

Executive Compensation Program for McMaster University

April 4, 2018



Executive Compensation Program for McMaster University

I. Background - Requirements of Ontario's Broader Public-Sector Executive Compensation Act

In 2014, the Government of Ontario approved the Broader Public-Sector Executive Compensation Act, 2014 (BPSECA) in order to manage executive compensation in the broader public service. In September 2016, the Government of Ontario introduced Regulation 304/16: Executive Compensation Framework, which was further amended in November 2016, June 2017, and November 2017 (the "Regulation"). The legislation and its subsequent amendments articulate the process that Ontario broader sector employers (including universities, colleges, hospitals, and school boards), are to use to create compensation frameworks for Designated Executive positions. Highlights of the compensation framework for Designated Executive positions include:

- Salary and any performance-related pay be capped at the 50th percentile of appropriate comparators. The 50th percentile is to be determined utilizing a process defined within the Regulations.
- Designated Employers must receive approval from their overseeing Ministry on the comparator organizations used to determine the salary and performance-related pay caps.
- The salary and performance-related pay envelope, and the rate of increase to be applied to this envelope, is to be capped at the maximum rate of increase approved by the overseeing Ministry.
- No actual increase in salary and performance-related pay can result in a designated executive received salary and performance-related pay beyond the salary and performance-related pay cap.
- Approval of the overseeing Ministry is required at multiple points through the process of creating the Executive Compensation Program.
- Certain compensation elements, such as signing bonuses, and pay-in-lieu of perquisites are prohibited.

For transparency purposes, the process of approval of the compensation program for designated executives also requires that the plan be posted on a public-facing website for a period of 30 days. After consideration of feedback, the final Designated Executive Compensation Program must then be submitted to the government for final approval. McMaster's Designated Executive Compensation Program is provided in compliance with this requirement. Feedback on McMaster's program may be directed to: univsec@mcmaster.ca.

For more information

- Executive Compensation Framework for the broader public sector <https://www.ontario.ca/page/broader-public-sector-accountability>
- Broader Public Sector Executive Compensation Guide <https://www.ontario.ca/page/broader-public-sector-executive-compensation-guide>
- Ontario Regulation 304/16, made under the Broader Public-Sector Executive Compensation Act, 2014 <https://www.ontario.ca/laws/regulation/r16304>

McMaster University's Board of Governors has considered the requirements of the BPSECA and its Regulations and developed McMaster's Executive Compensation Program, in compliance with these requirements.

II. Introduction:

McMaster University is proud to be recognized as one of the Top 100 universities in the world. The international higher education sector is highly competitive, and McMaster is focused on maintaining and further improving our reputation as we advance our mission and vision. McMaster University will maintain a compensation program for designated executives that supports the attraction, development, engagement and retention of those high caliber leaders so critical to the University's continued success.

To further the University's mission as a student-centered research-intensive university and to build on its accomplishments and ranking, McMaster must be able to recruit and retain exceptional leaders in the positions of President and Vice-Presidents. McMaster University's Compensation Program for Designated Executives has been carefully considered to ensure it aligns with the Broader Public-Sector Executive Compensation Act, 2014 (BPSECA) and its associated Regulations, and to provide:

- The ability to attract and retain the caliber of leaders required to advance the University's academic goals and commitment to excellence.
- A total compensation program that is competitive with other similar organizations with which we compete for talent.
- Comparators that are meaningful and relevant to McMaster and reflect its competitive market for talent as defined by the university's focus, research intensity and international standing.
- Compensation approaches, meaning the combination of base salary, variable pay, benefits, retirement income, and other provisions, that align with and support our culture.
- Support for succession planning
- Consistency with other employee groups, as required by the regulation.

III. About McMaster University

McMaster University is one of only two Ontario universities that is ranked within the world's top 100. We are Canada's most research-intensive university and our teaching, learning and research mandates are deeply integrated at both the undergraduate and graduate levels. With strengths across many disciplines, McMaster is a globally ranked leader in health sciences and renowned for our integration of research into a personalized and innovative teaching environment. McMaster's history is inspiring, and our aspirations are high as we aim to strengthen our position as one of the world's leading universities in advancing human and societal health and well-being.

We are Ontario's, and Canada's, most research-intensive university, consistently achieving research excellence and impact as measured by total publications, total citations, and total sponsored research income per full-time faculty member.

