Head of School Compensation and Contracts – Opportunities and Challenges

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Mission-driven, Data-informed Leadership and Governance

ACIS Webinar

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ACIS

ASSOCIATION *of* COLORADO INDEPENDENT SCHOOLS

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Mission-driven, Data-informed Leadership and Governance

Mission Driven + **Community Centered** + **Data Informed**

Living the Mission

&

Cultivating Financial Sustainability

&

Organizational Stewardship

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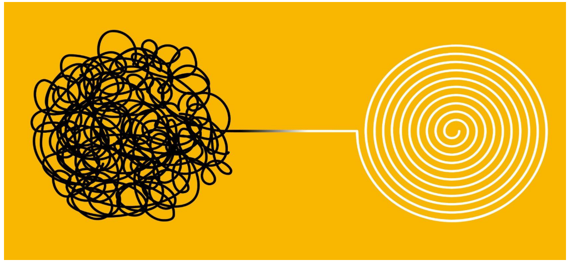
DASHBOARDING, DATA ANALYSIS & DATA WAREHOUSING



DATA STRATEGY & INSTITUTIONAL RESEARCH

EXECUTIVE & ORGANIZATIONAL COMPENSATION

FINANCIAL & ORGANIZATIONAL SUSTAINABILITY

GOVERNANCE EDUCATION, AUDITS & ADVISING

MISSION-DRIVEN, DATA-INFORMED COACHING

ORGANIZATIONAL EFFECTIVENESS & TRANSFORMATION

STAKEHOLDER SURVEYS & INTERVIEW STUDIES

STRATEGIC PLANNING & PROGRESS ACCOUNTABILITY

We are the trusted partner across our industry

192
Independent School Clients

21
Membership Associations

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Strategic Data Partners

Enrollment Management Association

TABS

ATLIS
Association of Technology Leaders in Independent Schools

Other National/International Partnerships

CASE

NBOA
BUSINESS LEADERSHIP FOR INDEPENDENT SCHOOLS

CAIS
Canadian Accredited Independent Schools

10+ State & Regional Associations

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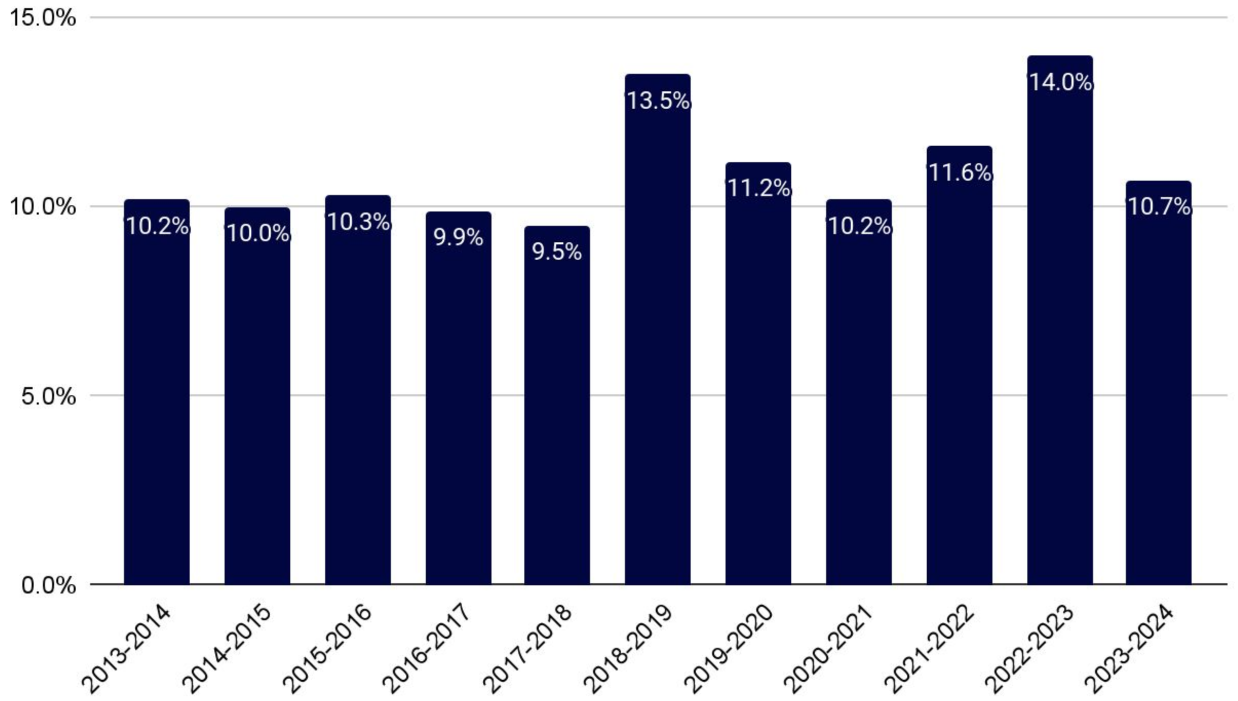
Agenda

1. Overview of the Marketplace for Heads
2. Contract Renewal Process
3. Components of Head Compensation
4. Key Contract Terms
5. Discussion & Questions


MARKETPLACE
FOR HEADS

Share of NAIS member and subscriber schools in the U.S. with a new or first year head, 2013-2014 to 2023-2024



*Retrieved from: https://www.nais.org/articles/pages/member/research/nais-research-five-things-to-know-about-head-turnover-in-2022-2023/

