

Department of State Treasurer Compensation Review and Recommendations

February 18, 2015

Josh Wilson
Jon Mason

Process

- **Phase 1 – Planning and Strategy Development**
 - Kick off meetings
 - Stakeholder Interviews
 - Prepare Statement of Compensation Objectives
 - Submit proposal for investment jobs to be exempt from State Human Resources Act
- **Phase 2 – Competitive Pay Assessment**
 - Define comparator group
 - Collect DST job documentation
 - Match DST jobs to relevant compensation surveys
 - Compile market survey statistics
- **Phase 3 – Compensation Framework Design**
 - Develop proposed compensation ranges
 - Compare current state to framework design
- **Phase 4 – Communication of Results**
 - Develop Final Report with summary findings and recommendations

Project Team & Influencers

Project Team	
Mercer	DST Representatives
Josh Wilson	CIO - Kevin SigRist
Jon Mason	COO – Bryan Lewis
Karli Thode	Kristen Bierline
Other Analyst Staff	Thom Wright

Who We've Spoken with			
IMD	State Treasurer's Office	IAC	State of North Carolina
Chief Investment Officer	Treasurer	All members of the IAC	Manager of Talent Management
Investment Director - COO	Chief of Staff		Classification & Compensation Manager
Directors – Asset Class Heads	Deputy Chief of Staff		Organizational Effectiveness Manager
Focus Group of PMs	Deputy Treasurer/CFO		
	Deputy Director - Financial Ops		
	General Counsel		

Statement of Compensation Objectives

- As part of the engagement, Mercer was tasked with gaining input from senior management, the IAC, and the State Treasurer regarding the organization's perspective and objectives around compensation. The input was then molded into a statement of compensation objectives that the organization can use as the framework for decisions around remuneration in the future.
- Mercer has crafted this proposed language based on our understanding of the organization and the viewpoints of management, the IAC and the Treasurer.
 - *The Investment Management Division (“IMD”) within North Carolina's Department of State Treasurer exists to provide high-performing yet low cost asset management services for the State of North Carolina Retirement programs and other asset pools. IMD's ability to execute on this initiative hinges in large part on the ability to recruit and retain top talent within the investment management industry. In order to ensure competitive compensation practices, IMD will periodically commission compensation studies to compare the existing rewards programs to those offered at similarly situated public pension institutions, or other asset management firms as appropriate. IMD will set a philosophy to provide base salary compensation to its core investment-related staff between the 50th and 75th percentiles of comparable organizations. This above-median base salary philosophy has been derived to offset the impact of not offering an annual bonus program to IMD staff, as is often provided to the investment-related staff of other public state pension funds.*

Defining “Investment-Related Roles”

Future Compensation Structure

Existing Compensation Structure

Core Investment Jobs	Non-Core With Specialized Asset Mgmt Knowledge	Non-Core Without Specialized Asset Mgmt Knowledge
Chief Investment Officer	General Counsel	Banking Staff
Investment Director - COO	Deputy General Counsel	Administrative staff
Investment Directors	CFO	
Portfolio Managers	Deputy Director – Financial Operations	
Investment Analysts	Accounting Manager	
	Accounting Supervisor	
	Accountant	
	Accounting Tech	

Our Approach

- Mercer has created a proposed salary grade structure to manage those jobs that are ultimately deemed exempt from the State Human Resources Act.
- The grade structure was built with the following methodology
 - All jobs were market priced against the McLagan and Mercer compensation surveys (to the degree a relevant match was available from each source)
 - The grade structure is built off of midpoints based on the average between the 50th and 75th percentiles of the McLagan and Mercer surveys (these survey sources were weighted equally)
 - The grades have ranges of +/- 25% of midpoint, and progressions from 12.5% to 15% (these are based on market data and consistent with market practices)
- The following page displays the market composite that was derived from the approach above.
- The subsequent page displays the salary structure that was developed based on these market reference points
- Finally, we have each job slotted to the structure and the current variance to grade minimum and midpoint by job

Sample Benchmark Market Data

Title	Mercer & McLagan Composite		Market Composite
	50th %ile	75th %ile	
Accountant	\$59,720	\$65,735	\$62,728
Accounting Manager	\$95,665	\$113,081	\$104,373
Accounting Supervisor	\$75,375	\$84,536	\$79,955
Accounting Technician	\$50,407	\$55,478	\$52,942
Analyst - C	\$66,041	\$73,603	\$69,822
Analyst - J	\$78,745	\$81,871	\$80,308
Analyst - A	\$78,342	\$101,028	\$89,685
CFO	\$179,353	\$218,137	\$198,745
Chief Investment Officer	\$337,514	\$385,371	\$361,442
Deputy Director Financial Operations	\$129,958	\$147,004	\$138,481
Deputy General Counsel	\$126,349	\$143,541	\$134,945
General Counsel	\$156,650	\$173,897	\$165,274
Investment Director - C	\$186,264	\$227,516	\$206,890
Investment Director - J	\$213,883	\$251,425	\$232,654
Investment Director - A	\$230,892	\$260,132	\$245,512
Portfolio Manager - C	\$134,401	\$152,853	\$143,627
Portfolio Manager - J	\$155,323	\$167,977	\$161,650
Portfolio Manager - A	\$173,623	\$204,677	\$189,150

