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Pay and Perks Creep Up for Private-College Presidents

Some of the highest paid get cash to cover taxes, too

By Jack Stripling

Private-college presidents often draw scrutiny for their hefty compensation packages, but most of them have a ready comeback: I could make a lot more money in the corporate world.

While this statement is surely sometimes true, it is also true that some of the nation's top-paid presidents continue to receive perks that their corporate counterparts have relinquished under shareholder criticism.

Among the 50 highest-paid private-college presidents in 2010, half led institutions that provided top executives with cash to cover taxes on bonuses and other benefits, a *Chronicle* analysis has found. This practice, known as "grossing up," has fallen out of fashion at many publicly traded companies, where boards have decided the perk is simply not worth the shareholder outrage it can invite.

"Those arrangements became radioactive over the last 10 years," said Mark A. Borges, an expert on executive pay and a principal at Compensia, a consulting company.

Regardless of the amount of money involved, people typically recoil when they learn that an organization's wealthiest employees are given help covering taxes, Mr. Borges said. In the throes of a national debate about tax fairness, those kinds of payments reinforce the perception that the well-off play by a different set of rules. They also point toward the significant bargaining power that presidents have in contract negotiations.

"The whole issue of paying people's taxes on their behalf grates on people," Mr. Borges said.

No matter what they pay in taxes, many private-college presidents occupy a rarefied financial position. In 2010, 36 private-college presidents earned more than $1-million, according to the most recent federal tax filings. The median compensation was $396,649. That figure represents a 2.8-percent increase over 2009.

The Chronicle's analysis comprises 493 presidents at private colleges with budgets exceeding $50-million.

The highest-paid president in 2010 was J. Robert Kerrey, who earned $3-million as president of the New School. Mr. Kerrey, the former governor and two-term U.S. senator from Nebraska, resigned as the college's president in December 2010. His earnings included a $1.2-million "retention bonus," which New School trustees said they provided to ensure a smooth transition to his successor.

Mr. Kerrey, who was criticized by students and faculty for his management style and support of the 2003 invasion of Iraq, was among several former presidents who were elevated to the top of the pay list in large part because of generous departing financial packages.

Shirley Ann Jackson, who earned $2.3-million as president of Rensselaer Polytechnic Institute, was the highest-paid president in 2010 who still holds her position. Ms. Jackson has battled with faculty over governance issues during her sometimes-rocky tenure. But the chair of the Rensselaer board called her an "extraordinary" president deserving of her high pay.

"She is a nationally recognized leader and a critical asset to the university and is paid commensurately," Judge Arthur J. Gajarsa, of the U.S. Court of Appeals for the Federal Circuit, wrote in an e-mail.

Both Mr. Kerrey and Ms. Jackson received standard perks like housing and cleaning services, but neither was provided gross-up payments, according to tax filings and university officials.

Tax-Free Perks

Executive compensation at private colleges and other nonprofit organizations has been of increasing interest to members of Congress and to the Internal Revenue Service, which introduced a revamped tax form five years ago. The updated Form 990, which requires nonprofits to disclose perks like first-class travel for executives, arrived in the wake of a string of excessive-spending controversies at tax-exempt organizations, including American University.

Benjamin Ladner, American's president, resigned in 2005 amid an internal investigation of his personal and travel expenses. His severance package totaled $3.7-million, most of which came from previously set-aside retirement contributions.

Before the IRS form was updated, colleges did not have to say whether their presidents or other highly compensated employees had received payments to cover taxes. Now they do.

In a standard gross-up arrangement, a board decides to cover the tax liability that a president incurs on benefits beyond base salary, such as a car allowance and club dues. In the grand scheme of a six- or seven-figure compensation package, those payments may constitute a small percentage. But when applied to big-ticket items, such as supplemental retirement contributions, the costs can add up, said Raymond D. Cotton, a Washington lawyer who specializes in presidential contracts.

If a president gets a supplemental retirement contribution of $50,000 in a given year, Mr. Cotton explained, that could mean an extra $14,000 in tax perks, assuming a 28-percent tax rate.

Regardless of the amount, gross-up payments draw the scrutiny of the IRS, and boards would be well advised to avoid approving them altogether, he said.

