Subcommittee on Compensation
Operating Guidelines

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 with executive compensation philosophy and strategy pertaining to the University’s Executives as set forth herein. Except as provided in Section IV(4) below, “Executives” shall mean the President of the University, those individuals holding the positions of Vice President or Dean and the Head Coaches of the University’s Varsity Intercollegiate Athletics Teams.

The Subcommittee shall fulfill its responsibilities through standing meetings with planned agendas and ad hoc meetings as necessary.

The Subcommittee’s responsibility and authority to review, recommend or approve various matters and its responsibilities with respect to reporting to the Board of Trustees is as set forth herein. 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 shall review these Operating Guidelines periodically and recommend changes to the Committee on Governance and Long-Range Planning for review and consideration.

II. Composition

The Subcommittee shall consist of at least five members, all of whom need not be members of the committee on equity and human resources, in addition to the ex officio members [and shall be chaired by the Chair of the committee on equity and human resources]. 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 the administrative liaison to the Subcommittee.

III. Meetings and Agendas

The Subcommittee will meet at such 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 the administration, will establish the agenda for each Subcommittee meeting. 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 as permitted by law. 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 public meeting. The Subcommittee may schedule conferences as needed and as permitted by law.

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

IV. Duties and Responsibilities

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

1. **Executive Compensation Strategy.** Regularly review and, if appropriate, recommend to the Board of Trustees changes to the University’s executive compensation philosophy and strategy to ensure that it appropriately sets forth a clear direction for the attraction and retention of leadership and appropriately compensates senior leaders for their contributions to the University. The University’s current executive compensation philosophy and strategy is set forth in Appendix A hereto. Appendix B hereto sets forth the current list of higher education institutions against which the University will measure and establish executive pay levels for various categories of Executives.

2. **Executive Compensation and Benefit Programs.** Review and approve 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. 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 may 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; and
   f. Other rewards and benefit opportunities for which 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 connection with the President’s performance evaluation and compensation determination. Evaluate at least annually the President’s performance in light of these established goals and objectives. Based upon these evaluations, recommend to the Board of Trustees changes to the President’s annual compensation, including salary and incentive compensation (if applicable). Review and recommend for the Board’s approval any substantive changes in the terms relating to the President’s compensation, benefits, and perquisites.

4. **Performance and Compensation of Other Executives.** Review the assessment and decisions made by the President with regard to the performance and leadership development of other Executives. Approve resulting compensation decisions for any Executive whose salary exceeds that of the President. Review internal pay equity among Executives on an annual basis. Review or approve, as appropriate, compensation, benefits and perquisites for any new Executive whose salary exceeds that of the President and any substantive changes in the terms relating to compensation, benefits, and perquisites for such
Executive. Notwithstanding the foregoing, compensation for Executives in an interim or acting capacity shall be determined by the President with notice to the Subcommittee.

5. **Competitive Review.** Review competitive practices and trends to determine the adequacy and reasonableness of the University’s executive compensation programs. Review reports on executive pay competitiveness and alignment with the compensation strategy provided by the Office of 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 philosophy and strategy and that payouts are reasonable and appropriate. Receive legal and regulatory briefings, as appropriate, provided University counsel or by outside advisors/consultants.

7. **Board and Administration Communication.** Maintain open communications with University 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. **Operating Guidelines.** Periodically review and reassess the adequacy of these Operating Guidelines and its Appendices and recommend changes, as appropriate, to the Committee on Governance and Long-Range Planning.

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.

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 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 understands that matters relating to executive compensation are of interest to the Board of Trustees. Accordingly, the Subcommittee shall present annually to the Board of Trustees a market and competitive analysis, benchmarking information and other matters relevant to the University’s executive compensation philosophy and strategy. The Subcommittee shall advise the Board of Trustees at the commencement of any review of compensation matters relating to any Executive whose salary is expected to exceed that of the President.

The Subcommittee shall report to the Board immediately after each Subcommittee meeting at which the Subcommittee approves any individual compensation decision and after any other 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 Subcommittee deems appropriate or are requested to be included by the Board.
APPENDIX A: Executive Compensation Strategy

1. Institutional Alignment

(a) Penn State is committed 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 aspects of its operations.

(b) Achievement towards this aspirational goal requires that Penn State recruit and retain 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 recruits, retains, and rewards executive talent.

2. Executives

This executive compensation strategy covers Executives, as defined in Section 1 of the Operating Guidelines.

3. Rewards Prominence

In order to attract and retain the very best executive talent, Penn State must offer market competitive reward opportunities.

4. Elements of Rewards

(a) Penn State will offer a variety of reward vehicles to attract, retain, and reward Executives in an appropriate and reasonable manner. Such vehicles may include one or more of the following:

(i) Base Salary: Salary is the primary vehicle through which total compensation will be 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 shall be determined annually based on institutional performance, financial affordability, the competitive market, and the overall macroeconomic climate. Individual salary increases shall be determined based on an individual's performance, as well as budget, market and internal equity considerations.

(ii) Annual Incentives: Based upon market circumstances and individual situations, compensation for certain positions may include incentives.

(iii) Health and Welfare Benefits: The University may provide Executives with health and welfare benefits that are competitive with its relevant comparison market, many of which are offered to all employees at the University. The most current information and details on employee benefits can be found at http://hr.psu.edu/benefits.

(iv) Retirement Benefits: Penn State is committed to a shared responsibility with its Executives to provide a competitive level of retirement income security.

(v) Other benefits. In addition to the benefits described above, Executives may receive select additional benefits and perquisites as determined by the President and approved as provided in the Operating Guidelines.

