



Crown Executive Compensation Framework

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AUTHORITY

The Crown Corporations Act, 1993

Crown Investment Corporation (CIC) Board Minute Number 188/2006

Cabinet Minute Number 7732

CIC Board Minute Number 098/2013 (Amendment)

The Crown Sector Executive Compensation Framework (the Framework) is the purview of CIC Board and Cabinet.

APPLICABILITY

This policy is applicable to all CIC subsidiary Crown corporation Executive level employees.

Positions eligible for Executive Compensation are:

- President/CEO
- Executive Level 1 (Vice-President or equivalent)
- Executive Level 2 (those Executive level positions who are direct reports to the President/CEO only)
- Per provisions listed under 'Organizational Adjustments' (page 11)

Excluded positions not eligible for Executive Compensation are:

- Any Executive level positions that are not direct reports to the President/CEO
- Those that may be direct reports but the scope of duties are such that the position does not warrant placement at either the Executive Level 1 or Executive Level 2 positions

DEFINITIONS

P50	A P50 philosophy means that the organization wants its pay line (P) to match the 50 th percentile of their market comparators (i.e. be in the middle of the group).
Crown Demographics Report	The Crown Demographics Report is a demographic review and analysis of Crown corporation staff completed annually as of December 31 st and published on the CIC website.
Stretch Targets	A "stretch" target is defined as a measure or goal that requires focused, consistent and concerted effort to achieve over a period of time. Crowns are to consider industry sector trends and competitor performance benchmarks in setting stretch targets.



FRAMEWORK OVERVIEW

Compensation Philosophy & Principles

- The Saskatchewan Crown sector is committed to a “total compensation” perspective which includes base salary, salary holdback, all benefits and pension;
- The Saskatchewan Crown sector recognizes the need to maintain a meaningful degree of competitiveness with the relevant external labour market;
- The unique mandate and needs of Saskatchewan Crown corporations, which are part of the larger Saskatchewan public sector, requires the appropriate comparator market of both public and private sector to compete for the talent in the private sector while recognizing the unique industry-specific trends of each Crown;
- The compensation philosophy must enable and recognize performance at both the organizational and individual levels and must effectively differentiate rewards based on differing levels of performance, including the imperative that poor performance is not rewarded. This performance-based approach applies for both base salary in-range progression and annual salary holdback payments;
- CIC has overall and shared authority for executive compensation governance across the Crown sector, with individual Crown Boards having a degree of autonomy and independence within the governance framework; and
- There is a commitment to pay and employment equity.

Crown Corporation Entities

Crown corporations directly involved in the Framework:

- Crown Investments Corporation of Saskatchewan (CIC)
- Saskatchewan Telecommunications Corporation (SaskTel)
- Saskatchewan Power Corporation (SaskPower)
- Saskatchewan Government Insurance (SGI)
- SaskEnergy Incorporated (SaskEnergy)
- Saskatchewan Water Corporation (SaskWater)
- Saskatchewan Opportunities Corporation (SOCO)
- Saskatchewan Gaming Corporation (SGC)

FRAMEWORK TRAINING

Crowns are to provide training on the Framework to Crown Board members and new Executives, with particular emphasis on salary holdback plans. CIC will provide a template which can be modified by each Crown as required. Upon request, CIC can be available to participate in the training.

It is critical that Board members fully understand the Framework, so that when assessing the merit of annual salary holdback plans and proposed revisions to elements of the Framework, they have a solid foundation upon which to base their decisions.

For Executives, having a full understanding of the Framework upon which their compensation is based is critical to retention, as well as providing ongoing motivation to achieve/exceed both corporate and individual performance objectives.



TOTAL COMPENSATION APPROACH

Total Compensation (TC) = Base Salary + Salary Holdback + Pension/Benefits

P50 Market comparability is driven at the TC level. As a result, an adjustment to any contributing factor in the above equation will have implications on the remaining factors to keep the equation whole.

Base Salary

Tier Structure & Methodology

Each Crown is assigned a “Tier” in accordance with a set of pre-determined criteria, which in turn determines the pay structure for all Crown Executives.

