

## AGENDA ITEM

- B-1. Chancellor Employment Terms and  
Conditions and Performance Incentive Plans ..... Tom Shanahan/Matt Brody

**Situation:** The committee has been tasked with evaluating whether it is in the interest of the University for the Board of Governors to routinely use written employment agreements and/or performance incentive plans for chancellors as part of a broader recruitment and retention strategy.

**Background:** In October 2016, the committee reviewed the University's history with employment contracts for chancellors and discussed the benefits and risks of entering into such arrangements. In addition, the committee heard from Buck Consultants on the work they performed in 2014-2015 to evaluate the University's overall approach to the appointment, retention, and compensation of senior leaders. Based on the presentations and discussion, the committee expressed interest in developing some standard terms and conditions of employment for chancellors, particularly related to separations without cause, rather than using employment contracts. During its December meeting, the committee will focus on proposed revisions to UNC Policies to address these particular terms and conditions for the president, chancellors and other Tier I Senior Academic and Administrative Officers (SAAOs), as well as performance incentive plans for chancellors.

**Assessment:** As an alternative to using employment contracts, the Board can amend existing UNC policies to address particular terms and conditions of employment for the president and chancellors. The committee will discuss proposed policy changes to some terms and conditions for senior leaders as outlined in Sections 300.1.1 ("Senior Academic and Administrative Officers"), 300.1.6.1.2 ("Administrative Separation of the President and Chancellors"), and 200.6 ("Delegation of Authority to the President") of the UNC Policy Manual, and discuss proposed performance incentive plans for chancellors, guided by the attached materials:

1. Questions and Answers Regarding Proposed Policy Changes to Sections 300.1.1, 300.1.6.2, and 200.6 of The UNC Policy Manual

2. Detailed Summary of Proposed Substantive Revisions of Sections 300.1.1, 300.1.6.2, and 200.6 of the UNC Policy Manual Related to Separation, Notice and Severance, and Retreat Rights for the President, Chancellors, and Tier I SAAOs
3. Performance Incentive Design Alternatives for Chancellors

**Action:**

This item is for discussion only.

**Questions and Answers Regarding Proposed Policy Changes to  
Sections 300.1.1, 300.1.6.2, and 200.6 of the UNC Policy Manual**

- Q1: What is the purpose of the draft proposed policy changes?
- A1: To assist members of the Board of Governors in considering how best to establish terms and conditions of employment for chancellors. At our last meeting, members of the Committee on Personnel and Tenure discussed the possibility of implementing written employment contracts with standard basic terms for chancellors. The discussion yielded recognition that the most important terms for executive employment relationships might be best reflected in Board policy applicable to all chancellors, rather than in separate written agreements with each chancellor. The draft proposed policy provides consistent and transparent terms and conditions for the appointment and separation of the chancellors.
- Q2: Given the proposed changes, will chancellors have individual employment contracts?
- A2: No. Instead, the current and newly proposed policy provisions, once adopted, will address all of the key terms and conditions of appointment. However, the Board of Governors retains the right to negotiate a separate employment contract for an individual chancellor, if it desires.
- Q3: What are the newly proposed conditions of separation for the chancellors offered for the Board's consideration?
- A3: In the first two years of continuous service with the University, Board policy (Section 300.1.6.2 of the UNC Policy Manual) would provide for a severance payment of not less than three (3) months of pay would be provided. In the third and fourth years of service, a payment of not less than six (6) months and for the fifth year and greater of service, a payment of not less than nine (9) months.
- Q4: If the president or a chancellor has retreat rights to a tenured faculty appointment and exercises these rights upon separation, would he/she still receive a severance payment?
- A4: No. If the president or a chancellor chooses to exercise his or her right to retreat, then there is no eligibility for a severance payment of any kind. Instead, the president or chancellor has the option of a research leave of six (6) months' duration at his or her current administrative salary, after which he/she will receive a faculty salary appropriate for a faculty member at a comparable rank and discipline.
- Q5: Can any exceptions be made to the standard terms and conditions of employment for the chancellors, including severance pay?
- A5: Yes, but only with the direct approval of the full Board of Governors, following the president's recommendation.
- Q6: Do these proposed policy changes provide for any performance incentive pay for chancellors?

