

SPECIAL REPORT: 2006 SALARY SURVEY Pots Of Gold

By [Bara Vaida](#), *National Journal*
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What is the talent of a Washington trade association CEO worth in dollars and cents? The numbers are eye-popping.

To the [Motion Picture Association of America](#), the skills of its legendary leader **Jack Valenti** were valued at almost \$11.1 million when Valenti retired in 2004 after a 38-year career as Hollywood's top lobbyist in Washington. Valenti's exit package included salary, deferred compensation, and severance and retirement pay that stacked up as probably the largest payout that a D.C. association CEO has ever received.

Then there's **Thomas Donohue**, the current president and CEO of the [U.S. Chamber of Commerce](#). His haul in 2004 was \$6.78 million, 73 percent of which was supplemental retirement benefits accumulated over 19 years.

And the [National Association of Chain Drug Stores](#) rewarded President and CEO **Craig Fuller** with a \$3.1 million pay, deferred-compensation, and benefits package in 2004. At the time, Fuller, a former White House aide to **President Reagan** and chief of staff to Vice President **George H.W. Bush**, had been at the association for five years.

"Wow," responded **Eric Vautour**, area manager at the Washington office of head-hunting firm [Russell Reynolds Associates](#), when told of the amounts. "These are huge numbers." The figures even surprised compensation specialist **Charles Quatt** of [Quatt Associates](#). "These are bigger than I expected."

The big numbers didn't stop there. Forty-five other trade associations, think tanks, professional societies, and labor unions also awarded their chief executives with salary and benefits of \$1 million or more in 2003 and 2004, according to *National Journal's* eighth biennial salary survey, based on the annual reports that 597 organizations filed with the Internal Revenue Service, or, in the case of unions, with the Labor Department.

The number of millionaire CEOs, presidents, and executive directors was up from 32 in [2002](#) and from 18 in [2000](#). Even more executives joined the ranks of those making at least \$500,000: 145 executives broke the half-million-dollar mark, up from 120 in 2002 and 98 in 2000. From 2002 to 2004, CEOs who landed a bigger pay package received an average increase of about 29 percent, including deferred compensation, bonuses, retirement benefits, and personal allowances. (For the full distribution list, search the [database](#).)



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The numbers have risen as business trade associations, key think tanks, professional societies, public-interest groups, and similar organizations are playing significant roles in shaping public policy in the capital. Their efforts, particularly on behalf of corporate America, have greatly boosted their members' bottom lines. In addition, the associations' influence has grown since **President Bush** took office, as many CEOs have helped to raise money for lawmakers from both parties and have vigorously supported the administration's policy agenda.

Furthermore, the well-publicized pressure from Congress and the White House to put loyal Republicans in charge of industry groups has made the relationships between association CEOs and official Washington more important than ever.

Doug Pinkham, president of the [Public Affairs Council](#), said that "a top-flight CEO" who is talented and well connected "makes a difference, particularly when it comes to lobbying."

K Street Mirrors Wall Street

The pay hikes on K Street aren't happening in a vacuum. CEO compensation packages in the nation's largest publicly traded companies are also surging. In 2004, the CEO of a company listed in the Standard & Poor's 500 index received a median base salary and bonus, excluding stock options, of \$3.7 million, up 22.4 percent from the year before, according to Equilar, a compensation-research firm in San Mateo, Calif. Two factors driving the increase, the research company said, were companies' increased use of long-term incentives, bonuses, and restricted stock, and their reduced use of stock options.

"It parallels corporate America," **Nels Olson**, managing director of the Washington office of executive search firm [Korn/Ferry International](#), said of the surge in association CEO pay. "These folks are representing corporate interests, and so it isn't surprising to see a rise within [these] percentages. That's what the market is paying."

Quatt agreed: "Trade associations aren't operating in isolation from the rest of the world." Quatt's firm has helped groups determine appropriate executive pay by scrutinizing salary data at for-profit companies in particular industries, and at nonprofit organizations that are similar in size and provide similar services. He noted that many of the corporate CEOs who sit on the boards of trade associations are themselves well compensated and that they expect to pay their Washington representatives handsomely as well.

"In the corporate world," Quatt said, "compensation has grown, and trade associations are competing for talented [people] that could go to work in the corporate world."

An important caveat in our survey is that lump-sum exit packages given to departing CEOs boosted about one-third of the pay packages in our top 48. The most prominent CEO to leave was Valenti, who gave up the helm at the MPAA after nearly four decades but continues to serve as a part-time consultant and strategist for the organization. Over the years, Valenti accrued deferred compensation worth \$7.98 million, which he received upon retirement. He also received a severance payment of \$712,500, a onetime retirement payment of \$1.18 million, a life insurance benefit of \$21,511, as well as other income, resulting in a total compensation package of \$11.08 million.

