



## Out-of-Scope Salary Holdback Policy (excluding Executives)

Issue Date: January 14, 2014

Revised Date: June 29, 2018

### Authority

*The Crown Corporations Act, 1993*  
CIC Board Minute 75/2012

### Applicability

This policy is applicable to CIC and CIC subsidiary Crown corporation out-of-scope employees (i.e. permanent full and part time), excluding employees covered by the Crown Executive Compensation Policy, Procedures and Guidelines.

Crowns are not obligated to implement a salary holdback plan.

Crown corporations may have both a salary holdback and a lump sum payment program; however no employee group/ employee can be eligible for both. For example, a Crown corporation may deem it appropriate to have a salary holdback only for senior management/management, with a lump sum program for the remainder of the out-of-scope group.

### Purpose

The purpose of this policy is to detail the process through which Crown corporations are to proceed should they choose to pursue the implementation of a salary holdback plan and the design and administration criteria that must be met to gain the necessary approvals.

There is an expectation that subsidiary Crown corporation salary holdback plans approved under this policy will be designed such that they do not provide the equivalent of across the board compensation adjustments. Salary holdbacks are a type of deferred salary/pay-for-performance plan and are intended to drive performance and productivity. As such, corporate/divisional and individual performance objectives must be met or exceeded to support payment.

### Definitions

**Eligible Employee** - Permanent full and part-time out-of-scope employees (excluding executives) who have successfully completed an initial probationary period (where probationary periods are applicable to out-of-scope employees) with the employer and have been active in an eligible position for a minimum of six months in the performance period. Temporary and term employees are not eligible.

**Stretch Target** - A performance measure associated with a goal/objective that requires focused, consistent and concerted effort to achieve over a period of time. Crowns are to consider industry sector trends and performance benchmarks in setting stretch targets.

**Total Compensation** - Defined as the value of base salary, salary holdback (at target) and employer contributions to pension and benefits combined.

## Policy Statements

The Crown Sector Out-of-Scope Salary Holdback policy is the purview of the CIC board.

- The Crown Corporation must have a robust performance appraisal and management system in place prior to the establishment of a salary holdback plan.
- Out-of-scope salary holdback plans must be aligned with and designed and administered as an extension of the Executive salary holdback plan.
- Annual objectives tied to the salary holdback plan must have a corporate (tied to balanced scorecard targets) and individual component with a requirement for threshold performance to be achieved for both to trigger a salary holdback payment. Crown corporations may choose to also include a business unit/divisional component to their plan.
- Management's corporate objectives must be directly linked to balanced scorecard 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 corporation's Annual Performance Management submission presented to the CIC Board. Measures should include representation from all pillars in the Crown corporation's balanced scorecard.
- Salary holdbacks are not necessarily a fit and/or desired by all organizations. As a result, implementation of a salary holdback plan is not a requirement for any CIC subsidiary Crown corporation.
- Implementation of a salary holdback plan must be done within the context of a total compensation model.
- To support the implementation of a salary holdback plan, Crown corporations must present data that indicates a lag to market on a total compensation basis, or in the absence of a lag, choose to reallocate resources from one or more compensation elements to make room for implementation of a salary holdback plan.

## Employee Eligibility

- Employees must achieve a minimum of a "Fully Satisfactory/Meets Expectations" (or equivalent) performance rating on their annual individual objectives.
- Employees are eligible to receive a payment regardless of the position of their base salary within their assigned salary range.
- Employees must have been active in an eligible position for a minimum of six months of the program year to be eligible for a salary holdback payment and be deemed a permanent employee (e.g. successfully completed an initial probation in an out-of-scope position with the employer, in cases where out-of-scope probationary periods are applicable). Salary holdback payments for periods of eligible employment of less than one year will be prorated.

## Targets

- Salary holdback targets are considered to be stretch goals. Targets and measures must be objective, quantifiable and within the influence of out-of-scope employees.
- Salary holdback targets may be more challenging than balanced scorecard targets, but cannot be less than the balanced scorecard target.



- Crowns are to consider historical, actual trends and actual results, as well as industry sector trends and competitor performance benchmarks in setting stretch targets. For example, if the historical pattern indicates results that have consistently exceeded targets, the Crown corporation board should make the target more challenging.
- 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 OR is the corporation measuring the right thing? Targets are not to be lowered to merely allow staff to achieve them.

**Extraordinary Events**

- Exceptional year-end results, either much higher or much lower than anticipated, should be reviewed and thoroughly analyzed. To what degree was the result within management’s control? For the purposes of the salary holdback plan, the Crown corporation board retains some discretion to correct for one-time anomalies.
- 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 justification for an adjustment. The Board should only consider an adjustment for significantly unique events. The Board is encouraged to consult with CIC to assess whether a proposed extraordinary event warrants an adjustment to salary holdback targets.

