

# Head of School Compensation and Contracts – Opportunities and Challenges

ACIS Webinar

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Cliff Kling, J.D.

Senior Executive Compensation and Leadership Strategist



# *Mission* & DATA

Mission-driven, Data-informed Leadership and Governance

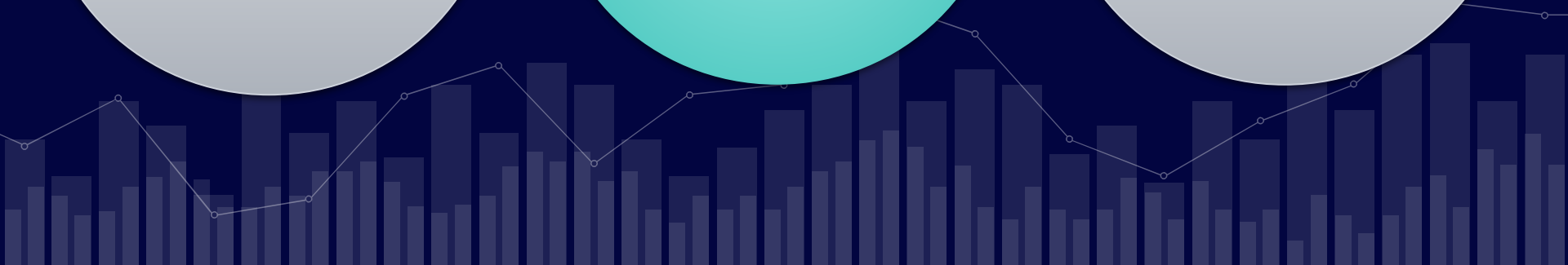
**Mission  
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+

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+

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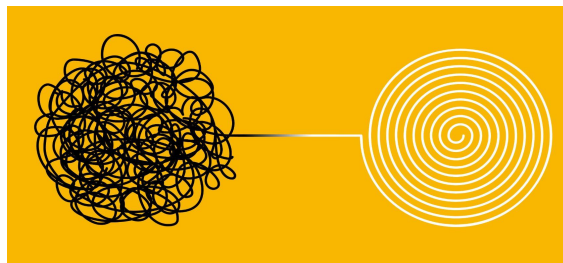


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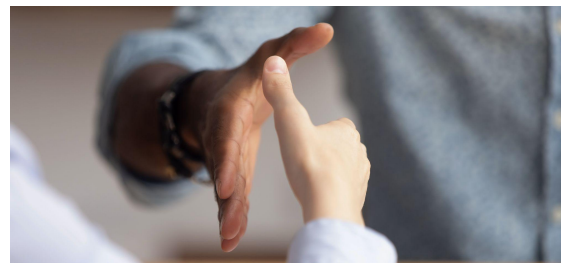




**DASHBOARDING, DATA ANALYSIS & DATA WAREHOUSING**



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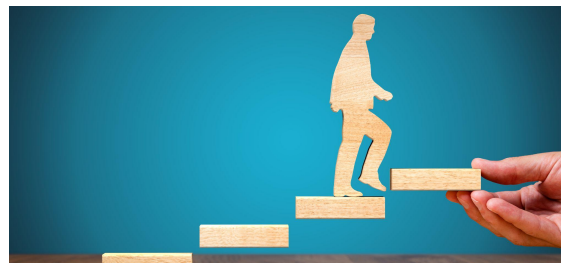
**EXECUTIVE & ORGANIZATIONAL COMPENSATION**



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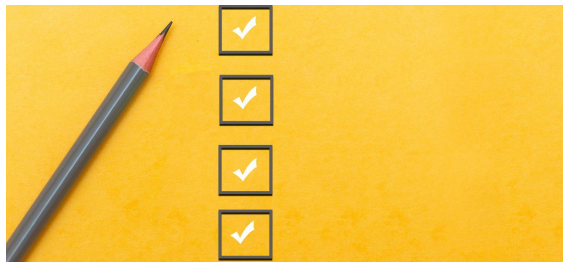
**GOVERNANCE EDUCATION, AUDITS & ADVISING**



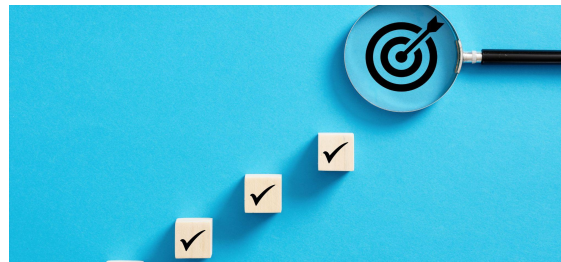
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Clients