- A6: Not directly. Board policy (Section 300.1.1 of the UNC Policy Manual) already permits the Board of Governors to separately approve a performance incentive pay plan for the chancellors. It is anticipated that the Board will consider and potentially implement this kind of plan at future meetings.
- Q7: Do the proposed policy changes impact any other University Senior Officers?
- A7: With the addition of standard terms of separation for chancellors, standard terms and conditions of separation are also being proposed for Tier I Senior Academic and Administrative Officers (SAAOs). These include the GA Senior Vice Presidents, Vice Presidents, and Associate and Assistant Vice Presidents as well as the Provosts, Vice Chancellors, and Deans at the constituent institutions. Presently, all other EHRA employment categories include standard conditions of separation, such as severance pay. The proposed policy changes address this gap for the Tier I Senior Officers who fall below the level of president and chancellor.
- Q8: What are the newly proposed conditions of separation the other Tier I SAAOs, excluding the president and the chancellors?
- A8: In the first year of continuous service with the University, a severance payment of not less than thirty (30) days of pay would be given. In the second and third years of service, a payment of not less than sixty (60) days, and for the fourth year or greater of service, a payment of not less than ninety (90) days. These are the same as what is offered to Tier II SAAOs, which include positions such as assistant and associate deans, assistant and associate provosts, directors, attorneys, and fundraising professionals.
- Q9: If a Tier I SAAO has retreat rights to a tenured faculty appointment and exercises these rights upon separation, would he/she still receive a severance payment?
- A9: No. If a Tier I SAAO chooses to exercise his or her right to retreat, then there is no eligibility for a severance payment of any kind. Instead, he/she has the option to return to the faculty at the relevant constituent institution, consistent with the retreat rights established by policy at that constituent institution.
- Q10: Can the president or the chancellors make exceptions and grant a greater amount of severance compensation for the Tier I SAAOs, below the level of the president and the chancellors?
- A10: A proposed change to the policy on the president's delegated authorities (Section 200.6 of the UNC Policy Manual) would allow the president to authorize up to six (6) months of severance pay for a Tier I SAAO other than a chancellor. Any greater amount of severance pay would require the approval of the Board of Governors. The Board of Governors must always approve any change to the proposed severance pay for any chancellor; the president may not on her own grant any additional severance compensation to a chancellor beyond that prescribed in the policy without the Board's direct approval.

**Detailed Summary of Proposed Substantive Revisions of Sections 300.1.1, 300.1.6.2, and 200.6 of the UNC Policy Manual Related to Separation, Notice and Severance, and Retreat Rights for the President, Chancellors, and Tier I SAAOs**

Policy	Section	Current Language	Proposed Changes
300.1.1	Old: Throughout New: Throughout	"State Personnel Act"	Updated to "State Human Resources Act"
	Old: N/A New: II.A.3.	N/A	<p>Adds language to establish standard notice and severance provisions for a Tier I SAAO (excluding the president or chancellors) in the event of a discontinuation without cause.</p> <ul style="list-style-type: none"> <li>• <u>"During the first year of service, not less than 30 days' notice prior to discontinuation of employment or the payment of severance pay for at least 30 calendar days;</u></li> <li>• <u>"During the second and third years of service, not less than 60 days' notice prior to discontinuation of employment or the payment of severance pay for at least 60 calendar days; and</u></li> <li>• <u>"During the fourth and all subsequent years of continuous service, not less than 90 days' notice prior to discontinuation of employment or the payment of severance pay for at least 90 calendar days."</u></li> </ul> <p>Also adds that additional severance available with BOT or BOG approval.</p> <p>(NOTE: companion delegation proposed in §200.6 to allow president to authorize up to 180 days of severance payment)</p>
	Old: II.A.4. New: II.A.4. and Old: B. New: II.	"Tenure status as a member of the faculty of a constituent institution, held concurrently by any Tier I SAAO of the University is separate and distinct from the administrative office, and such tenure status is governed by the provisions of Chapter VI of The Code and by the tenure policies of the relevant constituent institution. Those tenure policies have no bearing upon and do not govern the administrative appointments covered by this policy."	<p>Adds language to clarify that a Tier I SAAO other than the president or chancellors may receive severance or retreat rights (to a faculty position) upon separation from the administrative position, but is not eligible to receive both.</p> <p>Adds a footnote reference to Policy 300.1.6.2 for the terms applicable to president and chancellors.</p> <ul style="list-style-type: none"> <li>• Tenure status as a member of the faculty of a constituent institution, held concurrently by any Tier I SAAO of the University is separate and distinct from the administrative office, and such tenure status is governed by the provisions of Chapter VI of <i>The Code</i> and by the tenure policies of the relevant constituent institution. Those tenure policies have no bearing upon and do not govern the administrative appointments covered by this policy; <u>provided, however, that a Tier I SAAO, other</u></li> </ul>

