



# 2013-2015 COMPENSATION STRATEGY AND 2013 BASE SALARY PLANNING BUDGETS

<b>TO:</b>	Board of Directors Human Resources and Governance Committee (HRGC)
<b>MEETING:</b>	March 20-21, 2013
<b>FROM:</b>	Roula Zaarour, Vice-President, People & Culture
<b>PURPOSE:</b>	Approval of 2013-2015 Compensation Strategy and 2013 Base Salary Planning Budgets
<b>DATE:</b>	March 6, 2013



## CONTEXT

- At the March 2011 HRCC, information was provided showing that our cumulative Management, Confidential and APS base salary budgets were lagging the market due to successive years of below market budgets.
- Mercer conducted a total compensation study in August 2011 of our Management, Confidential and APS benchmark jobs. Overall recommendations included:
  - Adjust current base salary structure to better align to market;
  - Adjust individual base salaries relative to market benchmarks; and
  - Increase the incentive opportunity for non-executive, non-union positions.
- Management, Confidential and APS employees with 3-10 years of service now cite compensation among their top 5 reasons for leaving.
- In February 2012, discussions began at SET regarding this growing gap and agreed that a multi-year strategy was required to regain and maintain a competitive market position.
- A 3-year Compensation Strategy was requested by SET to address the market gaps in order to support the Corporation's ability to attract and retain talented employees.





# KEY DECISION ELEMENTS

## 3-YEAR COMPENSATION STRATEGY

s.18(b)  
s.21(1)(b)  
s.21(1)(d)

- Implement a plan that will result in average base salaries to be *within 5% of target* \* of the market median (P50) by June 2015.
- Methodology to establish annual base salary planning budgets for Management, Confidential and APS, to be calculated as follows:
  - Total Salary Planning Budget = Treasury Board % + Growth (equivalent to annual union step increase spend)
  - An additional adjustment budget can be recommended to bridge specific market gaps if required
- **Treasury Board budget** to be applied using performance / salary positioning guidelines (in-line with current practice)
- **Growth budget** to be applied to a subset of eligible employees:
  - Progression for employees below the market reference zone or who have been in a job for *within 5% of target*, are solid performers, and are below P50 (range mid-point of the market reference zone)
  - Retention for key employees and recognition for high performers
- **Additional adjustment budget** to be applied to specific roles impacted by strong market competitiveness.
- While Mercer recommended an increased incentive opportunity for certain positions, no change to incentive targets are being recommended at this time.

\* Mercer defines competitive as *within 5% of target*



# KEY DECISION ELEMENTS

## 2013 BASE SALARY PLANNING BUDGET

s.18(a)  
s.18(b)  
s.21(1)(b)  
  
s.21(1)(d)

Employee Group	Proposed Base Salary Budget		Proposed Growth / Market Adjustment <sup>1</sup>		Total Proposed Budget		Effective Date
	%	\$	%	\$	%	\$	
<b>Executive &amp; SM</b> (Exec: employees, (SM: employees,				---			January 1, 2013
<b>Management &amp; Conf</b> employees,	to Health Care Fund)						June 17, 2013
<b>APS</b> employees,							
<b>TOTAL Estimated Cost</b>							

Data as of January 27, 2013; numbers do not include partial payments.

<sup>1</sup> Typically used for employees whose salary is below mid-point or where particular market conditions exist; Growth budget represents % of total base salaries.

- 2013 base salary increase budget market forecasts are between 2.3% and 3.1%.
- Recommendations are based on approval of the 3-Year Compensation Strategy. The table above represents the 1<sup>st</sup> year implementation.
- Executive base salary budget does not include growth or market adjustment for the first year of the 3-year plan.
- All spend above the Treasury Board appropriation to be funded by operating budgets.





## KEY BENEFITS, IMPACTS & RISKS

s.18(a)  
s.18(b)  
s.21(1)(b)  
s.21(1)(d)

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- Reduced turnover for key employees avoiding additional costs of:
  - Higher market salaries for external replacement hires and associated compression adjustments for existing employees
  - Recruitment costs
  - Interim arrangements and disruption
- Eliminating base salary budget inequity between unions and Management, Confidential and APS will:
  - Reduce the disincentive for unionized employees to take on management roles
  - Improve the perception of fairness between unionized and Management, Confidential and APS annual base salary treatment
- Total additional cost of this strategy for each of the three implementation years is estimated a                      and                      respectively (based on current population mix and market assumptions)



## OTHER OPTIONS CONSIDERED

s.18(b)  
s.21(1)(b)  
s.21(1)(d)