There is a recognized need to ensure the methodology has a high degree of rigor and objectivity. Further, compensation philosophy and practices are typically derived from market-based measures. Therefore, operational complexity is approximated using the following factors within an index matrix:

- Revenue/budget
- Assets
- Net income
- Employees

The Revenue/Budget and the Assets factors are calculated using actual fiscal year-end results. Net Income is calculated using a normalized five-year forward rolling average based on CIC Board approved financial performance targets. Normalization is done to remove one-time extraordinary or unusual fiscal events (e.g. sale of assets). Employee counts are based on year-end Crown Demographics Report actual numbers.

The following are the four (4) Tiers and the placement of Crowns within them:

Tier 1 SOCO, SWC
Tier 2 SGC
Tier 3 SGL, SaskEnergy
Tier 4 SaskPower, SaskTel, CIC

Each factor is equally weighted to yield a maximum overall index of 4.00.

The Tiers are reviewed annually by CIC.

Significant variations will be further analyzed with recommendations for change, if required, and provided to CIC Board for their consideration. CIC will consult with the Crowns as part of this process.

Market Group/Pay Line

Market comparability is defined at range maximum TC for each Tier.

The pay line goal is P50 of a market composed of Saskatchewan public sector and comparable, relevant and industry-specific private sector. The weighting of public/private sector is set at 50-50 to recognize the unique operating environment of the Saskatchewan Crowns, the public policy imperative inherent to the Crown sector and the broader competition for talent with the private sector.

In addition, to recognize the inherent statistical error that resides with external market research, the applicable reference point is calibrated to achieve +/- 15% of the P50 composite.

CIC recognizes the need for regular compensation surveys to measure external market competitiveness. Normally these surveys will be completed every three years but may occur more or less frequently in response to perceived market changes and/or provincial financial/economic conditions.

In-Range Progression

Salary ranges and any applicable range adjustments are set by CIC on an annual basis. Movement through the range is based on performance and in accordance with Crown policy.

Executive in-range progression is authorized as follows:

- Is permitted in accordance with each Crown's out-of-scope compensation plan;
- Shall be tied to an effective performance management system (merit based);
- On a group basis (i.e. separate "pools" for out-of-scope vs. Executive), shall not exceed 3% of straight-time annual payroll for the group eligible for in-range progression (i.e. those not at range maximum). Resources available for in-range progression may vary from year-to-year based on CIC Board direction;
- On an individual basis, shall not exceed a maximum increase of 6% (nor can it exceed the range maximum) for any employee in any given year. The maximum increase may vary from year-to-year based on CIC Board direction.

Salary Holdback

Crown CEO and Executives' corporate objectives must be directly linked to Balanced Scorecard (BSC) targets, both financial and non-financial. Balanced Scorecard objectives and associated targets are integral elements of strategic planning and must be reflected in each Crown's Annual Performance Management document presented to CIC Board. Measures should include representation from all pillars in the Crown's BSC.

Salary holdback targets are considered to be "stretch" goals. Each Crown Board has the ability and responsibility to challenge management to ensure targets are truly "stretch" in nature. Crowns are to consider industry sector trends and competitor performance benchmarks in setting stretch targets. Salary holdback targets and measures must be objective, quantifiable and within the span of control and/or influence of management. A target or measure outside these parameters is not acceptable. Salary holdback targets may be more challenging than the BSC target but cannot be less than the BSC target.

Crown Boards are to consider historical, actual trends and actual results when setting stretch targets. For example, if the historical pattern indicates actual results have consistently exceeded target, the Crown Board should make the target more challenging.

Another example is when a trend has demonstrated a consistent level of growth (and has regularly been achieved) and a significantly different growth factor is recommended by management for the next year's salary holdback, the Crown Board should thoroughly examine the circumstances surrounding this proposed change. What has fundamentally altered to suggest this new direction? Are the assumptions warranted and substantiated?

Conversely, if a target has not been met and management recommends a lower target for the subsequent year, was the initial result an anomaly or an indicator of a fundamental change? Targets are not to be lowered to merely allow management to achieve them.