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Policy	Section	Current Language	Proposed Changes
			<p>than the president or a chancellor,<sup>1</sup> who has tenure at a constituent institution and receives notice of discontinuation as provided in Section II.A.3., above, shall be entitled either to receive the payments outlined in that section or to exercise his/her rights to return to the faculty consistent with <i>The Code</i>, but shall not receive both options.</p> <p><sup>1</sup> Retreat to a faculty position by the president or a chancellor is addressed in Section 300.1.6.2 of the UNC Policy Manual.</p>
	<p><b>Old:</b> II.A.5.-6. <b>New:</b> II.A.5.-6.</p>	<p>5.b. “The Board of Governors may approve a contract with the president. The contract may specify terms including, but not limited to, the president’s term of employment; salary; benefits; performance-based incentives; other deferred or supplemental compensation, including endowment-funded stipends; provisions for the termination of the president’s employment, including severance pay and retreat rights; and any other terms it agrees upon.”</p> <p>6.b. The Board of Governors may approve a contract with a chancellor as recommended by the president. The contract may specify terms including, but not limited to, the chancellor’s term of employment; salary; benefits; performance-based incentives; other deferred or supplemental compensation, including endowment-funded stipends; provisions for the termination of the chancellor’s employment, including severance pay and retreat rights; and any other terms it agrees upon.”</p>	<p><b>Adds language to clarify that the BOG may approve a contract or “other terms or conditions of appointment” with the president or chancellors and adds a reference to 300.1.6.2 regarding administrative separation of the president and chancellors.</b></p> <ul style="list-style-type: none"> <li>5.b. The Board of Governors may approve a contract <u>or other terms and conditions of appointment</u> with the president. <del>The contract that</del> may specify terms including, but not limited to, the president’s term of employment; salary; benefits; performance-based incentives; other deferred or supplemental compensation, including endowment-funded stipends; provisions for the termination of the president’s employment, including severance pay and retreat rights<sup>2</sup>; and any other terms it agrees upon.</li> <li>6.b. The Board of Governors may approve a contract <u>or other terms and conditions of appointment</u> with a chancellor as recommended by the president. <del>The contract that</del> may specify terms including, but not limited to, the chancellor’s term of employment; salary; benefits; performance-based incentives; other deferred or supplemental compensation, including endowment-funded stipends; provisions for the termination of the chancellor’s employment, including severance pay and retreat rights<sup>3</sup>; and any other terms it agrees upon.</li> </ul> <p><sup>2 3</sup> See also Section 300.1.6.2 of the UNC Policy Manual regarding Administrative Separation of</p>

