

**SMITHSONIAN INSTITUTION
COMPENSATION FOR SENIOR LEVEL TRUST EXECUTIVES
MARKET-BASED COMPENSATION APPROACH
(Excluding Smithsonian Business Ventures)**

General Philosophy

The Smithsonian Institution seeks to hire talented and dedicated staff with diverse backgrounds, skills, and competencies. Its compensation policy is designed to attract and retain superior talent, while competing with other large, sophisticated organizations, including the Federal government and entities that receive a large portion of public funding, for the best non-profit sector leadership.

In 2007, the Committee created a unified compensation approach in light of recommendations from the internal Governance Review and the Independent Review Committee. This new approach, described below, centers on a position-by-position review of senior positions, with determinations made as to whether the positions should be subject to a market-based compensation approach or a Federal equivalent compensation approach.

In looking at its Senior Trust positions, the Institution applies a two-pronged test to determine if its Senior Trust positions should follow a market-based compensation approach or a Federal equivalent approach. In order to be considered market-based, either of the two following conditions must be met:

1. The position is in a job family that does not exist in a significant way in the Federal pay system
2. The Smithsonian is unlikely to find sufficient bona fide candidates in the Federal labor market

This compensation philosophy applies to those positions which are considered market-based.

When setting compensation levels, the Smithsonian ensures that the compensation paid is both reasonable and comparable to that offered by other similarly situated non-profit organizations to executives with similar duties and responsibilities. In determining comparability, the Smithsonian relies upon verifiable information provided by highly regarded, independent compensation consultants.

The Committee on Compensation and Human Resources prepares for its annual compensation review from information learned during its meetings with the Secretary and senior Smithsonian staff, which are conducted twice a year, in addition to four regularly scheduled meetings of the full Board. In preparing for their annual analysis of compensation, the Committee is well informed on the Institution's progress toward achieving its annual financial and budgetary goals.

For those positions subject to a market-based compensation approach, the Committee's review is aided by a comparative survey performed by a highly regarded, independent outside consultant. Currently, this survey is performed every two years. During the "off" year, the data is traditionally aged using an aging factor provided by the expert consultant.

Trust Market-Based Positions that meet the following criteria require approval of the Full Board of Regents, and are reflected in the following pages. All market based positions that require approval of the full Board of Regents are subject to specific comparable surveys.

- Market-Based Disqualified Person positions
- Market-Based Secretary Designated (SD) positions
- Market-Based Positions with 2007 salaries at or greater than \$200,000

Market-Based positions that meet the following criteria require approval of the Committee only and not the Full Board, and summary information on these positions is included in the final tab of the compensation book.

- Market-Based SE positions
- Market-Based Positions with 2007 salaries greater than the Federal SL salary cap, but less than \$200,000

The Committee relies on the Institution to consider the overall Institutional guidance when making recommendations for those positions, and deviations from that guidance are to be highlighted for Committee consideration. Internal salary comparables are generally used for these positions, and specific comparable surveys are not necessarily required.

Smithsonian employees are considered to be "competitively paid" if their compensation falls within +/- 15 percent of this "market going rate." Additionally, the Institution may consider incumbent-specific factors, such as performance, professional standing and reputation, etc., when making salary decisions. These incumbent-specific factors in combination with the salary comparison allow the Institution to meet the "reasonable compensation" standard. In the case of new hires, the Institution may also base compensation decisions on the new incumbent's previous salary levels. In some cases, then, compensation may fall outside established parameters, which is an accepted deviation from the +/- 15 percent guideline.

Senior Level Trust executives in market-based positions are eligible for performance-based annual salary increases, as well as other compensation such as awards and retention incentives. While Federal senior level executives must receive locality pay increases, the Institution is not required to adjust Trust salaries to match any Federal cost of living adjustments and locality pay increases approved by Congress.

Process

This year, the Institution specifically requested an independent review of the previous year's work done by Watson Wyatt. PriceWaterhouseCoopers determined that "it is reasonable for the Committee to rely on the [previous year's] study (appropriately updated)" and recommended a 4% annual aging factor, meaning that the January 2007 data would be aged 6% to arrive at the updated comparator figures using PriceWaterhouseCoopers' recommended comparison date of July 2008. PriceWaterhouseCoopers has also included some benchmarks for positions not included last year, and makes recommendations for improvements for next year's approach. Their reports are included in the compensation materials.

The updated survey findings have been aged to July 2008, and the attached market analysis compares the Acting Secretary's recommended 2008 compensation to the aged market data. On an individual basis, comparing the compensation of the 29 Smithsonian employees in the positions covered by this review to the appropriate market rate shows the following: 11 are considered "low" (more than 15% under the median rate), 4 are considered "high" (more than 15% over the median rate), and the remainder are within plus or minus 15% of the median. It should be noted that some incumbents have multiple comparators when they are Acting in one position as well as encumbering a permanent position.

For calendar year 2008, Acting Secretary Samper has based his recommendations for the general Senior Level Trust executives on the projected aggregate Federal pay adjustment of 3.5%. Rather than simply provide a uniform across-the-board COLA to general Senior Level Trust executives, the pool will be distributed as performance-based salary increases, which may result in an overall increase above 3.5%. Institutional guidance suggested increases up to 4.5% for executives rated outstanding, but allowed for increases above that if justified.

Effective Date of 2008 Decisions

Base salary adjustments will be effective January 6, 2008. Because of the timing of the meeting of the Full Board of Regents, those decisions will be retroactive, as in the past.