- McMaster's 2017 world ranking jumped from 83 to 66 in the highly respected Shanghai Jiao Tong Academic Ranking of World Universities. This continues McMaster's impressive improvement in the international ranking, moving 30 positions in just 2 years. When considering only publicly funded universities, McMaster rises to 48th place in the world.

- McMaster has been ranked 78th in the world by the Times Higher Education's influential World University Rankings, jumping 35 spots from the previous year - the biggest improvement of any of the institutions listed among the top 100 in the world.
- McMaster is ranked #23 in the world and third in Canada in the "Clinical, Pre-Clinical and Health" in the 2016 Times Higher Education World University Rankings.
- McMaster's DeGroot School of Medicine placed 33rd in Medicine and 36th in the world in Nursing in the 2016 QS World University Rankings.
- Shanghai Ranking placed McMaster Kinesiology 18th in the world in its first [Global Ranking of Sport Science Schools and Departments](#) in 2016.
- McMaster is a research powerhouse, home to 70 research centres and institutes, 113 endowed chairs, 70 Canada Research Chairs, 12 endowed professorships, six Natural Sciences and Engineering Research Council Industrial Research Chairs, three Canadian Institutes of Health Research Chairs, and one Canada Excellence Research Chair.
- In the fall 2017 results from Research Infosource, McMaster placed first in the country among Canada's top research-intensive universities, averaging \$405,300 per faculty member, more than double the national average. Total research income was \$354.6 million. The University also placed first in research-intensity per graduate student.
- In 2017 McMaster placed first in the country in total corporate research income as a percentage of total university income (29%), per Research Infosource.
- McMaster has the highest average total Tri-Council funding allocation per principal investigator (\$78,890 in 2015-16) of Ontario's research-intensive universities.
- In Social Sciences and Humanities, McMaster ranks first in Ontario for the average size of grants per full-time faculty member and third in the number of grants per 100 full-time faculty members.

McMaster is a respected leader in health research and healthcare delivery, ranked among the top universities in the world for health and medicine. In four international rankings of an estimated 18,000 universities worldwide, McMaster is ranked in the top 50 or higher in categories including clinical, pre-clinical, health, life sciences and medicine. Overall, the University is within the top 100 institutions. As noted above, the newly released Times Higher Education World University Rankings ranked the Faculty of Health Sciences an extremely impressive 23rd in the best universities for Medicine. The University is tightly aligned with the hospital sector through the training of health professionals and the extensive integration of university research within the hospitals. McMaster's programming is intricately linked with Hamilton Health Sciences, St. Joseph's Hospital, and the Niagara Health System. McMaster also has strong collaborative partnerships with University Health Network, Sick Kids, Baycrest Health Sciences and many other hospitals across the country. McMaster also delivers primary healthcare, through almost 500 full-time clinical faculty members and over 1,800 part-time faculty who also practice in area hospitals or clinics. The McMaster Family Practice has 16,000 patients and was home to 75,000 patient visits within the last year. Additional health clinics in Hamilton and Burlington are managed through joint committees with McMaster.

Student enrolment at McMaster in 2016 included more than 30,000 undergraduate and graduate students. McMaster employed more than 11,000 individuals in 2016, including 949 faculty and over 500 clinical faculty.

IV. Designated Executives:

McMaster's Designated Executive Compensation Program applies to the following positions:

- President and Vice-Chancellor
- Provost and Vice-President (Academic)
- Dean and Vice-President (Health Sciences)
- Vice-President (Research)
- Vice-President (Administration)
- Vice-President (University Advancement)

V. McMaster University Total Compensation Philosophy:

In order to maintain and further improve our ranking and to advance its mission and vision, McMaster University will maintain a compensation program for designated executives that supports the attraction, development, engagement and retention of those high caliber leaders so critical to the University's continued success.

At McMaster University, we believe in compensating Designated Executives appropriately for their work and accomplishments. We take a responsible approach to setting levels of compensation, including benchmarking our compensation programs to those of similar employers and to similar jobs. Where differences exist in the structure of jobs or in broad aspects of total compensation among comparator benchmark jobs, we will make appropriate adjustments.

We believe in a performance-based compensation system. Increases in compensation and performance/variable pay plan payments will be awarded based on performance and achievement of objectives.