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Policy	Section	Current Language	Proposed Changes
			<i>the President and Chancellors.</i>
Policy	Section	Current Language	Proposed Changes
300.1.6.2	Old: N/A. New: Purpose	N/A	<p><b>Adds a purpose section at the beginning of the policy.</b></p> <ul style="list-style-type: none"> <li>“<u>This policy articulates the options associated with the president or chancellors separating from their positions and either returning to the faculty, moving to another administrative position at the university, or leaving the university, and also establishes a common understanding of the expectations and obligations in each of those situations.</u>”</li> </ul>
	Old: 1. New: 1.	N/A	<p><b>Adds language to clarify the president or chancellor may receive severance or retreat rights (to a faculty position) upon separation from the administrative position, but is not eligible to receive both.</b></p> <ul style="list-style-type: none"> <li>“<u>If the president or a chancellor exercises his/her rights to return to the faculty consistent with <i>The Code</i> and this policy, he/she shall not be eligible to receive any severance pay as otherwise provided in Section 3 herein.</u>”</li> </ul>
	Old: 2. New: 3.a.-c.	<p>2. Separation from the University: In some cases, a chancellor or a president may not be assuming a faculty position. It may be in the best interest of the University and a chancellor for the president to negotiate a severance agreement with a chancellor. In these circumstances, the president may, in the president’s discretion, determine that the circumstances justify providing severance pay in the amount of the chancellor’s full administrative pay for up to 90 days. Non- salary compensation such as a house and an automobile will not be continued during this period of full compensation, although the president may allow the chancellor a reasonable amount of time to vacate the chancellor’s house. Any agreement that results in a longer period of compensation must be approved by the Board of Governors.</p> <p>The Board of Governors may, in its discretion, negotiate a severance agreement with a president who is resigning and is not</p>	<p><b>Adds language to establish standard notice and severance provisions for the president and chancellors in the event of a discontinuation without cause. Also adds that additional severance available with BOT or BOG approval.</b></p> <ul style="list-style-type: none"> <li>“3. Separation from the University  “<u>In some cases, a chancellor or a president may not be assuming a faculty position. It may be in the best interest of the University for the president to negotiate a <del>severance</del> separation agreement with a chancellor <del>or for the Board of Governors to negotiate a separation agreement with the president.</del> In these circumstances, <del>the president may, in the president’s discretion, determine that the circumstances justify providing</del> if there is not good cause to terminate the chancellor’s or the president’s service, the <del>chancellor or president shall receive</del> severance pay in <u>an amount of the chancellor’s full administrative pay for up to 90 days commensurate with the service provided to the University as a chancellor or president, as listed</u>”</u></li> </ul>

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		<p>assuming a faculty position.</p>	<p><u>below; provided, however that additional severance pay or other separation payments may be approved by the Board of Governors:</u></p> <p><u>a. During the first and second years of service, not less than 90 days' notice prior to discontinuation of employment or the payment of severance pay for at least 90 calendar days;</u></p> <p><u>b. During the third and fourth years of service, not less than 180 days' notice prior to discontinuation of employment or the payment of severance pay for at least 180 calendar days; and</u></p> <p><u>c. During the fifth and all subsequent years of continuous service, not less than 270 days' notice prior to discontinuation of employment or the payment of severance pay for at least 270 calendar days.</u></p> <p><u>The president or the Board of Governors may provide the employee with a combination of notice and severance pay that totals the respective required number of days. The determination of whether the employee shall receive notice of discontinuance of the appointment or severance pay or a combination of the two shall be in the sole discretion of the president for the chancellors, or of the Board of Governors for the president.</u></p> <p><u>Non-salary compensation such as a house and an automobile will not be continued during this period of full compensation, although the president may allow the chancellor a reasonable amount of time to vacate the chancellor's house and the Board of Governors may allow the president a reasonable amount of time to vacate the president's house.</u></p>
200.6	<p><b>Old:</b> N/A</p> <p><b>New:</b> I.A.1.c.(5).</p>	N/A	<p><u>(5) The Board of Governors shall retain authority over all severance payments for the president and the chancellors. The Board of Governors also shall retain authority over severance payments for other employees exempt from the State Human Resources Act when the proposed amount exceeds 180 days.</u></p>

**General Note:** Certain formatting edits have been excluded from the redline drafts for readability and for consistency across policies. These include:

- Updated numbering structure
- Consistent practice of capitalization



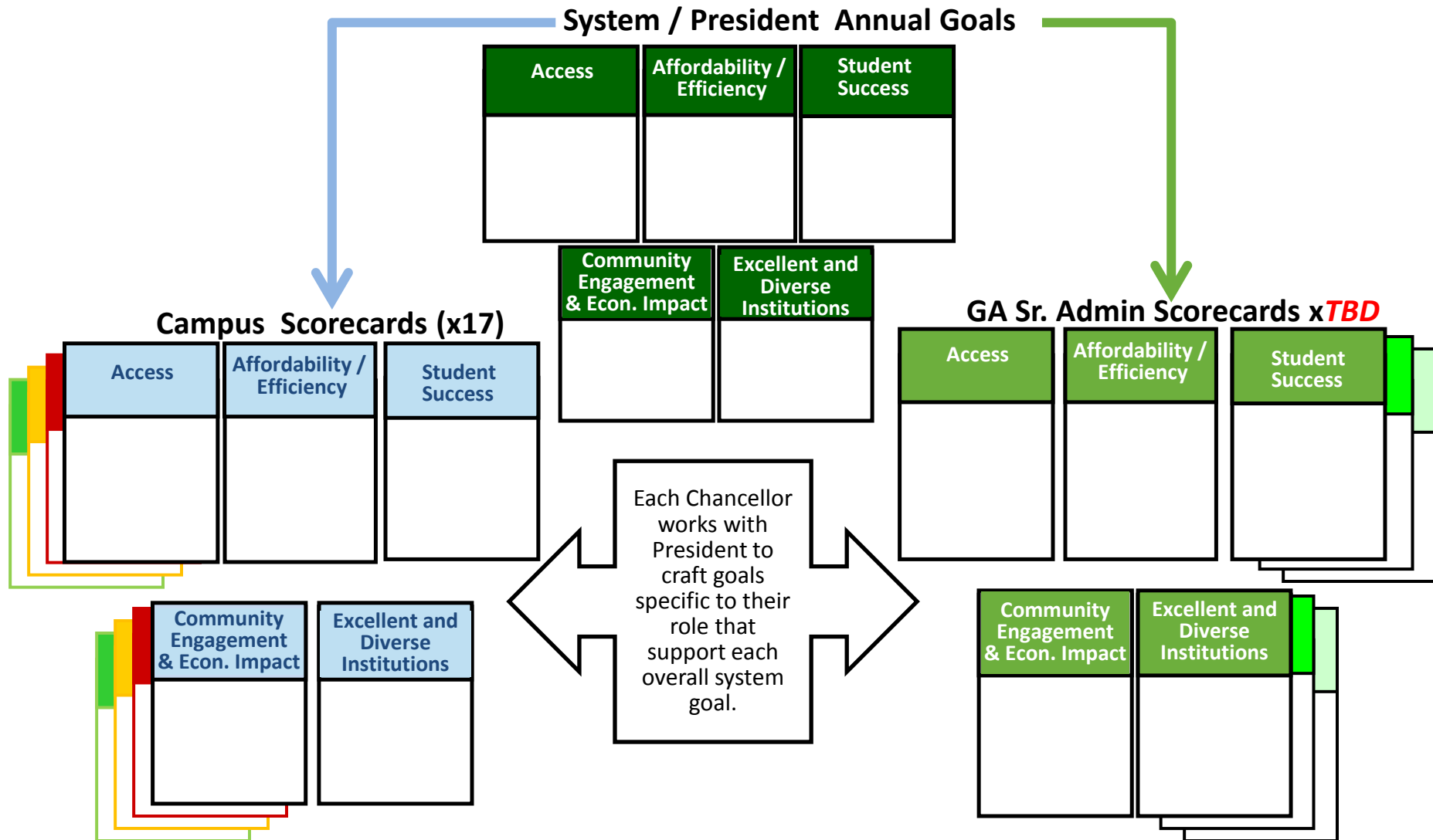


# University of North Carolina Performance Incentive Design Alternatives for Chancellors

November 2016

# Short-Term Incentive Design Chancellors

# Cascaded scorecards



# Cascaded scorecards depicted with incentive award per \$100,000 of Salary

Incentive goals	Award per \$100,000 of Salary
Increase in Campus minority graduation rate.	@Threshold results: \$1,000 @Target results: \$2,000 @Stretch results: \$3,000
Reduce Campus student debt.	@Threshold results: \$1,000 @Target results: \$2,000 @Stretch results: \$3,000
Improve Campus four-year graduation rate.	@Threshold results: \$1,000 @Target results: \$2,000 @Stretch results: \$3,000
(For research institutions): Increase external funding of research	@Threshold results: \$1,000 @Target results: \$2,000 @Stretch results: \$3,000
(For teaching institutions): Increase local Campus economic impact:	@Threshold results: \$1,000 @Target results: \$2,000 @Stretch results: \$3,000
Quantitative multi-stakeholder evaluation of Campus.	@Threshold results: \$1,000 @Target results: \$2,000 @Stretch results: \$3,000
<b>Total Award</b>	<b>@Threshold results: \$ 5,000</b> <b>@Target results: \$10,000</b> <b>@Stretch results: \$15,000</b>

