



The Pennsylvania State University

EXECUTIVE COMPENSATION STRATEGY

Approved by the Board of Trustees on March 7, 2014

Executive Compensation Strategy

1. Institutional Alignment

- Penn State continues its commitment to becoming an even greater university in the years ahead. Penn State believes in the importance of higher education and will pursue excellence in all actions
- Achievement towards this aspirational goal requires that Penn State recruits and retains a highly qualified, talented, and diverse executive team. To that end, the University has developed an Executive Compensation Strategy that establishes the principles under which Penn State rewards executive talent

2. Executives

- The executive compensation strategy covers five tiers of executive positions¹
 - I: President
 - II: Senior Executive Officers
 - IIA: Prominent Athletics Positions
 - III: Vice Presidents
 - IV: Other Academic and Administrative Executives

3. Rewards Prominence

- In order to attract and retain the very best executive talent, Penn State offers market competitive reward opportunities
- While Penn State offers competitive remuneration, the value of being part of the Penn State community and experience is of notable importance in the overall employment value proposition. Executives are attracted to and work at Penn State to:
 - Support and execute the mission of the institution
 - Work in an environment that promotes world-class, impactful research
 - Shape and model the future leaders of tomorrow
 - Effect transformation in the continually changing and challenging environment of higher education

4. Elements of Rewards

Penn State offers a variety of reward vehicles to attract, retain, and reward executives in an appropriate and reasonable manner.

- **Base Salary:** Salary is the primary vehicle through which total compensation is delivered:
 - Salary provides a competitive foundation for pay and reflects the individual's role, unique skills and abilities, potential career and advancement opportunity, experience, and performance
 - Salary increase budgets are determined annually based on institutional performance, financial affordability, the competitive market, and the overall macroeconomic climate
 - Salary increases are not an entitlement and executives should not expect to receive an increase every year. Individual salary increases are determined based on an individual's performance, as well as market and internal equity considerations.
- **Annual Incentives:** Currently, Penn State does not have a broad annual incentive program for executives. However, based upon market circumstances and individual situations, compensation for certain positions may include annual incentives.
- **Health and Welfare Benefits:** Executives are provided with health and welfare benefits that are competitive with its comparison market; many of which are offered to all employees at the University²
- **Retirement Benefits:** Penn State is committed to a shared responsibility with its executives to provide a competitive level of retirement income security²
- In addition to the benefits listed above, executives receive select additional benefits and perquisites

¹ See *Appendix A* for the current tier assignments.

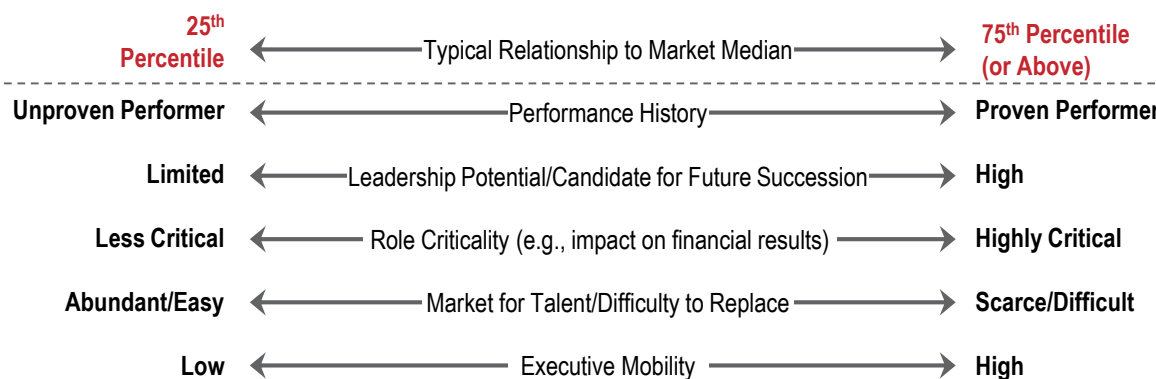
² See *Appendix B* for benefits currently offered by Penn State.

