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## **Nonprofits**

### **Working for a Good Cause has its Benefits**

Working in a nonprofit organization brings both material and nonmaterial rewards. Although some nonprofit organizations do not pay (or are unable to pay) market wages, the benefits of working in a nonprofit often outweigh the drawbacks for many employees.

In the United States, nonprofit or charitable organizations such as foundations, churches, arts organizations, universities, and even some hospitals, are exempt from federal income taxes. Although the range of their services is rather broad, these groups have in common a mission to provide a benefit to a constituency that is more important than bottom-line profits. Therefore, endowments and annual giving, rather than the sale of stock or debt, typically support their operating budgets. Even though their tax status may suggest otherwise, nonprofit organizations can be financially successful.

### **Types of tax-exempt organizations**

Section 501 of the Internal Revenue Code details the types of organizations that are exempt from tax. Here is a sample of the types of organizations exempt from federal income tax.

- Religious organizations
- Charitable organizations
- Literary or educational organizations
- Groups whose purpose is to foster national or international amateur sports competition
- Societies for the prevention of cruelty to children or animals
- Certain legislative lobbying organizations
- Labor, agricultural, or horticultural organizations
- Chambers of commerce
- Boards of trade
- Recreational clubs
- Fraternal societies
- Teachers' retirement fund associations
- Benevolent life insurance associations
- Cemeteries
- Credit unions
- Certain corporations organized under an Act of Congress (e.g., The FDIC)

### **Structure of nonprofit compensation favors benefits over cash**

Some people think employees of nonprofits are all unpaid volunteers, but this is not the case. Although nonprofits often have volunteers, many nonprofit organizations, and most larger ones, have paid staffs like any other business.

Base salaries at the strongest nonprofits rival those at for-profit corporations, and some nonprofits even conduct or participate in compensation studies to ensure their ability to compete for the best talent, especially in regions with strong economies. For example, the Massachusetts Institute of Technology (MIT) recently completed a rigorous study of its compensation practices and adjusted the pay ranges for many jobs as a result.

Employees of nonprofit organizations don't receive stock options, since there are no shares to own, and they are often ineligible to receive bonuses since there are no profitability targets to reach.

Instead, they often receive attractive benefits packages which could include generous vacation time and sick pay, low premiums on medical and dental insurance, good retirement plans, tuition reimbursement, and sometimes a convenient or flexible work schedule without significant overtime. Universities are also able to offer the use of facilities such as gyms and libraries, and sometimes membership in credit unions with guaranteed low-interest loans and other attractive features.

### **Inventive perks lure executives to nonprofits**

Some people believe that the people who hold senior positions in nonprofit organizations should be paid modest wages because the work of the organization is charitable. But those who argue the contrary offer the following rationale.

- Just because an organization does good work doesn't mean its people should work for a discount. People should be paid a fair wage for their work. People who are paid a fair wage do a better job and stay with the organization longer.
- The appropriate benchmark for a nonprofit executive's job is a for-profit executive's job, since this is the talent pool for which nonprofits must compete.
- The pay structure at a nonprofit organization, like that of a for-profit company, begins with the compensation of the top executive. If he or she is paid less than market, it will disrupt the internal equity of the organization and everyone will reach a pay ceiling.

To compensate for what they cannot offer executives, many nonprofits have begun offering bonuses and nonqualified deferred compensation programs that are like 401(k) programs except that there is no cap on the contributions an executive can make. Some nonprofits have gone so far as to create plans that operate like regular stock option plans, but the underlying equity is shares of a mutual fund or a stock portfolio in lieu of stock in the nonprofit organization. These kinds of programs are most likely to be seen at the types of nonprofits that operate most like for-profit companies, i.e., foundations and hospitals.

### **The government pays generous benefits**

Of course, the largest nonprofit organization is the government. Federal, state, and large municipalities are among the best-paying government employers. Although executive pay in these organizations typically tops out between \$120,000 and \$150,000 per year - much lower than at comparably sized corporations - pay for less senior government employees tends to be more competitive with that of for-profits.

The government is one of the few employers of any type that provides employees with rich retirement and health and welfare benefits. The federal government still provides free family health and welfare benefits at zero cost to employees - very rare in corporate America. Moreover, government employees can retire at age 55 and still receive a pension benefit equal to 60 percent of final pay if they have 30 years of service. This pension benefit is cost-of-living-adjusted, protecting it against inflation.

In the private sector, employee retirement benefits are normally reduced by 50 percent or more for retiring at 55. Corporate pension benefits are rarely subject to cost-of-living adjustments, so the value of the benefit decays over time because the dollar amount is fixed. Further, the prevalence of such pension plans has been steadily declining in the past ten years.

### **Nonprofits create jobs for people with skills that benefit society**

Unique due to their charters, nonprofits offer employment to people with special skills such as musicians, artists, clergy, scholars, and doctors. But just as important to their missions are the

employees who perform functions such as fund raising, proposal writing, finance, marketing and accounting. For many employees of nonprofits, the reward for a job well done is not just the direct compensation, but also the happiness derived from fulfilling the unique mission of that organization and serving the community.

- *Dwight Ueda, Salary.com contributor*