

September 4, 2014

Annual Review of Executive Compensation

Conclusions:

- In general, the top executives at the major diabetes non-profits and research centers are highly compensated, ranking in the top 5% of non-profit leaders across the country.
- A very small portion of executive compensation is linked to annual performance. Instead, executives are guaranteed roughly the same amount of compensation no matter what level of performance (or lack thereof) is achieved in a given year.
- The Boards of Directors, who set executive compensation, would deliver great value to donors and all those eager for a T1D cure by directly linking executive pay to performance metrics related to cure progress.

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Annual Review of Executive Compensation

In our annual review of executive compensation at T1D research organizations, we find that **the major non-profits continue to award executives little to no bonus pay, which is detrimental to achieving a cure**, in our view. There is a great opportunity to directly link incentive pay for executives with the achievement of key milestones towards a cure. Doing so would create alignment among executives, the board of directors, and, ultimately, donors.

Competitive executive compensation packages serve to recruit, retain, and reward the highest quality leadership. When structured effectively, executive pay ensures that executives stay focused on the most important organizational objectives by tying performance awards to shareholder interests. When leadership is focused and effective, this mindset fosters higher performance throughout the organization.

Tying a significant portion of an executive's pay to performance is standard practice in the private sector, but not so in the non-profit world. When pay is not linked to performance, executives will get paid the same whether or not the organization makes progress towards its objectives.

Executive Compensation at the Non-Profits

The chart below shows how much of top executives' total compensation is tied to performance at the diabetes non-profits. All information is publically available and reflects data from the last IRS form 990 on record. The appendix on page 4 provides a more detailed breakdown of compensation.

Performance Compensation for the Non-Profit Executives

Position	Name	2013 (ADA and Joslin are 2012)			
		Non-Performance (Salary, Fixed Benefits, etc.)	Performance (bonus and other incentive pay)	Total	Performance % Total
JDRF					
CEO	Jeffrey Brewer	\$0	\$0	\$0	0%
EVP Research	Richard Insel	\$574,908	\$0	\$574,908	0%
SVP Research	Darlene Deecher	\$338,458	\$0	\$338,458	0%
VP & CIO	James Szmak	\$322,458	\$0	\$322,458	0%
CFO	Edward Sebald	\$271,292	\$0	\$271,292	0%
ADA					
CEO	Larry Hausner	\$787,283	\$284,862	\$1,072,145	27%
Chief Field Dev. Officer	Greg Elfers	\$437,744	\$738	\$438,482	0%
SVP Med Aff. & Comms	M. Sue Kirkman	\$253,587	\$39,089	\$292,676	13%
Chief Sci. & Med Aff. Officer	Robert Ratner / David Kendall	\$263,743	\$0	\$263,743	0%
Chief Revenue Officer	M. Vaneeda Bennett	\$288,989	\$0	\$288,989	0%
Joslin					
CEO	John Brooks III	\$450,162	\$0	\$450,162	0%
Section Chief, Obesity	C. Ronald Kahn	\$709,629	\$300	\$709,929	0%
COO	Rick Markello	\$356,135	\$100,000	\$456,135	22%
SVP - Research	George King	\$336,522	\$7,500	\$344,022	2%
SVP - Med Dir Clinic	Martin Abrahamson	\$322,075	\$7,500	\$329,575	2%
DRIF					
CEO	Robert Pearlman	\$464,473	\$0	\$464,473	0%
COO	Deborah Chodrow	\$273,281	\$0	\$273,281	0%
Northeast Regional Director	Bernadette Toomey	\$216,404	\$0	\$216,404	0%
CFO	Jeffrey Young	\$193,315	\$0	\$193,315	0%
VP	Thomas Karlya	\$184,580	\$0	\$184,580	0%

Source: 2012 IRS form 990 for the ADA and Joslin, and 2013 form 990 for JDRF and the DRIF. Joslin and the ADA have not yet filed a 2013 form 990. SEC guidelines require compensation disclosures for the Chief Executive Officer, Chief Financial Officer and the three other most highly compensated executives.

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Key takeaways:

- Overall, executives at the top diabetes organizations receive very little performance-based pay. This means that executives are guaranteed roughly the same amount of compensation no matter what level of performance (or lack thereof) is achieved in a given year.
- The CEOs at the major diabetes organizations are paid quite well, with total annual compensation ranging from \$450K-\$850K. This puts these CEOs in the top 2% of all U.S. households and in the top 5% of non-profit leaders.¹ The JDCA supports highly competitive compensation levels in order to attract and retain top talent to run these complex, global organizations. However, we strongly believe that the majority of compensation for these individuals should not be guaranteed regardless of performance, but, instead, should be directly related to performance against the mission, which in all cases includes a type 1 cure.
- The ADA CEO is the only executive who received a significant portion (33%) of his annual compensation in performance-related pay. The Board of Directors' rationale for awarding such a large bonus is not transparent. However, given the ADA's negligible amount of cure research funding, one can safely conclude that his bonus was not linked to any type of meaningful progress toward a cure for type 1 diabetes. It is unclear how the new CEO will be compensated.
- The notable exception to CEO pay is the JDRF CEO, who chose not to receive income from JDRF. While the decision to forgo compensation stands out as generous and virtuous, this may not be an effective model to follow. Without compensating its chief executive, the organization loses a powerful means of influence, motivation, and reward. It is unclear how the newly appointed CEO will be compensated.
- Executives at JDRF and the DRIF received a modest bonus in 2012 but did not receive *any* incentive pay in 2013, according to the 990 submissions. There is no good explanation for this change. Either the boards determined that a bonus was not deserved, meaning the executives missed their respective objectives, or it signals a further de-emphasis of incentive pay as part of the compensation plans.