5. Comparison Markets (Peer Institutions)

- For executive positions, Penn State competes and recruits nationally for talent across both private and public institutions. In addition, for some roles, primarily administrative in nature, the University may consider talent from outside of higher education if the candidate is a good fit.
- Penn State considers compensation data from a comparison market that consists of large nationally ranked public and private research institutions across the United States. This comparison market is a balanced mix of private and public institutions, as Penn State does compete for executive talent with select private institutions.
- The criteria used to determine this comparison market includes: classification as a research university, membership in the Committee on Institutional Cooperation (CIC)³ and/or Association of American Universities (AAU), national ranking (Top 50 National Universities and/or Top 25 Public Universities) and financials including Research Expenses Per Instruction / Research and Public Service FTE Staff and Total Expenses (Operating Budget)⁴
- Certain positions, where talent is unique to a different set of institutions (e.g., athletic coaches), may require a different comparison market
- The Compensation Committee is responsible for the development of the comparison market(s), and for its regular review, which may change the comparison market(s) from time-to-time

6. Pay Positioning

- In the aggregate, Penn State targets pay to competitive rates at the 50th percentile (i.e., median) of the comparison market as defined above
- Pay positioning for *individual* executives will vary based on their skills, knowledge, experience and performance levels as illustrated below



³The Committee on Institutional Cooperation (CIC) is a consortium of the Big Ten member universities plus the University of Chicago. These institutions advance their academic missions, generate unique opportunities for students and faculty, and serve the common good by sharing expertise, leveraging campus resources, and collaborating on innovative programs. CIC is now known as the Big Ten Academic Alliance (BTAA).

⁴ See *Appendix C* for a list of peer institutions.

7. Performance Measurement and Goal Setting

- Penn State strongly believes in a high-performance culture that is supported and modeled by its executives
- The Compensation Committee of the Board of Trustees, and the President are responsible for determining annual performance expectations, evaluating the performance of the executives, and determining resulting compensation actions, with the assistance of Human Resources⁵
- To that end, executives:
 - Work with leaders in their functions to develop area and individual goals that align with Penn State's strategic direction and objectives
 - Set and communicate job and performance expectations in their area and ensure shared understanding of expectations and accountabilities
 - Work with their direct reports to establish annual goals that link to area and/or institutional objectives
 - Provide feedback to employees throughout the year on their progress against goals, and areas for growth and development
- At the executive level, performance is evaluated on an annual basis, but not at the expense of long-term strategic objectives
- Annual salary increases are awarded primarily on the basis of annual performance as determined by the performance assessment, annual budget, and other relevant factors

8. Program Administration

- Primary responsibility for the executive compensation programs is shared among:
 - The Board of Trustees
 - The Compensation Committee
 - President
 - Human Resources
- The Compensation Committee reviews and recommends the compensation of the President, subject to Board of Trustee approval
- The Compensation Committee is responsible for compensation approvals of executives in Tiers II and IIA, and for review of compensation of executives in Tiers III and IV^{4,6}

9. Communication / Transparency

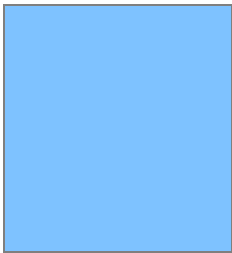
- Penn State's reward programs are intended to be simple to understand and administer
- Communication about performance expectations, individual performance evaluations, and compensation implications will be consistent with the performance management process. It is the intent that such processes will be transparent and foster understanding among the parties involved regarding their roles and desired outcomes
- The Chair of the Board of Trustees or Chair of the Compensation Committee is responsible for the communication of compensation decisions and rationale to the President
- For other executives, the President or his/her designee is responsible for the communication of compensation decisions and rationale
- In communicating compensation decisions and rationale, Penn State will ensure that those communications draw linkages between institutional success, performance measures, and individual reward decisions

⁵ See *Appendix D* for detailed roles and responsibilities from The Pennsylvania State University Compensation Committee Operating Guidelines.

