

May 6, 2014

INCENTIVE BONUS POLICIES AND PROCEDURES FOR SENIOR STAFF

SUMMARY

In April 2014, AGRiP received a request from a member pool seeking information from other AGRiP members about their incentive bonus policies and procedures for senior staff, if any. The AGRiP Resource Library has very little information on this topic, and the Association knows that, historically, incentive compensation has not been very common. AGRiP will conduct its CEO Salary Survey again this year, and intends to gather more information on this practice, but in the mean time reached out to select member pools that may have expertise in this area in order to answer this question. The overwhelming responses indicate that this practice is still not very common.

METHODOLOGY

AGRiP contacted member pools that staff believed would have insight into incentive policies and procedures for senior staff, via their experience at their own pool. The answers were then compiled in the attached chart. We also reviewed past pooling experience, and conferred with other pooling experts.

DISCUSSION

Seven pools responded from five states – California, Idaho, Illinois, Kentucky, and Texas – and two Canadian provinces. Of those responses, only one reported that they have an incentive policy, and one reported that their “standard compensation system applying to all employees except the CEO is a merit based system which includes a “bonus” component.” The other five reported that they either do not have a policy, or have looked into one and decided against in. One pool even reported that they decided against the policy because after some research they concluded that monetary bonuses do not provide sustained incentive. The pools questioned were chosen based on the Association staff’s collective background knowledge and familiarity with those thought most likely to have incentive plans. The fact that these pools did not return incentive policies is most likely very representative of all pools, if not even overstated.

CONCLUSION

While there are many industries where the culture may support and even encourage CEO and executive incentive compensation, the historical record and the small recent survey conducted by AGRiP indicate that governmental risk pooling is not one of those industries. The Association will have more information on this with the conclusion of its 2014 CEO and Executive Compensation and Benefit Survey, but, as of the writing of this paper, all indications are that CEO and executive incentive compensation is not a common practice in the government risk pooling industry.

RESPONSE CHART

POOL HAS INCENTIVE POLICY/PROCEDURE (YES/NO)	ADDITIONAL COMMENTS
No	
No	
No	<p>"This is not to say that the matter has not been discussed by our Board. A few years ago they retained a compensation consultant who recommended one, but after some intense debate decided against it. We are doing another compensation review this fall and the matter may arise again."</p>
No	<p>"We don't have a policy on bonuses but they've never been a part of our pool's culture. A few years ago I thought about exploring a bonus program for myself and staff but first did some research on motivation. I checked out behavioral economist, Dan Ariely's Ted Talk on "What we like about our work". I also read Daniel Pink's book: "Drive". These two resources in particular convinced me bonuses don't provide sustained incentive."</p>
No	<p>"Our pool does not provide performance incentive bonuses, and I'm not personally familiar with pools that do."</p>
No	<p>"We do not have a performance incentive program for Executive/Sr. Staff. Our standard compensation system applying to all employees except the CEO is a merit based system which includes a "bonus" component."</p>
Yes	<p>"Staff get 0 to 10% Managers get from 0 to 15% The Executive Director gets from 0 to 30%</p> <p>The above is all based on the organization reaching certain agreed upon objectives and the individuals meeting their own respective performance expectations. In addition, the Executive Director gets a separate 10% incentive for handling and managing the Investment Portfolio of the pool.</p> <p>The CEO Performance Evaluation (Incentive) Matrix is negotiated with a committee of the Board and approved by the Board of Directors on an annual basis.</p> <p>The weighting factors are as follows:</p> <p>70% Financial based on a number of factors with assigned sub weighting (Capital Mgmt/ROI/Bond Yield/Expense Ratio/combined ratio)</p> <p>20% Leadership based on specific results of Strategic initiatives</p> <p>10% Org Mgmt Based on Operational Plans and Business continuity tests</p> <p>This is a system that we have had in place for a number of years. It was coordinated to fit with our Governance Policy model. As stated above, the weighting factors and the components are negotiated annually based on market conditions."</p>