



AMERICAN UNIVERSITY

W A S H I N G T O N , D C

BOARD OF TRUSTEES

MEMORANDUM

November 2, 2009

TO: Campus Community

FROM: Gary Abramson, Chairman, Board of Trustees

SUBJECT: Presidential Compensation

Every year the *Chronicle of Higher Education* and other news outlets produce stories on presidential compensation by collecting and comparing data listed on publicly available IRS Form 990s filed by colleges and universities. Today, the *Chronicle* and others published stories using the data from fiscal year 2007–2008, the latest available forms. On behalf of the Board of Trustees, I would like to clarify a few points about the compensation reported for AU president Neil Kerwin which might be misinterpreted—because his compensation for that year included annual salary and benefits as well as a lump sum payout of deferred compensation, allocated and invested in a trust over nearly a decade. We find this misleading, since the annual deferred compensation payments were all previously reported each year by the *Chronicle*, and because the amount includes a substantial portion earned well before he was appointed president.

The board's executive compensation policies make certain that AU is in line with peer institutions. A series of governance changes in 2006 established an annual independent review of compensation practices. Mercer Consulting advises the board each year on our executive compensation, and they obtain data from IRS Form 990 filings from institutions across the nation to identify compensation parameters that are competitive but not excessive. Given recent institutional history, this is very important for American University.

President Kerwin has an annual salary considered reasonable by a variety of measures when compared to peer institutions. His compensation each reporting year is near the average for presidents at private universities, and his salary is historically third among the seven Washington presidential salaries at private research universities (behind Georgetown and George Washington). As an incentive for retention, Dr. Kerwin receives an annual deferred compensation allocation, which is held in trust for a minimum number of years. If he were to leave before the funds vested, they would be subject to forfeiture. The deferred compensation allocation is reported each year on the university's IRS Form 990 and is reported annually by the *Chronicle*.

Dr. Kerwin received such allocations over nine years, from FY 2000 to FY 2008, dating back to when he served as provost, then interim president. The allocations, which averaged \$53,000 per year, were invested in a trust directed by Dr. Kerwin and earned investment returns over those years. When the funds vested in 2008, he was required to take a lump sum payout for both the deferred compensation and the investment returns. The total amount (\$800,168) represents \$481,304 in deferred compensation payments and \$318,864 in investment returns.

The *Chronicle's* report is misleading because it adds nearly a decade of allocations to compensation for one year. This raised the reported total for FY 2008 to \$1.4 million to suggest that Dr. Kerwin's annual compensation is the third highest among presidents at private universities. This creates a false impression of "annual" compensation and effectively double-counts monies previously reported.

The AU board structured a compensation policy that is reasonable and market based. It has allowed us to create incentives to attract and retain effective leaders who will ensure stability and success. Under President Kerwin's leadership, the university's academic and financial condition is stable and strong, positioned to realize its ambitious goals in the new strategic plan.

I encourage you to scrutinize the data in the reports on this information and to understand the context and impact of this one-year aberration.