

Staffing your private foundation

Determining the right role, compensation and fit



Family funded and managed

A private foundation is an independent charitable giving vehicle, typically controlled by a single person or a small group of donors. Private foundations are often family-run and funded foundations, so the family members make the decisions on which organizations to support, at what donor level and the role the foundation plays in their overall philanthropy. They may see the need to hire staff to carry out the mission, manage the day-to-day work and keep the foundation actively engaged in fulfilling responsibilities.

Philanthropy is a powerful tool to create change, and many individuals and families find a private foundation best suits their charitable giving efforts. As operations become more complex and involve more grantees and activities, you may find the amount of work time-consuming and determine the need to hire staff.

This white paper provides key considerations when hiring and compensating foundation staff, which can include family members or foundation insiders.

A range of staffing needs

Private foundation donors and family members generally have assigned board roles and responsibilities such as president, treasurer and secretary, but depending on the size or complexity of the foundation, there may be more day-to-day work involved. You may determine you need a paid staff person to gather paperwork and information for your foundation's trusted advisors to prepare tax returns. In other cases, your foundation might have a complex grant application process, need to conduct site visits to charities or run its own charitable programs. If this is the case, your board might consider hiring a staff person to help with the operations on a full- or part-time basis.

Involving family and insiders

You can hire foundation insiders, or substantial contributors to the foundation and their family members to work for the foundation. A role working as a staff person for the foundation may be a valuable opportunity for younger family members who have a passion for charitable work or who want to develop new skills. For some families who put a high priority on the privacy of their philanthropic discussions, a family member might feel like a better choice than having an outsider involved in their philanthropic discussions.

If the IRS determines staff has received too much compensation, the foundation and the individuals who were paid may face negative consequences.

The importance of being cautious

The IRS allows foundations to pay staff; however, the specific details are not well-defined. These parameters are left for foundations to determine, given the wide range of differences in geographies, responsibilities and activities foundations engage in. Unfortunately, if the IRS determines staff has received too much compensation, you may find that your foundation and the individual(s) involved face negative consequences.

We'll help you explore how to construct compensation packages so you can feel confident about how your foundation sets salaries.

Creating job descriptions

Creating a specific job description for each hired staff position can help by defining the basis for compensation. To determine whether to hire staff, your board should first consider your foundation's:

- Planned grantmaking activity
- Engagement in their chosen program areas
- Approach to site visits

Then your board can create a list of all the tasks and responsibilities that need to be fulfilled for the foundation. Once they have this list, the board can determine which responsibilities could be handled by professional advisors and which by board members themselves. The remaining items can then be used to define specific positions and responsibilities to be handled by paid staff.

Once the scope of each role has been determined, the board can begin to create a job description with itemized tasks. Some tasks may be more administrative in nature, while others may require more interpersonal skills such as conducting site visits, interviewing and interacting with grantees, and communicating with the community. Your foundation board should estimate how much time on a weekly basis each role would require, in order to determine whether the foundation needs a part-time person, a full-time person or potentially several staff people for different roles.

Defining these roles is important for a variety of reasons. It makes the responsibilities clear for the person(s) doing the work as well as for family members who are involved and/or aware of the family foundation. A job description also serves as a guide to determine what is beyond the scope of the role and to set clear expectations for fulfilling the work. This way, for example, if there is one family member who is employed by the foundation, it's clear to the other family members what work is involved in the paid position as well as what isn't.

Determining compensation ranges

Another benefit of having a defined job description is that it allows your board to go out to the open job market and look at what other, comparable foundations are paying their staff in an equivalent role. This is a vital step for determining appropriate compensation. You should look at foundations with similar:

- Size
- Geographic area
- Roles and responsibilities

It is well worth the effort to determine reasonable compensation properly.

Some foundations or researchers will look at compensation studies from regional or national associations of grant-makers to get started in determining the compensation range, but it can be difficult to narrow down the amount because many private foundations do not employ staff. Job titles are also not always applied in a systematic way. For example, President, CEO, Director and Executive Director can all potentially reference the same role or level of responsibility. In many cases, researching compensation may involve examining compensation and role definition at public charities or for-profit companies as well as at other foundations.

Clearly, determining reasonable compensation properly takes effort to ensure the correct documentation. However, this effort is well worth it. There are some companies that will do a compensation analysis for families to gather all the research and documentation. In other cases, a family might do the research on their own or with help from an attorney or other advisor.

Covering the bases

Once your board has gone through the process and documented how they arrived at the compensation for the foundation staff, it's important to keep the information on file. This way, if your foundation is audited in the future and regulatory agencies have questions about the amount, the board would be prepared with a report that covers how they arrived at the compensation. Be sure to update the documentation if the roles and responsibilities of the job change.

Keep in mind that the 990-PF, the annual tax return a private foundation must file, is publicly available to anyone who requests it. Additionally, there are a few companies who compile the 990-PFs from all private foundations and for a subscription fee, make some of the data searchable. This makes all compensation information, from director or trustee fees to salaries paid, available to the public.

The right fit

The potential for IRS penalties as well as negative press and attention for your family make it critical to ensure that the person hired for a particular job has the appropriate skills and qualifications. A compensation study may reveal ranges of appropriate salaries for the position with your foundation. At that point, you need to have an honest look at the person you are looking to hire, their background, experience and any special skills—especially if the person is a family member. Anything you pay a family member should be equivalent to what you would pay a non-related third party with a similar background for the same job. You also need to remember that the salary is based on where the person performing the job is located, not where the foundation is located. The salary for foundation staff living in Nashville, for example, may not necessarily be the same as for staff located in New York City.

If your foundation is audited, your board needs to be prepared with a report covering how they arrived at any compensation.

Know the risks: IRS penalties

People often assume that if the foundation pays an insider what the IRS deems to be excessive compensation, that the foundation itself would have to pay a penalty. This is true. Any excessive compensation paid would result in a taxable expenditure, which would require the foundation to pay a 20% penalty on the unreasonable portion of the compensation.



Key takeaways

The three most important things to remember are:

- 1) Document the process
- 2) After defining a job description, take a close look at what the compensation would be for a non-related third party for that position
- 3) Get experts involved in the process

That's not all, though; because this would be considered a "self-dealing" violation, the insider who received the excess compensation would actually be the one who pays the largest penalty. This person would have to pay back the excess compensation amount, typically with interest, plus a 10% penalty on the amount involved—generally that excess number. There could be additional penalties if it isn't paid back in a timely manner, extra penalties could be assigned to other foundation board members if it's determined that they knew the amount was excessive, and if the IRS feels it's really egregious, they could revoke the foundation's tax-exempt status entirely.

In conclusion

If the work required to run a private foundation efficiently makes hiring staff necessary, it's appropriate to hire paid staff. When you have a family member who is passionate about the family philanthropy and wants to go to work for the foundation, it's well worth the time and energy to get the role definition and compensation right.

Your UBS Financial Advisor can serve as a resource even before you've established a private foundation or other giving vehicle and started to think about staffing. Your Advisor can provide guidance for your liquidity, longevity and legacy needs, and set up a conversation with the UBS Family Advisory and Philanthropy Services team for additional assistance.

Want to learn more?

Contact your UBS Financial Advisor.

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