

Operating Guidelines Subcommittee on Compensation

Introduction

The Operating Guidelines for The Pennsylvania State University's Subcommittee on Compensation (of the committee on equity and human resources) of the Board of Trustees are organized as follows:

- I. Purpose
- II. Composition
- III. Meetings and Agendas
- IV. Duties and Responsibilities
- V. Authority and Board Reporting

I. Purpose

The purpose of the Subcommittee is to assist the Board of Trustees with executive compensation philosophy and strategy pertaining to the University's senior leadership positions (see *Appendix A*); the annual review and approval of the President's personal goals and objectives, performance and annual compensation, including salary and incentive compensation, if applicable; and will make decisions and recommendations for and on behalf of the Board of Trustees, when appropriate, relating to the effectiveness of executive compensation, benefits, performance management, and leadership development.

The Subcommittee fulfills its responsibilities through standing meetings with planned agendas. The Subcommittee reports on such meetings to the full Board of Trustees, and makes recommendations, when appropriate. It is within the Subcommittee's purview to engage with University Human Resources and other administrators, as appropriate, to execute its responsibilities as defined in these Operating Guidelines.

The Subcommittee also is responsible for the content of these Operating Guidelines.

II. Composition

The Subcommittee shall consist of up to five members, all of whom need not be members of the committee on equity and human resources, in addition to the *ex officio* members. Subcommittee members will be appointed by the Chair of the Board of Trustees in accordance with the University's Bylaws. The Vice President for Human Resources will serve as staff support to the Committee.

III. Meetings and Agendas

The Subcommittee will meet regularly, typically in conjunction with scheduled meetings of the Board of Trustees, and at such other times as it deems necessary to carry out its responsibilities. The Chair of the Subcommittee may call such meetings. Meeting structure, protocols, and open

meeting requirements shall be consistent with protocols outlined in the Bylaws and Standing Orders of the Board of Trustees.

The Chair, considering input from the Subcommittee members and the appropriate members of Administration, will establish the agenda for each Subcommittee meeting. The standing agendas will guide the execution of the Subcommittee's regular duties and responsibilities (see *Section III*). *Ad hoc* responsibilities will be added to standing agendas as determined by the Chair; alternatively, the Chair may choose to call a special meeting of the Subcommittee to address these *ad hoc* topics. Each Subcommittee member may, in advance of the meeting, suggest to the Chair subjects for discussion to be added to the meeting's formal agenda.

The Subcommittee will meet in Executive Session to discuss personnel matters. Due to the nature of the matters considered, attendance at executive sessions shall be limited to voting members of the subcommittee and invited guests. Official action on discussions held in Executive Session will be taken at an open meeting. The Subcommittee also will schedule seminars as needed to receive information and discuss matters for which no action is to be taken.

Minutes will be recorded for meetings of the Subcommittee and made public in accordance with the public meeting requirements.

IV. Duties and Responsibilities

In furtherance of its purpose, the Subcommittee has the following authority and responsibilities:

1. **Compensation Strategy.** Establish, regularly review and, if appropriate, update the University's executive compensation strategy to ensure that it appropriately sets forth a clear direction for the attraction and retention of leadership and appropriately compensates leaders for their contributions to the University. The compensation strategy includes the University's executive peer group of higher education institutions against which the University will measure and establish executive pay levels. Significant changes to the executive compensation strategy that broadly affect the executive compensation programs, levels, and/or individual executives will be brought to the Board of Trustees for approval.
2. **Executive Compensation and Benefit Programs.** Review and approve new and/or changes to the University's executive compensation and benefit programs and policies, with the aim of aligning such policies and programs with the University's long-term goals. Where appropriate, determine and approve eligibility for specific compensation and benefit programs. At the discretion of the Subcommittee, broad and meaningful programmatic changes affecting the majority of executives may be brought to the Board of Trustees for review and approval. Executive compensation and benefit programs and policies include:
 - a. Base salary
 - b. Incentive compensation arrangements