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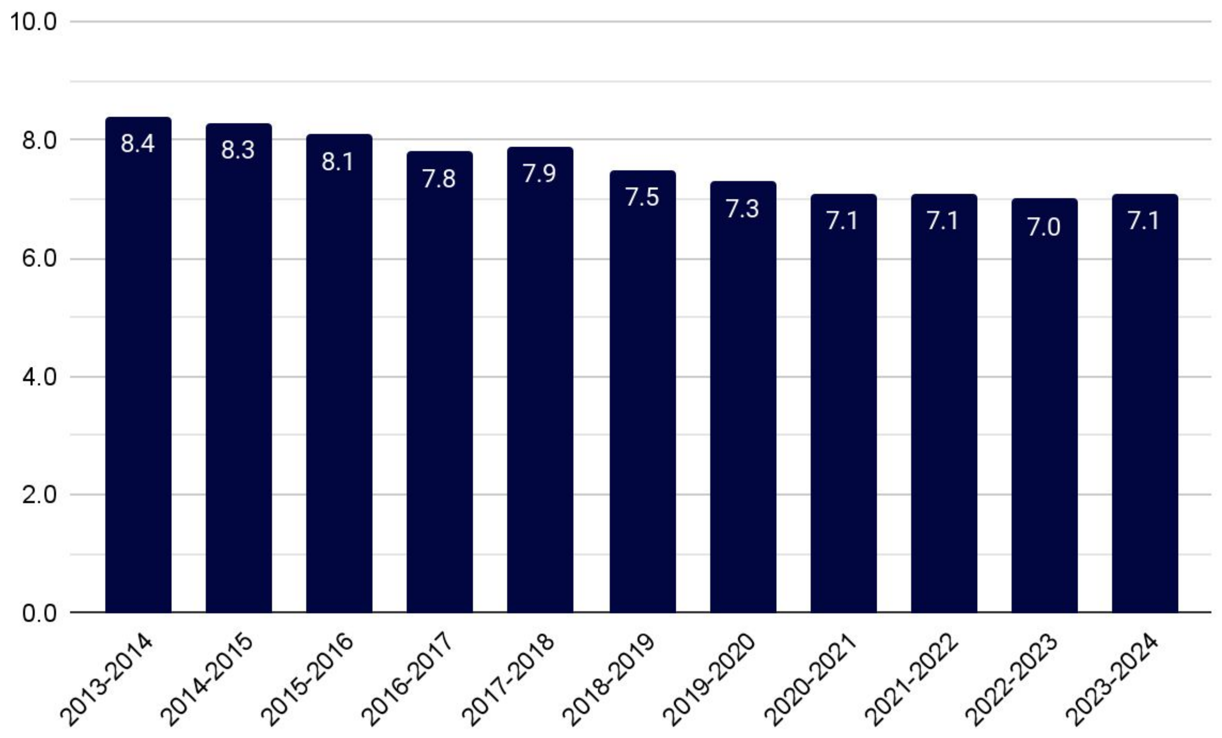
Average tenure of sitting heads of school, 2013-2014 to 2023-2024



*Retrieved from: https://www.nais.org/articles/pages/member/research/nais-research-five-things-to-know-about-head-turnover-in-2022-2023/

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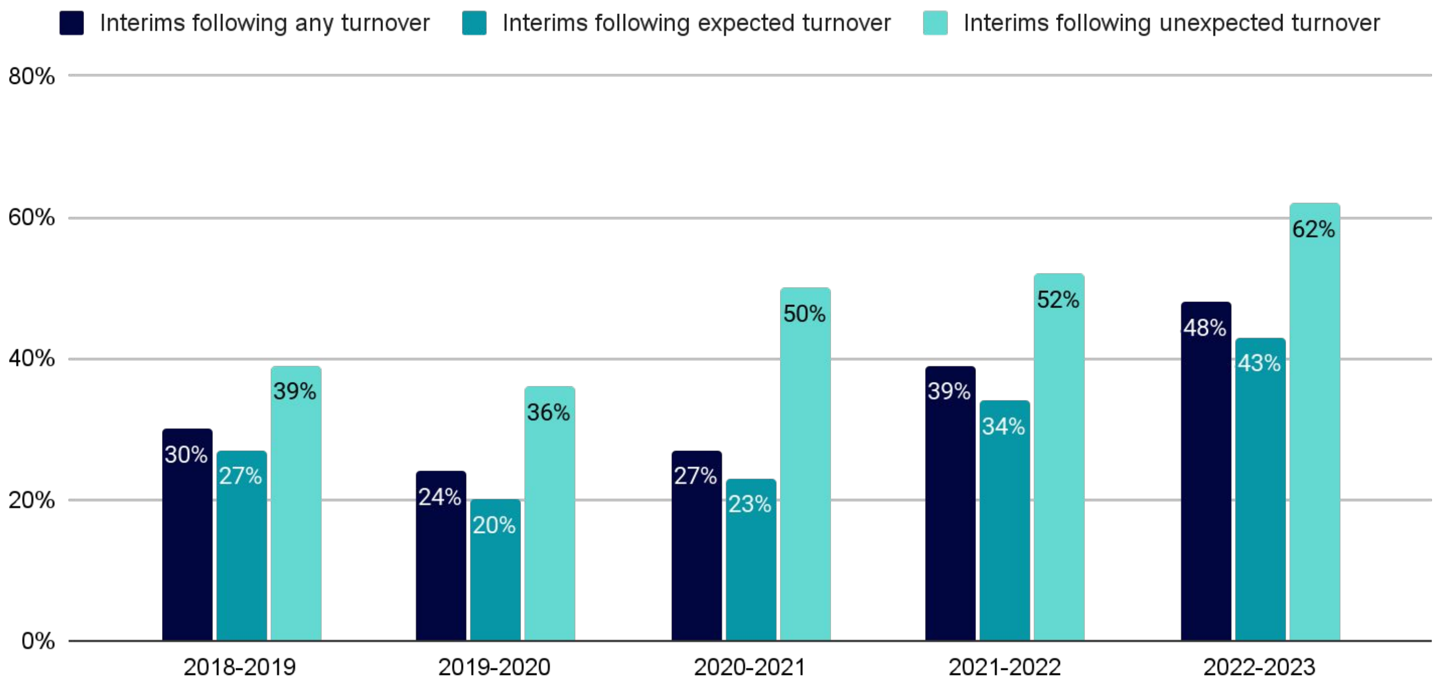
Share of head departures that were followed by an interim or acting head, 2018-2019 to 2022-2023