Elements of Total Compensation:

- 1. Cash Compensation:** Cash compensation (salary and performance/variable pay) will be determined by reference to market cash compensation for these positions. Compensation levels of selected U15 universities and hospitals will be the comparators. The maximum cash compensation (salary and performance/variable pay) will be targeted at up to the 50th percentile (P50) of the comparator group.
- 2. Retirement Income Provisions:** Persons hired into Designated Executive positions will be eligible for participation in either the University's Defined Benefit Pension Plan or Group RRSP and non-registered plan arrangements, as per plan eligibility definitions, and will be eligible to participate in the McMaster University Defined Contribution Supplemental Retirement Plan for Specified Employees (DC SRP).
- 3. Health and Dental Benefits:** Persons hired into Designated Executive positions will be eligible for participation in the University's standard health and dental benefits plans, while actively employed.

4. Post-Retirement Benefits: Post-retirement benefits are restricted to those Designated Executives who meet plan eligibility definitions. Those with staff appointments hired on or after June 16, 2009 are not eligible. Those with staff appointments hired at the University prior to June 16, 2009 retain their eligibility. Those with academic appointments are eligible.

5. Administrative Leave: Those with academic positions within the Designated Executives group are eligible for an Administrative Leave, as specified in the Administrative Leave Policy.

Approvals of Compensation Levels and Increases:

The compensation of Designated Executives will be reviewed and approved by the Human Resources Committee, a subcommittee of McMaster University's Board of Governors, in accordance with its Terms of Reference.

Through its Human Resources Committee, McMaster University's Board of Governors, will regularly review and update these Principles of Compensation for Designated Executives. The Human Resources Committee will also regularly review McMaster University's total compensation program for Designated Executives to determine whether there is any circumstance which warrants a review of salary and performance-related pay caps and to ensure alignment with applicable legislation.

VI. Creating the Executive Compensation Frameworks

As previously noted, the BPSECA and its associated amendments articulates the process that broader sector employers are to use to create compensation frameworks for Designated Executive positions. The Regulation requires that broader public-sector employers follow a specific process to determine the compensation framework:

1. Complete a comparator analysis defining comparator organizations and executive positions that will be used to benchmark salary and performance-related pay for each designated executive position. Designated employers are required to use at least three of the following factors in the selection of the comparators including: the scope of responsibilities of executive positions, the type of operation the organization engages in, the industries within which the organization competes for executives, the size and location of the organizations. The total salary and performance related pay of the approved comparators may be used to determine the 50th percentile (P50) for each Designated Executive position or Class of Designated Executives positions. This P50 becomes the salary and performance-related pay range maximum for the Designated Executive Role.
2. Provide a description of any compensation elements, other than salary and performance-related pay, that would be provided to designated executives but that are not generally provided in the same manner and relative amount to non-executive managers.
3. Determine the maximum rate of increase to the salary and performance-related pay envelope, using factors defined within the Regulations.

The sections below provided additional details on how this process has been applied at McMaster.

Comparators

McMaster does not source candidates solely from Canadian universities. A number of candidates hired into positions included in designated executive positions in recent years have included individuals who have come from the hospital sector, international universities and in some cases the private sector. Conversely, McMaster has also lost individual incumbents in senior leadership positions to these same types of organizations.

McMaster's selection of comparators for its designated executive roles does not include colleges, school boards, municipalities or other broader public-sector organizations. Individuals employed by these organizations generally do not have the academic credentials, international research profile, or experience in overseeing the diversity of functions or financial acumen required to lead an institution of the nature or stature of McMaster. As a result, we rarely staff roles from these organizations or lose staff to them.

McMaster University has carefully and consistently selected comparator organizations for its executive positions, with great consideration for the market within which it competes for talent. Chosen comparators include Canadian universities and hospitals. It is noteworthy that McMaster University initially requested to use international universities and private sector organizations, however this request was denied by Treasury Board Secretariat.

The BPSECA states that comparable organizations are ones that are similar to the employer with respect to most or all of the following factors:

- Scope of responsibilities of the organization's executives
- Type of operations in which the organization engages
- Industries within which the organization competes for executives
- Size and scope of the organization
- Location of the organization

Comparators for McMaster University's Designated Executives generally include selected organizations from Canadian Universities and Canadian Hospitals with positions that have similar scope of responsibilities.

Canadian Universities:

Within Canada, McMaster is considered as one of the group of 15 research-intense universities, otherwise known as 'U15' (further information on the U15 is available here: <http://u15.ca/>). McMaster has considered the BPSECA criteria for comparators, and in recognition of this, has selected a subset of the U15 as its comparators. These include universities that are similar to McMaster which are research intense, with medical/doctoral programs and with which McMaster competes for executives.