Exceptional year-end results, both much higher and much lower than anticipated, should be reviewed and thoroughly analyzed. To what degree was the result within management's control? For purposes of the salary holdback plan, the Crown Board retains some discretion to correct for a one-time anomaly.

The guiding principle to consider whether an adjustment is appropriate or not is to determine if the extraordinary event(s) was reasonably within management control or not, such as a public policy change. If the event is within management control then there is no adjustment. The Board should only consider an adjustment for significantly unique event(s). The Board is encouraged to consult with CIC to assess whether a proposed extraordinary event warrants an adjustment to salary holdback measures.

Scenario Planning - A Best Practice

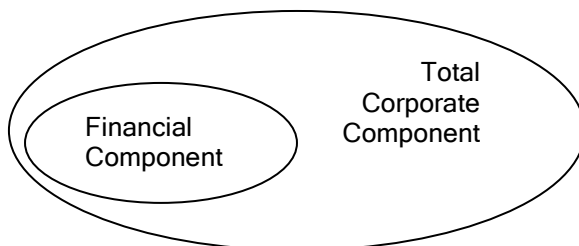
Crowns are strongly encouraged to "scenario" plan. "Threshold", "meets" and "above" target performance scenarios should be clearly articulated in appropriate planning documents. This explicit articulation will help minimize subjectivity and the perception of discretionary judgment when awarding below or above performance results. The use of statistical risk modeling and probability determination are recommended tools in the scenario planning process.

Component Thresholds

Crown Boards must establish a minimum performance level or threshold which must be met before any salary holdback is paid out. There must be two elements to the threshold:

1. Achievement of a set level of performance indicators related to the primary categories in the Balanced Scorecard (i.e. total corporate performance); and
2. Within these indicators, a further financial threshold be set.

This approach is illustrated by the following diagram.





Both threshold components must be met before there is any salary holdback payout, i.e. the overall total corporate threshold (including financial and non-financial targets) must be met (or exceeded) **and** the financial threshold must be met (or exceeded) on a standalone basis. That is, if the threshold is set at 80%, both the overall corporate results must achieve or exceed 80% **and** the financial results must achieve or exceed 80% of the target. Crowns may choose to set a threshold above 80%.

Therefore, the salary holdback payout is based on the degree to which the overall goals in the Balanced Scorecard (BSC) are met. The success in meeting the financial goals are merely one element of the scorecard BSC results and are used to establish one of the hurdles.

The minimum threshold is 80% while the “cap” on any salary holdback payout is 125% of target.

Crown Boards may set a more rigorous threshold as they see fit. The payout scale for an 80% threshold is illustrated in the table below.

Salary Holdback Payout Scale at 80% Threshold

Balanced Scorecard Average Corporate Results and Financial Results of Target	% of Weighted Salary Holdback Payout
Less than 80%	0%
80%	50%
90%	75%
100%	100%
105%	110%
110%	125%

Given the requirement for thresholds, by the same context Crowns are to cap individual salary holdback objective results at 110%. The purpose is to prevent one or more significantly exceeded target result from distorting the entire salary holdback calculation and payout.

Missed Threshold - Corporate or Individual

Both corporate threshold components must be met before there is any salary holdback payout.

If an individual does not meet minimum individual performance targets, the Crown Board or President/CEO, as appropriate, may choose to withhold some or all of the salary holdback payment for that person.

Component Weighting

The component weighting must fall within the ranges below. Each Crown Board will have the discretion to establish weightings for the CEO, and the CEO for their Executive 1 and 2, within these ranges.

Payout

Any salary holdback payout is contingent upon achievement of approved corporate and individual goals. Target and Maximum payouts for the salary holdback plans are set in accordance with the Framework. Each Crown Board will have complete discretion to establish weightings for the President/CEO, the President/CEO for the Executive Level 1 and Executive Level 2 positions.



The corporate-individual weighting is as follows:

Level/Position	Corporate Weighting	Individual Weighting
CEO	90 - 80%	10 - 20%
Exec 1	85 - 70%	15 - 30%
Exec 2	85 - 70%	15 - 30%

It is important to note a high salary holdback payout rate would not necessarily correlate directly to the percentage in-range movement awarded. Placement and movement through the range could also reflect aspects of the assessed overall proficiency and effectiveness of the incumbent in the position (i.e. competency level), or the individual's own contributions rather than a blend of corporate and individual outcomes.

