

# University of Toronto Executive Compensation Policy

## March 2018

### **INTRODUCTION**

Recognized as Canada's foremost university, the University of Toronto (the "University" or "U of T") is also the largest university in the country. An internationally renowned research university, with undergraduate, graduate and professional programs of excellent quality, our Student Access Guarantee program offers one of Canada's most generous financial aid programs to qualifying students.

The Executive Compensation Policy has been designed to support the University's mission and standing while, at the same time, being fully compliant with the *Broader Public Sector Executive Compensation Act, 2014* (BPSECA).

### **CANADA'S GLOBAL UNIVERSITY**

We stand among the best universities – and among the top 10 public universities – in the world. A global leader in research and teaching, we offer some 700 undergraduate programs and over 220 Masters and Doctoral level graduate programs in a wide variety of academic fields.

Our three campuses (the St George campus in Downtown Toronto, Mississauga in the West and Scarborough in the East) as well as our unique college system offer our students and faculty a variety of academic environments. Our close academic and research links to Toronto's outstanding network of teaching hospitals provide unsurpassed opportunities for students and faculty within the health sciences.

We currently have over 70,000 undergraduate and 18,000 graduate students, including 17,500 international students from 168 countries and regions, over 20,000 faculty and staff, the third largest library system in North America and are responsible for 270 buildings. In addition, we have over 560,000 alumni, living in 196 countries. U of T graduates are faculty members at leading universities around the world and our own faculty are drawn from all parts of the world.

The broad scope of our academic offerings is supported by a \$2.67 Billion operating budget, over \$1.2 Billion in annual research funding together with our hospital partners, and \$8.5 Billion in assets, including \$2.4 Billion of endowment funds.

The University's strategic plan is encapsulated in our Three Priorities:

1. To leverage our urban location(s) more fully, for the mutual benefit of the University and City;
2. To strengthen key international partnerships in research and teaching by means of a well-defined strategic focus; and
3. To re-imagine and reinvent undergraduate education.

To meet these priorities and to maintain our commitment to scholarship and teaching, we must recruit and retain excellent faculty members and staff from a wide variety of disciplines and from around the world. Some 50% of faculty hires at U of T come from outside Canada – including returning Canadians.

Consistently recognized as a Top Employer in Canada and in Toronto, the University focuses on ensuring that our working and learning environment remains a competitive advantage.

## **EXECUTIVE LEADERSHIP**

Our executive leadership team is overseen by the President and includes nine Vice-Presidents.<sup>1</sup> The President is responsible for administering the affairs of the University, including operational management, policies and academic leadership. The Vice-Presidents work closely with the President in achieving the University's goals and commitments.

## **EXECUTIVE COMPENSATION GOVERNANCE**

The Senior Appointments and Compensation Committee of the University's Governing Council ("SACC") is responsible for approving the compensation of the President and the Vice-Presidents.

The compensation consulting firm Gallagher McDowall Associates was engaged by the University to assist in the development of the University's Executive Compensation Policy.

## **EXECUTIVE COMPENSATION PHILOSOPHY**

The overall policy of the University is to compensate employees in a manner that reflects the scale, scope and complexity of U of T. Compensation must be competitive in the markets within which we compete for the level of talent we need (i.e. locally, across Canada, throughout North America, and internationally), while maintaining budgetary discipline consistent with our position as a major public institution.

In this context, the Executive Compensation Policy of the University is intended to:

- Attract, retain and motivate high-calibre senior executives in a global talent market;
- Compensate our executives fairly, relative to their responsibilities and their academic and administrative experience; supplement the ongoing compensation of faculty members who assume executive roles, and do so in a consistent manner;
- Encourage and reward high performance as members of an executive team;
- Provide an appropriate balance between cash compensation and non-cash compensation, including pension benefits, group insurance benefits, paid time off, and personal development opportunities;
- Recognize the value of the security provided to tenured faculty members who hold executive positions when determining the compensation for non-faculty executives;
- Be transparent, both internally and externally; and
- Comply with the applicable federal and provincial government legislation.

These practices are governed by our desire to provide competitive and fair compensation, while considering the University's current and anticipated financial position and longer term academic and institutional goals.