# Long-Term Incentive Design Chancellors

# Long Term Incentive Options

1. Extension of “UNC Performance and Retention Plan” to all Chancellors
2. LTI via matching STI, with premiums for sustained performance

# LTI by extending the “UNC Performance and Retention Plan”

Performance Goal	Performance Target	Performance Achieved	Weight	Percent of Target	Achievement Percentage
Endowment	\$250M	\$275M	30%	110%	33%
Student Success	78%	78%	30%	100%	30%
Research or Teaching Success	\$200M	\$250M	20%	125%	25%
International Study	1,000	750	10%	75%	7.5
Compliance	Pass	Pass	10%	100%	10%
				Sum	105.5%
				Sum w/Cap	100%

$$\begin{array}{rcl}
 \text{LTI Opportunity} & \times & \text{Performance Percentage} & = & \text{Vested Plan Award} \\
 \$350,000 & & 100\% & & \$350,000
 \end{array}$$

## Option 2: Chancellor Cash LTI via STI 'matching' plus sustained performance premiums

	2017	2018	2019	2020	2021
Salary	\$300,000	\$309,000	\$316,725	\$316,725	\$329,394
STI Award \$	\$30,000	\$46,350	\$15,836	\$0	\$49,409
LTI Match	\$30,000	\$46,350	\$15,836	\$0	\$49,409
LTI running total	\$30,000	\$76,350	\$92,186	\$92,186	\$141,595
Sustained performance premiums	\$0	\$2,318	\$1,584	\$0	\$0
LTI w/Performance Premiums	\$30,000	\$80,168	\$104,021	\$104,021	\$153,430
<b>LTI Award if employed as Chancellor on December 31, 2021:</b>					<b>\$153,430</b>
<b>Sustained performance premiums</b>					
For earning incentive awards 2 consecutive years	5% of 2-yr total				
For earning incentive awards 3 consecutive years	10% of 3-yr total				
For earning incentive awards 4 consecutive years	15% of 4-yr total				
For earning incentive awards 5 consecutive years	20% of 5-yr total				



## Option 2: Chancellor Cash LTI via STI 'matching' plus sustained performance premiums

### Example: MAXIMUM LTI AWARD

	2017	2018	2019	2020	2021
Salary	\$300,000	\$309,000	\$316,725	\$316,725	\$329,394
STI Award \$	\$45,000	\$46,350	\$47,509	\$47,509	\$49,409
LTI Match	\$45,000	\$46,350	\$47,509	\$47,509	\$49,409
LTI running total	\$30,000	\$76,350	\$123,859	\$171,368	\$220,777
Sustained performance premiums	\$0	\$3,818	\$12,386	\$25,705	\$44,155
LTI w/Performance Premiums	\$30,000	\$80,168	\$140,062	\$213,276	\$306,840
<b>LTI Award if employed as Chancellor on December 31, 2021:</b>					<b>\$306,840</b>
<b>Sustained performance premiums</b>					
For earning incentive awards 2 consecutive years	5% of 2-yr total				
For earning incentive awards 3 consecutive years	10% of 3-yr total				
For earning incentive awards 4 consecutive years	15% of 4-yr total				
For earning incentive awards 5 consecutive years	20% of 5-yr total				

**MINIMUM award = \$0, fulfilling the IRS Section 457 requirement for *real risk of forfeiture***

# Next Steps

- Confer with key stakeholders (e.g. Chancellors, BOG, HR) to review design concepts, provide feedback, refine plan design
- Buck develops Plan detail to include specifics of incentive opportunity, performance metrics, the potential for discretion, and plan provisions other plan provisions
- Buck develop term sheet that communicates how the plan will work (including computational examples) and the related cost.
- Present plan details for BOG review in January.