*Retrieved from: https://www.nais.org/articles/pages/member/research/nais-research-five-things-to-know-about-head-turnover-in-2022-2023/

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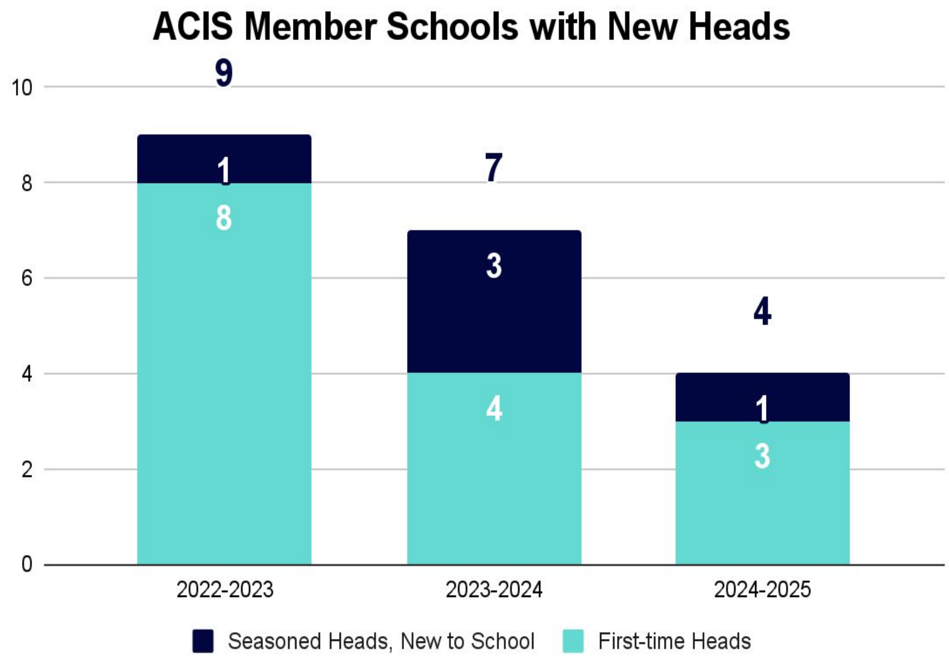
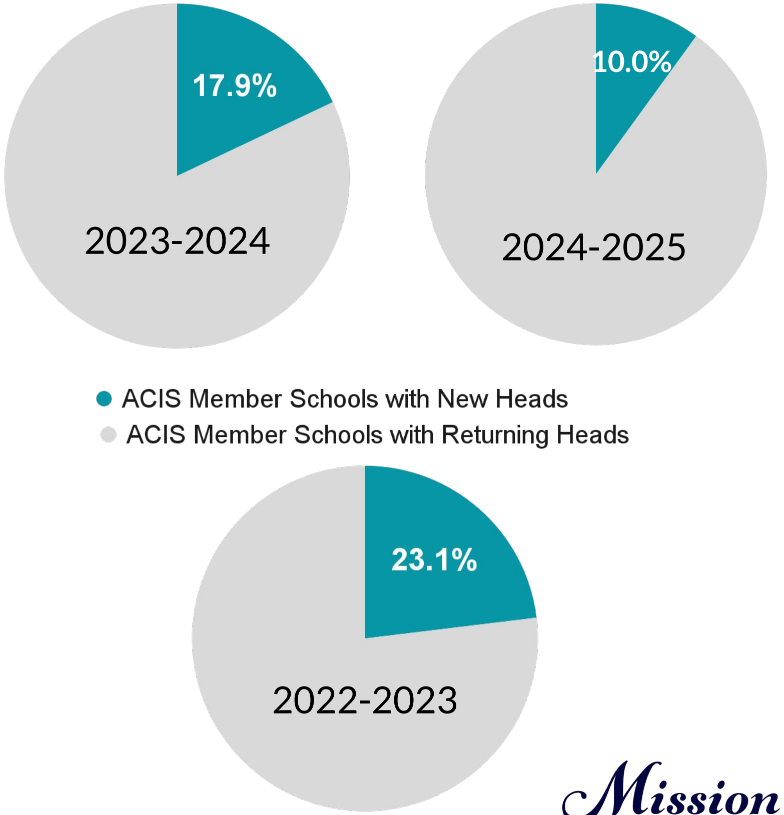
Over the last three years, half of ACIS member schools have a new head.





