

THE FORBES FUNDS

**SOUNDINGS
VOLUME 1**

**Wage and Compensation of
the Southwest PA Nonprofit Sector**

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In 2012, The Forbes Funds conducted a Soundings survey to learn about the levels of wage and compensation provided to nonprofit employees. Given the current economic environment and the increased demand for nonprofit services, the goal was to answer a few questions: 1) are nonprofits contributing to the issue of escalating poverty by providing low wages with limited benefits; 2) are nonprofit employees able to retire with the type of wages and benefits they are receiving; and 3) are nonprofits still able to provide competitive compensation packages given the escalating cost of health care.

This report summarizes the key findings from a survey distributed to the Soundings Leadership Group of 200 organizations of which 57% completed the survey. These are human services or community development organizations from the Southwestern Pennsylvania ten-county region. Forty-two percent of organizations have a budget size of \$1 million or less; 33% have a budget size between \$1 million and \$4 million; 11% have a budget size between \$4 million and \$10 million; and finally, 14% of our Soundings Leadership Group has a budget of more than \$10 million. In total, this group served over 16,000 individuals in the most recent fiscal year. On average, 85% of their clients are considered low income. Thirty-two percent cut programs this year while 34% reduced the number of positions within their organizations. Typical of human services organizations, the main source of revenue for our survey group is government funding, at 43%. About 20% of their revenues come from earned revenue; 14% are raised from foundations; and individual contributions, corporate sponsorships, and other fundraisers make up 18% total. Other revenue sources for this group include United Way, endowment income and investment income.

Compensation: Wages in the Nonprofit Sector are Low

Wages among human service agencies in the nonprofit sector are low with 53% of the employees paid at or below 300% of the poverty level, for an individual this is below \$32,500. The poverty guideline for an individual is \$10,890. The number of employees paid at each of the levels varies by organization budget size, but not significantly. While the cost of retirement benefits as a percent of total salary ranges from 0% to 25%, for about half of the organizations (55%) the cost is 3% or less, and for 78% of the organizations the cost is 5% or less. The cost of health care benefits as a percent of total salary averaged 14%. For 10% of the organizations, the cost as a percent of total salary is 0 which means that they do not offer any health insurance. Table 1 displays the percent of employees in organizations of each budget category who are paid at 100%, 200%, 300%, and more than 300% of the poverty level, respectively. Results are based on a total of 7,121 full time employees across the organizations.

Table 1: Salary of Nonprofit Employees

Annual Salary	BUDGET SIZE				Overall
	\$1,000,000 or less	\$1,000,001 – \$4,000,000	\$4,000,001 – \$10,000,000	More than \$10,000,000	
Less than \$10,890	11.5%	6.8%	2.7%	8.6%	8.5%
\$10,891 - \$21,780	17.7%	17.6%	12.1%	11.7%	16.2%
\$21,781 - \$32,670	24.2%	25.9%	39.9%	33.3%	27.8%
More than \$32,670	46.6%	49.7%	45.2%	46.5%	47.4%

Retirement Benefits: A Majority of Nonprofits Offer Some Retirement Benefits

Over three-fourths of the organizations offer a retirement plan, with all of the nonprofits above a \$4M budget size offering a plan of some sort. Forty percent of organizations offer a 401(K) plan and slightly under half offer a 403(b) plan with relatively few organizations offering pension plans or some other type of retirement benefit. For smaller organizations (\$1M or less) that don't offer a plan, the most cited reason selected by over two-thirds of the respondents was because the organization could not afford it even though 72% of

their employees would have been eligible to participate. About half of the organizations provide some sort of a match towards their employees' contribution. Among this group, slightly less than half state that 90% or more of their employees defer enough salary to fully participate in the match program. Employee match or contribution varies from a flat 5% employer contribution to a 100% match up to 7.5% of salary. Table 2 displays the key findings on retirement benefits for the 85 organizations that offer some type of benefits.

