Should You/When Should You Pay Out Trustee Compensation?

Ann T. is a trustee of her family’s foundation. She works half-time as a substitute teacher and spends the other half managing grantmaking for the foundation, which has $50 million in assets and generates about 100 grants per year. She has read about compensation abuse in some foundations and does not want to be the subject of an unfavorable story in her hometown newspaper. At the same time, Ann is devoting half of her time, which could be spent earning a salary, to steward the foundation that her parents created upon their deaths.

Lidia S. was asked by a business associate to serve as a trustee for a small private foundation. There are quarterly meetings to vote on grants, and an expectation that trustees will serve on at least one committee, such as finance or program. The level of work seems to Lidia to be about the same as that of a small company board she sits on, which pays her a fee. But she is uncomfortable accepting a fee from a charitable organization.

Should Ann and Lidia receive compensation for their work? Is compensation appropriate for trustees who serve on charity boards? Should there be a different set of best practices for trustees of private foundations, such as Ann’s and Lidia’s, that award grants for charitable purposes, and trustees of public charities, such as the local Y or art museum that conduct charitable activities?

A Russell Sage Foundation publication from 1969, the year of the seminal Tax Reform Act for foundations, offered grudging acceptance.

In his industry classic of 1977, “Trustees and the Future of Foundations,” John Nason presented a detailed narrative on the subject, including discussion of the pros and cons of the practice. On balance, he is generally approving.

Since then, there has been a gradually mounting mood of disapproval in certain quarters of the foundation community concerning trustees’ fees. Some of this comes from staff and some from trustees who are committed to the ideal that there should be purity in the volunteerism associated with trustee service.

In its 2005 “Report to Congress and the Nonprofit Sector on Governance, Transparency, and Accountability,” the Independent Sector, a membership organization of public charities and private foundations, generally discourages payment of compensation to trustees, while recognizing that exceptions can be justified.

The report notes that the vast majority of board members serve without compensation. The report points out in particular that trustees of public charities providing community services volunteer their time and often make generous donations to the organization as well, a practice that supports the charitable sector’s spirit of giving and volunteerism.

The National Center for Family Foundations also takes a balanced approach. A recent brochure, “Board Compensation: Reasonable and Necessary?” summarizes reasons why family foundations may want to compensate board members, including: 1) recognizing extraordinary service and commitment of individual trustees, 2) encouraging all board members to treat their roles and responsibilities seriously, and 3) to participate on a regular basis.

On the other hand, NCFP echoes the view of the Independent Sector by noting that board compensation goes against the concept that foundations are voluntary charitable institutions and board service should be viewed as a volunteer activity. This publication further notes that the practice of trustee compensation may put the foundation in an
unfavorable light within its community and on a broader scale, may draw increased government scrutiny and oversight.

These are reliable viewpoints on both sides of the debate presented by respected organizations in the field. But does any of this information help Ann and Lidia? As a general matter, there is no harm in compensating trustees, provided that compensation is fair and reasonable and reimburses trustees for active management of the foundation and grantmaking duties.

In considering whether to accept appropriate compensation, Ann and Lidia should examine the question of compensation less as an accounting or legal exercise, but more as it pertains to the quality and effectiveness of the foundation’s grantmaking.

If Ann is performing duties that the foundation would have to hire a staff person to perform, her compensation should be viewed as salary.

If Lidia brings special skills, experience and expertise to the board of the foundation and must participate in a high level of preparation for each trustee meeting, a reasonable fee is appropriate.

On the other hand, if Lidia feels uncomfortable accepting a fee, she should waive the fee and donate her time.

Payment of trustee compensation is not against any law and is a decision that a board must carefully weigh with the following questions in mind:

- If the trustees were not performing certain duties, would the foundation have to hire staff?
- Are trustees expected to bring special skills or dedicate a significant amount of time to the foundation?
- Does participation on the board create a financial hardship?
- Can the amount of compensation be determined by a formal decision-making practice and, preferably, by a neutral third party?
- Finally, will payment of board fees to trustees create unreasonably high administrative expenses for the foundation?

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