- Option 1 – No additional salary planning budget beyond
  - Market gap for base salary will continue to increase
  - Will not address APS's significant issue with the lack of growth budgets for salaries (in the upcoming negotiations)
  - Will continue to lose talented employees due to compensation reasons
- Option 2 – Expand the STIP program to lower levels and increase the target % for pay bands 8-10 to market levels.
  - While this would improve overall cash compensation competitiveness and would not increase fixed costs, the climate regarding paying more or bigger incentives is not conducive at this time to support this option
  - Market gap for base salary would still continue
- Option 3 – Combination of base salary growth/adjustment budget and expanding the STIP program to lower levels and/or increase the target % for pay bands 8-10.
  - Provides a balanced approach between fixed and variable performance-driven costs however, for the same reasons as Option 2, the current climate is not ready to expand the STIP program
  - Market gap would still exist but would not increase at the same rate as Options 1 or 2



## SUCCESS MEASURES

s.18(b)  
s.21(1)(b)  
s.21(1)(d)

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- Compensation is no longer in the top 5 reasons employees leave the Corporation.
- Our ability to attract and retain external top candidates is not hindered by our ability to pay competitive salaries.
- Reduced demand for out of cycle base salary increases.





## RESOLUTION

- That the Human Resources and Governance Committee recommends to the Board of Directors that the 2013-2015 Compensation Strategy and the 2013 Base Salary Planning Budgets be approved.





## APPENDICES

- 1 – Desired market competitive position
- 2 – 2013 market base salary forecasts
- 3 – Gap to market quantified
- 4 – Gap to unions quantified
- 5 – 2013-2015 base salary increase budget forecasts
- 6 – Annual cost impact forecasts
- 7 – Management, Confidential and APS pay bands and salary ranges
- 8 – Union step scale example



## APPENDIX 1 – DESIRED MARKET COMPETITIVE POSITION (DOES NOT INCLUDE EXECUTIVES)

Compensation Element	Actual Market Position <sup>1</sup>	Desired Market Position
Total Target Compensation <sup>2</sup>		
Base Pay		
Short-Term Incentive		No change to current position
Total Target Cash <sup>3</sup>		
Benefits		
Pension		
Long-Term Incentive	none	none
Salary Range Mid-Points		
Peer Comparator Companies	Media/Entertainment/Publishing companies Telecommunications companies Federal/National Crown Corporations (including Commercial Crowns) Federal employers Canadian-based organizations headquartered in Quebec	
<sup>1</sup> Based on Mercer's 2011 CBC/Radio-Canada Non-Executive Total Compensation Review <sup>2</sup> Total Compensation = base pay + short-term incentive + pension + benefits + long-term incentive(LTIP) <sup>3</sup> Total Target Cash = base pay + short-term incentive <sup>4</sup> <sup>5</sup> P25 means 25th percentile of the market		

s.18(b)  
s.21(1)(b)  
s.21(1)(d)



## APPENDIX 2 – 2013 MARKET BASE SALARY FORECASTS

Source	Average Structure Adjustment	Average Budget (includes freezes <sup>1</sup> )	Average Budget (excluding freezes <sup>1</sup> )	2013 Forecasts				
				Executive	Management & Professional	Technical & Administrative	Operations & Production	Public Service <sup>2</sup>
Morneau Shepell	1.7%	2.6%	2.7%	2.5%	2.6%	2.6%	2.4%	2.3%
Mercer				3.2%	3.2%	3.1%	3.1%	2.9%
Hay Group	2.0%	2.9%		3.0%	3.0%	2.9%		2.5%
Conf Brd Canada	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	2.7%
Towers Watson				3.0%	3.0%	3.0%	2.9%	

<sup>1</sup> 2% - 5% of organizations are forecasting a salary freeze for 2013.

<sup>2</sup> Public Service includes federal and provincial departments and agencies.

- Canadian corporations are forecasting healthy salary increase budgets of between 2.5% and 3% and the Public sector are reporting 2.3% to 2.9%
- Federal Public Service will see a 2.0% general wage increase in 2013 as part of PSAC's 2010 agreement (1<sup>st</sup> year – 1.75%; 2<sup>nd</sup> year – 1.5%; 3<sup>rd</sup> year – 2.0%)
  - Wage settlement over the 3 year period took into consideration the elimination of severance upon resignation or retirement accumulation





## APPENDIX 3 – GAP TO MARKET QUANTIFIED

- Based on an analysis of 2012 compensation market data and 2013 forecasts from several sources <sup>1</sup>, CBC/Radio-Canada's average base salaries lag the market P50 by:
    - 
    - 
    -
- s.18(b)  
s.21(1)(b)