Table 2: Retirement Benefits Offered by Nonprofits

	BUDGET SIZE				Overall
	\$1,000,000 or less	\$1,000,001 – \$4,000,000	\$4,000,001 – \$10,000,000	More than \$10,000,000	
% that offer a plan	51.10%	89.20%	100%	100%	76.10%
Mean % employer contribution	3.30%	4.80%	3.80%	4.70%	4.20%
% that require an employee contribution	26.10%	18.20%	23.10%	46.70%	26.20%
% that match employee's contribution or provide non-elective contribution	47.80%	48.50%	61.50%	68.80%	54.10%
% with no plans to reduce, suspend, or eliminate match	77.30%	80.60%	72.70%	87.50%	80.00%
% with 75% or more employees deferring enough for maximum employer match	90.90%	80.00%	37.50%	54.50%	68.90%
% with a defined benefit plan	37.50%	30.50%	38.50%	50.00%	37.20%

Health Care Benefits: Health care costs increased by -50% to 100% in 2010

Health care coverage is offered by 88% of organizations, and 100% of organizations with budgets of \$4M or above offer coverage. More than half of the organizations offer family coverage. For organizations with budget size of \$1M or less that don't offer coverage, two-thirds responded that they just could not afford it. Organizations with bigger budget size are able to offer better health care packages. The bigger the organization, the less the employee has to contribute. The primary health care providers are Highmark and UPMC, selected by 47.5% and 42.4% of the organizations, respectively. Other providers include Aetna, Health America, and Health Alliance. Table 3

shows detailed information on the health care benefits offered by nonprofits.

Of major concern is the skyrocketing health care cost that has plagued the nonprofit sector the past few years. When asked about year-to-year change in health care costs in the last three years, on average, organizations experienced rate increases. The average increases were 12% in 2009, 10% in 2010, and 10% in 2011. There was some variability among the rate changes, with a small number of organizations even reporting decreased rates. In 2009, the percent rate change ranged from -1% to 88%; for 2010 the range was -5% to 78%;

Table 3: Health Care Benefits Offered by Nonprofits

	BUDGET SIZE				Overall
	\$1,000,000 or less	\$1,000,001 – \$4,000,000	\$4,000,001 – \$10,000,000	More than \$10,000,000	
% that offer coverage	72.40%	97.30%	100%	100%	87.60%
% that offer family coverage	50.00%	72.00%	76.90%	93.80%	68.70%
Mean annual cost per employee per individual	\$4,699	\$4,547	\$3,772	\$5,063	\$4,581
Mean annual cost per employee per family	\$7,337	\$11,880	\$15,101	\$12,725	\$11,509
Mean deductible	\$631	\$656	\$837	\$958	\$727
Employee contribution for individual coverage (% of salary)	43.20%	37.30%	26.40%	20.00%	33.10%
Employee contribution for family coverage (% of salary)	43.20%	37.30%	26.40%	20.00%	33.10%
% that offer a Health Savings Account option	11.80%	16.70%	7.70%	31.30%	16.20%

and in 2010 the range was -50% to 100%. In general, the organizations with budgets under \$1M experienced escalating rates all three years. The opposite was true for larger organizations. Figure 1 shows the average annual percent increase in health care insurance rates by budget size.

Nonprofits have had to find ways to respond to the increases in the cost of health care. The strategy employed by over half of the organizations is to increase employee contributions, a method more popular among larger organizations. However, 16% of organizations elected to decrease benefits. Some nonprofits found more creative avenues such as implementing health prevention programs, usually more popular among larger organizations. Lastly, about a

third of the organizations responded in some other way to the rising cost, including using higher deductibles and changing providers.

In conclusion, nonprofits are finding themselves in a precarious position. Historically, low salaries were compensated through benefit packages that allowed employees to have affordable health coverage and modest retirement benefits. As nonprofits have had to respond to escalating health coverage by requiring a greater employee match or eliminating the benefit, it has resulted in a greater percentage of wages going to covering these costs. For nonprofit employees, this means both less wages and higher benefit costs. For nonprofits it has created greater challenges with regard to employee attraction and retention.

Figure 1. Average annual percent increase in health care insurance rates by organization budget category