A Recommendation to the Boards of Directors at the Major Diabetes Organizations

The Board of Directors, who set executive compensation, would deliver great value to donors and all those eager for a T1D cure by linking executive pay to performance metrics related to cure progress. The key to making this shift is to identify on an annual basis the achievements and infrastructure advancements that constitute meaningful steps toward a cure. While coming up with these metrics will require debate and discussion, it is absolutely essential. Without clear, concrete, and focused tactical objectives, cure progress is left to luck. On the other hand, by incentivizing leadership to deliver clear, concrete, and focused performance objectives, we are driving progress and bettering our chances at seeing a cure in our lifetimes.

¹ Charity Navigator's 2013 CEO Compensation Study and U.S. census data

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Appendix

2 Years of Performance Compensation for Diabetes Non-Profit Executives

Position	Name	2013 (ADA and Joslin are 2012)				2012 (ADA and Joslin are 2011)			
		Non-Performance (Salary, Fixed Benefits, etc.)	Performance (bonus and other incentive pay)	Total	Performance % Total	Non-Performance (Salary, Fixed Benefits, etc.)	Performance (bonus and other incentive pay)	Total	Performance % Total
JDRF									
CEO	Jeffrey Brewer	\$0	\$0	\$0	0%	\$0	\$0	\$0	0%
EVP Research	Richard Insel	\$574,908	\$0	\$574,908	0%	\$573,388	\$24,323	\$597,711	4%
SVP Research	Darlene Deecher	\$338,458	\$0	\$338,458	0%	\$318,117	\$41,250	\$359,367	11%
VP & CIO	James Szmak	\$322,458	\$0	\$322,458	0%	\$289,531	\$36,000	\$325,531	11%
AVP Research	Julia Greenstein	\$273,292	\$0	\$273,292	0%	NA	NA	NA	NA
CFO	Edward Sebald	\$271,292	\$0	\$271,292	0%	NA	NA	NA	NA
SVP Strategic Alliances	Karin Hehenberger	NA	NA	NA	NA	\$332,959	\$87,500	\$420,459	21%
EVP Development	Mania Boyder	NA	NA	NA	NA	\$325,808	\$34,320	\$360,128	10%
ADA									
CEO	Larry Hausner	\$787,283	\$284,862	\$1,072,145	27%	\$740,229	\$265,724	\$1,005,953	26%
Chief Field Dev. Officer	Greg Elfers	\$437,744	\$738	\$438,482	0%	\$384,339	\$0	\$384,339	0%
SVP Med Aff. & Comms	M. Sue Kirkman	\$253,587	\$39,089	\$292,676	13%	\$263,742	\$0	\$263,742	0%
Chief Sci. & Med Aff. Officer	Robert Ratner / David Kendall	\$263,743	\$0	\$263,743	0%	\$261,294	\$0	\$261,294	0%
Chief Revenue Officer	M. Vaneeda Bennett	\$288,989	\$0	\$288,989	0%	\$260,453	\$0	\$260,453	0%
Joslin									
CEO	John Brooks III	\$450,162	\$0	\$450,162	0%	\$703,663	\$0	\$703,663	0%
Section Chief, Obesity	C. Ronald Kahn	\$709,629	\$300	\$709,929	0%	\$1,260,275	\$0	\$1,260,275	0%
COO	Rick Markello	\$356,135	\$100,000	\$456,135	22%	\$162,555	\$75,000	\$237,555	32%
SVP - Research	George King	\$336,522	\$7,500	\$344,022	2%	NA	NA	NA	NA
SVP - Med Dir Clinic	Martin Abrahamson	\$322,075	\$7,500	\$329,575	2%	NA	NA	NA	NA
DRIF									
CEO	Robert Pearlman	\$464,473	\$0	\$464,473	0%	\$468,095	\$25,000	\$493,095	5%
COO	Deborah Chodrow	\$273,281	\$0	\$273,281	0%	\$271,252	\$10,000	\$281,252	4%
Northeast Regional Director	Bernadette Toomey	\$216,404	\$0	\$216,404	0%	\$179,641	\$0	\$179,641	0%
CFO	Jeffrey Young	\$193,315	\$0	\$193,315	0%	\$193,424	\$7,500	\$200,924	4%
VP	Thomas Karlya	\$184,580	\$0	\$184,580	0%	\$206,590	\$5,000	\$211,590	2%

Source: 2012 and 2013 Form 990 for the DRIF and JDRF; 2011 and 2012 Form 990 for the ADA and Joslin, who have not yet posted their 2013 Form 990.

SEC guidelines require compensation disclosures for the Chief Executive Officer, Chief Financial Officer and the three other most highly compensated executive officers (<http://www.sec.gov/answers/excomp.htm>).

Performance pay is calculated as bonus & incentive pay plus retirement & deferred pay in excess of 33,000 (the IRS annual defined contribution limit in excess of maximum elective deferrals for 401(k) plans in 2012).



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