Nonprofit colleges "have been given a free ride as far as taxes go by Congress, and that's OK," Mr. Cotton said. "But people who work for those nonprofits ought to pay taxes. That's the IRS's view."

Colleges are required to disclose whether gross-up payments are provided in a given year, but what they say beyond that can vary tremendously. An analysis of the Form 990's filed by the private colleges with the 50 highest-paid presidents found that nearly three-quarters of those that provided gross-ups had declined to say which employees received the benefit. The form requires only that colleges disclose whether any person named in the document received a gross-up payment; there can be dozens of individuals' names in a given filing.

When contacted by *The Chronicle*, most colleges declined to provide any additional information about what was spent to cover their presidents' taxes.

Just three of the colleges in the top 50 actually stated in their tax forms how much they had paid out in gross-ups. Lee C. Bollinger received $13,556 to cover tax-free insurance premiums as president of Columbia University. His total compensation was $1.9-million.

The University of Tampa and Emory University spent $15,000 and $13,907, respectively, on gross-ups. At both institutions, the expenses were for high-level employees other than the president.

The University of Southern California acknowledged that Steven B. Sample, who was president until 2010, had been given a tax-free "gift" for his 19 years of service, but it did not disclose the gift's value. The total is embedded somewhere within the $685,192 he received in "other compensation," a category that also includes payouts of deferred compensation set aside for him in previous years.

Mr. Sample's total compensation for 2010 was $2-million, making him the nation's sixth-highest-paid private-college president.

Southern California officials declined to discuss the value of Mr. Sample's gross-up pay.

Not a 'Best Practice'

At least one institution has officially stopped providing money to cover employees' taxes. In 2010, Emory University honored a prior agreement to cover taxes on a tuition payment for a vice president's child, but it put an end to any such arrangements from then on. The administration and the executive-compensation committee of the Board of Trustees "determined that it was no longer a best practice," a university spokesman said.

Dean A. Zerbe, who as a former aide to U.S. Sen. Charles E. Grassley, a Republican of Iowa, helped investigate colleges' spending practices, said the lack of openness about gross-up pay among college presidents was a "huge issue" and "disguises compensation."

Mr. Zerbe also said he found it ironic that college presidents seem all too happy to have some of their own taxes covered by someone else. He suspects that many of them are Democrats who support higher tax rates for the wealthy. (In the 2012 election cycle, about 81 percent of campaign contributions that higher-education employees made to presidential candidates went to President Obama, *The Chronicle* reported in June.)

"I'm sure every single one of you guys has 20 Obama stickers," Mr. Zerbe said of college presidents. "They are hugely hypocritical to be out there beating the drum for that, and meanwhile running as fast as they can to get contracts that make sure any taxes don't affect them."

In some circumstances, though, gross-up pay is understandable, said Jesse M. Fried, a law professor at Harvard University. College presidents may incur some tax liabilities on benefits they are contractually obligated to accept, like houses and cars. If trustees believe it is important for a president to live in a university-owned home, they may remove the tax burden to ensure that the offer is as attractive as possible. In those instances, a gross-up payment may make sense, Mr. Fried said.

Some companies also use gross-up pay to create equity for gay employees, who have to pay taxes on their partners' health-insurance policies. Married workers do not incur the same tax for their spouses.