21

Membership  
Associations

# Strategic Data Partners



## Other National/International Partnerships



10+ State & Regional Associations

# Agenda

1

Overview of the Marketplace for Heads

2

Contract Renewal Process

3

Components of Head Compensation

4

Key Contract Terms

5

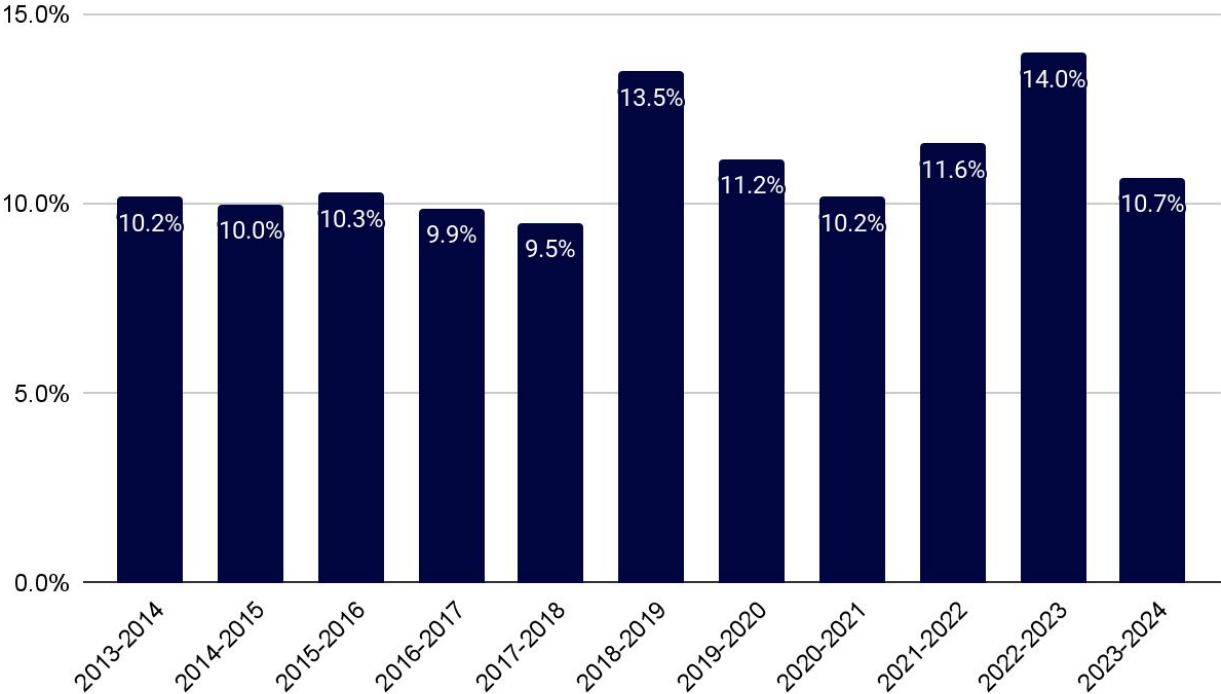
Discussion & Questions



