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Pay Gap: Where For-Profits Beat the Ivy League

Executive compensation at for-profit colleges far outpaces that at traditional schools

By John Hechinger and John Lauerman

While for-profit colleges get poor grades for their high dropout rates, student loan defaults, and heavy dependence on federal student aid, their executives excel in another subject: making money. Strayer Education, a for-profit college chain that receives three-quarters of its revenue from U.S. taxpayers, paid Chief Executive Officer Robert Silberman $41.9 million last year. That's 24 times the compensation of the highest-paid Ivy League university president, Columbia University's Lee Bollinger, who received $1.75 million in 2008, including the value of housing and other benefits, according to a study published Nov. 14 by the *Chronicle of Higher Education*. Silberman's annual pay, including cash and stock-based compensation, would have ranked him eighth on a list of the highest-paid executives at the largest 1,000 U.S. companies, according to Equilar, an executive-pay researcher.

It's not just fat paychecks. Top executives at the 15 U.S. publicly traded for-profit colleges, the largest of which are Apollo Group (APOL) and Education Management (EDMC), also received $2 billion during the last seven years from the proceeds of selling company stock, Securities and Exchange Commission filings show. Since 2003, nine for-profit college insiders sold more than $45 million of stock apiece. Peter Sperling, vice-chairman of Apollo's University of Phoenix, the largest for-profit college, collected the most: $574.3 million.

For-profit education, which receives as much as 90 percent of its revenue from federal financial-aid programs, is a "private enterprise that's almost entirely publicly funded," says Henry Levin, director of Columbia University's National Center for the Study of Privatization in Education. Students at for-profit colleges are defaulting on loans at three times the rate of those at private, nonprofit schools, government data show. The graduation rate for first-time, full-time candidates for four-year degrees at for-profit colleges is 22 percent, vs. 55 percent at state colleges and 65 percent at private nonprofiinstitutions.

Harris Miller, president of the Washington-based Association of Private Sector Colleges & Universities, which represents the industry, says for-profit college executives deserve to be rewarded because of their records as entrepreneurs and the performance of their companies' stocks. "These guys were in it for the long term," Miller says. "They believe in the sector. They weren't in it for a quick buck." Miller says default rates at for-profit colleges reflect the lower socioeconomic status of students, rather than the quality of institutions. Students, not colleges, apply for federal grants and loans to pay tuition and fees, so the companies aren't directly subsidized by taxpayers, he says. State and private universities also receive government money, while education companies pay taxes, reducing their cost to the public, he adds.

Some nonprofit college presidents aren't exactly clipping coupons, either. The highest-paid head of a private nonprofit school was Touro College's Bernard Lander. He made $4.8 million, mostly in deferred compensation and benefits, according to the *Chronicle*'s study of 2008 data (the latest available). Lander died on Feb. 8 at age 94.

The for-profits' setup as public companies explains some of the large compensation. At Strayer, Silberman received a $40 million stock grant in 2009 that vests over 10 years, says J. David Wargo, a Strayer director and former head of its compensation committee. After Silberman arrived, Strayer shares rose almost tenfold through 2009, when the grant was made, Wargo says. Silberman will forego the stock if he leaves the company before 10 years, he says.

To identify executives with the biggest gains from selling stock, InsiderScore.com, which analyzes insider transactions, compiled data for the seven years starting in July 2003. From the overall sum received from selling stock over the seven-year period, InsiderScore subtracted the value of open-market purchases and the cost of exercising options during that time frame.

The SEC is conducting an informal inquiry into Apollo's insider share sales, the company said on Oct. 26. The company said it's cooperating. John Sperling, Apollo's 89-year-old executive chairman and founder, and his 50-year-old son, Peter, have sold a combined $837.8 million in Apollo shares since 2003. Apollo spokesman Ryan Rauzon says the Sperlings have been diversifying their investments, selling during "open trading windows." On Nov. 1, Apollo said it would initiate a trading plan for the Sperlings that would further restrict the timing of stock sales. The father and son still hold about $750 million in Apollo shares, filings show.

Over half a century, Apollo's John Sperling, a former college professor, pioneered the for-profit college industry, including its use of online courses, Rauzon says. The "overwhelming majority" of the shares that John and Peter Sperling sold are founders' stock held for decades, he adds. "When you look at him as a founder and entrepreneur who has improved the lives of millions of Americans, that alone explains his compensation."

The bottom line: *The compensation of executives at for-profit colleges far outpaces that of managers at traditional universities.*

Hechinger is a reporter for Bloomberg News. Lauerman is a reporter for Bloomberg News.