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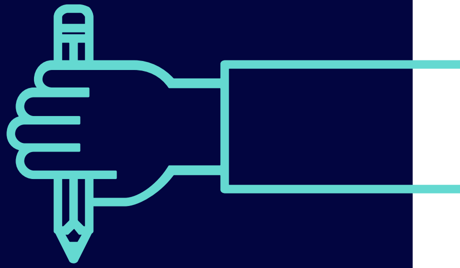
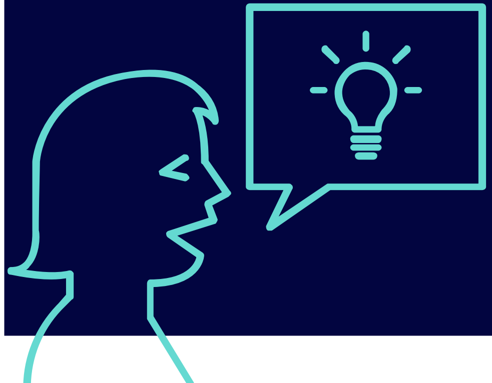


Contract
Renewal Process



Timeline

- ➢ Head's next contract should be completed at least 12 months before the expiration of their current contract (longer if notice provision is longer)
- ➢ Process should start 6 months in advance of this date, so typically 18 months before the expiration of the current contract
- ➢ While this may seem like a long time, gives the school and head time to engage in a search if contract agreement not reached

Key Considerations:

- One of the board's chief fiduciary duties is to select, support, nurture, evaluate, and compensate the head of school
- Doing this well or not well impacts the board's strategic and generative work, the school's broader success, and mission achievement
- How the process is handled can have lasting effects on the board-head partnership, either positively or negatively
- The outcome should be determined based on the school's strategic priorities, the head's and their family's needs, and the relevant benchmarks - not on either party's ability or willingness to negotiate

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Two Paths Boards Choose

DIY /
Go it Alone

Retain an Independent Compensation Consultant

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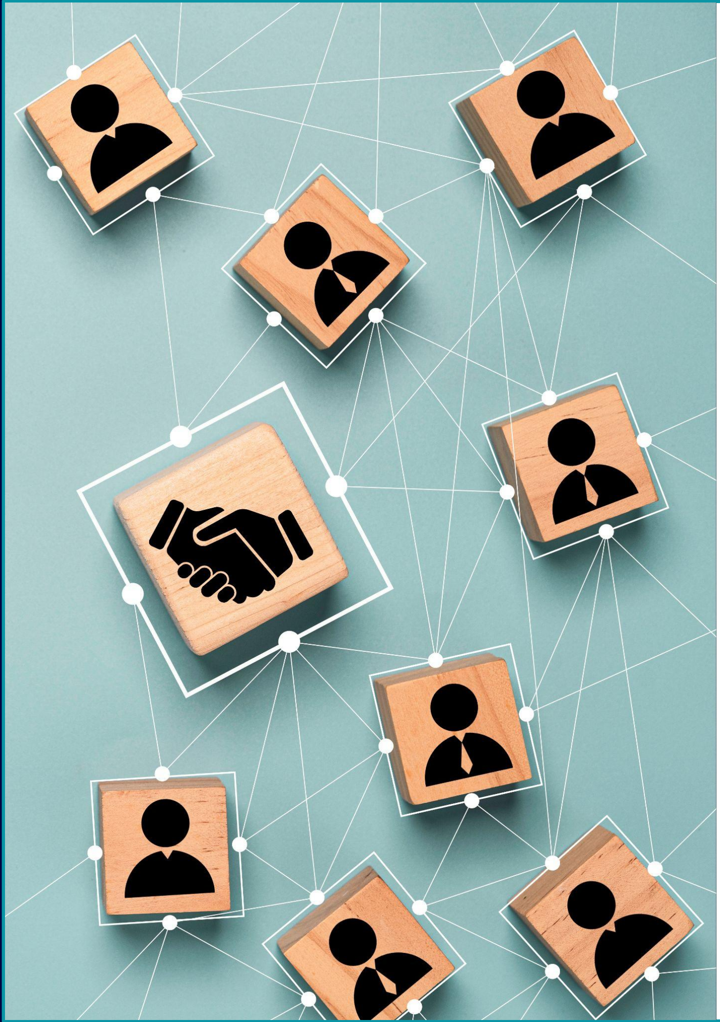
DIY / Go it Alone Approach

- ➢ Recognize that all or almost all other work of the board is supported or led by an administrator - this is one of the few tasks boards must do on their own
- ➢ Boards often call on CFO's to support the process, but don't recognize the inherent conflict that presents for the CFO who reports to the head
- ➢ Should establish a clear timeline at the outset and ensure it is followed
- ➢ Must obtain and rely on appropriate benchmark data
- ➢ Head's comfort level negotiating (or lack thereof) can have a large impact on the outcome



Role of an Independent Compensation Consultant

- ➢ Derisk the contract negotiation process
- ➢ Make meaning of the benchmark data
- ➢ Advise about the structure of total compensation
- ➢ Ensure compliance with IRS requirements
  - ○ Establish the rebuttable presumption of reasonableness of the head's compensation
  - ○ Document compliance - "safe-harbor" letter
  - ○ Demonstrate due diligence to stakeholders (checkbox on 990 Schedule J)

Scan for further reading

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Our Unique Approach as an Independent Compensation Consultant

- ➢ Help make the contract renewal process feel less like a negotiation and more like a collaboration
- ➢ Serve as a neutral, independent third party, advising both the board and the head
- ➢ Develop robust comparability data which is shared with both the board and the head
- ➢ Educate the board and the head about the components of head compensation and make recommendations about the structure of the head's total compensation