**MARKETPLACE  
FOR HEADS**

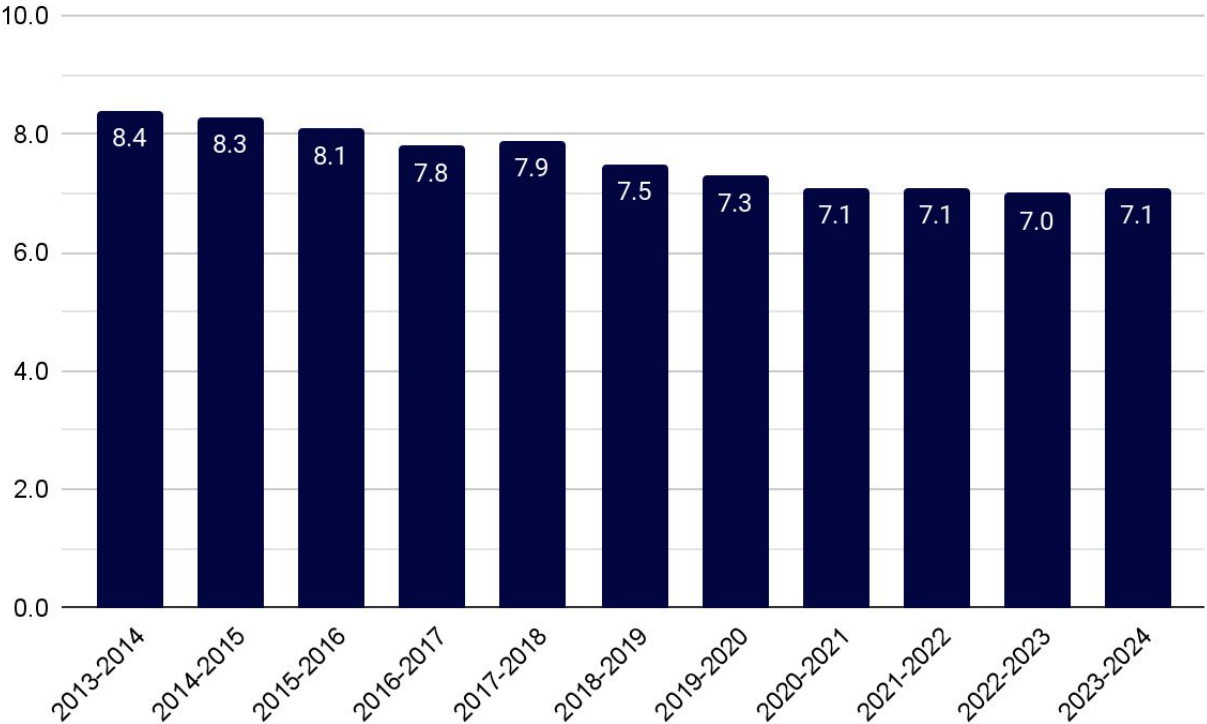


# Share of NAIS member and subscriber schools in the U.S. with a new or first year head, 2013-2014 to 2023-2024



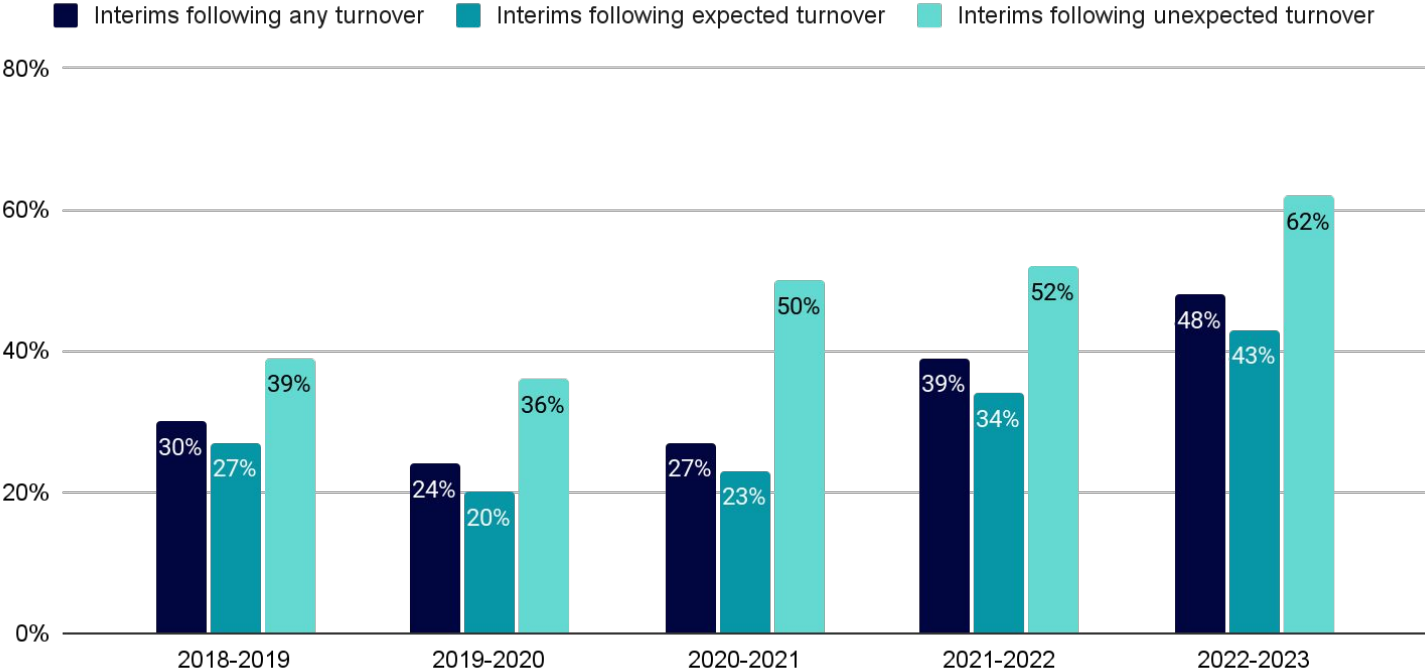
\*Retrieved from: <https://www.nais.org/articles/pages/member/research/nais-research-five-things-to-know-about-head-turnover-in-2022-2023/>

