

CLAREMONT MCKENNA COLLEGE

Policy Library

Executive Compensation Policy

Approved by: Board of Trustees

History: Issued on May 16, 2009

Amended on October 3, 2009

Amended on May 15, 2010

Amended on October 1, 2021

Amended and Approved on September 30, 2022

Responsible Official: Vice President of Business and Chief Financial Officer

- [Policy Statement](#)
- [Entities Covered by this Policy](#)
- [Contacts](#)
- [Definitions](#)
- [Compensation Oversight, Review, Approval and Related Procedures for Covered Executives](#)
- [Compensation Oversight for Other Highly Compensated Employees](#)

I. Policy Statement

Claremont McKenna College (the “College”) is committed to maintaining an executive compensation program that:

- is meaningfully linked to advancing the strategic priorities and performance of the College; and
- incorporates appropriate independent and professional review to ensure that executive compensation is just and reasonable.

Toward this end, this Executive Compensation Policy (the “Policy”) seeks to appropriately balance such considerations as: the attraction and retention of executives, the consideration of reasonable incentives linked to performance, and the incorporation of a regularized competitive market analysis process to ensure that compensation is reasonable.

This Policy is also structured to ensure that the College’s executive compensation program complies with applicable federal and state law, including Section 4958 of the Internal Revenue Code and the compensation review requirements set forth in the State of California’s Nonprofit Integrity Act of 2004.

II. Entities Covered by this Policy

All units of the College.

Executive Compensation Policy
Revised – September 30, 2022

III. Contacts

Please direct any questions about this policy to the Vice President of Business and Chief Financial Officer at (909)607-7085.

IV. Definitions

- A. Board: The Board of Trustees of the College, which is the College’s governing board under California’s Nonprofit Public Benefit Corporation Law.
- B. Covered Executives: Covered Executives refers to those Disqualified Persons, Officers of the College, or other key employees whose Compensation is reviewed and approved by the Board of Trustees or Compensation and Personnel Subcommittee of the Executive Committee pursuant to the procedures set forth in this Policy. Family members of Disqualified Persons, Officers of the College and other key employees are treated as Covered Executives for purposes of this Policy.
- C. Disqualified Person: Section 4958 of the Internal Revenue Code imposes penalties in the form of excise taxes as a result of an excess benefit received by certain organization insiders, termed “disqualified persons.”

A Disqualified Person is someone who, through their powers, responsibilities, or interests, are among those in a position to exercise substantial influence over the affairs of an organization. Certain types of positions in an organization are deemed to have substantial influence by virtue of the position, including persons who: i) are voting members of an organization’s Board; ii) supervise management or operation of the organization (e.g., the President of the College); or, iii) have responsibility for management of the finances of the organization (e.g., Vice President of Business and Chief Financial Officer).

In other cases, the determination of whether a person has substantial influence will be based on all relevant facts and circumstances that tend to show either that the person does or does not have substantial influence.

Compensation paid to a Disqualified Person may represent an excess benefit transaction if it is not reasonable. The regulations under Section 4958 provide a procedure that may create a rebuttable presumption that Compensation paid to a Disqualified Person represents a reasonable exchange of value. These procedures include the use of Comparable Compensation Data and obtaining a Reasonableness Opinion from a qualified Compensation Consultants.

The determination of the College’s Disqualified Persons is supported by Compensation Consultant in consultation with and for approval by the Subcommittee for the purpose of conducting a Competitive Market Analysis Report.