All of which serves to protect and strengthen the board-head partnership during the process and long afterwards

Committee Process

- ➢ Many schools use the Executive Committee
- ➢ Some schools establish Compensation Committee which could be as small as the Chair, Vice-Chair and Treasurer
- ➢ Strongly suggest that the board delegate the authority to to the committee to negotiate and enter into the contract with the head
- ➢ Chair reports back to the board at the conclusion of the process – share base salary and total compensation, along with how those compare to the benchmarks

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Components of Head Compensation

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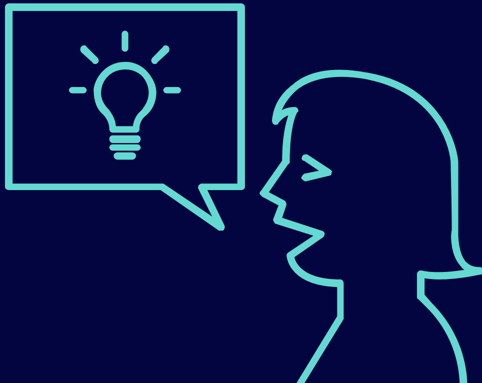
Disclaimer

- None of the following information is meant to be specific legal or tax advice
- Experts we recommend be involved in the head's contract formation/renewal:
  - School's attorney/tax advisor
  - Head's attorney/tax advisor
  - Independent compensation consultant



Components of Head Compensation:

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Annual Salary

- ➢ Makes up the majority of total compensation
- ➢ Should be reviewed annually for an increase
- ➢ Sometimes minimum increase specified (stated amount or % or equal to the general raise pool %)

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Poll: What does your/the head's contract specify about an annual increase?

- Silent about an annual increase
- States increase will be considered at the board's discretion
- Salary schedule/dollar amount for each year specified
- Minimum increase percentage specified
- Minimum increase tied to the general increase/raise pool

What does your/the head's contract specify about an annual increase?

8 responses

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Annual Cash Bonus

- ➢ Boards generally like the idea of performance pay for the head
- ➢ Should be based on measurable objectives/goal achievement
- ➢ Suggest it should be no more than 10% of base salary
- ➢ Can be counterproductive/ troublesome for some heads

Word of caution on annual cash bonus

- Heads serve the mission and give their all for that mission
- So much of the head's job can't be quantified or captured in annual goals
- In that context, receiving less than the full bonus can be discouraging
- Be very careful not to create perverse incentives –e.g., enrollment targets/ growth, some financial targets

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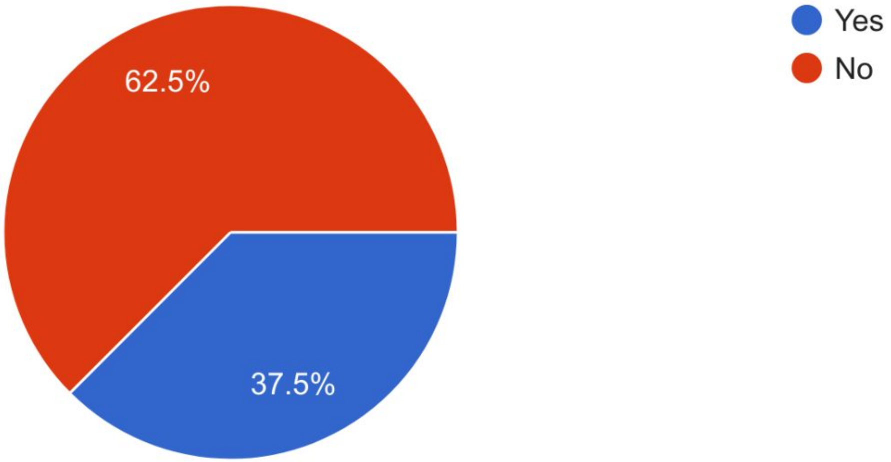
Poll: Do you/the head receive an annual cash bonus?

- ○ Yes
- ○ No

Do you/the head receive an annual cash bonus?

8 responses



Poll: If you/the head receive(s) an annual cash bonus, what percentage of base salary is it?

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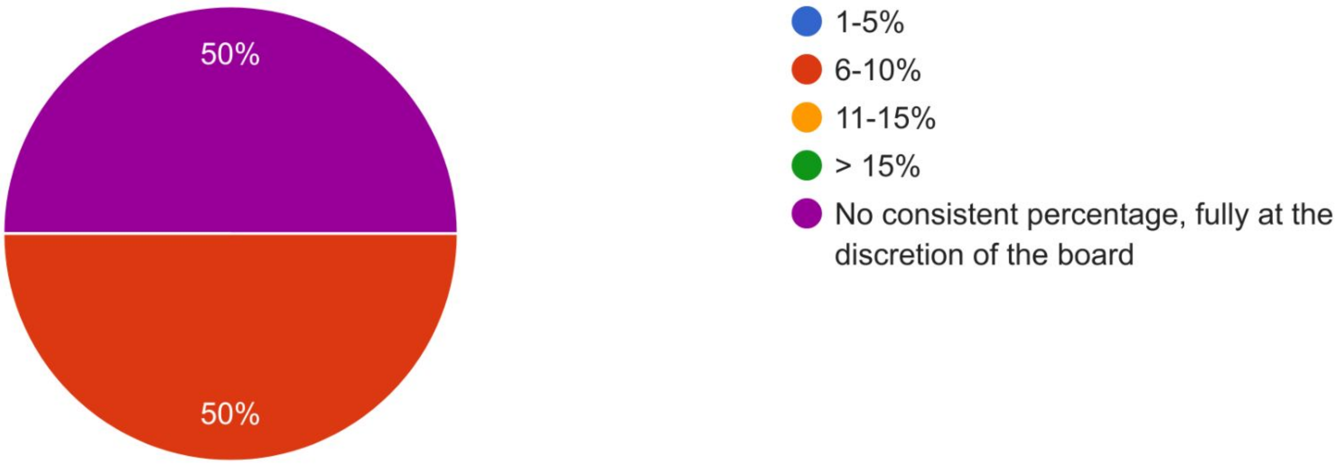
- 1-5%
- 6-10%
- 11-15%
- > 15%
- No consistent percentage, fully at the discretion of the board