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<sup>1</sup> For purposes of the BPSECA, the President and Vice-Presidents are considered "*designated executives*".

Base salaries are individually determined at the time of hire and annual increments for executives are entirely performance driven. In particular, salaries are **not** established within a pre-set range, with annual or other periodic increases within that range based on length of tenure in the position. The President and each Vice-President establish Annual Portfolio objectives. The President's objectives are approved by the Senior Appointments and Compensation Committee, and the Vice-Presidents' objectives are approved by the President. Performance is assessed against these objectives on an annual basis. The performance rating, in turn, will determine the quantum of any increase to base salary.

Those executives with an additional bonus program will have additional objectives against which they are assessed by the Senior Appointments and Compensation Committee with respect to the President's performance and by the President with respect to the performance of the other executives.

## **EXECUTIVE COMPENSATION FRAMEWORKS**

Under the Executive Compensation Program, each designated executive's remuneration will be subject to a set of compensation limitations that establish the **maximum** annual cash compensation permitted for the role, which is not to exceed the 50<sup>th</sup> percentile of a group of comparator organizations. In addition, there is no provision for full "catch-up" increases, notwithstanding that executive compensation has been frozen under provincial legislation for some incumbents since 2012. We note that, in addition, those designated executives who held executive positions in 2011 were also included within a voluntary compensation freeze adopted by the University of Toronto on its own initiative.

The annual cash compensation for all current incumbents is significantly below the applicable framework maximum levels. Increases to existing salaries will be determined in accordance with the annual increase limitations under Ontario Regulation 304/16. The annual maximum cash compensation figure represents the maximum compensation that could be offered to an incoming executive.

In developing the University's compensation framework, the following 5-step process was used:

1. Groups of comparator organizations were first selected (including international comparators for the President's role only, with the permission of Treasury Board);
2. For each University role, or group of roles ("Job Class"), relevant positions from selected comparator organizations identified in Step 1 were chosen, taking into account the probability of recruiting a future incumbent or retaining a current incumbent from that market, as well an assessment of other comparability factors;
3. For the position of President, the US data were given an equal weighting to the Canadian data;
4. Maximum cash compensation levels were identified for each of the comparator positions; and,
5. The 50th percentile of the maximum cash compensation was then determined for each University Job Class.

### **Step 1: Comparator Organizations**

The following organizations were identified as comparable for the purposes of the program:

1. Major research intensive Canadian universities;
2. Major Ontario teaching and research hospitals;
3. A group of research focused public US universities of comparable size, scope and reputation as U of T (for the position of President only);

4. A group of smaller Canadian universities (for two of the designated executive positions); and,
5. A limited number of Canadian Broader Public Sector organizations (for seven of the designated executive positions)

The following major Canadian research-intensive universities were selected for all but two of the designated executive positions based on considerations such as the size of their annual operating budget and full-time student enrollment, their location within large urban centres across Canada, and their being competition for senior executives based on historical and anticipated talent pool sourcing and talent loss trends:

<b>Major Canadian Universities</b>	<b>Annual Operating Budget (\$Millions)*</b>	<b>Student Enrolment</b>
University of Toronto	\$2,400.0	88,000
University of British Columbia	\$2,000.0	61,472
The University of Calgary	\$1,266.6	30,518
McGill University	\$1,200.0	36,948
University of Alberta	\$1,097.0	37,299

\* Annual operating budget and student enrolment source: 2017 Council of Ontario Universities Executive Compensation Survey

A number of Ontario teaching and research hospitals were identified as comparators for all but two of the designated executive positions for the following reasons: U of T maintains strong ongoing research and teaching partnerships with the Toronto-based hospitals, including numerous faculty cross – appointments, and we often approach significant donors in support of joint philanthropic initiatives; many of the University’s faculty have been recruited into leadership positions within these Hospitals; a number of the University’s designated executives are members of the hospitals’ Boards of Directors; and, the teaching hospitals share similar challenges with respect to staffing, administrative operations and communications.

