

Board Policy 0114: Review of Executive Compensation

1. PURPOSE

This policy contains guidelines for independent Board level review of executive compensation for The Claremont Colleges, Inc. (TCC) in compliance with applicable federal regulations (Internal Revenue Code section 4958) to establish a rebuttable presumption of reasonableness for compensation paid to disqualified persons.

2. POLICY

A report of executive compensation will be provided to Council in its role as the Executive Committee of the TCC Board each year for the following persons:

- A. Review and recommendation to the Board for approval of compensation packages for the following TCC employees (covered employees):
 1. The chief executive officer
 2. The chief financial officer
- B. Review and approval of compensation packages for the following TCC employees (covered employees):
 1. Any Disqualified Persons
- C. Review of compensation packages for the following TCC employees (covered employees):
 1. Corporate Officers
 2. Key Employees

The report will include comparability data for each covered employee, which may be drawn from sources including:

- The Chronicle of Higher Education annual compensation survey (information compiled from IRS Form 990 reports)
- Comparable positions within The Claremont Colleges
- Other regional or national compensation surveys

In addition to comparability data, the report will include proposed compensation for each covered employee, except the CEO, for whom current data will be provided.

The Chair of Council of The Claremont Colleges will prepare an evaluation of the CEO, including input from other members of the Board of TCC. The CEO will provide feedback on the performance of covered employees as needed.

Based on review of materials provided, Council will prepare a recommendation on the compensation package for the CEO and chief financial officer for review and final approval by the Board; establish the compensation package for any disqualified persons; and review proposed compensation for other covered employees. Covered employees will be excused from the meeting as it relates to the review and approval of his or her compensation package.

Minutes of the meeting of the Council shall be maintained, and shall remain confidential and limited to the Audit Committee, the CEO, the Secretary, and the Treasurer.

3. DEFINITIONS

Unless otherwise provided, the following definitions were excerpted from the glossary of the IRS 2008 *Instructions for Form 990 Return of Organization Exempt from Income Tax* as deemed applicable to this policy.

Compensation: All forms of cash and noncash payments or benefits provided in exchange for services, including salary and wages, bonuses, severance payments, deferred payments, retirement benefits, fringe benefits, and other financial arrangements or transactions such as personal vehicles, meals, housing, personal and family educational benefits, below-market loans, payment of personal or family travel, entertainment, and personal use of TCC's property.

Disqualified person: Any person who is in a position to exercise substantial influence over the affairs of TCC (i.e., officers, Directors and key employees). Persons who hold certain powers, responsibilities, or interests are among those who are in a position to exercise substantial influence over the affairs of the organization. For this purpose, a disqualified person includes a disqualified person's family member.

Employee: Any individual who, under the usual common law rules applicable in determining the employer-employee relationship, has the status of an employee, and any other individual who is treated as an employee for federal employment tax purposes under section 3121(d).

Family member, family relationship: The family of an individual includes only his or her spouse, ancestors, brothers and sisters (whether whole or half-blood), children (whether natural or adopted), grandchildren, great-grandchildren, and spouses of brothers, sisters, children, grandchildren, and great-grandchildren.

Key employee: For purposes of this policy and IRS Form 990 reporting, an employee of TCC (other than an officer or Director) who meet all three of the following tests:

1. **\$150,000 Test:** Receives reportable compensation from TCC in excess of \$150,000 for the calendar year ending within TCC's tax year.
2. **Responsibility Test:** The employee:
 - a. has responsibilities, powers or influence over TCC as a whole similar to those of officers or Directors;
 - b. manages a discrete segment or activity of TCC that represents 10% or more of the activities, assets, income, or expenses of TCC, as compared to TCC as a whole;
 - c. or has or shares authority to control 10% or more of TCC's capital expenditures, operating budget, or compensation for employees.
3. **Top 20 Test:** Is one of the 20 employees (that satisfy the \$150,000 Test and Responsibility Test) with the highest reportable compensation from TCC for the calendar year ending within TCC's tax year.

Corporate Officers: Officers of the corporation as described in TCC's bylaws and appointed by the Board of Directors.

Reportable compensation: Compensation that is reported on Form W-2, box 5 (or in box 1 if the

employee's compensation is not reported in box 5) filed for the calendar year ending within TCC's tax year.

Director: A voting member of TCC's Board of Directors.

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