If you/the head receive(s) an annual cash bonus, what percentage of base salary is it?

2 responses



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- Includes the 403(b)/401(k) plan and match available to all employees
  - In 2025, up to $350,000 is eligible for matching contributions
- Nonqualified Deferred Compensation Plans
  - 457(b) plans
  - 457(f) plans

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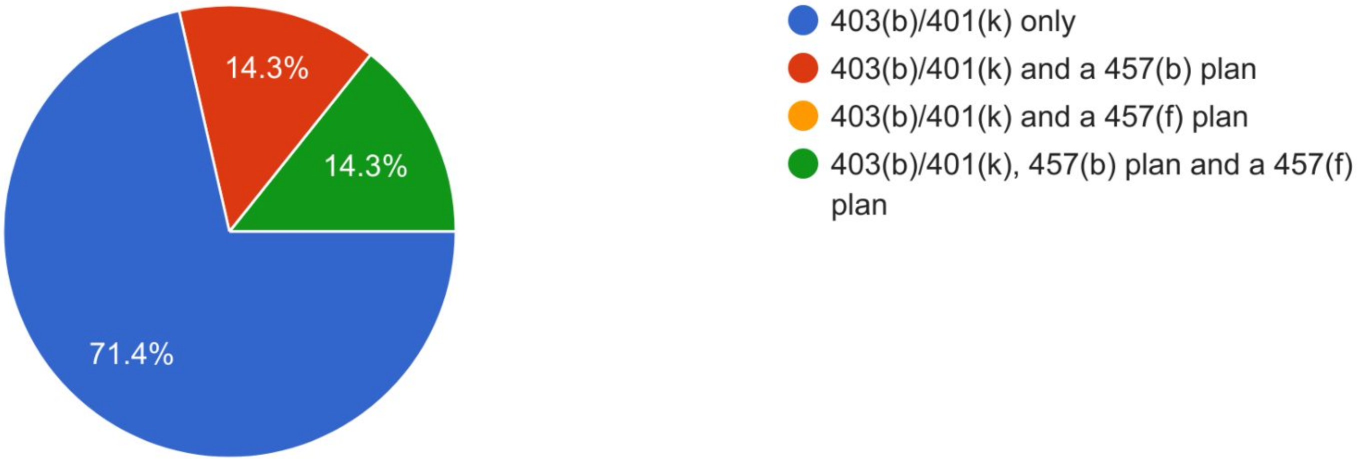
Poll: What deferred compensation plans do you/the head currently have?

- 403(b)/401(k) only
- 403(b)/401(k) and a 457(b) plan
- 403(b)/401(k) and a 457(f) plan
- 403(b)/401(k), 457(b) plan and a 457(f) plan

What deferred compensation plans do you/the head currently have?

7 responses



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457(b) “Top-Hat” Plans

- Only key administrators can be included, okay to include only the head
- Can have a different matching formula from 403(b)/401(k) and among participants of the 457(b) plan if more than the head are included
- Maximum contribution limit is same as 403(b)/401(k) which is $23,500 in 2025
  - Unlike 403(b)/401(k), the total of employee + employer contributions is $23,500
  - Contributions are fully vested when made
- Cannot be rolled over to another plan; will be paid out and taxed at or within a few years of separation of service from the school

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457(f) Plans

- Usually offered only for the head
- No contribution limit; almost always employer contributions only
- Contribution could be specified amount or tied to performance goals
- Must be subject to a substantial risk of forfeiture, which is typically future years of service
- Will be taxable when no longer subject to a substantial risk of forfeiture
- Boards like these plans because they incentivize well serving heads to stay at the school, and heads like these plans because they can create a nice nest egg payable upon departure, whether that is at retirement or not

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Standard Benefits

- Head participates in standard benefits of the school on the same terms as all employees
  - medical, dental and vision
  - flexible spending accounts
  - short and long term disability
  - life insurance
  - tuition remission
  - sick/personal leave

Word of caution on special treatment for head

- Especially around tuition remission and medical insurance cost
- For tax purposes, head cannot receive more tuition remission, but could receive a salary gross-up payment with the net paying the tuition owed after standard remission
- Similarly, can’t simply not charge the head for medical insurance but could provide a salary gross-up in the amount of the insurance deducted

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Supplemental Benefits

- Heads often receive additional benefits including:
    - concierge medical for head and family
    - financial planning services
    - additional life or disability insurance
    - long term care insurance
    - additional annual personal leave/vacation
    - sabbaticals
    - signing and retention bonuses
    - education assistance at another school/college