How did he feel about going out as the top breadwinner? Valenti demurred, saying, "I never paid much attention to those salary surveys." He acknowledged, however, that the survey "makes interesting

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reading," and he offered a "God bless" to other associations paying their executives \$1 million or more.

The 13 other millionaires in our survey who received exit payouts included **John Crum** of the [American Chemical Society](#); **Carl Feldbaum** of the [Biotechnology Industry Organization](#); **Matthew Fink** of the [Investment Company Institute](#); **Alan Holmer** of the [Pharmaceutical Research and Manufacturers Association](#); **Frank Iarossi** of the [American Bureau of Shipping](#); **E. Edward Kavanaugh** of the [Cosmetic, Toiletry, and Fragrance Association](#); **Gregori Lebedev** of the [American Chemistry Council](#); **Donald Ogilvie** of the [American Bankers Association](#); **Robert Sachs** of the [National Cable & Telecommunications Association](#); **Joe Sanders** of the [American Academy of Pediatrics](#); **Ronald Streck** of the [Healthcare Distribution Management Association](#); **E. Linwood Tipton** of the [International Dairy Foods Association](#); and **Robert Vagley** of the [American Insurance Association](#).

In addition, about a dozen other top-earning CEOs who did not retire received large onetime payouts because of vested deferred-compensation programs, or through a supplemental executive retirement program, or SERP. Unlike corporations, associations cannot offer stock options to their CEOs; so they use deferred-compensation and SERPs to provide incentives and rewards for long-term performance.

"Deferred compensation has become a very popular perk, asked for by both incoming and sitting CEOs," said **Leonard Pfeiffer**, who runs the executive search firm [Leonard Pfeiffer & Co.](#)

This year, deferred-compensation packages showed up more often in the IRS forms that *National Journal* reviewed than they have in previous years. The reason, apparently, is a 2004 tax law that required nonprofits to spell out exactly how much money an organization is setting aside for deferred payment, according to **Jim Moss**, founder and managing director of [PRM Consulting](#). In years past, associations could shield the deferred-compensation information from public view on the annual 990 forms that they filed, because the law didn't explicitly require that this information be made public.

Some associations apparently wondered how their staff and membership would perceive their CEO's total pay package. One example was the [Air Transport Association](#), which noted in a letter to *National Journal* that President and CEO **James May** received a base pay of \$700,000 and then a 20 percent bonus, boosting his salary to \$840,000. The ATA also made a payment of \$1.08 million to May's SERP, which the airline group said it took over from May's previous employer, the [National Association of Broadcasters](#). The U.S. Chamber of Commerce underscored that **Thomas Donohue's** pay package included a lump-sum supplemental retirement benefit of almost \$4.96 million.

The National Association of Chain Drug Stores explained that Craig Fuller's package was boosted by a \$1.38 million payment to his SERP, which he was entitled to receive upon his fifth year at the association. **James Huber**, senior vice president of finance at the association, said that Fuller paid taxes on the SERP payment and that the remaining funds were placed in a trust that Fuller manages but cannot draw from until he retires at 62. The association paid approximately \$646,646 toward a future SERP payout, but Fuller won't have access to those dollars for another three years. Under IRS rules, if Fuller departs from the association before his next three-year term expires, he loses the money that had been set aside for his SERP.

Another executive whose pay was boosted by a similar package was **Richard Davidson**, president of the [American Hospital Association](#). His base compensation was \$856,772, and he received another \$390,513 in contributions to a retirement plan, plus an expense allowance of \$132,027.

But even without these deferred payments, CEO compensation has swelled. The number of CEOs who

were paid at least \$1 million, not counting benefits or allowances, grew to 29 in 2003 and 2004, up from 16 in 2002 and seven in 2000.

And in the two years since our last survey, among the CEOs who received higher compensation, not including benefits and allowances, the average increase was about 25 percent. **Terrence McDermott**, the former CEO and executive vice president of the [National Association of Realtors](#), was at the top of this list, earning nonbenefit compensation of more than \$2.63 million. McDermott, who left the group in fall 2005, received a base salary of \$777,174, a \$487,500 merit bonus based on three years of work, and a \$1.37 million payment from a "long-term incentive compensation plan."