# 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/>

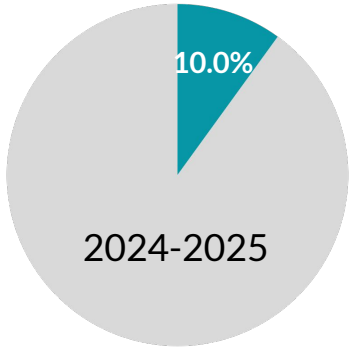
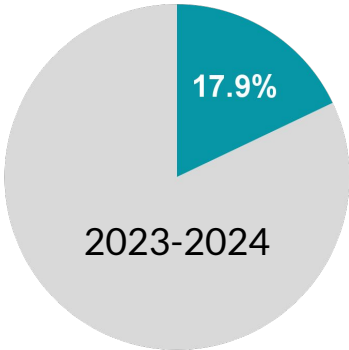
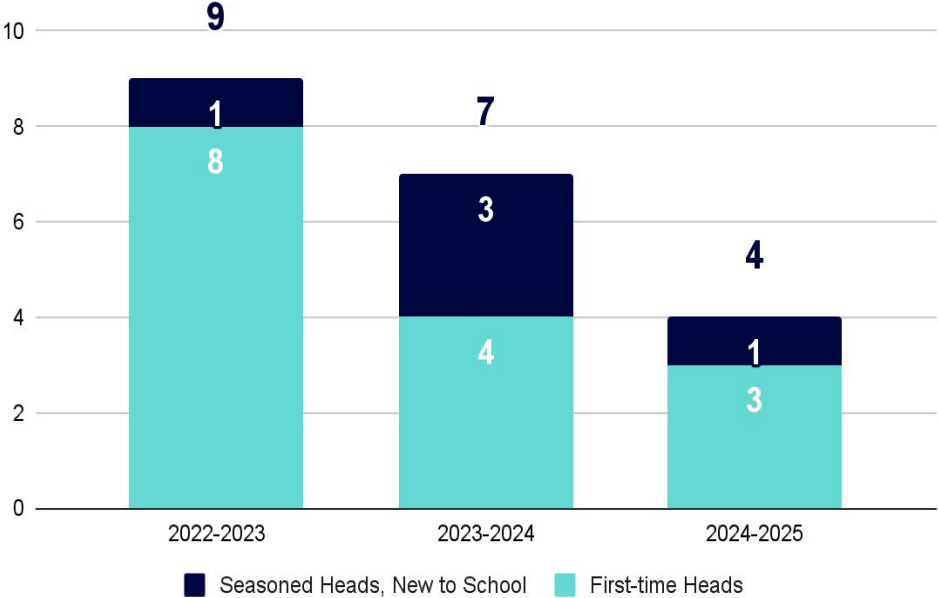
# Share of head departures that were followed by an interim or acting head, 2018-2019 to 2022-2023



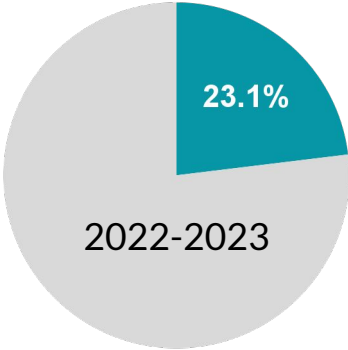
\*Retrieved from: <https://www.nais.org/articles/pages/member/research/nais-research-five-things-to-know-about-head-turnover-in-2022-2023/>

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

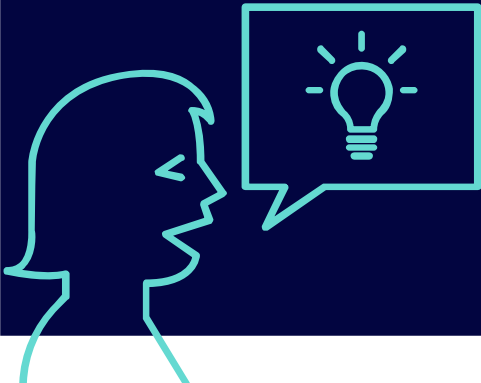
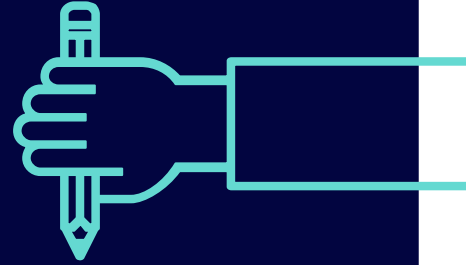
### ACIS Member Schools with New Heads