<sup>1</sup> 2012/2013 market data sources: Mercer Benchmark Database, Towers Watson Compensation Databank, Canadian Bar Association sponsored survey, AON Media Survey



## APPENDIX 4 – GAP WITH UNIONS QUANTIFIED

s.18(b)  
s.21(1)(b)

All Unions					
Year	Annual "Step" Increases		General Salary Increase	Out of Cycle	Total Annual
	Employees Receiving	% of Total Payroll			
2009-2010					
2010-2011					
2011-2012					
2012-2013					
* estimate					

- Annual growth budgets for Management, Confidential and APS have not kept pace with the annual spend on unions step increases.
- Unions Compensation:
  - In addition to annual general salary increases, all unionized employees (except APS) are eligible to receive step anniversary increases

Year	Annual Review Budget	Growth	Out of Cycle	Total Annual	Gap to Unions	Cummulative Gap to Unions
2009-2010						
2010-2011						
2011-2012						

Year	Annual Review Budget	Growth	Out of Cycle	Total Annual	Gap to Unions	Cummulative Gap to Unions
2009-2010						
2010-2011						
2011-2012						

Year	Annual Review Budget	Growth	Out of Cycle	Total Annual	Gap to Unions	Cummulative Gap to Unions
2009-2010						
2010-2011						
2011-2012						



## APPENDIX 5 – 2013-2015 BASE SALARY INCREASE BUDGET FORECASTS

APS				
Planning Year	Treasury Board		Growth * + Market Adjustment (C)	Total Budget (A)+(B)+(C)
	Salary Review (A)	Health Care Fund (B)		
June 2013				
June 2014				
June 2015				

\* Growth budget is equivalent to the annual union "step" increase budget.  
Assumed to be \_\_\_\_\_ of payroll for 2013

s.18(b)  
s.21(1)(b)  
s.21(1)(d)

Management / Confidential				
Planning Year	Treasury Board		Growth * + Market Adjustment (C)	Total Budget (A)+(B)+(C)
	Salary Review (A)	Health Care Fund (B)		
June 2013				
June 2014				
June 2015				

\* Growth budget is equivalent to the annual union "step" increase budget.  
Assumed to be \_\_\_\_\_ of payroll for 2013

- **Incremental budget for approval – 2013 only**

- Budgets to be revisited annually and revised accordingly

- **Executives** - No incremental budget request for 2013

- **Note** – Base Salary Review budgets in this plan assumes the Corporation receives Treasury Board annual funding of \_\_\_\_\_





# APPENDIX 6 – ANNUAL COST IMPACT FORECASTS (\$M)

s.18(b)  
s.21(1)(b)  
s.21(1)(d)

**All Components** →

Planning Year	Treasury Board		Growth * + Market Adjustment (C)	Total Planning Budget (A)+(B)+(C)
	Salary Review (A)	Health Care Fund (B)		
June 2013	\$			
June 2014	\$			
June 2015	\$			