The result is a selection of six Canadian Universities including:

- McGill University
- University of Alberta
- University of Calgary
- University of Ottawa
- University of Toronto
- Western University

University	Total General Operating Expenditures (\$000) ¹	Sponsored Research Income (\$000) ²	Research Intensity per faculty member ²	Total Student Enrolment ³
McMaster University	\$644,296	\$354,619	\$405.3	30,600
McGill University	\$696,815	\$547,458	\$317.6	31,170
University of Alberta	\$1,099,681	\$433,663	\$210.2	35,530
University of Calgary	\$892,752	\$360,480	\$242.7	30,900
University of Ottawa	\$810,715	\$325,969	\$264.4	36,500
University of Toronto ⁴	\$1,969,681	\$1,008,256	\$381.2	81,900
Western University ⁵	\$640,4453	\$234,736	\$167.4	30,500

Source:

¹ - Canadian Association of University Business Officers - Financial Information of Universities and College 2015-16 - <https://www.caubo.ca/knowledge-centre/surveysreports/>

² - Research Infosource 2016 - <https://researchinfosource.com/>

³ - Universities Canada <https://www.univcan.ca/universities/facts-and-stats/enrolment-by-university/>

⁴ - includes Colleges

⁵ - excludes Colleges

Canadian Hospitals:

As described above, McMaster University is a respected leader in health research and healthcare delivery. The University is tightly aligned with the hospital sector through the training of health professionals and the extensive integration of university research within the hospitals.

McMaster University's medical/doctoral programs cover a full range of health care, including schools of medicine, nursing and rehabilitation science, as well as programs for midwifery and physician assistant, Medical Radiation Sciences and a Bachelor of Health Sciences program. Strong academic partnerships for both learning and research exist with a number of hospital partners including Hamilton Health Sciences and St. Joseph's Healthcare Hamilton, as well as affiliated community hospital partners in Burlington, Niagara, Haldimand-Norfolk, Brant, Kitchener-Waterloo, Wellington and Halton (to name a few). The Faculty of Health Sciences within McMaster boasts 500 full-time clinical faculty, 270 full-time faculty and more-than 1,800 part-time clinical faculty serving in joint appointments with partner hospitals and health clinics.

McMaster's commitment and alignment to the healthcare sector, extends beyond the Faculty of Health Sciences, and permeates across the institution. This commitment to advancing societal health and well-being is a key institutional strategy, that emerges across programs and partnerships. Executives need to have a strong knowledge of the health care sector and especially the university's unique relationship with Hamilton Health Sciences in order to successfully execute responsibilities with respect to the hospitals and to leverage opportunities.

As a medical/doctoral university, with these unique partnerships, leaders within McMaster may be recruited from teaching/research hospitals, and we also lose senior leaders to opportunities within these similar institutions. Each of the Designated Executive positions may be compared to positions within the hospital sector. As a recent example, in May 2017 our Dean of Graduate Studies (and former Acting Vice-President of Research) was announced as the new Vice President of Research at Baycrest Health Sciences. In addition to strong comparator positions with our senior academic leaders, qualified candidates for our non-academic leadership

roles also come from the hospital sector. McMaster's incumbent from 2000 to 2007 in the Vice-President (Administration) role came from the hospital sector, and left McMaster to return to the hospital sector. Our current and immediately previous CFO incumbents also came from the hospital sector. (The previous incumbent also returned to the hospital sector.) While we have been fortunate to retain our current Vice-President (University Advancement), previous leaders in this area have accepted roles with hospital foundations. McMaster has carefully selected its hospital comparators to include our significant partner institution - Hamilton Health Sciences and other teaching hospitals within Ontario that are comparable in size and scope (see total revenue, assets, and employee population) and their urban location (Hamilton, Toronto, and Ottawa), and include appropriate position comparators with McMaster Designated Executive roles. The selected hospitals are noted below.