⁶ See *Appendix A* for the current tier assignments.

EXECUTIVE TIER ASSIGNMENTS

Tier I	President
Tier II	Executive Vice President and Provost
	Senior Vice President for Finance and Business/Treasurer
	Chief Executive Officer, Penn State Milton S. Hershey Medical Center; Senior Vice President for Health Affairs, Penn State University; and Dean, Penn State College Medicine
Tier IIA	Vice President & General Counsel
	Vice President of Intercollegiate Athletics
	Football Head Coach
	Men's Basketball Head Coach
Tier III	Women's Basketball Head Coach
	Vice President for Administration/Secretary to Board of Trustees
	Vice President Commonwealth Campuses
	Vice President Outreach
	Vice President for Student Affairs
	Vice President for Human Resources
	Vice President and Dean for Undergraduate Education
	Vice President for Research
	Vice President for Strategic Communications
	Vice President for Information Technology
Tier IV Administrative and Academic	Vice President for Governmental Affairs
	Vice President for Development and Alumni Relations
	Associate Vice President for Finance and Corporate Controller
	Executive Director Office of Investment
	Associate Vice President for Physical Plant
	Associate Vice President for Auxiliary and Business Services
	University Budget Officer
	Senior Associate Vice President for Development
	Vice Provost for International Programs
	Vice Provost Academic Affairs
	Vice Provost for Educational Equity
	Associate Vice President for Affirmative Action
	Vice Provost for Planning & Assessment
	Associate Vice President for Finance & Business & Controller, Penn State College Medicine
	Vice Provost for Graduate Education & Dean of the Graduate School
	Vice Provost for Online Education
	Dean, College of Agricultural Sciences
	Dean, College of Science
	Dean, Smeal College of Business
	Dean of The Dickinson School of Law of the Pennsylvania State University: Penn State Law and the School of International Affairs
Dean of The Dickinson School of Law of the Pennsylvania State University: Dickinson Law	
Dean, College of Engineering	
Dean, College of Information, Science and Technology	
Dean, College of Nursing	
Dean, College of Communications	

	Dean, College of Education
	Dean, College of The Liberal Arts
	Dean, College of Earth and Mineral Sciences
	Dean, College of Arts and Architecture
	Dean, University Libraries
	Dean, College of Health and Human Development
	Dean, Schreyer Honors College



CURRENT BENEFITS OFFERED AT PENN STATE

The most current information and details on the benefits discussed below can be found at <http://hr.psu.edu/benefits/>

Health and Welfare Benefits	<ul style="list-style-type: none"> • <i>Medical Coverage</i> through one of the nation's largest healthcare networks, which allows the freedom of choice of health care providers both in and out of network • <i>Prescription Drug Coverage</i> is included in the medical plan (retail and mail-in pharmacy coverage) • <i>Vision Coverage</i> that allows all participants access to preventive eye exams as well as affordable glasses and lens coverage • <i>Dental Coverage</i> designed to promote a brighter smile and complete oral wellness • <i>Flexible Spending Accounts</i> that allow participants to pay for select medical and child care expenses on a pre-tax basis • <i>Health Savings Account</i> that allow participants to pay for select medical expenses as well as accumulate tax-free savings for retiree medical expenses • <i>Employee Assistance Program</i>, a confidential program to help resolve personal issues • <i>Short-Term Disability</i> benefits, providing replacement income for limited periods of time if unable to work due to illness or injury • <i>Long-Term Disability</i> benefits, if unable to work due to illness or injury • <i>Accidental Death & Dismemberment Insurance (AD&D)</i> covers employees both on and off the job, anywhere in the world • <i>Life Insurance</i> (basic coverage and optional additional coverage)
Retirement Benefits	<ul style="list-style-type: none"> • <i>Retirement Savings</i>: Eligible executives must elect to participate in one of two retirement options <ul style="list-style-type: none"> – Defined Contribution Plan (TIAA-CREF): Required contributions made by Penn State and the employee – State Employees' Retirement System (SERS): A defined benefit plan, with required contributions made by employee; Penn State contribution governed by state law • <i>Post-Retirement Health Care</i>: Available to employees hired prior to January 1, 2010 and who meet specific eligibility requirements • <i>Retirement Healthcare Savings Plan</i>: Penn State will make monthly contributions to the savings plan for employees hired on and after January 1, 2010; if eligible upon retirement, the accumulated savings can be used to purchase health insurance and other qualified medical expenses • <i>Supplemental Retirement Plans</i>: Penn State employees have the option to contribute more to retirement and can choose from 403(b) and 457(b) plans offered by TIAA-CREF. Contributions to these plans are in addition to and separate from contributions that are made to the Penn State retirement plan (described above).
Educational Privileges	<ul style="list-style-type: none"> • Available to regular full-time executives, their spouse and their dependent children