Executive Compensation Policy
Revised – September 30, 2022

- D. Compensation: All forms of cash and noncash payments or benefits provided in exchange for services, including, but not limited to, salary and wages, Bonuses, severance payments, deferred payments, retirement benefits, and any other financial arrangements. These amounts do not include fringe benefits otherwise excludable from gross income under IRC 132, but do include liability insurance premium, payment, or reimbursement that must be considered under Treas. Reg. §53.4958-4(b)(1)(ii)(B)(2).
- Bonuses: Following each June 30 that an eligible Covered Executive remains employed by College, such Covered Executive may be eligible to receive an annual bonus based on institutional and individual performance during the immediately preceding 12-month period, as determined based on the annual performance review procedures set forth in this Policy and in the sole discretion of the Subcommittee or the Board, as appropriate.
- E. 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 the College's tax year.
- F. Peer Group: The College's Peer Group is developed by the College's Compensation Consultant in consultation with and for approval by the Subcommittee for the purpose of conducting Competitive Market Analysis Reports. The criteria for developing the Peer Group shall include, but are not limited to: academic ranking and reputation, enrollment and admission selectivity, financial resources (total revenues and expenses, endowment per student, debt rating, etc.), complexity of operations, and geographic location.
- G. Comparable Compensation Data: Comparable Compensation Data includes Compensation data from the College's Peer Group institutions and other appropriate sources. Comparable Compensation Data is appropriate if, given the knowledge and expertise of the members of the Subcommittee and the Compensation Consultant, the Subcommittee has information sufficient to determine whether the compensation arrangement in its entirety is reasonable.
- In analyzing Comparable Compensation Data, positions for each Covered Executive in relation to positions holding similar responsibilities in the Peer Group Institutions and regional Consumer Price Index data for inflation and cost of living adjustments, as necessary, shall be considered.
- H. Competitive Market Analysis Report: A Compensation Consultant's Competitive Market Analysis Report is a competitive market and benchmarking analysis report based on Comparable Compensation Data for one or more Covered Executives.

Competitive Market Analysis reports are prepared in support of the Subcommittee's and the

Executive Compensation Policy
Revised – September 30, 2022

Board’s assessment of reasonableness in relation to the approval of Compensation for the President and other Covered Executives.

The specific form of a Competitive Market Analysis report, including any update or interim written or oral reports, will vary based on the circumstances as approved by the Subcommittee.

- I. *Reasonableness Opinion*: A Compensation Consultant’s Reasonableness Opinion is a written assessment prepared at the Subcommittee’s request in relation to one or more Disqualified Persons or other Covered Executives as part of a Competitive Market Analysis. A Reasonableness Opinion documents that the Compensation Consultant:
- holds itself out to the public as an appraiser or compensation consultant that has experience and qualifications in serving sophisticated tax-exempt organizations within the higher education and general non-profit sectors;
 - performs executive compensation competitive market analysis reports that enable its client institutions to satisfy the requirements of Section 4958 of the IRC and Nonprofit Integrity Act on a regular basis;
 - is qualified to make valuations of this nature; and
 - certifies the Compensation Consultant’s Written Opinion as to the reasonableness of the respective Disqualified Person’s or other Covered Executive’s current Compensation and any proposed adjustments for the forthcoming year.
- J. *Highly-Compensated Employees*: The term Highly-Compensated Employees refers to those employees other than a Covered Executive whose Compensation is among:
- The Top Ten most highly-paid faculty or staff employees other than a Covered Executive.

V. Compensation Oversight, Review, Approval, and Related Procedures for Covered Executives (including Covered Executives that are also Disqualified Persons)

A. The Compensation and Personnel Subcommittee of the Executive Committee

The Board of Trustees has established a Compensation and Personnel Subcommittee of the Executive Committee (the “Subcommittee”) for the purpose of administering this Executive Compensation Policy and to provide oversight more generally of Compensation and other personnel matters related to Covered Executives. The members of the Subcommittee shall include:

- i. The Chair of the Board;
- ii. The Chair of the Board Affairs Committee;
- iii. The Chair or Vice Chair of the Finance Committee;

Executive Compensation Policy
Revised – September 30, 2022

- iv. The President of the College, who is also an Ex Officio Trustee; and
- v. Not more than two At Large Members, who shall be Regular Trustees appointed at the recommendation of the Chair of the Board.

B. Compensation Review and Approval Procedures for Covered Executives

i. The President of the College

A Competitive Market Analysis Report utilizing Comparable Compensation Data will be prepared upon: i) the hiring of the President; ii) whenever the President's term of employment, if any, is modified or extended; and, iii) whenever the President's Compensation is modified, including in connection with the College's annual performance review and Compensation approval procedures summarized below.

With respect to the hiring of the President or the College modifying or extending the President's term of employment, the Subcommittee will recommend the President's Compensation for approval by the Board after considering the Competitive Market Analysis Report and Reasonableness Opinion (as discussed further below).

With respect to the President's annual performance review procedures, each summer, the Board Chair and the President coordinate and complete a performance review discussion for the prior academic year. In addition, during the course of the academic year, at each meeting of the Subcommittee, the Executive Committee, or the Board of Trustees, the Board Chair may reserve time in executive session to develop feedback from Trustees regarding the President's performance, which feedback the Board Chair conveys to the President as necessary and appropriate.