- Hamilton Health Sciences
- SickKids
- Ottawa Hospital
- Sinai Health System

Comparator	Total Revenue (\$000's) ¹	Total Assets (\$000's) ¹	Number of Employees ²
McMaster University	\$954.3	\$2.377	12,000
Hamilton Health Sciences	\$1.405	\$1.169	15,000 (including volunteers)
Ottawa Hospital	\$1,253	\$926.0	12,000
Sick Kids	\$812.4	\$1,515	6,500
Sinai Health Systems	\$591.6	\$1,269	4,500

Source:

¹ - Audited Financial Statements from each institution

² - Annual Reports from each institution

Benchmark Matched Positions:

McMaster's Designated Executive Positions have been matched to a comparable position within each of the comparator organizations based on the position responsibilities and accountabilities.

McMaster University Position	Comparable Market Position	
	Universities	Hospitals
President and Vice-Chancellor	President	President
Provost and Vice-President (Academic)	Vice-President, Academic and Provost	Executive Vice-President/Vice-President
Dean and Vice-President (Health Sciences)	Dean, Faculty of Medicine ¹	Executive Vice-President, Clinical/Physician-in-Chief, etc.
Vice-President (Research)	Vice-President Research	Executive Vice-President, Research/Strategy and Innovation, etc.
Vice-President (Administration)	Vice-President, Administration and Finance/Business Affairs/Resources	Executive Vice-President, Corporate Affairs and Chief Financial Officer/Vice-President
Vice-President (University Advancement)	Vice-President, Advancement/External/Development	N/A ²

Notes:

¹ -The position of Dean and Vice-President, Health Sciences is unique among universities, as a result the role of Dean of Medicine is used as a comparator although it has lesser responsibilities.

² - The position of Vice-President (University Advancement) does not exist within Ontario hospitals, but within private sector hospital foundations. Comparative salary data is not available for these roles.

VII. Comparative Analysis Details

The total salary and performance related pay of the approved comparators was used to determine the 50th percentile of the pay range for each Designated Executive position or class of positions. The cap of the salary range for the Designated Executives is then set at the 50th percentile of the comparator group.

Total cash compensation information for the above listed comparator organizations and positions were sourced from:

- For University positions - Executive Compensation Survey Results 2016-2017, prepared for the U15 Data Exchange, March 2017
- For Hospital positions - Public Sector Salary Disclosure for 2016, (Ontario.ca)

McMaster used a Class of Positions approach to create three salary classes:

- President
- Academic Vice-President – creating a class of positions with the following roles:
 - Provost and Vice-President (Academic)
 - Dean and Vice-President (Health Sciences)
 - Vice-President (Research)
- Administrative Vice-President – creating a class of positions for the following roles:
 - Vice-President (Administration)
 - Vice-President (University Advancement)

In accordance with the requirements of the Broader Public-Sector Compensation Act (BPSECA), and its associated regulations, salary and performance-based pay maximums were determined through the comparative analysis process. The total cash compensation framework maximum for McMaster’s Designated Executive positions are outlined in the following table:

Executive Position or Class of Positions	Total Cash Compensation Framework Maximum
President and Vice-Chancellor	\$595,500
Academic Vice-President	\$448,200
Administrative Vice-President	\$371,941

VIII.

IX. Executive Pay Envelope and Maximum Rate of Increase

The Regulation also outlines the process for providing salary increases to Designated Executives. Current and future salary increases are subject to an annual pay envelope maximum rate of increase, which is based on the total annual salary and performance-pay paid to Designated Executives in the previous pay year. The total value of salary increases provided to Designated Executives must not exceed the rate of increase to the pay envelope (or result in a salary that exceeds the 50th percentile maximum set for a Designated Executive position). The compensation envelope may be adjusted annually as changes occur to the Designated Executive team, and to calculate the new sum of the salary and performance-related pay provided.

The pay envelope is determined based on the actual salary and performance pay as issued to all Designated Executive positions for the most recent completed pay year. McMaster University's pay year is July 1st to June 30th. For the pay year 2016-2017, the compensation envelope was total salary and performance-pay paid to Designated Executives was \$2,024,900.

Maximum Rate of Increase to the Envelope:

As defined by the BPSECA Directive, a number of factors must be considered in setting this rate of increase, among them financial and compensation priorities of the Ontario Government, recent executive compensation trends in the part of the Canadian public sector and broader public sector, and the effect on recruitment and retention that results from the difference between the salary and performance-related pay range for designated executives and that of the employees or office holders who directly report to the designated executives. McMaster has applied these factors in determining the maximum rate of increase of its salary and performance related pay envelope.