Looking at total pay package, the CEO with the largest percentage increase since the previous survey was Valenti, whose package grew by 709 percent. The second-largest increase was recorded by **Edward Black**, president and CEO of the [Computer & Communications Industry Association](#), a group focused on opening competition in the computer software industry. In 2004, CCIA settled a lawsuit with Microsoft that helped boost Black's salary by 467 percent, bringing it to \$998,450.

Two other caveats about our figures: We have shifted the mix of groups surveyed and slightly increased the number of associations surveyed -- 597 this time versus 575 two years ago, and 500 four years ago. To help round out our figures on sports groups, we obtained a tax form from the [Major League Baseball Players Association](#), whose executive director, **Donald Fehr**, appears on our millionaire list. We dropped the National Association of Securities Dealers because NASD is a regulator and not a trade association. NASD's former CEO, **Robert Glauber**, was atop our compensation list in the past.

We also created a new association sector -- "communications and information technology" -- to reflect the changing world of technology. We cannot, as a result, directly compare this year's median salaries with those of previous years.

Still, it's clear that the CEOs with the highest compensation packages were in the communications and information and technology sector, where the median package was \$614,041. Coming in at No. 2 were CEOs in the finance, insurance, and real estate sector, with a median of \$533,289. (Search by sector in the full [database](#).)

Those in the public-interest sector -- who typically carry the title of executive director -- were paid the least; the median salary at a public-interest group was \$184,881. At the bottom of our survey was **Ingrid Newkirk**, president of [People for the Ethical Treatment of Animals](#), whose compensation was \$35,664. Newkirk says she is satisfied with her salary: "Given how little animals [have] and [how much] many people have, one has to ask, 'How much money does a person really need?'"

As in previous surveys, the pattern of gender inequity at trade associations continues. The median total compensation, including benefits and allowances, for male CEOs was \$317,295 and for female CEOs \$235,666. Just two women were in the millionaire club: **Karen Ignagni**, president of [America's Health Insurance Plans](#), and **Pamela G. Bailey** of the [Advanced Medical Technology Association](#) (she is now CEO of the Cosmetic, Toiletry, and Fragrance Association). Among all of the groups in the survey, 95 organizations, or 16 percent of the total, were run by women, compared with 15 percent in the last survey. Nationwide, women headed 33 percent of associations, according to the American Society of Association Executives 2004 salary survey.

Why Pay Keeps Rising

Twenty years ago, many groups in Washington were viewed as sleepy, bureaucratic organizations that set up meetings for corporate executives to socialize and network. "When I came here, associations had

a pejorative name," said the American Insurance Association's Vagley in a 2004 interview. Vagley, who left the AIA at the end of 2004 with an exit package of \$2.76 million, joined the group in 1986. "The emphasis was on process, not results. It was about golf outings and conference meetings." When *National Journal* conducted its first CEO salary survey, a review of compensation in 1989, no association executive hit the \$1 million mark.

Two decades later, many CEOs are now on call to their association members 24 hours a day, seven days a week. They are responsible for developing the advocacy and communications strategies for the organization. CEOs must also negotiate consensus among association members that compete fiercely with one another in the marketplace.

An association CEO has to have a head for business as well. He or she must be able to manage employees and finances in the face of competition from other trade groups. It used to be that members stayed in associations out of loyalty, but companies and individual professionals now emphasize that their associations must produce results in exchange for ongoing membership dues. Furthermore, CEOs frequently visit member companies, state affiliates, and other stakeholders, spending as much as half their time on the road. (For more on CEO responsibilities, see the [sidebar](#).)

"There is so much pressure in the marketplace, that trade associations have moved beyond advocacy," said **David Rehr**, the new president and CEO of the National Association of Broadcasters. "Now it's advocacy, it's member benefits, it's public relations, it's public affairs, it's making sure our industry has a good image in the public."

Finding a person who combines political stature, communication skills, and management ability is a challenge, say headhunters. Individuals who fill the bill are in demand and can command huge paychecks. A newcomer to the millionaire list is former Rep. **Steve Largent**, R-Okla., who took over [CTIA-The Wireless Association](#) in November 2003. Largent, a charismatic former football player with the Seattle Seahawks and a former member of the House Energy and Commerce Committee, ran an advertising and marketing firm before entering Congress in 1994. CTIA gave Largent a package of \$1.16 million, a huge jump from his congressional pay in 2003 of \$154,700.

"It's really the demands these associations are putting on CEOs that is driving these salary increases," said **Leslie Hortum**, who manages the D.C. office of [Spencer Stuart](#), an executive search firm.