● ACIS Member Schools with New Heads  
● ACIS Member Schools with Returning Heads



# 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

## Two Paths Boards Choose

DIY /  
Go it Alone



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Independent  
Compensation  
Consultant



## 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

# Our Unique Approach as an Independent Compensation Consultant

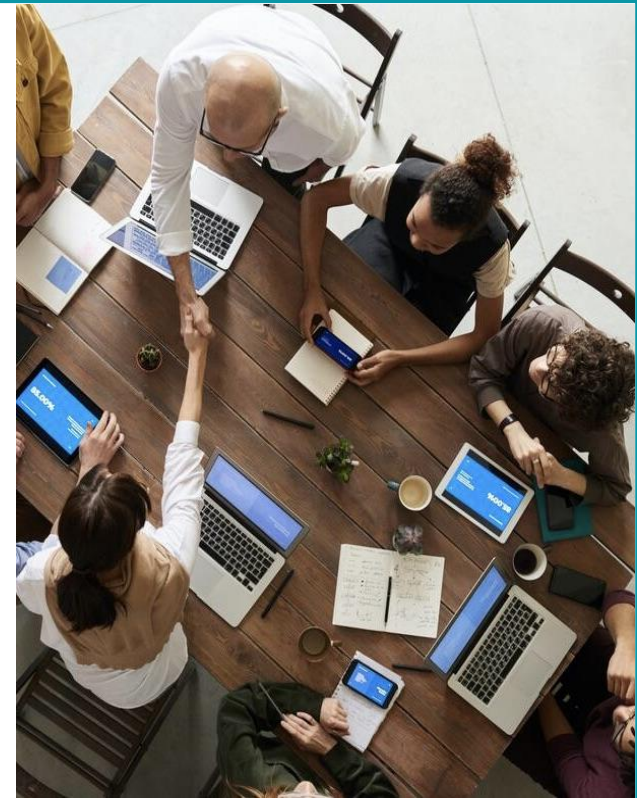
- Help make the contract renewal process feel less like a negotiation and more like a collaboration
- Serve as a neutral, independent third party, advising both the board and the head
- Develop robust comparability data which is shared with both the board and the head
- Educate the board and the head 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**

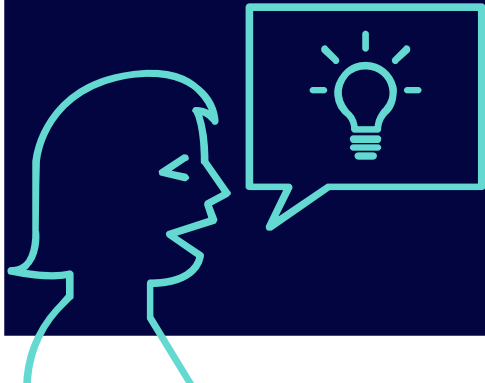
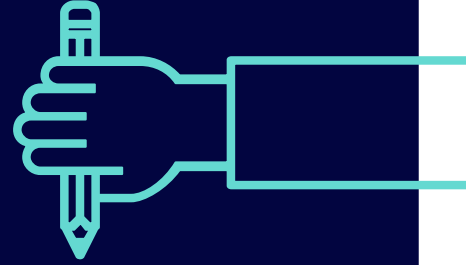


# Committee Process

- 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



# Components of Head Compensation



# 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:





# 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 %)



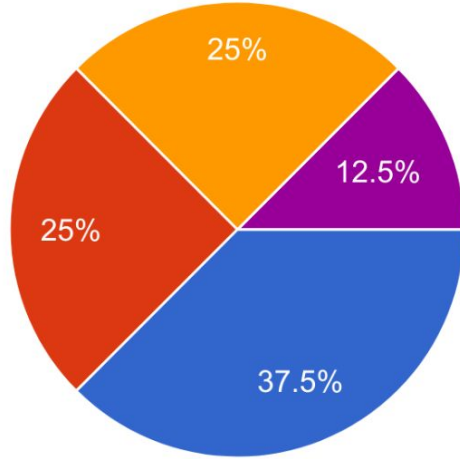
# Poll: What does your/the head's contract specify about an annual increase?