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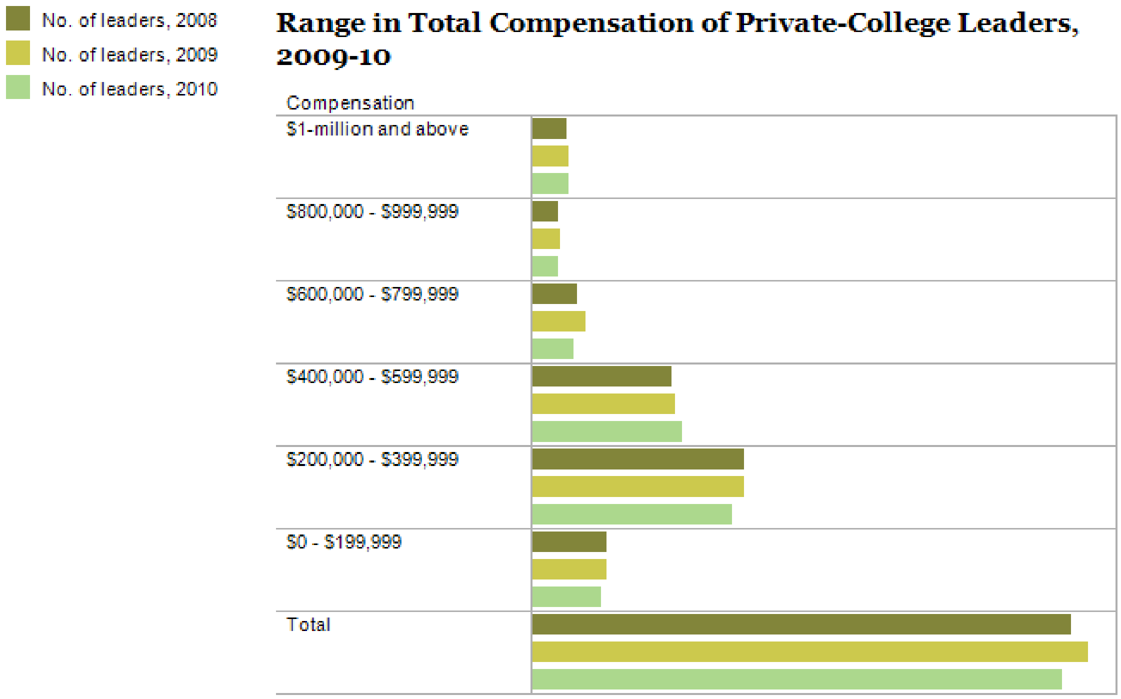
Golden Handcuff

Of all the perks college presidents routinely receive, few are as lucrative as deferred compensation.

Sometimes called a "golden handcuff," deferred-compensation plans encourage presidents to stay the full length of a contract for maximum financial gain. The highest-paid presidents often have hundreds of thousands of dollars set aside for them in a given year. That money can be invested tax-free until it is paid out to the president. But there is an important catch: If a president voluntarily resigns before an agreed-upon payout date, he or she will forfeit the accumulated dollars.

At Pacific Lutheran University, for example, Loren J. Anderson earned $1.4-million in 2010, making him the 14th-highest-paid president. The total included $788,000 that he had accumulated in deferred compensation over the course of his two-decade presidency, which ended with his retirement, in 2012.

Range in Total Compensation of Private-College Leaders, 2009-10



Source: Chronicle Analysis of Internal Revenue Service form 990

Range in Total Compensation, Expressed as Percentages

Compensation	Percentage of total, 2008	Percentage of total, 2009	Percentage of total, 2010
$1-million and above	6.6%	6.9%	7.1%
$800,000 - $999,999	5.0%	5.2%	5.0%
$600,000 - $799,999	8.7%	10.0%	8.1%
$400,000 - $599,999	26.0%	25.8%	28.4%
$200,000 - $399,999	39.6%	38.3%	37.9%
$0 - $199,999	14.1%	13.7%	13.3%

Note: This chart includes leaders of private, nonprofit colleges with budgets of at least $50-million. Some presidents receive $0 in salary because compensation is paid to a religious order, and the total in 2010 includes one president for whom no compensation data were available. Some of these figures also include executives who were in place for less than the full year. Percentages may not add up to 100 because of rounding.
Source: Chronicle Analysis of Internal Revenue Service form 990

Parting Pay

Upon resignation, college presidents often see significant pay increases through bonuses or deferred compensation. Among departing presidents in 2010, these leaders saw the largest one-year gain.

Rank	Name	Institution	Total compensation, 2009	Total compensation, 2010	Per
1	G. David Pollick	Birmingham-Southern College	$546,361	$2,312,098	
2	J. Robert Kerrey	New School	$1,319,537	$3,047,703	
3	H. James Towey	Saint Vincent College	$310,458	$565,348	
4	John R. Strassburger*	Ursinus College	$414,909	$680,526	
5	Steven B. Sample	U. of Southern California	$1,395,178	$1,963,710	