Based on a review of the Competitive Market Analysis Report, Reasonableness Opinion (if appropriate as discussed further below), and, the annual performance review process, the Board of Trustees approves a range for Presidential compensation and bonus (if any) for the next academic year. The Subcommittee then establishes the relevant Compensation for the President within the limits established by the Board of Trustees and as deemed reasonable by the Comparable Compensation Data. The Subcommittee shall report the President's compensation to the full Board at the next regularly-scheduled Board meeting.

The President will be excused from any Subcommittee or Board meeting as it relates to the review of their Compensation.

ii. Other Covered Executives

With respect to Covered Executives other than President, the Subcommittee's review, evaluation of reasonableness, and Compensation approvals will include a review of a Competitive Market Analysis Report utilizing Comparable Compensation Data upon: i) the hiring of the Covered Executive; ii) whenever the Covered Executive's term of employment, if any, is modified or extended; and, iii) whenever the Covered Executive's Compensation is modified, including in connection with the College's annual performance review and Compensation approval procedures summarized below.

Executive Compensation Policy
Revised – September 30, 2022

With respect to the annual Compensation approval process for other Covered Executives, the Subcommittee will also consider the President's summary of the results of the annual performance evaluations for such Covered Executives.

Based on the foregoing review of a Competitive Market Analysis Report and, as applicable, the annual performance review process for the Covered Executives, the Subcommittee will then vote to approve relevant Compensation action for the Covered Executive, including any annual base salary increase or Bonus.

Any Covered Executive that may otherwise be present at a Subcommittee meeting will be excused from any discussion and votes related to their respective Compensation.

C. Reasonableness Opinions

In addition to and distinct from Competitive Market Analysis Reports, the Subcommittee normally engages a Compensation Consultant to prepare a Reasonableness Opinion for any Covered Executive that is also considered a Disqualified Person upon: i) the hiring of the Disqualified Person; ii) the material modification or extension of any term of employment for a Disqualified Person; and, iii) every third year after the most recent Reasonableness Opinion with respect to such Disqualified Person. The Subcommittee will only obtain a Reasonableness Opinion letter for the family member of a Disqualified Person if the family member holds an executive-level position at the College.

D. Documentation

The minutes of the Board or Subcommittee meetings at which any Compensation is approved shall reflect the following items:

- The Compensation that was approved and the date of approval;
- The members of the Board or Subcommittee, as appropriate, who were present and who voted;
- The Comparable Compensation Data obtained and relied upon and how the data was obtained; and,
- Any actions taken by any member of the Board or Subcommittee, as appropriate, who had a conflict of interest; and,
- If the Board or Subcommittee, as appropriate, approves a higher Compensation level than the 75th percentile, the minutes shall also record the basis for the Board or Subcommittee's respective determination of reasonableness.

The minutes shall be prepared before the later of the next respective Board or Subcommittee meeting or 60 days after action by the Board or Subcommittee, as applicable. The minutes of the respective Board or Subcommittee meeting and the analyses and information presented to the Board or Subcommittee shall remain confidential and shall normally be limited to the members of the Board of Trustees, the President, the VP for Business and Chief Financial Officer, the General Counsel, the Secretary of the College, and the Vice President of Human

Executive Compensation Policy
Revised – September 30, 2022

Relations and Chief Diversity Officer; provided, however, that such information may also be disclosed to outside legal counsel and government regulators as reasonable and appropriate as determined by the General Counsel.

After approval by the Board or Subcommittee, the Chair of the Board of Trustees communicates the President's Compensation to the President. After approval by the Subcommittee, the President communicates the Compensation approvals for the other Covered Executives, with the exception of individuals who are Covered Executives by virtue of being a family member of a Covered Executive. For those individuals, compensation approvals will be communicated by the Vice President of Human Relations and Chief Diversity Officer. These communications shall be documented in writing, a copy of which shall be maintained in each individual's personnel file.

The Vice President of Business and Chief Financial Officer retains documentation of the annual executive compensation analysis to meet IRC 4958 requirements.

VI. Compensation Oversight for Other Highly Compensated Employees and Family Members of Disqualified Persons

The term Highly-Compensated Employees refers to the top ten most highly-paid faculty or staff employees other than a Covered Executive. As a general practice, the Subcommittee reviews the current Compensation and most recent annual Compensation increase for Highly-Compensated employees and family members of disqualified persons on an annual basis.