Perquisites

- Large universe of possibilities including:
  - house or housing allowance
  - loans with low interest/foregone interest
  - social/golf club memberships
  - automobile or auto allowance
  - cleaning / lawn care/ other domestic services
  - child care services
  - spousal travel

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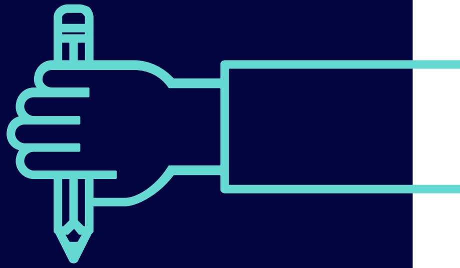
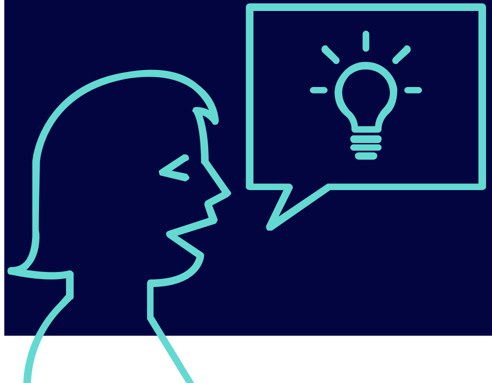


Key Contract Terms



- Term
- Evergreen
- Notice
- Cause
- Without Cause

Term

- Three to four years standard
- Shorter doesn't give the head stability or time to achieve goals
- Longer risks changing circumstances for the school or head
- Longer also risks the compensation becoming out of market range in later years of the contract

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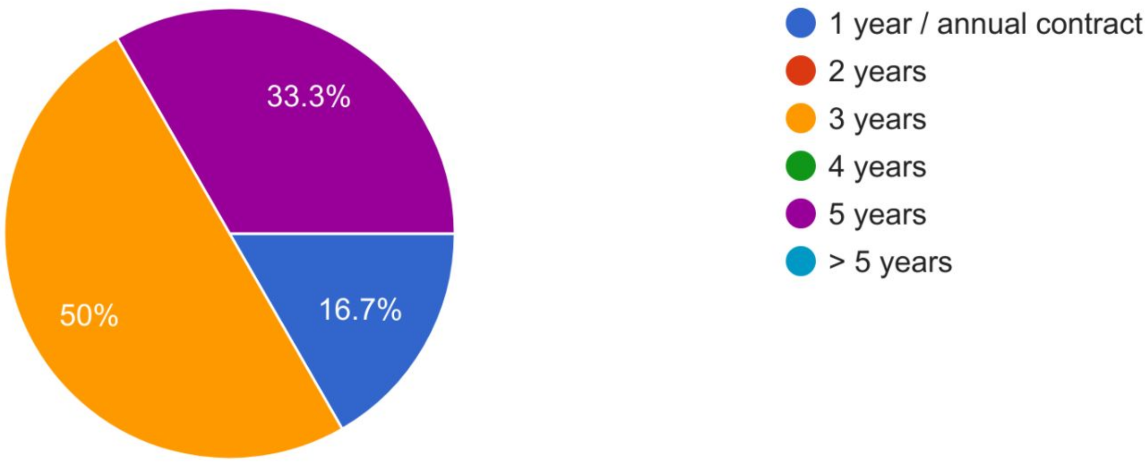
Poll: How long is the original term of your/the head's current contract (not years remaining)?

- 1 year / annual contract
- 2 years
- 3 years
- 4 years
- 5 years
- > 5 years

How long is the original term of your/the head's current contract (not years remaining)?

6 responses



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Evergreen

- Evergreen provisions automatically extend the contract if neither the school nor the head say anything by a specific date
- Generally thought to be a good/friendly provision to have
- However, the provision may serve to prevent or make more difficult the necessary review and benchmarking of the head's compensation every 3-4 years

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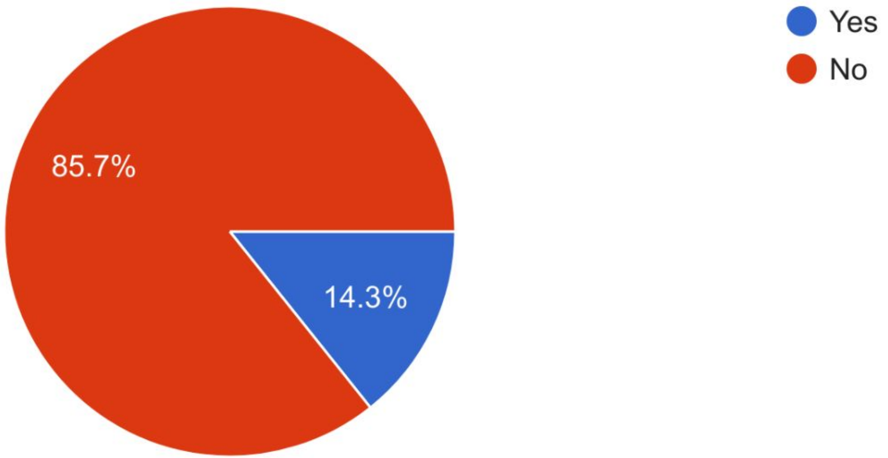
Poll: Does your/the head's contract have an evergreen provision?

- Yes
- No

Does your/the head’s contract have an evergreen provision?