**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**

- The minimum threshold is 80% while the cap on any salary holdback payout is 125% of target. Crown corporations may set a more rigorous threshold if they see fit. The payout scale for an 80% threshold is illustrated in the table below:

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% of target. The purpose is to prevent one or more significantly exceeded objectives from distorting the entire salary holdback calculation and

payment.

- It is common practice for organizations with a salary holdback to have decreasing target payments as one moves from the executive level positions at the top of an organization to support level positions. Considering the target payments within the salary holdback component of the Executive Compensation Framework, maximum target payments for the remainder of out-of-scope employee groups is as follows:

Employee Group	Salary Holdback at 100%
Senior Management/Management	8.0%
All Other Out-of-Scope	5.0%

- CIC will work with subsidiary Crown corporations in assigning their classification/salary levels within the above-noted categories to ensure reasonableness and consistency across Crown corporations.
- Crown corporations may choose to set target payments at rates lower than those in the chart above.
- The range of acceptable weightings of corporate/business unit and individual results is as follows:

Employee Group	Corporate/Divisional	Individual
Senior Management/Management	60-70%	30-40%
Professional/Technical	40-60%	40-60%
Administrative Support and Entry Professional/Technical	20-40%	60-80%

### Treatment on Termination

When an out-of-scope employee voluntarily resigns or is terminated for cause, he or she is not eligible for a salary holdback for the year in which the resignation or termination takes place.

When an out-of-scope employee retires or dies the employee (or estate) may be eligible for a prorated payment, depending on the subsidiary Crown Corporation's policy.

When an out-of-scope employee transfers (i.e. mutual agreement between Crown corporations), the employee is entitled to receive a pro rata portion of the salary holdback payout for the position the employee left at the previous Crown corporation. No salary holdback payment will be made until all corporate and individual targets are measured and known, and the employee continues to be employed by the Crown corporation or Ministry they transferred to, at the end of the salary holdback measurement period. For clarity no salary holdback payment will be made until after March 31<sup>st</sup>.

Normally, to be eligible for a salary holdback payment, an out-of-scope employee must be an active employee as at March 31<sup>st</sup>. When an out-of-scope employee is terminated without cause, consideration should be given to payment of earned entitlements and salary holdback payments.



## **Board of Director & Out-of-Scope Employee Training**

Crowns are to provide training to Crown Board members and new out-of-scope employees on the salary holdback plan.

It is critical that Board members fully understand the framework, so that when assessing the merit of annual salary holdback plans they have a solid foundation upon which to base their decisions. For out-of-scope employees, having a full understanding of the salary holdback plan is critical to retention, as well as providing ongoing motivation to achieve/exceed both corporate and individual performance objectives.

### **CIC Oversight**

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

Year-end salary holdback corporate result calculations must be submitted to CIC for review prior to communication to employees and prior to the processing of related 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 is a minimum of 80%. Crown corporation boards may choose a higher hurdle rate.
- Target caps or regulators at 110% of target result for each objective must be implemented. Crown corporation boards have the responsibility to establish the appropriate weighting of each balanced scorecard goal selected for the salary holdback plan.
- Out-of-scope employees should have at least three individual/personal goals each year.

### **Other Considerations**

- Crown corporation boards retain the right to withhold any or all salary holdback payments in any given year should circumstances warrant.

### **Approval Process - Implementation and Subsequent Revisions**

1. The Crown corporation submits a decision item to their Board of Directors.
2. Upon receipt of approval from their Board of Directors, the Crown corporation submits a request for approval/recommendation from their Board to the CIC Board. The request must detail the plan design policy.
3. The Crown corporation is to work with CIC in the development and finalization of the request, prior to submission to either Board. This approach is intended to expedite the process, reducing surprises and ensuring alignment with the CIC policy.



4. CIC will create and present a decision item for CIC Board consideration.
5. Upon receipt of CIC Board approval, the Crown corporation is authorized to implement their salary holdback plan.
6. Any proposed revisions to the plan in the future require presentation to and discussion with CIC, prior to implementation, to ensure continued compliance with the CIC policy. Depending on the nature of the proposed revision, CIC may require the submission of a decision item to the CIC Board.

### **Reporting**

Crown corporations choosing to implement a salary holdback are required to provide a summary of results and payouts on an annual basis as at March 31<sup>st</sup>, no later than June 30<sup>th</sup> of the following year.

### **Administrative Information**

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