<b>Major Ontario Teaching Hospitals</b>	<b>Annual Operating Budget* (\$Millions)</b>
University Health Network	\$2,105.8
The Ottawa Hospital	\$1,200.0
Hamilton Health Sciences	\$1,104.4
Sunnybrook Health Sciences	\$1,023.9
SickKids Hospital	\$970.0
St. Michael’s Hospital	\$672.1
Sinai Health System	\$600.9

\*Annual operating budget source: 2017 Council of Ontario Universities Executive Compensation Survey and publicly disclosed financial statements on the organization’s website

### **President (Job Class 1)**

In addition to institutions selected from University and Hospital comparators listed above, the following research-focused major public universities in the United States were selected as comparators for the position of President in view of the worldwide reputation of the University of Toronto and its ranking as one of the top ten public universities globally. All of these US institutions belong to the Association of

American Universities, a group of 62 top ranked research-intensive universities which includes U of T and McGill as the only non-US institutions. Within the last 10-15 years, U of T Presidents have been recruited from AAU peer institutions and senior academic leaders from U of T have been recruited to Presidential positions in AAU institutions.

Major US Universities	Annual Operating Budget (USD-\$Millions)*	Student Enrolment**
University of California – Los Angeles	\$6,700.0	43,548
University of Illinois-Urbana Champaign	\$5,640.5	43,952
University of Wisconsin-Madison	\$3,000.0	39,973
University of Texas-Austin	\$2,875.0	48,580
University of California – Berkeley	\$2,665.8	36,718
Ohio State University	\$1,972.9	66,046
University of Michigan-Ann Arbor	\$1,939.9	40,426
University of Washington-Seattle	\$1,301.1	55,767

\*as of 2016/2017. Source: publicly disclosed financial statements on each organization’s website

\*\*as of 2016. Source: CUPA-HR survey

#### VP and Principal U of T Mississauga and VP and Principal U of T Scarborough (Job Class 5)

A group of small Canadian universities was selected as comparators for the Vice-Presidents and Principals of U of T Mississauga and U of T Scarborough, based on the comparability of each institution’s scale, annual operating budget, and student enrolment. Half of the comparators are located in Ontario and the other half are located close to urban centres across Canada. They are also competitors for executives based on historical and anticipated talent pool sourcing and talent loss trends, including former U of T incumbents. Although some of these comparator institutions have operating budgets and student enrolments in excess of the operating budgets and student enrolments for UTM and UTSC, it is important to note that in addition to executive responsibilities on their respective campuses, the VPs for Mississauga and Scarborough are also expected to fully participate with all other Vice Presidents in key decision making related to the University of Toronto as a whole.

Small Canadian Universities	Annual Operating Budget* (\$Millions)	Student Enrolment
University of Guelph	\$432.3	28,674
Memorial University of Newfoundland	\$324.8	17,581
Brock University	\$300.0	18,704
University of Toronto, Mississauga	~\$300.0	~14,000
University of Toronto, Scarborough	~\$300.0	~14,000
Wilfrid Laurier University	\$280.8	18,596
MacEwan University	\$250.0	12,581
Dalhousie University	\$250.0	18,089
Laurentian University	\$250.0	9,583
University of New Brunswick	\$191.4	9,797

\* Annual operating budget and student enrolment source: 2017 Council of Ontario Universities Executive Compensation Survey

Finally, in addition to institutions selected from the lists of Major Canadian Universities and Major Ontario Teaching Hospitals, the following Broader Public Sector organizations were also selected as comparators for three Vice-Presidential roles.

<b>Canadian Broader Public Sector</b>	<b>Annual Operating Budget/Revenues/Administrative Expenses* (\$Millions)</b>
Cancer Care Ontario	\$2,052.1
Ontario Pension Board	\$120.2
MaRS Innovation	\$46.2
Ontario Pension Trust	\$45.0
UTAM	\$7.7

\*Annual operating budget, revenue, or administrative expense data source: publicly disclosed financial statements on the organization’s website

The rationale for the inclusion of these additional comparators is as follows:

**VP and Provost & VP Research and Innovation (Job Class 2)**

*MaRS Innovation:* MaRS is an organization focussed on bringing together academics and scientists in support of innovation and it has strong links to the University, which is a founding institutional partner. The scope of responsibilities for MaRS Executives parallels those for U of T.