EXECUTIVE COMPARISON MARKET

Institution Name	Location	Control	Carnegie Class.	AAU Member	CIC Member	USNWR Ranking ⁷		Research Expenses per Instruction / Research and Public Service FTE Staff ⁸	Total Expenses (Operating Budget) ²
						National	National Public		
Boston University	Boston, MA	Private not-for-profit	RU (VHR)	Yes		41		\$49,946	\$1,641,418,225
Carnegie Mellon University	Pittsburgh, PA	Private not-for-profit	RU (VHR)	Yes		23		157,484	1,061,772,569
Columbia University in the City of New York	New York, NY	Private not-for-profit	RU (VHR)	Yes		4		103,734	3,605,779,000
Cornell University	Ithaca, NY	Private not-for-profit	RU (VHR)	Yes		15		116,331	1,834,267,953
Duke University	Durham, NC	Private not-for-profit	RU (VHR)	Yes		8		176,130	4,897,473,000
Johns Hopkins University	Baltimore, MD	Private not-for-profit	RU (VHR)	Yes		10		317,772	4,901,327,000
Massachusetts Institute of Technology	Cambridge, MA	Private not-for-profit	RU (VHR)	Yes		7		213,572	2,918,517,000
New York University	New York, NY	Private not-for-profit	RU (VHR)	Yes		32		124,464	4,607,555,000
Northwestern University	Evanston, IL	Private not-for-profit	RU (VHR)	Yes	Yes	12		135,916	1,973,028,000
Ohio State University-Main Campus	Columbus, OH	Public	RU (VHR)	Yes	Yes	52	16	119,761	4,990,173,074
Rutgers University-New Brunswick	New Brunswick, NJ	Public	RU (VHR)	Yes	Yes	72	28	101,563	2,991,271,000
Stanford University	Stanford, CA	Private not-for-profit	RU (VHR)	Yes		4		238,004	4,291,840,000
The University of Texas at Austin	Austin, TX	Public	RU (VHR)	Yes		52	16	180,730	2,506,217,604
University of California-Berkeley	Berkeley, CA	Public	RU (VHR)	Yes		20	1	197,146	2,546,190,000
University of California-Los Angeles	Los Angeles, CA	Public	RU (VHR)	Yes		23	2	169,010	5,858,971,000
University of Chicago	Chicago, IL	Private not-for-profit	RU (VHR)	Yes	Yes	4		96,071	3,288,220,507
University of Florida	Gainesville, FL	Public	RU (VHR)	Yes		47	14	142,521	2,473,160,000
University of Illinois at Urbana-Champaign	Champaign, IL	Public	RU (VHR)	Yes	Yes	41	11	199,736	2,472,501,632
University of Maryland-College Park	College Park, MD	Public	RU (VHR)	Yes	Yes	57	19	110,583	1,711,660,956
University of Michigan-Ann Arbor	Ann Arbor, MI	Public	RU (VHR)	Yes	Yes	29	4	124,146	6,202,947,000
University of Minnesota-Twin Cities	Minneapolis, MN	Public	RU (VHR)	Yes	Yes	69	25	146,290	3,027,768,034
University of North Carolina at Chapel Hill	Chapel Hill, NC	Public	RU (VHR)	Yes		30	5	139,973	2,748,814,789
University of Pennsylvania	Philadelphia, PA	Private not-for-profit	RU (VHR)	Yes		9		136,332	6,348,798,000
University of Pittsburgh-Pittsburgh Campus	Pittsburgh, PA	Public	RU (VHR)	Yes		66	24	126,093	1,878,778,665
University of Southern California	Los Angeles, CA	Private not-for-profit	RU (VHR)	Yes		23		79,955	3,682,731,000
University of Virginia-Main Campus	Charlottesville, VA	Public	RU (VHR)	Yes		26	3	136,748	2,523,243,531
University of Washington-Seattle Campus	Seattle, WA	Public	RU (VHR)	Yes		52	16	132,309	4,475,911,416
University of Wisconsin-Madison	Madison, WI	Public	RU (VHR)	Yes	Yes	41	11	166,459	2,545,739,256
Washington University in St Louis	Saint Louis, MO	Private not-for-profit	RU (VHR)	Yes		15		124,116	2,382,434,000
Yale University	New Haven, CT	Private not-for-profit	RU (VHR)	Yes		3		96,962	3,058,920,000
The Pennsylvania State University—University Park	University Park, PA	Public	RU (VHR)	Yes	Yes	47	14	203,853	4,580,380,000
PSU Percent Rank						24th	50th	91st	79th
P.25	N/A					46	18	117,189	2,472,666,224
Median						25	14	136,124	2,954,894,000
P.75						11	5	168,372	4,429,893,562

