

MINUTES OF THE JANUARY 14, 2013, COMPENSATION AND HUMAN RESOURCES COMMITTEE MEETING

The Compensation and Human Resources Committee (“the Committee”) of the Smithsonian Institution Board of Regents held a meeting on January 14, 2013, beginning at 11:00 a.m. at the Smithsonian Institution Building in Washington, D.C. Participating were Committee Chair Patricia Stonesifer and members Representative Xavier Becerra*, and John McCarter; Board Chair and ex officio member France Córdova also participated. Senator Thad Cochran was unable to participate.

Also present were Secretary G. Wayne Clough, Chief of Staff to the Secretary Patricia Bartlett, Associate Director of the Office of Human Resources (OHR) Gregory R. Bettwy, Director of OHR James D. Douglas, Under Secretary for Finance and Administration/Chief Financial Officer Albert Horvath, Chief of Staff to the Regents John K. Lapiana, General Counsel Judith Leonard, and PricewaterhouseCoopers (PwC) consultants Bruce Clousure* and Heather O’Neal*.

CALL TO ORDER AND APPROVAL OF MINUTES

Ms. Stonesifer called the meeting to order at 11:00 am. The Committee approved the draft minutes of the September 25, 2012, meeting without modification.

SMITHSONIAN ENTERPRISES UPDATE

Ms. Stonesifer noted that Smithsonian Enterprises (SE) has begun, with the Office of General Counsel and the Office of Human Resources, a review of the long-term component of its compensation incentive program in anticipation of presenting a proposal at the Committee’s May 6, 2013, meeting.

INVESTMENT INCENTIVE PLAN

Mr. Horvath presented proposed amendments to the Office of Investments (OI) incentive plan. He said that the amendments were prompted by concerns raised by the Chief Investment Officer that the Smithsonian was disadvantaged in retaining staff under the current plan. The current OI staff is small and retention is “a key” to continuing the office’s success, Mr. Horvath added.

Mr. Horvath described two proposed amendments to the OI incentive plan: (1) elimination of the deferral of a portion of the incentive payment and (2) elimination of the “clawback” provision:

Deferred payment. Mr. Horvath explained that the current incentive earned by plan participants is paid in three installments: current year and two subsequent years. The deferral was intended to provide an enhanced incentive for staff retention, since future years’ payments would be forfeited in the event that an individual voluntarily separated from the Institution.

* *participated by teleconference*

He noted that, since the relative compensation of investment staff is modest in comparison to peers, the impact of the retention feature has been small. Potential employers could easily match the lost deferral with a similarly sized signing bonus.

“Clawback” provision. Mr. Horvath noted that the need for a “clawback” provision would be eliminated if the deferred payment provision was eliminated, since only deferred compensation is subject to the “clawback.” The “clawback” was designed to deal with years in which investment performance was significantly below established benchmarks, and involves the reduction of unpaid deferred earnings.

Ms. Stonesifer noted that, were these provisions to be eliminated, the 2013 compensation for OI staff would be significantly more than 2012, as staff would receive both incentive payments for 2012, as well as any unpaid deferred compensation. She urged staff to be prepared to explain the one-time-only nature of the compensation. Mr. Becerra encouraged strong proactive communications between the Smithsonian and potentially interested Congressional members and staff on the impact of any changes. Ms. Stonesifer recommended that staff develop a briefing memorandum that would explain the one-time nature of the deferred compensation payment. Mr. Horvath said that the Office of Human Resources will develop a phased implementation of any changes to the plan. Mr. Clousure counseled that any release of a deferred payment should be properly explained in the Smithsonian’s IRS Form 990.

Accordingly, the Committee approved the following motion:

VOTED that the Compensation and Human Resources Committee approves the recommended modifications to the Office of Investments incentive plan, specifically the elimination of the deferred payment approach and the clawback provision with the deferred payment payout to the Chief Investment Officer spread over the next two calendar years.

FEDERAL FREEZE UPDATE

Ms. Stonesifer provided an update on the status of the Federal compensation freeze. She said that the President was seeking to end the freeze in April 2013, but that the new Congress could choose reinstate it by legislation. The Smithsonian is currently considering compensation adjustments in anticipation of the freeze being lifted. However, she added, if the freeze continues, the Smithsonian will also continue its freeze on Trust salaries, but that the Secretary may request from the Committee authority to grant limited adjustments for certain “high-need” senior Trust positions at its April 2013 meeting. The compensation decisions being considered by the Committee, she said, presume that the freeze will be lifted in April.

2013 COMPENSATION PROCESS

Ms. Stonesifer began the discussion of the 2013 compensation process by reminding members of their duties as a compensation review board for a not-for-profit organization. This requires

full disclosure of any real or perceived conflicts of interest with any of the Smithsonian executives for whom pay will be determined. All members verified that they had none.

Ms. Stonesifer noted that every other year the Smithsonian conducts a new compensation survey. Because the last survey was done in 2011, she noted that the Committee's decisions would be based on a new PwC survey for 2013. After reviewing summary statistics on the executive workforce, including its compensation and composition, Mr. Becerra noted that the Smithsonian continues to lag behind its peers in the diversity of its senior executives and that the Institution must continue to demonstrate its efforts to rectify that imbalance.

Mr. Clousure then provided an overview of the PwC survey of 120 Trust and Federal-equivalent Smithsonian positions, including its collection of the data, job family identification, and consideration of IRS intermediate sanctions used to make compensation decisions.

The Committee then reviewed the positions included in TAB 5A of the Committee's meeting materials. Compensation for these positions is recommended by the Secretary and approved by the Committee. The Committee then reports its decisions to the full Board.

Ms. Stonesifer noted that if the Federal pay freeze were to continue for the remainder of 2013, the salary increases approved by the Committee and the Board will not take effect. Mr. Clousure noted that the Smithsonian is becoming less competitive as salaries in the non-profit sector are now increasing at approximately a 2.5 percent annual rate. Mr. McCarter stressed that senior management should identify non-monetary incentives (e.g., time-off and training opportunities) to recruit and retain staff as the gap between Smithsonian and other non-profit organizations continues to grow.

During the presentation by the Secretary on the merits of his compensation recommendations, he and Mr. Horvath requested that an additional retention allowance be added to the compensation of one executive. Accordingly, the Committee approved the following motion:

VOTED that the Compensation and Human Resources Committee approves the Secretary's amended compensation recommendations for those positions in Tab C of the materials.

Dr. Clough then presented his recommendations for executives whose compensation is subject to full Board approval. Because their positions were included in this list, Mr. Horvath, Mr. Lapiana, and Ms. Leonard did not participate in those portions of the review and left the meeting at the appropriate times. During the presentation, the Secretary requested an adjustment to one of his compensation recommendations contained in the meeting materials.

The following motion was then approved:

VOTED that the Compensation and Human Resources Committee concurs with the Secretary's amended compensation recommendations for those positions in Tab D of

the meeting materials and forwards them to the full Board for final decision at its January 28, 2013, meeting.

EXECUTIVE SESSION

The Committee then went into Executive Session and discussed the Secretary's compensation. Members received a briefing from Board Chair France Córdova on the Secretary's performance for fiscal year 2012. The Committee concluded that the proposed compensation was consistent with the recommendation of the Chair and with comparable positions identified by PwC.

Accordingly, the following motion was approved:

VOTED that the Compensation and Human Resources Committee recommends to the full Board that the Secretary receive a 2.5 percent salary increase and award of \$20,000.

The Committee adjourned the meeting at 12:35 p.m.

Respectfully submitted,

Patty Stonesifer
Chair