Market data establishes that McMaster Designated Executives are currently compensated between 5% and 50% below the comparator market before any adjustments. The maximum rate of increase of 5% for the salary and performance related pay envelope is based on consideration of a number of factors:

1. Broader Public-Sector Directives, Statements and Approaches:

In addition to the points raised above, McMaster has considered the financial priorities and the compensation priorities of the Ontario Government, noting the following key points:

- In the 2016 Speech from the Throne the Government has signaled a “balanced approach to eliminating the deficit” (p. 2) and, in the 2016 Ontario Economic Outlook, a commitment to “continue to provide effective and affordable public services while recognizing the need for fair compensation” (p. 105).
- In the 2017 Ontario Budget the Government projects a balanced budget, with “more money to invest in healthcare, education and other public services” (p. 3). At p.145 of the Budget the Government states that it is committed to ensuring that Ontario's post-secondary education system “remains highly competitive”.
- The 2016 Ontario Economic Outlook cited average annual increases from 2012 to 2016 in the provincial public sector of 0.6% as compared to average annual increases during that period ranging from 1.9% in the private sector to 1.7% in the municipal and federal public sectors (p. 105). During this same period,

salaries for designated executives at Ontario universities were frozen.

- Willis Towers Watson's 2016/17 Salary Budget Planning Survey reports average projected 2016 salary increase of 3% for executives in the associations, foundations, education and government sector (average 2017 forecast is 2.7%).
- Real GDP growth and CPI inflation is expected to be modest at 2.25% and 2% on average, respectively. During the period 2010 to 2016, CPI increased at a compounded rate of 12.17%. McMaster's Designated Executives were initially frozen in 2009 and continue to be frozen in 2018. At the CPI rates noted, despite exceptional performance, McMaster's Designated Executives earn substantially less today than at the start of their appointments.

2. Annual Salary Increase Provisions for Non-Executive Managers:

While McMaster's Designated Executives have been frozen since 2009, faculty and managers continued to receive increases. For the period 2009 to 2016, members of the McMaster University Faculty Association have received annual increases averaging 4.82% annually (which is comparable to their peers across the province). For this same period, salaries for managers at McMaster increased an average of 2.92% annually (this is again comparable to benchmarked positions for leadership roles). (It should be noted that McMaster took a proactive approach in the administration of its Executive Compensation program, implementing a freeze one year before the 2010 implementation of the BPSAA – meaning that salaries for designated executives at McMaster have been frozen since 2009.)

3. Compression:

In any organization, individuals are compensated relative to the size of the job they hold. Salary compression occurs when the differences in pay do not reflect the differences in the level of responsibility of the jobs resulting in situations where the direct reports earn very close to or even exceed the salary of the leader position. McMaster University is experiencing a growing issue of compression due to the freeze to salaries of executives since 2009.

For purposes of compression, McMaster has defined this as salaries that exceed that of the Designated Executive or are within 15% of the salary of the Designated Executive. The details that follow illustrate the real issue of compression that exists at McMaster University, using 2016 salary data.

- There are nine (9) individuals at McMaster University with a base salary that exceeds that of the President and Vice-Chancellor or is identified in the compression zone.
- Eighteen (18) individuals at McMaster University who report to the Provost and Vice-President (Academic) are considered to be in the compression zone for this position. Of the 18, there are 6 who have salaries that are higher than the Provost and Vice-President (Academic) by as much as 25%.
- For the Dean and Vice-President (Health Sciences), there are 2 individuals whose salaries are within the compression zone.
- Nineteen professors are within the compression zone of 15% of the salary of the Vice-President (Research). This list includes researchers with less responsibility for growing McMaster's international research profile.
- Although the Vice-President (University Advancement) is included as one of the top 6 positions at the University, they are ranked 38th on the list of top earners at McMaster in 2016; 43 individuals are within

the compression zone at 15% of the salary of the Vice-President (University Advancement).

- Twenty-seven (27) individuals are within the compression zone of 15% of the salary of the Vice-President (Administration). (Notably all Assistant Vice-President level reports to the Vice-President Administration have been frozen since 2010 as described below.)
- Academic leaders at the ranks of Associate Vice-President and Dean are earning more than our Designated Executives:
 - One Associate Vice-President earns more than all five of McMaster's Vice-Presidents.
 - Two Deans earn more than four of McMaster's Vice-Presidents.