- 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



- 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
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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

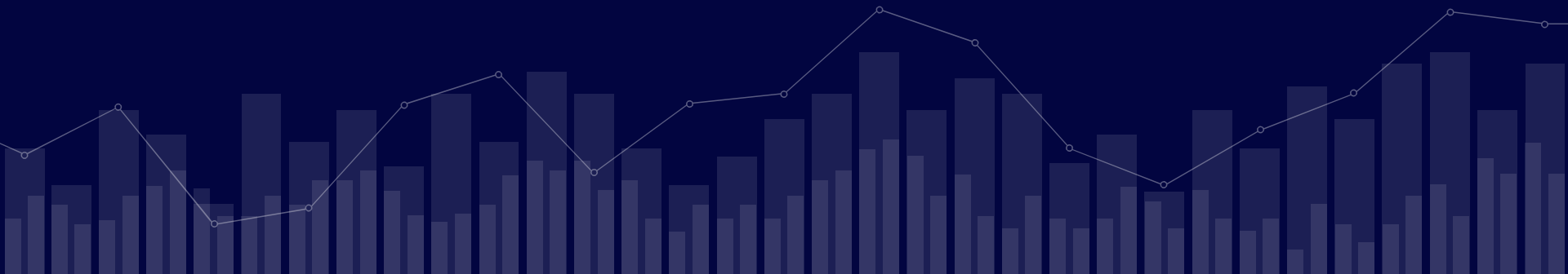


## Word of caution on annual cash bonus

- 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

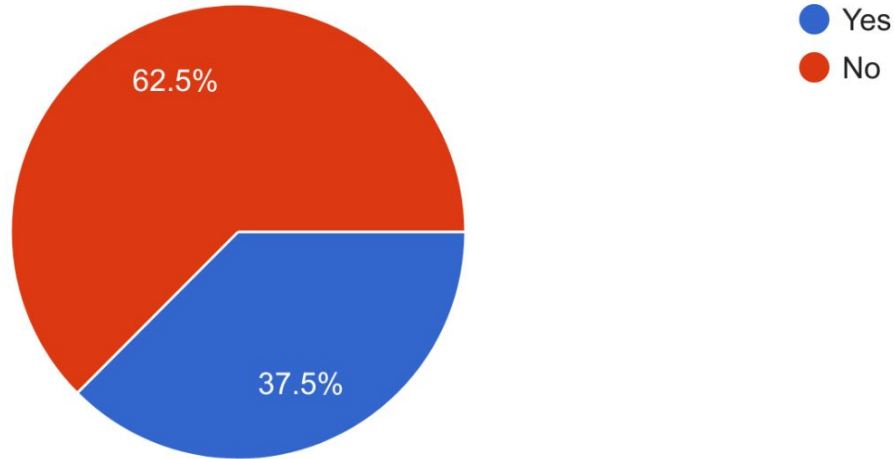
# Poll: Do you/the head receive an annual cash bonus?

- Yes
- No



## Do you/the head receive an annual cash bonus?

8 responses



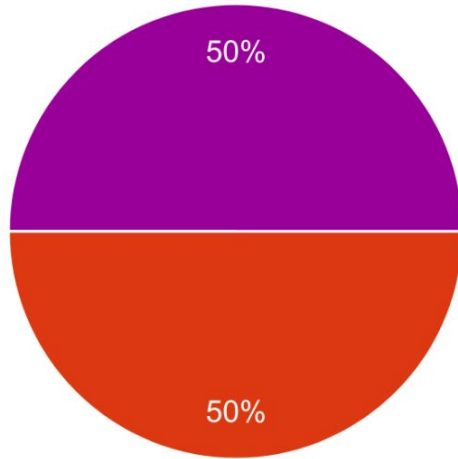
# Poll: If you/the head receive(s) an annual cash bonus, what percentage of base salary is it?

- 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



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





- 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

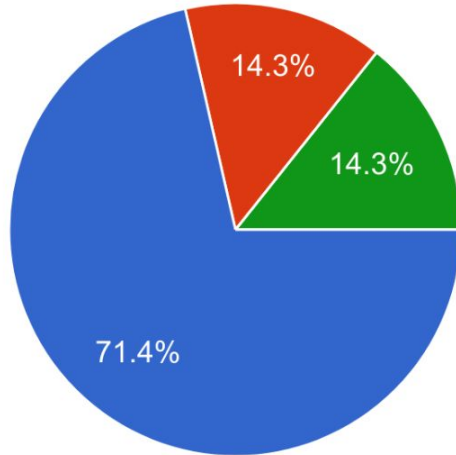
# Poll: What deferred compensation plans do you/the head currently have?

