagues – often in the hundreds of thousands of dollars – provide good fodder for news stories. But, according to the National Survey of Nonprofit and Voluntary Organizations (NSNVO), charities with revenues of over $10 million make up just one percent of the sector. Even of those, very few have staff that can boast the "superstar" status bestowed on O'Mahoney by the newspaper's headline writers.

There is no denying that many institutional charities – universities, colleges, hospitals, and those groups synonymous with a disease or other cause (or the foundations affiliated with them) – are heavyweights in the charity world. They have traditionally enjoyed, or have developed, revenue streams that allow them to escape the constraints on fundraising that smaller charities face.

Organizations that generate large non-receipted revenues from earned income, government transfers, or gaming aren't hamstrung by the disbursement quota requirement that they immediately spend 80% of their donations on charitable programming. So, they can run big fundraising operations and pay big salaries. That also means that when things go amiss, they go amiss in a big way.

There is a legitimate question about whether some of these institutional charities aren't approaching the "too big to fail" threshold, and whether revenue models that rely heavily on an outsized fundraising infrastructure are prudent or sustainable. The recent recession has shown the precariousness of high reliance on discretionary giving. However, for editors and reporters, the issue is much more apt to be framed as: does he or she make too much?

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Research both in Alberta and elsewhere in Canada has shown that many funders fail to adequately provide for overhead and other administrative costs when they contract with or make grants to charities. Effectively, this means that revenue from charitable giving cross-subsidizes initiatives that should be self-sustaining.

Moreover, governments and other funders frequently enter into agreements for services where there is no provision for the organizational costs associated with either

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recruitment or severance after the funded project ends. That means that organizations have to absorb those costs. So, though a budget line in a project proposal may state a seemingly reasonable salary, at the end of the day it may overstate the amount a charity actually has available to pay project staff.

Another often overlooked aspect of compensation in the charity sector is retirement benefits. The criticisms of underfunded or inadequate pension schemes in the private sector apply, if anything, even more widely and acutely in the charity sector.

Currently, the Canada Revenue Agency (CRA) only requires disclosure on the T3010 annual filing of the salary ranges of a charity's five highest earning full-time employees. The accuracy of these filings has not been systematically tested, but there is certainly potential for charities to avoid even the limited transparency available through this measure by classifying highly paid staff as part-time, or by treating staff as contractors rather than employees.

Beyond CRA filings, some charities fall under legislation requiring disclosure of compensation for employees of publicly-financed bodies, and some are subject to the more detailed filings on salaries mandated under American law because they fundraise in or have other ties to the U.S. So, the press can get their hands on certain salaries.

There have been frequent calls for more detailed CRA reporting of salary figures. But while there is undoubted merit in increased transparency to enable the public to determine the reasonableness of the compensation of senior charity executives, those salaries need to be seen in a broader context. That means a hard look at both the nature of the responsibilities of these individuals, given the mandate and scope of their charity's work, and better consideration of the salary structure within the sector as a whole. Leaving aside the issue of high salaries, if we are to have a sector where people want to make a career, and a sector that attracts innovative and dynamic individuals, the other inadequacies of the current model need to be addressed.

One only need recall the scathing response to financial institution compensation practices in the wake of the 2008 economic meltdown to understand public attitudes in this area. So, getting the man or woman on the street to appreciate nuances beyond superstar salaries will not be an easy task. But doing so, not providing material for journalistic potshots, should be the focus of any change to the regulatory regime.

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