With one party controlling the White House and both chambers of Congress, associations have also placed a premium on political relationships with Republicans. Again, Largent is an example. A conservative Republican with ties to the House leadership, Largent replaced **Thomas Wheeler**, a well-known Democrat, as head of CTIA. In 2004, PhRMA entered a bidding war with the MPAA to hire former House Commerce and Energy Committee Chairman **Billy Tauzin**, R-La. PhRMA was so eager to win Tauzin's services that it reportedly agreed to pay him a whopping \$2 million annual salary. Its effort worked: He took the association's helm in early 2005. (PhRMA's 990 filing for 2005 will not be available before the end of 2006.)

"When an association is looking for someone with the cachet and access they need in a particular industry, chances are they will pay," said **Lorraine Lavet**, who specializes in association searches for Korn/Ferry.

Although associations say that an individual's politics are not the most important quality in choosing a CEO, examples of politics' importance abound. Republicans who have been hired to lead high-profile trade associations include Tauzin; former Montana Gov. **Marc Racicot** at the American Insurance

Association; former Michigan Gov. **John Engler** at the [National Association of Manufacturers](#); former Oklahoma Gov. **Frank Keating** at the American Council of Life Insurers; **Kyle McSlarrow** at the National Cable & Telecommunications Association; **Jack Gerard** at the American Chemistry Council; former Rep. **James Greenwood**, R-Pa., at the Biotechnology Industry Organization; Rehr at the National Association of Broadcasters; and **Paul Schott Stevens** at the Investment Company Institute.

The news wasn't all bad for Democrats. In the past two years, high-profile associations hired two well-known Democrats: Former Rep. **Cal Dooley**, D-Calif., became president and CEO of the [Food Processors Association](#), and former Rep. **Dan Glickman** of Kansas -- who was Agriculture secretary in the Clinton administration -- succeeded Valenti at the MPAA.

CEO salaries are also rising because many associations offer the CEO a bonus for meeting performance goals. It is not uncommon for CEOs to get bonuses that are between 20 and 40 percent of their base salary. That is much higher than in years past, when a bonus, if given at all, ranged between 10 and 15 percent of salary. A signing bonus between \$10,000 and \$75,000, or even more, is also increasingly common for newly hired association CEOs, Pfeiffer said.

A performance bonus is a key piece of **Pamela Bailey's** compensation. Bailey left the Advanced Medical Technology Association to become head of the Cosmetic, Toiletry, and Fragrance Association in April 2005. Among the annual goals set by the CTFA board are ensuring that the association keeps growing, addressing membership concerns, and leading an advocacy agenda. "It's very similar to the corporate world," said Bailey, who declined to detail her bonus.

The same is true at the [Business Roundtable](#), where President **John Castellani's** overall pay is linked to three components: base salary, how well Castellani performs in the eyes of the board, and how well the roundtable's member companies perform. "Ultimately, my pay is tied to performance because if our members cannot point to specific accomplishments that their [membership dues] brought to their companies or sectors, then it isn't worth paying me," Castellani said.

Rock Stars

With associations taking on higher political profiles, and salaries rising to lofty levels, we are now in an era of the "celebrity CEO," where Washington executives are "rock stars, just like some CEOs in the corporate world," said the Public Affairs Council's Pinkham.

In the past several years, about half of the top executive jobs at prominent associations have gone to former lawmakers, former governors, or former administration officials. That's a big change from 10 years ago, when boards often didn't want to hire former government officials, because of the common perception that they were better at legislation and policy than they were at lobbying.

"On occasion, former officials have not made the transition to the association world, and some associations are wary about hiring former lawmakers," said Olson. "But in a town of perceptions, the perceived ability for a senior-level former elected official to gain appropriate access is still important."

"The thing about hiring former members is that they have access immediately," said Rehr, who recently left his job as president and CEO of the [National Beer Wholesalers Association](#) to take the top job at the broadcasters group. "Billy Tauzin, for example, calls anyone on the Hill just out of courtesy, and they'll get back to him immediately. A nonelected official has to build those relationships."

But the environment is getting chillier for former lawmakers-turned-lobbyists/CEOs. The House voted earlier this month to end former members' special privilege of access to the House floor and gym.

The eagerness to hire former public officials has made the second-in-command at some groups anxious. Headhunters said they have been fielding nervous calls from chief operating officers or senior vice presidents worried that they now face a "glass ceiling" and that boards increasingly want to hire someone from the outside.

"It's always a challenge being an internal candidate," Olson said. "Boards may have gotten so comfortable with their No. 2 being in the No. 2 position that they don't want that to change."

That fear appears a bit overstated: Over the past few years, many of the top association jobs have gone to the group's second-in-command, to an association executive from another organization, or to an individual from the private sector. Management experience and policy expertise remain top qualifications, and political juice alone isn't enough, Pfeiffer said. "My clients say it would be great to have this former political figure, but they also want a strong manager."