**VP Advancement (Job Class 3)**

*Cancer Care Ontario:* in addition to relevant positions within the Hospitals, this organization is similarly engaged in Advancement activities related to Health Science research, including support for specific research activities and capital projects. It also competes with U of T for talent.

*MaRS Innovation:* an organization with strong links to the University that seeks out financial support from the private sector for research and innovation.

In addition to these research-oriented organizations, we have included three BPS organizations whose senior Investment managers are responsible for skilled asset management.

*Ontario Pension Trust, the Ontario Pension Board, UTAM:* The key function of Advancement is the generation and stewardship of funds in support of U of T’s academic and research programs, as well as financial support for undergraduate and graduate students. Such funds are clearly providing support to large numbers of Ontarians. The raising of these funds from the donor community to invest in the University’s projects and programs requires sophisticated relationship management and the skilled deployment of funds to fulfill the University’s aims and to better Ontarians. OP Trust, OPB and UTAM are similarly responsible for managing relationships and skilfully deploying capital funds in support of Ontarians.

Note: The University of Toronto Asset Management Corporation was incorporated in 2000. UTAM’s Board determines the compensation of UTAM’s senior staff, guided by UTAM’s programs and policies which have been reviewed by the Senior Appointments and Compensation Committee, all of whose members are external to the University of Toronto.

### **Step 2: Identification of Comparable Positions**

In Step 2, comparable positions for each of the following five subsets (Job Classes) of designated executive roles were identified, based on the scope and responsibilities of the portfolio and the nature of the duties both internal and external to the University, as applicable:

<b>U of T Job Class</b>	<b>U of T Position Title</b>	<b>Comparable Positions Selected for Comparison Purposes</b>
Job Class 1	President	President/Chief Executive Officer
Job Class 2	VP & Provost VP Research and Innovation	VP & Provost VP Research VP Research and Innovation
Job Class 3	VP Advancement	VP Advancement; Executive Officer responsible for generating funds in support of research/innovation; Executive Officer responsible for generation and stewardship of funds in support of Ontarians
Job Class 4	VP University Operations VP Human Resources & Equity VP International VP Communications	VP Operations VP Human Resources VP Administration VP Communications VP External Relations VP International VP Research (10% discount applied)
Job Class 5	VP and Principal U of T Scarborough VP and Principal U of T Mississauga	Presidents of Small Universities

### **Step 3: Weighting of Comparators**

In Step 3, for the position of President, US and Canadian data were weighted equally. No industry sector weightings were applied to the data used for the other positions.

### **Step 4: Maximum Compensation for Comparable Roles**

In Step 4, maximum potential cash compensation levels were determined for each of the comparable roles, based on the maximums of the salary range (if applicable) and the maximum potential performance-related compensation payout (if applicable). In most of the Canadian universities, no salary ranges and no performance-related pay apply. In these situations, the current annual salaries were used as the maximum.<sup>2</sup>

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<sup>2</sup> All Canadian Public Sector comparator salary data are as of January 1, 2017 and sourced from the Council of Ontario Universities Executive Compensation survey conducted by the Gallagher McDowall Associates compensation consulting firm and supplemented by public disclosure sources as required. U.S. comparator survey data is effective December 1, 2016 and was sourced from the CUPA-HR database and converted to Canadian dollars using a Purchasing Power Parity factor of 1.243 (2016, source: [www.oecd.org](http://www.oecd.org)).

### **Step 5: P50 Determination**

In Step 5, for each of the five Job Classes, the 50th percentile of the maximum potential cash compensation of the comparator group positions was determined on a non-weighted basis, except for the position of President for which the US and Canadian data were weighted equally.

### **Salary and Performance-Related Pay Frameworks**

Based on the foregoing process and analysis, the following maximums or caps will apply, as of the Effective Date, to the cash compensation of the University's designated executive positions during the first year of the program.