⁷ Source: 2016 USNWR College Rankings.⁸ Source: IPEDS Data Center. Data reported for flagship campus only.

DECISION RIGHTS GUIDELINES

KEY

- **Approve:** Confirm and sanction final decisions
- **Consult:** Provide input into item, advance/present opinions, facts, etc.
- **Informed:** Kept up to date on progress and outcomes
- **Initiate:** Begin execution of the item
- **Manage:** Administer the execution, oversee programs, regulate as needed
- **Recommend:** Suggest and propose the preferred approach

Action	Board of Trustees	Compensation Committee	President	HR	Finance	Legal
1. Set / change executive compensation strategy	Approve	Initiate / Recommend	Consult	Consult / Manage	Consult	Consult
2. Changes to executive compensation and benefit programs and policies	Informed (Approve where appropriate)	Initiate / Recommend / Approve	Recommend / Consult	Initiate / Manage	Consult	Consult
3. Presidential performance evaluation and compensation	Approve	Initiate / Manage / Recommend	Consult / Informed	Consult / Informed	Informed	Informed
3. Establish / change Presidential employment terms and provisions	Approve	Initiate / Manage / Recommend	Consult / Informed	Consult / Manage	Informed	Consult / Manage
4a. Performance review / compensation for executives in Tiers II and IIA ⁹	Informed	Approve	Initiate / Recommend	Consult / Manage	Informed	Informed
4a. Establish / change employment terms and provisions for executives in Tiers II and IIA ⁹	Informed	Approve	Initiate / Recommend	Consult / Manage	Informed	Consult / Manage
4b. Performance review / compensation for executives in Tiers III and IV ⁹	N/A	Informed as Appropriate	Approve	Initiate / Manage ¹⁰	Informed	Informed
4b. Establish / change employment terms and provisions for executives in Tiers III and IV ⁹	N/A	Informed as Appropriate	Approve	Initiate / Manage ¹⁰	Informed	Consult / Manage
5. Conduct annual executive pay study	Informed	Approve	Consult / Informed	Initiate / Manage	Informed	Informed

⁹ As defined in *Appendix A*.

¹⁰ Recommendations come from appropriate executive management reporting relationships.