7 responses



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Notice

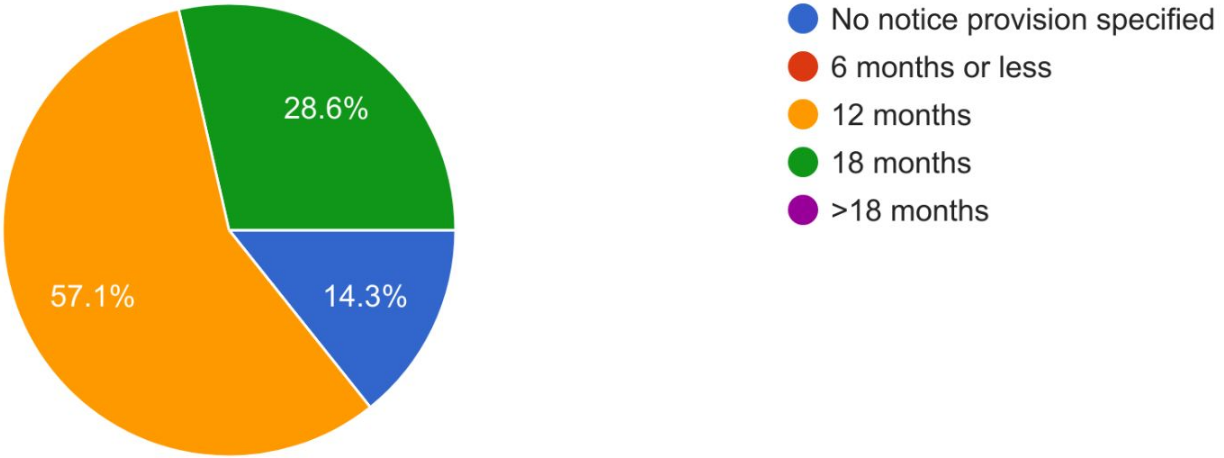
- For a long time, 12 months was standard
- Seeing more contracts move to 18 months notice given changes to the head search cycle
  - Schools are starting searches much earlier with more opening at least 18 months before the start date

Poll: How long is the notice provision in your/the head's contract?

- No notice provision specified
- 6 months or less
- 12 months
- 18 months
- >18 months

How long is the notice provision in your/the head's contract?

7 responses



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Cause

- ➢ The language and definition of "for cause" termination is one of the most important terms in a head's contract
- ➢ Ensure that it is narrowly defined and sets a very high bar
  - Generally only for willful behavior that is objectively determinable
  - Gross negligence, moral turpitude, conviction of (not charged with) a felony
  - Avoid any language close to "insubordination" and the like

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Without Cause

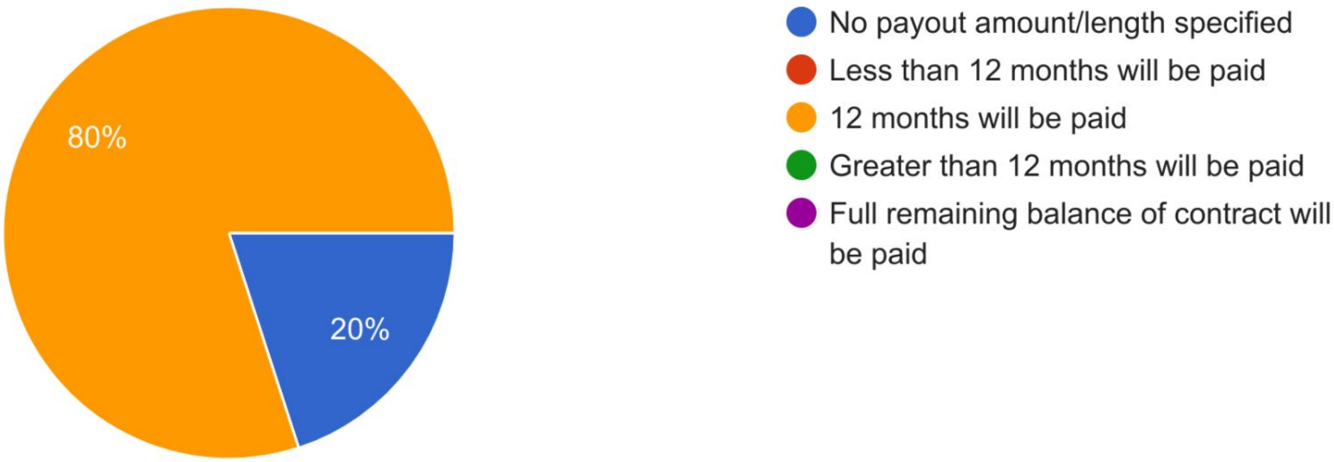
- ➢ Years ago, most contracts provided that termination without cause required full payout of all remaining years of contract
- ➢ Today, the standard is a payout of 12 months, regardless of the years remaining
- ➢ This provision represents the true scope of the head's security
- ➢ Given this, another reason that contracts longer than 4 years may not be advisable

Poll: What does your/the head's contract provide in the event of termination without cause?

- No payout amount/length specified
- Less than 12 months will be paid
- 12 months will be paid
- Greater than 12 months will be paid
- Full remaining balance of contract will be paid

What does your/the head's contract provide in the event of termination without cause?

5 responses



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- ***Integrated strategy consulting*** to promote financial sustainability, improve organizational effectiveness and facilitate organizational transformation.
- ***Developing custom data products***, visualizations, and dashboards to highlight progress, identify trends, and leverage actionable insights.
- ***Auditing current practice*** and analyzing organizational data to recommend process efficiencies and strategic improvements.
- ***Coaching leaders and boards of trustees*** to enact institutional vision and build a culture of inquiry-based decision making practices.

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