- 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



- 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

# 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

# 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

# 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

# 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

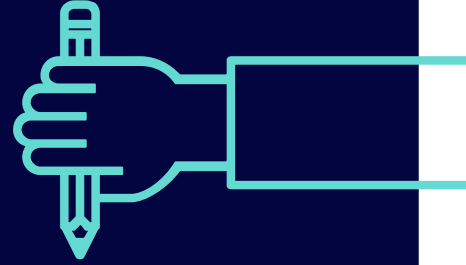




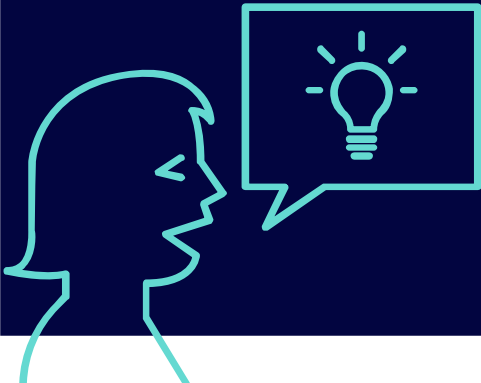


# Perquisites

- 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



# 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

2 LONG-TERM

1 MEDIUM-TERM

0 SHORT-TERM

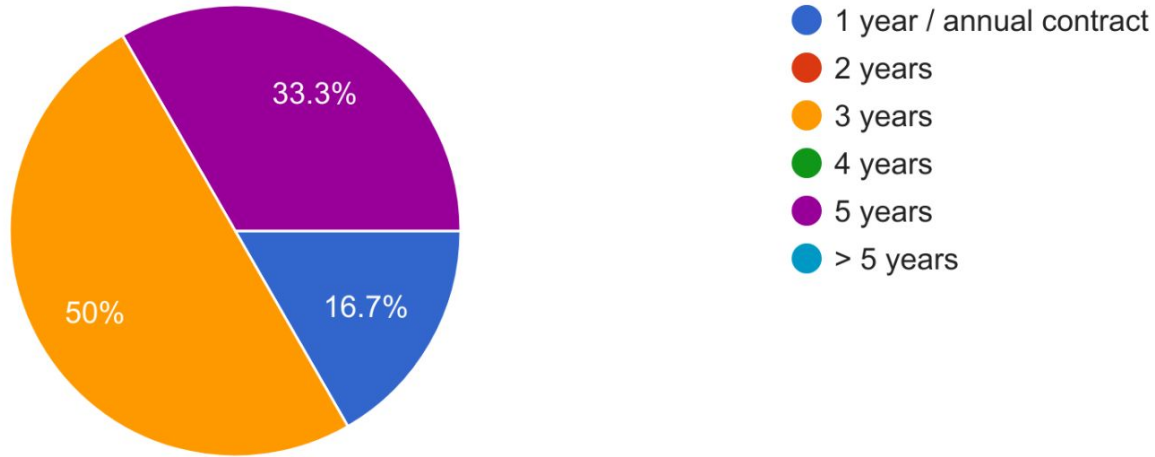
# Poll: How long is the original term of your/the head's current contract (not years remaining)?

