



MINUTES

**Closed Session Meeting of the Administration Committee
of the Board of Trustees of the
State Universities Retirement System
1:45 p.m., Thursday, June 12, 2014
The Northern Trust
50 South LaSalle, London Room B9
Chicago, Illinois 60603**

Upon motion by Trustee Dorinda Miller, seconded by Trustee Craig McCrohon and a unanimous roll call vote of all Trustees present, the Administration Committee went into closed session under the Open Meetings Act pursuant to §2(c)(1) to consider employee matters relating to compensation and budget.

The following Trustees were present: Ms. Lindsay Anderson, Ms. Jacqueline Berger, Dr. John Engstrom, Mr. Richard Figueroa, Mr. Paul R. T. Johnson Jr., Mr. Andrew Matthews, Mr. Craig McCrohon, Ms. Dorinda Miller, Mr. Peter Newell, and Mr. Antonio Vasquez.

Others present: Mr. William Mabe, Executive Director; Ms. Brenda Dunn, Director of Human Resources; Ms. Lori Kern, Executive Assistant; Ms. Mary Pat Burns of Burke, Burns & Pinelli; Mr. Rogier Slingerland of CEM Benchmarking; and Ms. Ruth Ann Eledge of Segal Waters Consulting.

CEM BENCHMARKING STUDY

Mr. Mabe introduced Mr. Rogier Slingerland of CEM Benchmarking. Mr. Slingerland stated that this benchmarking study will provide SURS with insights into current administrative costs and service levels. During this study, SURS was compared to relevant peer groups of U.S. Public Pension Plans as well as compared against CEM's global client list. The report then explains which factors drive the costs specific to each activity.

During the presentation, discussion centered on topics such as transaction volume per member, differences in transaction volumes, transactions per full-time employee (FTE), salaries benefits and cost differences per FTE, third party and other miscellaneous costs in the front-office activities, and back-office costs per member. It was noted that SURS can use this report to improve services levels, manage costs, support business decisions, develop performance goals and standards, measure and manage performance, and communicate to stakeholders. Potential areas for improvement as compared to peers was also discussed.

At the conclusion of the presentation, Mr. Mabe remarked that the SURS Strategic Plan, which was put into place prior to this analysis being performed, confirms that SURS is headed in the right direction in terms of productivity improvements. Staff will now use this report and continue to focus on the suggested areas of improvements.

Copies of the staff memorandum, “CEM Benchmarking Study Project Update,” and the “Defined Benefit Administration Benchmarking Analysis,” are incorporated as a part of these Minutes as [Exhibit 1](#) and [Exhibit 2](#).

COMPENSATION STUDY

Ms. Ruth Ann Eledge from Segal Waters Consulting Group, Inc. presented an overview of the 2013-2014 SURS Compensation Study by highlighting the project methodology, implementation of the plan and recommendations, and pay structures. Ms. Eledge noted that a compensation plan is one of the most important elements of a human resources program. By having a solid compensation structure in place, SURS should be able to compete and retain qualified, high-performing employees for all positions.

Ms. Eledge explained that in order to determine the current relative positions of SURS’ pay structures, survey data was collected through a custom survey and then the survey data for each benchmark job was compared to the midpoint of its current range. This data collected indicated that, on average, the midpoints within the current pay structure were lagging market values.

Ms. Eledge remarked that in determining a course of action, consideration should be given to SURS’ philosophy, internal environment, and SURS’ fiscal resources when building a viable compensation program that is internally equitable, externally competitive, affordable, easy to understand and administer, and aligned with SURS’ human resource strategies. The approach selected must ensure that all employees are treated fairly during transition and that recommended salaries are determined in a consistent and fair manner.

Ms. Eledge confirmed that as a result of the proposed implementation plan, no employee will have a reduction in pay, nor would they receive an increase that would raise their salary above the maximum of their pay grade.

FISCAL YEAR 2015 STAFF COMPENSATION

Ms. Eledge provided an overview of Segal’s proposed recommendation for transitioning SURS’ employee’s into this new structure for Fiscal Year 2015. Segal recommended providing all employees fully meeting performance objectives a 3% merit adjustment to keep them in line with market. Then, bringing employee’s whose current pay, after the 3% adjustment is still below the entry of the proposed range, bring them up to entry. Further, use a 2% assumption to relieve salary compression for employees in the same position for many years.

As a result of this study, aside from the 3% merit adjustment, there would be fifteen employees who would receive an adjustment to entry which has a very nominal cost. There would be an additional thirty-seven employees that would receive a small increase to adjust for compression. This recommendation will help ease some of the compression compensation between employees

who have been in the same or similar position with varying years of experience but have had some compression in their pay.

