

The Pennsylvania State University Compensation Committee Operating Guidelines

Introduction

The Operating Guidelines for The Pennsylvania State University's Compensation Committee of the Board of Trustees are organized as follows:

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

I. Purpose

The purpose of the Committee is to assist the Board of Trustees in, among other matters, the review of human resource and executive compensation programs and strategies pertaining to the University's senior leadership positions¹, and to make decisions and recommendations for and on behalf of the Board and Administration, when appropriate, relating to the effectiveness of executive compensation, benefits, performance management, and leadership development. At the Committee's discretion, or as directed by the Board, the Committee may review and provide perspectives on compensation, benefits, performance management, and leadership development programs for the broader University.

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

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

¹ See *Appendix A* for a list of leadership positions within the purview of this Committee.

II. Meetings and Agendas

The Committee 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 Committee 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, taking into account input from the Committee members and the appropriate members of Administration, will establish the agenda for each Committee meeting. The standing agendas will guide the execution of the Committee'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 Committee to address these *ad hoc* topics. Each Committee member may, in advance of the meeting, suggest to the Chair subjects for discussion to be added to the meeting's formal agenda.

The Committee will meet in Executive Session to discuss personnel matters. Official action on discussions held in Executive Session will be taken at an open meeting. The Committee 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 Committee and made public in accordance with the public meeting requirements.

III. Duties and Responsibilities

In furtherance of its purpose, the Committee 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 Committee, 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 Committee. 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 Guidelines.
8. **Sub-committee on Human Resources.** Review on a regular basis applicable human resource policies and procedures concerning the recruitment, retention, and training of employees as well as diversity and inclusion. Review compensation policies and practices across the broader University employee population.
9. **Operating Guidelines.** Periodically review and reassess the adequacy of these Operating Guidelines and its Appendices.
10. **Other Duties as Assigned.** Fulfill such other duties and responsibilities as may be assigned to the Committee, 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.

IV. Authority and Board Reporting

The University may retain independent counsel, experts, or advisors that the Committee believes to be desirable and appropriate, who will report to the Committee. The Committee 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 Committee that are necessary or appropriate in carrying out its duties.

The Committee reports to the Board and will report its actions and any recommendations to the Board after each Committee 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.

POSITIONS WITH THE COMMITTEE'S PURVIEW

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
	Senior Vice President for Development and Alumni Relations
	Vice President & General Counsel
Tier IIA	Director of Intercollegiate Athletics
	Football Head Coach
	Men's Basketball Head Coach
	Women's Basketball Head Coach
Tier III	Vice President for Administration/Secretary to Board of Trustees
	Vice President Commonwealth Campuses
	Vice President Outreach and Vice Provost for Online Education
	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 Governmental Affairs
Tier IV Administrative and Academic	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
	Vice Provost for International Programs
	Vice Provost Academic Affairs
	Vice Provost for Educational Equity
	Vice Provost for Affirmative Action
	Vice Provost for Information Technology
	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 Planning and Assessment
	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

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 ²	Informed	Approve	Initiate / Recommend	Consult / Manage	Informed	Informed
4a. Establish / change employment terms and provisions for executives in Tiers II and IIA ²	Informed	Approve	Initiate / Recommend	Consult / Manage	Informed	Consult / Manage
4b. Performance review / compensation for executives in Tiers III and IV ²	N/A	Informed as Appropriate	Approve	Initiate / Manage ³	Informed	Informed
4b. Establish / change employment terms and provisions for executives in Tiers III and IV ²	N/A	Informed as Appropriate	Approve	Initiate / Manage ³	Informed	Consult / Manage

² As defined in *Appendix A*.

³ Recommendations come from appropriate executive management reporting relationships.

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