5. Comparison Markets (Peer Institutions)

(a) 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. For academic and administrative Executives, Penn State shall consider
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.

(b) The criteria used to determine this comparison market includes:

1. Classification as a research university;
2. Membership in the Big Ten Academic Alliance [BTAA] and/or Association of American Universities (AAU);
3. National ranking (Top 50 National Universities and/or Top 25 Public Universities);
4. Financials including Research Expenses Per Instruction / Research and Public Service FTE Staff and Total Expenses (Operating Budget)

(c) Certain positions may include a comparison to programs such as the top 25 ranking (at the time) by sport or program to capture and represent the national perspective.

(d) The Subcommittee on Compensation (of the committee on equity and human resources) of the Board of Trustees (the “Subcommittee”) is responsible for the development of the comparison market(s) and for their regular review, which may result in changes in the composition of the comparison market(s) from time-to-time. The Subcommittee shall review the composition of the comparison markets annually with the Board of Trustees and shall recommend any changes thereto to the Board of Trustees for its approval.

6. Pay Positioning

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

7. Performance Measurement and Goal Setting

(a) Penn State strongly believes in a high-performance culture that is supported and modeled by its Executives.

(b) The Board of Trustees is responsible for determining annual performance expectations for the President, evaluating the performance of the President, and determining resulting compensation actions, after receipt of recommendations of the Subcommittee with respect thereto.

(c) The President or designee is responsible for determining annual performance expectations for each of the other Executives, evaluating the performance of such Executives, and determining resulting compensation actions, with the assistance of Human Resources and subject to the approval of the Subcommittee with respect to any Executive whose salary exceeds that of the President the with notice to the Subcommittee with respect to other Executives.

(d) The Chair of the Board of Directors of Penn State Health (“PSH”) will be responsible for reviewing the performance of the CEO of PSH (the “PSH CEO”) with the President of the University and will solicit feedback from the Compensation Committee of the PSH Board and other PSH Board members as appropriate. The PSH CEO’s performance, as well as market information on competitive pay levels, will be discussed by the President of the University, the PSH Board Chair and the PSH Compensation Committee Chair in advance of presentation to the PSH Compensation Committee, and will be referenced by the PSH Compensation Committee in developing recommendations to the PSH Board on the PSH CEO’s compensation arrangement in its entirety, including base salary and benefits. The PSH Board will approve any proposed changes to the PSH CEO’s total compensation. Approved changes to the PSH CEO’s compensation shall be reported to the Subcommittee.
(e) Annual salary increases shall be awarded primarily on the basis of annual performance as
determined by the performance assessment, annual budget, and other relevant factors.

8. Communication/Transparency

(a) 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.

(b) The Chair of the Board of Trustees or designee will be responsible for the communication of compensation decisions and rationale to the President.

(c) The President or his/her designee will be responsible for the communication of compensation decisions and rationale to other Executives.

(d) In communicating compensation decisions and rationale, Penn State will ensure that those communications draw linkages between institutional success, performance measures, and individual reward decisions.
APPENDIX B: Executive Higher Education Comparison Market - Public and Private Institutions Combined*

*The following pages include the Executive Higher Education Comparison Market broken out by Public and Private Institutions only. References supporting all charts are available on page 10.
Executive Higher Education Comparison Market - Public Institutions Only*

<table>
<thead>
<tr>
<th>Institution Name</th>
<th>Location</th>
<th>Control</th>
<th>BTAA Member</th>
<th># of Campuses</th>
<th>USNWR Ranking</th>
<th>Research Expenses per Instruction Research and Public Service FTE</th>
<th>Has a Hospital</th>
<th>Hospital Finances</th>
<th>AAHC Member</th>
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*Supporting references are available on page 10.
Executive Higher Education Comparison Market – Private Institutions Only*

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<th>Institution Name</th>
<th>Location</th>
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<th>BTAA Member</th>
<th># of Campuses</th>
<th>US News Rank</th>
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<th>Total Expenses</th>
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<td>New Haven, CT</td>
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*Supporting references are available on page 10.
Executive Higher Education Comparison Market References

1. All institutions are RU (VHR), AAU members, and grant medical degrees.
2. Number of locations where the institutional President/Chancellor oversees those campuses.
4. Source: IPEDS Data Center, FY 2020. Data reported for flagship campus only.
5. If marked "Yes," data is from IPEDS: If institution reported either revenues from Sales and services of hospitals GASB, hospital revenues (FASB), or expenses for hospital services (GASB or FASB) an institution was determined to have a hospital.
6. IPEDS Definition: Hospital services - total expenses is the sum of all operating expenses associated with a hospital operated by the postsecondary institution (but not as a component unit) and reported as a part of the institution. This classification includes nursing expenses, other professional services, general services, administrative services, and fiscal services.
7. Association of Academic Health Centers.
8. Boston Medical Center total expenses as reported in FY20 IRS Form 990 filing.
9. Johns Hopkins Hospital total expenses as reported in FY20 IRS Form 990 filing.
10. NYU Langone Hospitals FY20 total operating expenses from Consolidated Financial Statements.
12. The UC Berkeley-UCSF Joint Medical Program is a joint degree program in the University of California system between the UC Berkeley School of Public Health and the UCSF School of Medicine.
13. University of Chicago Medical Center total expenses as reported in FY20 IRS Form 990 filing.
14. UF Health Shands FY20 total operating expenses from Consolidated Financial Statements.
15. University of Maryland Medical System Corporation and Subsidiaries FY20 total operating expenses from Consolidated Financial Statements.
16. Fairview Health Services FY20 total operating expenses from Consolidated Financial Statements.
17. UNC Health FY20 total operating expenses from Annual Report.