To be eligible for any salary holdback payment, the Executive must (exceptions noted in "Treatment on Termination" section) be an active employee at the end of the salary holdback measurement period (i.e. March 31st).

CIC Oversight

In order to ensure alignment with the intent and requirements of the Framework, Crown Board approved salary holdback plans and in-year adjustments results are to be submitted to CIC for information purposes. Any issues related to compliance with the Framework will be communicated to the Crown.

Salary holdback corporate result calculations must be submitted to CIC for review *prior* to communication to Executives and *prior* to the processing of related payments.

Treatment on Termination

Except as provided here, when a member of the Framework voluntarily resigns, or is terminated for cause, he or she is not eligible for a salary holdback for the fiscal year in which the resignation or termination takes place.

Should a member of the Framework retire or die during the year, the Crown may provide for a pro-rata payment for the portion of the year the incumbent was employed. However, no payment can be made until after March 31st and after all corporate results are approved by the Crown Board.

When a member of the Framework transfers to, or is appointed to, a position at another Crown corporation or Ministry, that member is entitled to receive a pro rata share of the salary holdback payout for the position the member left at the former Crown corporation. However, no salary holdback payout will be made until all corporate and individual targets are measured and known. For clarity, no salary holdback payout will be made until after March 31st.

When a member of the Framework is terminated without cause, consideration should be given to payment of earned entitlements, including salary holdback payments.

Summary

- There is a dual "hurdle" with a threshold for each of the financial and overall corporate performance goals, below which no salary holdback will be paid out.
- The threshold in both cases are set at a minimum of 80%; Crown Boards may choose a higher hurdle rate.
- Target caps or "regulators" at 110% of target result for each objective must be implemented.

- Each Crown Board has the responsibility to establish the appropriate weighting of each Balanced Scorecard goal selected for the President/CEO.
- All Executives must have at least three (3) individual/personal goals each year.
- The type of termination will have an effect on the treatment of a salary holdback payment.
- Individual performance outcomes will impact the salary holdback payment.

Communication

On a quarterly (at minimum) basis, Crowns are to communicate year-to-date results on balanced scorecard and salary holdback measures to Executives in order to ensure ongoing awareness and motivation towards achieving /exceeding performance targets.

Other considerations

The Crown Board retains the discretion to withhold any or all salary holdback payments in any given year should circumstance warrant it.

Benefits & Pension

Pension and benefits are capped at 25% of base salary at range maximum. The 25% at range maximum is calculated on a Crown average and must be verified annually as of December 31st each year.

Benefit Package Inclusions

Any portion of the premium and/or contribution which is paid by the employer is to be included as part of the benefit calculation. The benefits and pension types include the following:

- Life Insurance
- Accidental Death & Dismemberment (AD&D)
- Long-Term Disability (LTD)
- Health Benefits
- Dental Benefits
- Vision Care Benefits
- Pension - portion contributed by the employer
- Vehicle Allowance
- Vehicle Usage - Include only that portion of the employer cost which is considered a personal benefit for purposes of reporting income to CRA
- Parking
- Retiring Allowance - The value of any amount of retiring allowance should be included in the benefit calculation
- Spending Allowance - The value of Flexible Spending or Credit Account allowances

For clarification, the above list is not all inclusive. Crowns are to account for all employer-paid/provided non-legislated benefits and pension/retirement items.

Benefit Package Exclusions

Exclusions from the calculation include the following:

- Employer paid legislated benefit costs (i.e. CPP, EI & WC)

- Paid time off (e.g. vacation, statutory holidays), as the value associated with this time is included in base salary. To include a value in the benefits package calculation would result in double counting.

It is important to note that, if the benefit cap is exceeded, the Crown must take immediate corrective steps to reduce benefits to meet the 25% cap.

Reporting

Crown corporations are required to report a summary of benefits and the Crown average value on an annual basis as of December 31st. The report should be provided to CIC no later than January 31st.