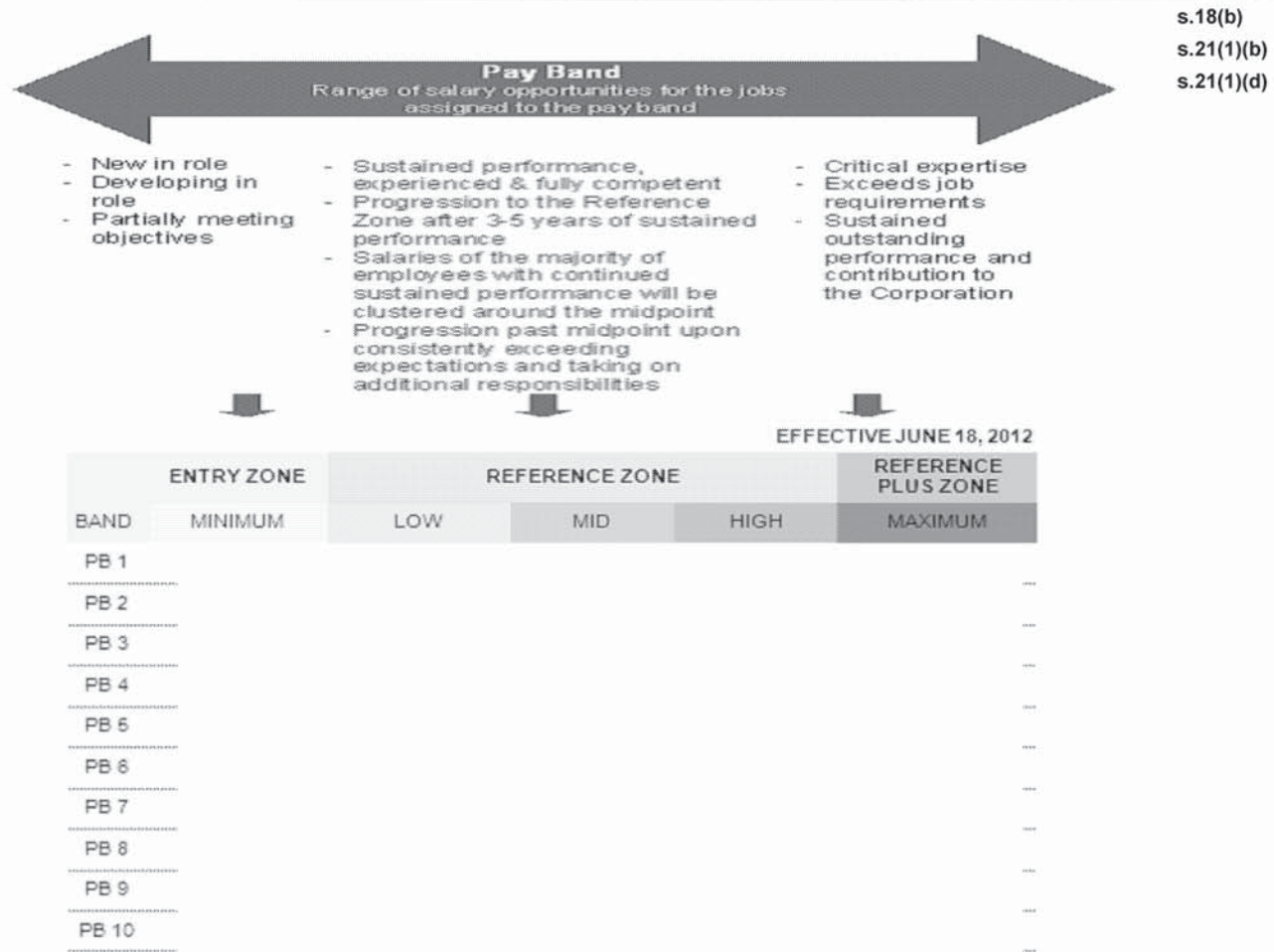
English Services				
Planning Year	Treasury Board		Growth * + Market Adjustment (C)	Total Planning Budget (A)+(B)+(C)
	Salary Review (A)	Health Care Fund (B)		
June 2013				
June 2014				
June 2015				

French Services				
Planning Year	Treasury Board		Growth * + Market Adjustment (C)	Total Planning Budget (A)+(B)+(C)
	Salary Review (A)	Health Care Fund (B)		
June 2013	\$			
June 2014	\$			
June 2015	\$			

Corporate Component				
Planning Year	Treasury Board		Growth * + Market Adjustment (C)	Total Planning Budget (A)+(B)+(C)
	Salary Review (A)	Health Care Fund (B)		
June 2013	\$			
June 2014	\$			
June 2015	\$			





# APPENDIX 7 – MANAGEMENT, CONFIDENTIAL AND APS PAY BANDS AND SALARY RANGES





## APPENDIX 8 – UNION STEP SCALE EXAMPLE

Annual anniversary "step" increase 

Annual general scale increase 

CMG - Producer - Band 12									
Date	Start	Step 2	Step 3	Step 4	Step 5	Step 6	Step 7	Step 8	Step 9
January 9, 2006	55,140.17	56,940.41	58,760.89	60,561.14	62,361.38	64,161.63	65,961.88	67,762.13	69,582.60
April 1, 2006	56,293.13	58,133.84	59,994.77	61,835.47	63,676.17	65,516.87	67,337.35	69,178.05	71,038.98
April 1, 2007	57,709.06	59,590.22	61,491.60	63,372.76	65,274.14	67,155.30	69,016.23	70,917.62	72,819.00
April 1, 2008	59,448.62	61,370.24	63,332.30	65,274.14	67,236.21	69,178.05	71,079.44	73,041.50	75,003.57
January 1, 2009	60,338.63	62,300.70	64,283.00	66,245.06	68,247.59	70,209.65	72,151.49	74,133.79	76,136.31
April 1, 2010	61,188.19	63,170.48	65,173.01	67,175.53	69,198.28	71,200.80	73,162.87	75,165.39	77,208.37
April 1, 2011	62,037.74	64,060.49	66,083.24	68,105.99	70,169.20	72,191.95	74,194.47	76,217.22	78,280.43