Associations that chose someone with either private-sector or association experience include the National Association of Broadcasters, which hired Rehr away from the beer wholesalers; the Cosmetic, Toiletry, and Fragrance Association, which lured Bailey from the advanced medical technology group; and the American Chemistry Council, which recruited **Jack Gerard** from the [National Mining Association](#). Among the No. 2 executives who were tapped for their own group's top slot were **Craig Purser** at the beer wholesalers; Dale Stinton at the National Association of Realtors; **Connie Tipton** at the International Dairy Foods Association; and **Edward Yingling** at the American Bankers Association.

"My advice to No. 2s who want to be No. 1 is that they have to be viewed as a CEO" by the association's board, Olson said.

With all the focus on performance, how did the associations of the top-paid executives do? Thirty-five of the associations posted a gain in revenues compared to two years ago, while 12 showed declines. Two groups weren't reported in our last survey. The fastest-growing association in the group was the [U.S. Telecom Association](#), whose revenues grew 121.1 percent to reach \$36.7 million. The association's CEO, **Walter McCormick**, got a pay package of \$1.875 million. The second-best-performing group was the [Mortgage Bankers Association](#), which posted revenues of \$48.9 million, up 74 percent. CEO **Jonathan L. Kempner** was paid \$1.03 million in 2004.

On the other end of the spectrum, CTIA-The Wireless Association posted the biggest drop, with its revenue falling 49.6 percent to \$34.4 million from \$68.3 million in fiscal 2002. Association officials didn't return a call seeking comment.

In our broad survey of all organizations, the fastest-growing was the National Milk Producers Federation, whose revenue skyrocketed by 1,639.6 percent to \$60.5 million from two years ago. In mid-2003, the federation created a new group under its umbrella, "Cooperatives Working Together," which raised \$56.6 million in dues to help dairy farmers manage swings in supply and demand.

The overall economic health of the association sector has improved since our last survey. About two-thirds of the groups recorded a profit in 2004; two years ago, more than half of the organizations reported deficits. The group with the largest net income after subtracting expenses was the [Nature Conservancy](#), which had \$216.6 million on hand at the end of 2004. A spokeswoman said that accounting rules require the conservancy to report the value of the land it owns as an asset and that the majority of its "profit" after expenses is actually tied up in land.

On our millionaire list, a little more than half of the associations posted a profit. The group with the

largest amount of money on hand after expenses -- \$30.3 million for the fiscal year ending June 30, 2004 -- was the Pharmaceutical Research and Manufacturers Association. The group reporting the largest deficit -- \$8.85 million -- was the American Chemical Society. A spokesman said that a shift in the society's investment portfolio caused the deficit by resulting in smaller reportable gains than in years past.

Then there are groups in which the CEO's salary represented a large percentage of total revenues for the year. In our survey of all groups, the organization that topped the list in this category was the [Emergency Committee for American Trade](#). It paid President **Calman Cohen** compensation and benefits of \$388,472, or 47 percent of the organization's 2004 revenue of \$822,133. Cohen did not return a call seeking comment. "The salary levels at the top are driving increased demand for higher pay, even at the medium and smaller organizations," Pfeiffer said.

Will pay continue to increase for the foreseeable future?

Although they wouldn't detail their salary agreements, several of the newly installed CEOs of the top-paying associations said in interviews that their starting salary was lower than their predecessor's exit package.

"There has got to be a breaking point, sooner or later," said Vautour of Russell Reynolds. "It's got to cool off. I have been saying that for years, and I've been proven wrong. But there will be a point where it will be difficult to justify these numbers to the average member."

Furthermore, revenue growth at associations is limited because most members generally balk at higher membership fees. Compensation specialist Quatt said that revenue ceilings will eventually restrain an association's ability to offer a higher salary, unless the group sheds staff members or pays them lower salaries. "Associations aren't like big companies; they only have so much money to spend," Quatt said.

But Korn/Ferry's Olson isn't seeing a slowdown. "Associations might think, 'Well, if Jack Valenti didn't start at the amount that he was making when he left, then maybe the new CEO should start at a lower rate,'" Olson said. "But you don't see that so much."

Valenti's successor certainly isn't making \$11 million; the MPAA, however, is paying Glickman a healthy salary of approximately \$1.25 million, based on the four-month salary data provided on the group's 2004 IRS filing. He joined the MPAA on September 1, 2004.

"Compensation only goes in one direction" on K Street, said PRM's Moss, and that is up.

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