APPOINTMENT TO POSITIONS

New Hires

President/CEO:

- **Base Salary** - The base starting salary will be determined by the Search Committee in consultation with the Board Chair and will be set within the range in effect at the time.
- **Salary Holdback** - The Crown Board retains discretion on treatment of the salary holdback for a new hire, however normally it will be on a pro-rata basis. For example, an October 1st start date would afford a 6/12^{ths} salary holdback payment, based on results and performance. The Crown Board may waive a salary holdback payment for a late fiscal year starting date, however, this must be clearly communicated to the prospective employee at the time of the job offer.
- **Signing Bonus/Incentives** - Are not permitted under the Framework. Any request for an exception requires express, written authority from the CIC Board.

Executive Level 1 and Executive Level 2:

- **Base Salary** - The President/CEO retains the authority to establish the base starting salary within the range established for the position in effect at that time.
- **Salary Holdback** - The President/CEO retains discretion on treatment of the salary holdback for a new hire, however normally it will be on a pro-rata basis. For example, an October 1 start date would afford a 6/12^{ths} salary holdback payment, based on results and performance. The President/CEO may waive a salary holdback payment for a late fiscal year starting date, however, this must be clearly communicated to the prospective employee at the time of the job offer.
- **Signing Bonus/Incentives** - Are not permitted under the Framework. Any request for an exception requires express, written authority of the CIC Board.

Promotional Appointment on a Temporary/Acting Basis

- **Base Salary Treatment** - The Crown's usual promotional policies for Temporary/Acting appointments will apply. Normally this would not exceed an 8% increase. Exceptions may occur to bring the salary to the new range minimum.

- Benefits/Salary Holdback Treatment - The incumbent will retain his or her home position benefits and salary holdback eligibility for the duration of the assignment.

Exceptions may be considered in cases where the appointment exceeds 3 months. For example, the salary holdback may be prorated, with the payment representing the time spent in each position (i.e. the same application as noted under the “Promotional Appointment on a Permanent Basis” section below.

Promotional Appointment on a Permanent Basis

- Base Salary Treatment
 - i. For promotional appointments to Executive 1 or Executive 2 positions, the Crown’s usual promotional policies will apply; and
 - ii. For promotional appointments to the President/CEO position, recommendations from the Search Committee on remuneration will be considered prior to making a final offer. Normally the promotional formula will not exceed a 10% increase.
- Benefits/Salary Holdback Treatment: In all cases, benefits and salary holdback eligibility will be applied on a pro-rata basis reflecting the actual term of the higher level appointment within the first fiscal year.

For example, an Executive 2 is promoted to Executive 1 effective July 1st. His/her salary holdback will be calculated at the higher (Executive 1) rate for the period July 1st - March 31st and at the home position rate (Executive 2) for April 1st - June 30th of that year.

Organizational Adjustments

The Crown President/CEO retains the authority and responsibility to structure the organization, including the Executive cadre, to best serve the needs of the corporation, provide services to the client/customer base and protect the interests of the shareholder.

When reorganization results in an incumbent who has been part of the Framework no longer reporting directly to the President/CEO, under exceptional circumstances and only after consultation and approval from CIC, the incumbent shall retain eligibility for salary holdback payments (i.e. be “grandfathered”) for as long as the incumbent remains in the same position. Upon vacancy, the position will no longer be eligible for the provisions of the Framework (i.e. for former Executive will either no longer be eligible for a salary holdback *or* be eligible for a salary holdback under the Crowns management salary holdback plan, where applicable).

The President/CEO must be sensitive to organizational “creep”, particularly with respect to the Framework. The President/CEO normally advises the Board Chair and/or Board of any significant organizational changes in advance of actual implementation.

CROWN FILINGS UNDER *THE CROWN EMPLOYMENT CONTRACTS ACT, 1993*

The Crown Employment Contracts Act, 1993 specifies treatment of base salary, salary range and benefits changes. While it does not require filing of salary holdback payments, for purposes of openness and transparency they are to be filed within the 14-day time limit. For consistency purposes, salary holdback payments should be reported on Crown Filings on a \$ basis (rather than as a %), excluding any associated benefit gains such as a pension adjustment.



ADMINISTRATIVE INFORMATION

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