- 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





# 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

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

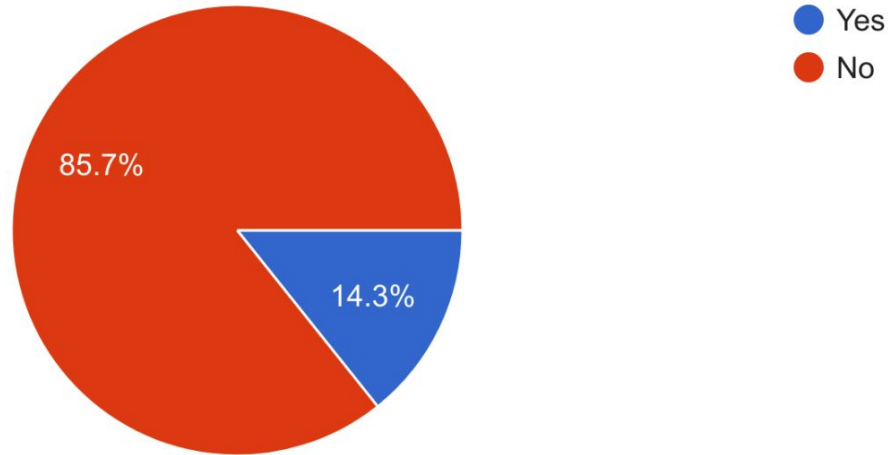
- Yes
- No





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

7 responses



# 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



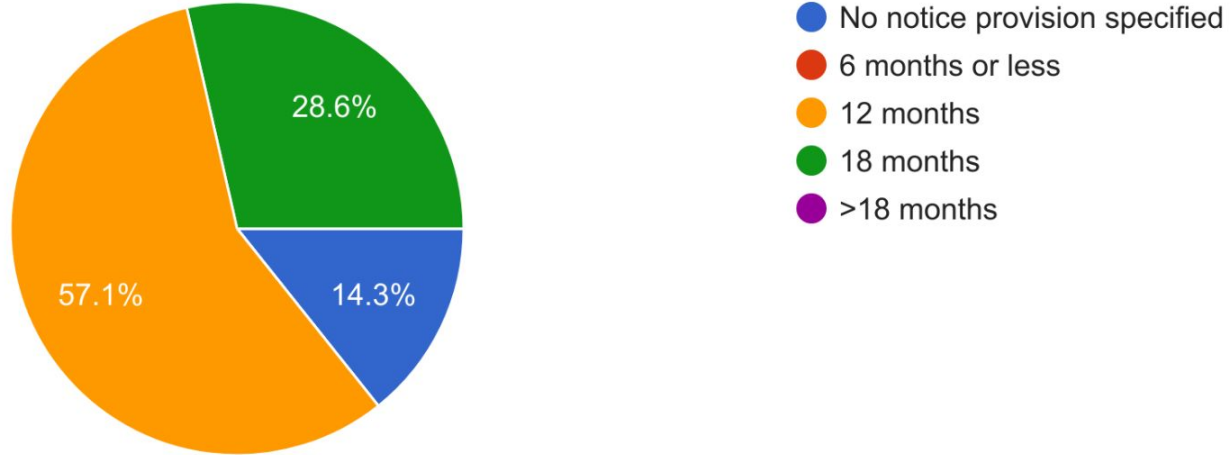
# Poll: How long is the notice provision in your/the head's contract?

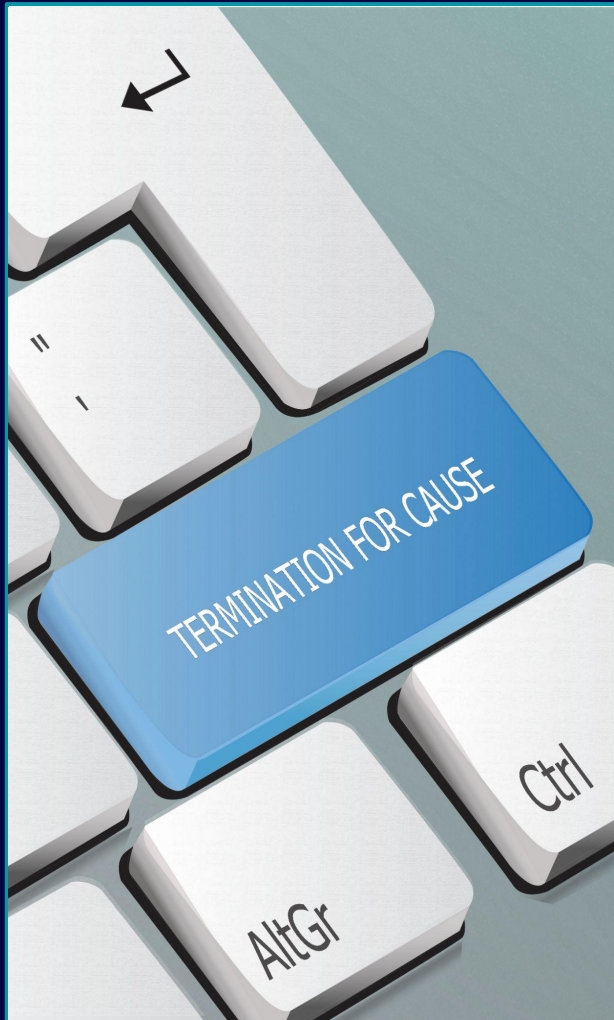
- No notice provision specified
- 6 months or less
- 12 months
- 18 months
- >18 months



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

7 responses





# 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

# 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



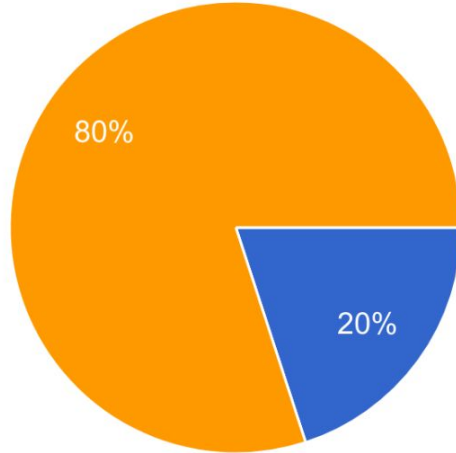
# Poll: What does your/the head's contract provide in the event of termination without cause?

- 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



- 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







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**Cliff Kling, J.D.**

[ckling@missionanddata.com](mailto:ckling@missionanddata.com)

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