**It is essential to note that the following table lists total cash compensation maximums. It does not reflect actual or proposed actual compensation levels.**

<b>Designated Executive Position</b>	<b>Job Class</b>	<b>Maximum Total Cash Compensation Framework as of the Effective Date</b>
President	1	\$739,928
Vice-President and Provost	2	\$474,721
Vice-President, Research and Innovation		
Vice-President, Advancement	3	\$489,595
Vice-President, Communications	4	\$420,000
Vice-President, Human Resources & Equity		
Vice-President, International		
Vice-President, University Operations		
Vice-President, and Principal, University of Toronto Mississauga	5	\$385,366
Vice-President, and Principal, University of Toronto Scarborough		

As allowed by Regulation 304/16, these cash compensation caps may be increased by the Senior Appointments and Compensation Committee in subsequent years by a rate that does not exceed the lesser of the following:

1. The average rate of increase in salary and performance-related pay of the non-executive managers that report to our designated executives, or
2. The public sector wage settlement trend in Ontario as set out in public documents.

### **Salary and Performance Pay Envelope**

Initial and future salary increases to the designated executive team (including any competitive adjustments related to the compensation caps) will be subject to an annual "pay envelope" maximum rate of increase, which in turn will be based on the total annualized cash compensation of the executive team in the previous year.

The total cash compensation of the individual executives is currently between 19% to 41% below the comparator market. We have proposed that the increase to the pay envelope will not exceed 5% in the

first year of the Policy. The initial increase will result in the pay envelope increasing from \$3,316,707 to \$3,482,514. After this initial pay increase the pay envelope will still be 25% below the overall sum of the maximum permitted compensation. Note that the revised pay envelope represents 0.13% of the University's current operating budget.

The initial proposed salary increases are required to address talent pool competitive pressures and facilitate the University's ability to continue to attract and retain the caliber of leadership required to ensure the continued success of the University and its important teaching and research initiatives.

Such an increase is in keeping with the approach taken across the sector and seems reasonable given that under provincial legislation the compensation for designated executives has been statutorily frozen since 2012 (or the date of hire, if later). We further note that those designated executives who held executive positions in 2011 were also included within a voluntary compensation freeze adopted by the University of Toronto on its own initiative.

The increase to the pay envelope will be differentially allocated across the Designated Executive group, taking into account the incumbent's current base salary in relation to the salary of relevant faculty, administrative and executive peers, and any changes to the scope of the portfolio during the time the incumbent's salary has been frozen. The proposed initial salaries are shown in Appendix A.

Thereafter, as required by Regulation 304/16, the maximum rate of increase of the executive team pay envelope going forward shall be determined by the SACC by taking into account the following criteria:

- The financial and compensation priorities of the Government of Ontario as expressed in its public documents,
- Recent executive compensation trends amongst Canadian institutions with which we compete for executives,
- A comparison of the percentage of the operating budget that U of T's executive pay envelope represents with the corresponding percentages of the institutions that are in our comparator group;
- The impact of the difference between the salary ranges of our executives and the salary ranges of the employees who report directly to them on our ability to attract and retain the executive talent we require; and,
- Any significant expansion of our operations that is not the result of a significant organizational restructuring.

In addition to the criteria specified by Regulation 304/16, in accordance with past practice, the SACC will also take account of salary increases awarded to U of T faculty members and other employee groups for the relevant year. In any event, any increase to the annual pay envelope will not exceed 5%.

All salary adjustments for U of T's executives will require the approval of the SACC.

### **Other Elements of Compensation**

Each of the designated executives participates in the University's benefit and pension programs on the same basis as Deans and Principals, including:

- Group life insurance benefits
- Group extended health and dental benefits

- Sick leave and long-term disability benefits
- Pension benefits\*
- Vacation, leaves of absence, and holiday pay
- Tuition benefits
- Annual car allowances in the form of a taxable benefit of \$12,000 per year. This allowance is in recognition of the tri-campus responsibilities of each executive and the requirement to frequently travel between our three locations in order to fulfil those responsibilities, including governance issues, search committees, confidential human resource issues. In addition, the executives engage in frequent travel in support of research collaborations with hospitals and universities within southern Ontario, attendance at board and committee meetings that take place outside the downtown Toronto core, offsite meetings with donors and potential donors, alumni events that take place off campus on evenings and weekends, meetings with executive colleagues from other institutions. This benefit is also provided to a limited number of non-executive senior administrators with significant tri-campus responsibilities.
- Annual reserved parking permits are provided in order to facilitate frequent travel between the University's three campuses and/or hospitals, research sites etc. This benefit is also provided to a number of non-executive senior administrators.
- Taxable housing benefits only where the executives are required by their role to live in University-owned and operated housing that is frequently utilized for University business purposes. This benefit currently applies to the President and the Vice President & Principal, UTM. This benefit is also provided to Student Life staff who are required to live in student residences. The value of this taxable benefit is determined in accordance with CRA guidelines.

\*Deans, Principals plus a small number of very senior Professional and Managerial staff are provided with a Defined Contribution Supplemental Retirement Arrangement (SRA). The DC SRA arrangement for executive officers will be equivalent to that in place for Deans and Principals by the end of the 3-year time frame, in accordance with the Regulations.

### **Special Arrangements for Executives with Faculty Member Status**

Designated executives who are faculty members qualify for administrative leave credits that they can take at the end of their executive terms in order to provide them with an opportunity to update their research and prepare to resume their regular faculty duties.

### **Perquisites**

Perquisites are privileges that are not generally available to other employees. The use of perquisites is subject to the requirements of the August 2, 2011 *Broader Public Sector Perquisites Directive*.

As required by Regulation 304/16, the University's Executive Compensation Policy shall not provide any of the following elements to the designated executives (even though they might be provided by some of the organizations in the University's comparator groups):

- Payments or other benefits provided in lieu of perquisites
- Signing bonuses or retention bonuses
- Cash housing allowances
- Insured benefits that are not generally provided to non-executive managers.

## **Other Limits**

Under the Executive Compensation Policy, the following elements of executive compensation are capped:

- Subject to any entitlement under the *Employment Standards Act, 2000*, termination pay to a designated executive shall not exceed two years' base salary, and shall not be payable in the event of termination for cause; and,
- No paid administrative leave shall be provided to a designated executive, *unless* provided to an executive who is part of or will return to the University's faculty, in which case the paid administrative leave cannot exceed 10.4 paid weeks per year of service as an executive, nor shall the executive receive pay in lieu of administrative leave that is not taken.

## **Effective Date**

The University of Toronto Executive Compensation Policy shall become effective once it has been finalized, reviewed by the Ministry of Advanced Education and Skills Development of the Province of Ontario and then posted on the University's website.

If an existing element of a current designated executive's compensation on the Effective Date exceeds the compensation framework for the executive's position, or is otherwise inconsistent with such limits as are mandated by Regulation under the BPSECA, the excess or inconsistency shall expire no later than three years after the Effective Date.

## Appendix A

<b>Designated Executive Position</b>	<b>Designated Executive</b>	<b>Faculty Member Status</b>	<b>Current Total Cash Compensation</b>	<b>Date Comp freeze applied to current incumbent</b>	<b>New Total Cash Compensation as of the Effective Date</b>
President	Meric Gertler	Faculty	\$438,892	2013	\$460,837
Vice-President and Provost	Cheryl Regehr	Faculty	\$358,000	2015	\$372,900
Vice-President, Research and Innovation	Vivek Goel	Faculty	\$358,000	2015	\$372,630
Vice-President, International	Edward Sargent	Faculty	\$342,100	2016	\$348,172
Vice-President, Advancement	David Palmer	Non-Faculty	\$359,808	2012	\$395,788
Vice-President, Human Resources & Equity	Kelly Hannah-Moffat	Faculty	\$273,400	2016	\$285,070
Vice-President, University Operations	Scott Mabury	Faculty	\$295,000	2012	\$323,050
Vice-President, Communications	David Estok	Non-Faculty	\$319,000	2015	\$332,558
Vice-President & Principal, Mississauga	Ulrich Krull	Faculty	\$285,000	2017	\$292,350
Vice-President & Principal, Scarborough	Bruce Kidd	Faculty	\$288,000	2015	\$299,160