It should be noted that the maximum rate of increase of 5% of the envelope will not be sufficient to eliminate the compression problem for the Designated Executive positions. Internal equity and recruitment/retention challenges will persist.

4. Challenges in Recruitment of Designated Executives:

To continue to advance the University's mission as a student-centered research-intensive university and to build on its accomplishments and ranking, McMaster must be able to recruit and retain exceptional leaders in the positions of President and Vice-Presidents. McMaster University's Compensation Program for Designated Executives has been carefully considered to ensure it aligns with the Framework requirements and to provide:

- The ability to attract and retain the caliber of leaders required to advance the University's reputation and ranking as a world-class university and the most research-intensive university in Canada.
- A total compensation program that is competitive with other similar organizations with which we compete for talent.
- Comparators that are meaningful and relevant to McMaster and reflect its competitive market for talent as defined by the university's focus, research intensity and international standing.
- Compensation approaches, meaning the combination of base salary, variable pay, benefits, retirement income, and other provisions, that align with and support our culture.
- Consistency with other employee groups, as required by the regulation.

McMaster has experienced challenges replacing Designated Executive personnel due to the inability to offer competitive salaries:

- Efforts to recruit for the next Provost and Vice-President (Academic) were particularly challenging. A number of promising candidates, both Canadian and International, either withdrew or were simply not viable because of McMaster's inability to meet either their current salaries or future salary expectations. The compensation issue emerged as a significant impediment to some candidates even being approached or coming forward for consideration. International academic applicants indicated that the salary was not competitive and thus they were unwilling to consider a move to McMaster.
- In 2014/15, McMaster undertook a search for the role of Vice-President (Research). Although ultimately successful in that the University was able to appoint an excellent internal candidate, other leading candidates were lost because of McMaster's inability to meet their compensation expectations.

Within the next two and a half years at McMaster, our President's current term will end, our Vice-President (University Advancement) will be eligible for retirement and our Vice-President (Administration) will be of

retirement age. The Board of Governors at McMaster is significantly concerned that we will not be able to attract the level of leadership required for these roles using the P50 cash compensation measures within comparable Canadian broader public-sector organizations.

The successful candidates for these roles cannot simply have previous experience in a university environment. Leading at McMaster requires skills beyond average – it requires the skills needed to lead a world class university. Our research intensity and medical/doctoral programs significantly limits the pool of potential Canadian candidates. No other university in Canada surpasses McMaster in research intensity.

In summary, the above factors demonstrate that McMaster University requires sufficient flexibility to address inequities which have emerged since 2010, and to ensure the competitiveness of its compensation arrangements for recruitment and retention purposes. A maximum annual increase rate of 5% would allow the Board the flexibility to provide modest and appropriate annual performance-based increases as well as the ability to gradually address market inequities now and in the future. The level of increase will not, however, allow us to address McMaster's compensation challenges for this group.

X. Other Elements of Compensation for Designated Executives

In accordance with the Regulation, a designated executive shall not receive an element of compensation, other than salary and performance-related pay, unless the element is also provided in the same manner and relative amount, to non-executive managers.

Other elements of compliant compensation provided to McMaster's Designated Executives include:

1. Administrative Leave - An administrative leave of up to 12 months may be granted to a faculty member who has spent at least 5 continuous years in an administrative position and who intends to remain at McMaster University following the leave. The leave is intended to provide some compensation for the time spent away from the faculty member's scholarly activity while he or she was serving as an administrator. It is expected that the faculty member will be engaged in some form of academic activity during the leave, be it a resumption of earlier research work, the acquiring of, or an introduction to a new field of study, or expansion of their knowledge within their field of study. Administrative leaves are governed by the University's Administrative Leave Policy. They are not available to administrative appointments.
2. Car allowance - Designated executives are provided with a monthly car allowance to cover the costs of travel to off-site venues for meetings and events in order to conduct their duties on behalf of the University. A car allowance is also provided to non-executive managers in Administrative, Assistant or Associate Vice-President roles.
3. Supplementary Retirement Pension Plan (SRP) –A defined contribution supplemental retirement plan will be provided as part of a competitive package to attract and retain executive level positions. McMaster's Designated Executives participate in either the McMaster Salaried Pension Plan or Group RRSP plan. The supplemental plan is also provided to non-executive managers in Administrative, Assistant or Associate Vice-President roles. It is not uncommon in the higher education sector, to provide supplementary retirement income benefits in order to compete for talent to fill specialized senior roles.