Preliminary Salary Structure

- Mercer developed a 16-grade traditional structure using a target market positioning between the 50th and 75th percentiles

Grade	Min	Mid	Max	Midpoint Progression	Range Width
10	\$44,000	\$55,000	\$66,000		50%
11	\$50,000	\$62,000	\$75,000	12.5%	50%
12	\$56,000	\$70,000	\$84,000	12.5%	50%
13	\$63,000	\$79,000	\$95,000	12.5%	50%
14	\$71,000	\$89,000	\$107,000	12.5%	50%
15	\$80,000	\$100,000	\$120,000	12.5%	50%
16	\$90,000	\$113,000	\$135,000	12.5%	50%
17	\$102,000	\$127,000	\$153,000	12.5%	50%
18	\$114,000	\$143,000	\$171,000	12.5%	50%
19	\$129,000	\$161,000	\$194,000	12.5%	50%
20	\$145,000	\$181,000	\$218,000	12.5%	50%
21	\$163,000	\$204,000	\$245,000	12.5%	50%
22	\$188,000	\$235,000	\$282,000	15.0%	50%
23	\$216,000	\$270,000	\$324,000	15.0%	50%
24	\$249,000	\$311,000	\$374,000	15.0%	50%
25	\$286,000	\$358,000	\$429,000	15.0%	50%

Grade labels were set beginning at 10; these can be adjusted as desired

Range widths are set at a constant 50%, which allows for an ample range on either side of the midpoint to account for employee performance, experience, etc.

Midpoint progressions reflect typical level differentiation between jobs in the structure (increase from 12.5% up through 15% at the highest levels)

Pro Forma Job Slotting & Cost Impact Analysis

Grade	Job Titles	EE Count	# Vacancies	Min	Midpoint	Max	Cost to Min	Cost to Min (Per EE)	Cost to Mid	Cost to Mid (Per EE)
10	Accounting Technician	1	1	\$44,000	\$55,000	\$66,000	\$3,000	\$3,000	\$25,000	\$25,000
11	Accountant	1	0	\$50,000	\$62,000	\$75,000	\$2,065	\$2,065	\$14,065	\$14,065
12	Investment Analyst - C	0	0	\$56,000	\$70,000	\$84,000	\$0	\$0	\$0	\$0
13	Investment Analyst - J Accounting Supervisor	1	10	\$63,000	\$79,000	\$95,000	\$0	\$0	\$15,275	\$15,275
14	Investment Analyst - A	0	0	\$71,000	\$89,000	\$107,000	\$0	\$0	\$0	\$0
15	Accounting Manager	1	0	\$80,000	\$100,000	\$120,000	\$0	\$0	\$20,000	\$20,000
16	--	--	--	\$90,000	\$113,000	\$135,000	\$0	\$0	\$0	\$0
17	--	--	--	\$102,000	\$127,000	\$153,000	\$0	\$0	\$0	\$0
18	Deputy General Counsel Deputy Director Financial Operations Portfolio Manager - C	3	0	\$114,000	\$143,000	\$171,000	\$70,635	\$23,545	\$157,635	\$52,545
19	General Counsel Portfolio Manager - J	8	7	\$129,000	\$161,000	\$194,000	\$240,296	\$30,037	\$496,296	\$62,037
20	Portfolio Manager - A	1	0	\$145,000	\$181,000	\$218,000	\$28,227	\$28,227	\$64,227	\$64,227
21	CFO Investment Director - C	3	0	\$163,000	\$204,000	\$245,000	\$72,560	\$24,187	\$195,560	\$65,187
22	Investment Director - J	6	2	\$188,000	\$235,000	\$282,000	\$24,000	\$4,000	\$214,440	\$35,740
23	Investment Director - A	0	0	\$216,000	\$270,000	\$324,000	\$0	\$0	\$0	\$0
24	--	--	--	\$249,000	\$311,000	\$374,000	\$0	\$0	\$0	\$0
25	Chief Investment Officer	1	0	\$286,000	\$358,000	\$429,000	\$0	\$0	\$7,000	\$7,000
Total Cost:							\$440,783		\$1,209,498	

*The information in the table is preliminary and tentative. Subsequent to the Investment Advisory Committee meeting, the Treasurer will consider DST management recommendations on individual salary implementation decisions based on individual competency, performance management ratings, tenure, experience, job duties, and other relevant factors.

Administrative Considerations

- Ongoing Program Maintenance
 - Organizations typically update their structure on an annual basis and conduct a market study every two to three years.
 - Given the significant headcount growth expected in the near term, it may make sense to do a market study in 2017, particularly if the market continues to be strong for asset management talent.
 - DST may also want to consider gathering custom peer group data cuts to inform policy adjustments
- Implementing the proposed salary increases
 - Based on the position to market, results of the gap analysis and strength of the market, DST should
 - Consider moving all employees to at least the grade minimum;
 - Further adjust salaries based on individual competency, performance management ratings, tenure, experience, job duties, and other relevant factors.
 - Strongly consider the risks associated with a phase-in.