Trustee Matthews asked if there is any evidence that SURS will have employees at risk of maxing out of their pay range. Ms. Eledge reported that there are four long-tenured employees, approaching their maximum; however, a majority of the positions within the organization have room for growth.

Ms. Eledge remarked that other options in regards to compression were considered; however, the higher the percentage assumed for time in position adjustment, the higher the cost. She expressed that given the current state of the economy, Segal feels that this recommendation is a fiscally responsible, conservative approach that will provide some relief for compression, as well as putting employees into a competitive range of pay that allows them to achieve market value or exceed market value in some cases, based on performance. They also feel that this proposal will fit in very nicely with SURS current performance program by providing a salary range that can be managed at a very competitive rate.

Mr. William Mabe recommended and Ms. Eledge agreed, SURS should implement an annual plan to monitor pay to provide structure adjustments with market movement. If SURS doesn't continue to adjust structures with market, then the current structures will again fall behind market. Mr. Mabe stated that best practice would be to conduct a comprehensive compensation study every three years.

In conclusion, Ms. Brenda Dunn provided a historical review of SURS' salaries over the past ten years and the following Fiscal Year 2015 Personnel Budget recommendations were proposed:

- 3% merit increase for employees fully meeting performance objections
- \$68,000 for the SURS Performance Recognition Program/Star Awards
- \$90,000 for Reclassifications and Overtime
- \$68,218 to implement the Compensation Study Adjustments

Ms. Dunn explained the SURS Performance Recognition program which is used to recognize top performers annually and the Star Award Performance Recognition program is used to award note-worthy performance throughout the year. Ms. Dunn reported that there is an increase in overtime this year due to the number of retirement claims received. She also provided an overview of all of the cost options that were considered in implementing the Compensation Study adjustments; however, Staff agreed with Segal in that they feel that the option being proposed is prudent and fair for implementation of the plan.

Mr. William Mabe outlined the current salary for all of the executive level staff and explained that there are a couple executive level positions that are substantially under the midpoint of their salary range and lower than their peers. Mr. Mabe would like to bring these individuals up to 90% of midpoint which would then close the internal inequity between the Executive Level staff. The Committee asked if this amount discussed is included in the proposed budget and Ms. Dunn verified that it was. It was further explained that these individuals would be given the approved merit increase and if they are still not at 90% of their midpoint, they would then receive an additional increase which would bring them to 90% of their midpoint salary range. Discussion of the recommendations and examination of the costs involved followed.

Mr. Mabe also noted that SURS has budgeted for some small office space in Springfield to strengthen SURS' presence in the Capital and this arrangement was discussed.

PERFORMANCE REVIEWS

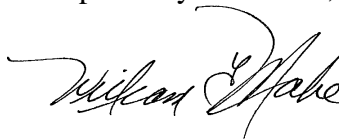
Mr. Mabe provided annual performance evaluations of the Chief Investment Officer and General Counsel and also provided the brief overviews for the entire Executive Leadership Team's performance over the past year. Trustee Anderson recused herself during the performance evaluation of Mr. Chris Hansen, the Director of Information Technology, and Ms. Brenda Dunn stepped out of the room when Mr. Mabe discussed her performance evaluation. Mr. Mabe conveyed that he is very pleased with the overall performance of the Executive Leadership Team and remarked on their accomplishments and dedication over the past year. Discussion of the recommendations and other factors relating to salary increases for executive staff followed.

After Mr. Mabe left the meeting, the conversation turned to the Executive Director's annual performance evaluation. Discussion of the Executive Director's performance followed. In particular, Mr. Mabe's commitment to the organization and service to the trustees was commended. Trustee Anderson discussed the many challenges faced by the Executive Director during the previous year and acknowledged the extra efforts required by him due to pension reform. Trustee Anderson stated that in order to allow the Executive Director flexibility, she has given him approval to work out of the Naperville office more often. Ms. Burns remarked that the current contract for the Executive Director runs through June 2016, and under the current contract, he is required to provide SURS six months' notice if he elects not to fulfill his contract. Ms. Burns feels that it is important for the Committee to be aware that SURS is being well-served by the Executive Director; however, there is a possibility of him not remaining until the end of his current contract and the Board needs to be prepared for that.

SUCCESSION PLANNING

The Committee discussed the SURS Succession/Talent Development Planning efforts and options at the executive level. A review of the organization suggests the potential loss of individuals at the executive level and others deep within the organization with institutional knowledge and skills. It is apparent that SURS needs to strengthen skill sets in areas such as investments, finance, operations, and information technology. Mr. Mabe provided the "SURS Succession Plan 2015 & Beyond" for reference and indicated that there is incredible talent within the organization; however, he understands that there is a continued need to focus on succession planning at the executive level.

Respectfully submitted,



Mr. William E. Mabe
Secretary, Board of Trustees