

## **MINUTES OF THE SEPTEMBER 27, 2010, 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 September 27, 2010, beginning at 2:05 p.m. at the Smithsonian Institution Building in Washington, D.C. The meeting was chaired by member John McCarter\*. Also participating were Committee members Representative Xavier Becerra\*, Senator Thad Cochran, Roger Sant, and Patricia Stonesifer; Committee Chair Phillip Frost 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, Assistant to Representative Becerra Melody Gonzales\*, Assistant to Senator Cochran T.A. Hawks, Office of the Regents Program Officer Grace Jaeger (recorder), Chief of Staff to the Regents John K. Lapiana, General Counsel Judith Leonard, and PricewaterhouseCoopers Principal Carl Weinberg\*.

### **Call to Order and Approval of Minutes**

Mr. McCarter called the meeting to order at 2:05 p.m. The Committee approved the minutes of the January 19, 2010, meeting.

### **Regent Phillip Frost**

Ms. Stonesifer reported that during a phone conversation earlier in the day, Phillip Frost announced his intent to resign from the Board of Regents.

### **Inspector General Compensation Approach**

Mr. Bettwy explained the issue of incentives in determining the compensation of the Inspector General. The Inspector General Reform Act of 2008 included provisions for the compensation of Inspectors General to ensure that they were not underpaid in comparison to similar executives at an agency since they are not eligible for performance-based awards. A benchmarking review showed that the payment of recruitment, relocation, and retention incentives in compensation packages is not consistent across the government and that there would be precedent for either including or excluding them from the compensation package of the Smithsonian’s Inspector General. After discussion of the options, the following motion was approved:

**VOTED** that the Compensation and Human Resources Committee approves the staff recommendation of the inclusion of retention incentives in the Smithsonian Institution Inspector General’s compensation and the exclusion of recruitment and relocation incentives.

### **Office of Investments Incentive Plan**

Mr. Bettwy provided background information on the proposed changes for the incentive plan for positions in the Office of Investments. The first payments to participants were issued in

\* *participated by teleconference*

2010 based on the existing incentive plan. The Institution hired consultant Cambridge Associates to review the plan and make recommendations for improvement including: determining eligibility, beginning participation for new employees, relationship to the Smithsonian's compensation philosophy, clawback provision, quantitative/qualitative split, benchmarking comparables, reinvestment of deferred amounts, timeframes for quantitative performance, qualitative benchmarks, and presumption during years of no absolute positive return. Details of the suggested changes were included in the meeting materials.

Members discussed the various proposed changes. The major area of discussion centered on the application of the presumption that, in a year of no absolute positive return, no quantitative incentive would be paid but that a qualitative incentive could be paid. Cambridge Associates proposed dropping the presumption because, in its view, such a provision can be contrary to the purpose of an incentive plan since it fails to incentivize staff to minimize losses during challenging years.

Mr. Bettwy presented a proposed new structure to the quantitative portion of the incentive. While the previous incentive had a one-year quantitative portion and the presumption applied to the entire quantitative portion, the proposed quantitative incentive would have two parts: a one-year portion and a multi-year portion. The presumption would be applied as follows: in a year of no absolute positive return, a presumption exists against providing any quantitative incentive for the one-year portion; however, the presumption would not exist for the multi-year quantitative portion or for the qualitative portion.

### **Calendar Year 2011 Compensation**

Mr. Weinberg provided an update on current market and regulatory conditions as they relate to the area of employee compensation. There is some movement away from the pay freezes of 2008 and 2009, and some modest pay increases (around 2 percent) have occurred. However, employers are generally reluctant to provide increases for senior staff. Some job "families" are currently experiencing more aggressive pay increases, namely development, investment, and advocacy positions. The new form 990 and its Schedule J used by the IRS to gather data on not-for-profits is beginning to have meaningful impact in terms of transparency.

Mr. Bettwy provided information on the remaining areas of 2011 compensation: the comparable data approach, the list of disqualified person positions, decision-making levels, updated compensation philosophies, and the updated compensation timeline.

Members discussed the necessity and costs of conducting compensation surveys every two years with the consensus that the costs are reasonable, and that it is an important tool in determining compensation fairly and comparably with similar organizations. Mr. Weinberg noted that the only change to the methodology from the last survey was the inclusion of private universities as a benchmark.

Discussion ensued on the proposed 2011 compensation determination levels. The total

number of positions is 225 total positions with 37 reviewed by the Committee, 21 of which are determined by the Committee. Sixteen positions will be sent to the full Board for review and decision. Ms. Stonesifer suggested reducing the number decided by the Committee to those positions with which it has direct contact.

The following motions were then approved:

**VOTED** that the Compensation and Human Resources Committee approves the 2011 comparable data approach proposed by PricewaterhouseCoopers as detailed in the meeting materials.

**VOTED** that the Compensation and Human Resources Committee approves the 2011 proposed list of disqualified person positions as detailed in the meeting materials.

**VOTED** that the Compensation and Human Resources Committee approves the 2011 proposed compensation decision-making levels as detailed in the meeting materials.

**VOTED** that the Compensation and Human Resources Committee approves the proposed 2011 updated compensation philosophies as detailed in the meeting materials.

### **Hiring Process Change Update**

Mr. Douglas provided information on a new Federal initiative to attract high quality candidates to Federal service more efficiently and quickly. Changes to the hiring process will focus on assessing candidates, engaging hiring managers, and making the process more applicant-friendly. Implementation will be November 1, 2010, and will apply to most of the Institution's hiring actions. The Office of Human Resources is gearing up to support its implementation.

### **2010 Employee Survey Results**

Members discussed the results of the 2010 Smithsonian Employee Perspective Survey. Overall employee job satisfaction remains very high although areas of weakness exist. Mr. Douglas noted that the Smithsonian Institution was recently named one of the 10 Best Places to Work in the Federal Government by the non-profit Partnership for Public Service and said that he anticipates this will help with recruitment and with discussions with the Office of Management and Budget.

The meeting was adjourned at 3:40 p.m.

Respectfully submitted,  
John W. McCarter Jr.