- c. Supplemental benefits and perquisites including: housing, domestic assistance, automobile, air travel, Bowl Game travel, spousal/family travel, executive long-term disability insurance, annual physical examination, supplementary life insurance, accidental death and dismemberment insurance, financial counseling services, and moving expenses
 - d. Deferred compensation
 - e. Severance arrangements
 - f. Other rewards and benefit opportunities for which the University's executives are, or may become eligible
3. **President's Performance and Compensation.** Recommend annually for Board of Trustees approval, the President's goals and objectives to be used in compensation determination. Evaluate at least once a year, the President's performance in light of these established goals and objectives. Review President's tally sheet which outlines target total compensation and compensation payouts under various termination scenarios. Based upon these evaluations, recommend the President's annual compensation, including salary and incentive compensation (if applicable). Review and recommend for the Board's approval substantive changes in the terms relating to compensation, benefits, and perquisites for new or revised employment arrangements.
 4. **Performance and Compensation of Other Leadership Positions.** Review the assessment and recommendations made by the President with regard to the performance and leadership development of executive positions as defined in *Appendix A*, which may be amended, as appropriate, by the Subcommittee. Approve resulting compensation decisions, as defined in *Appendix B*. Review internal pay equity among leadership positions on an annual basis. Keep apprised of off-cycle pay increases and *ad hoc* rewards to individuals in positions within the Committee's purview. Review executive tally sheets which outline total compensation and compensation payouts under various termination scenarios. Review and approve substantive changes in the terms relating to compensation, benefits, and perquisites for new or revised employment arrangements, as defined in *Appendix B*.
 5. **Competitive Review.** Review competitive practices and trends to determine the adequacy and reasonableness of the executive compensation programs. Review reports on executive pay competitiveness and alignment with the compensation strategy provided by Human Resources and/or outside advisors.
 6. **Compliance.** Oversee compliance with respect to executive compensation matters. Ensure program designs are consistent with the University's executive compensation strategy and payouts are reasonable and appropriate. Receive regulatory briefings, as appropriate, provided by outside advisors/consultants. Document the basis for individual pay decisions and/or programmatic changes.
 7. **Board and Administration Communication.** Maintain open communications with Administration and the Board. Make regular reports to the Board regarding its actions as provided in the Bylaws, Standing Orders, and these Operating
 8. **Operating Guidelines.** Periodically review and reassess the adequacy of these Operating Guidelines and its Appendices.

9. **Other Duties as Assigned.** Fulfill such other duties and responsibilities as may be assigned to the Subcommittee, from time to time, by the Board.

The execution of the duties and responsibilities listed above is described with further specificity in the Decision Rights Guidelines (*Appendix B*). The Decision Rights Guidelines serve to delineate the roles of each constituency involved in executive pay and human resource decisions.

V. Authority and Board Reporting

The University may retain independent counsel, experts, or advisors that the Subcommittee believes to be desirable and appropriate, who will report to the Subcommittee. The Subcommittee also may use the services of the Company's in-house legal counsel or other advisors to the University. The University will provide the funding for expenses of the Subcommittee that are necessary or appropriate in carrying out its duties.

The Subcommittee reports to the Board and will report its actions and any recommendations to the Board after each Subcommittee meeting. This report will include a review of any issues that arise with respect to the University's executive compensation programs, compliance with legal or regulatory requirements, and any other matters that the Committee deems appropriate or are requested to be included by the Board.

APPENDIX A: POSITIONS WITHIN THE SUBCOMMITTEE'S PURVIEW	
Tier I	President
Tier II	Executive Vice President and Provost
	Senior Vice President for Finance and Business/Treasurer
	Vice President & General Counsel
Tier IIA	Vice President of Intercollegiate Athletics
	Football Head Coach
	Men's Basketball Head Coach
	Women's Basketball Head Coach
Tier IIB	Chief Executive Officer, Penn State Health
Tier III	Vice President for Administration/Secretary to Board of Trustees
	Senior Vice President Commonwealth Campuses
	Vice President Outreach
	Vice President for Student Affairs
	Vice President for Human Resources
	Vice President and Dean for Undergraduate Education
	Senior Vice President for Research
	Vice President for Strategic Communications
	Vice President for Information Technology
	Vice President for Governmental Affairs
	Vice President for Physical Plant
	Vice President for Development and Alumni Relations
	Tier IV Administrative and Academic
Executive Director Office of Investment	
Associate Vice President for Auxiliary and Business Services	
Associate Vice President for Budget & 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
Dean, College of Medicine

APPENDIX B: 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	Informed	Approve	Initiate / Recommend	Consult / Manage	Informed	Informed
4a. Establish / change employment terms and provisions for executives in Tiers II and IIA	Informed	Approve	Initiate / Recommend	Consult / Manage	Informed	Consult / Manage
4b. Performance review/compensation for executives in Tier IIB	N/A	Informed as Appropriate	Initiate/ Recommend	Informed	Informed	Informed
4c. Performance review / compensation for executives in Tiers III and IV	N/A	Informed as Appropriate	Approve	Initiate / Manage	Informed	Informed
4d. Establish / change employment terms and provisions for executives in Tiers III and IV	N/A	Informed as Appropriate	Approve	Initiate / Manage	Informed	Consult / Manage

5. Conduct annual executive pay study	Informed	Approve	Consult / Informed	Initiate / Manage	Informed	Informed
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