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University System of New Hampshire

Final Report of Findings

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Context and Project Objectives

Our Understanding

- The University System of New Hampshire (“USNH” or “the System”) is the largest provider of post secondary education in New Hampshire. With more than 30,000 enrolled students, it depends on attracting, hiring and retaining the best talent
- As part of an effort to understand market competitiveness, USNH’s Board of Trustees (“Board”) has partnered with Mercer to evaluate the competitiveness of its total compensation package (i.e., cash compensation, health & welfare and retirement benefits), to help provide the System direction in strengthening its strategic approach to managing its rewards program
- USNH, similar to other higher education institutions, is faced with increasing financial pressures due to limited state budgets, rising benefit costs, and increasing competition from lower cost alternatives. In response, many higher education institutions have reduced staffing, imposed furloughs, and/or cut benefit contributions. USNH has been fortunate in being able to use salary and hiring freezes, as well as limited staff reductions to respond to-date, without the need of more severe alternatives.

Project Objectives

- Conduct a comprehensive review of USNH’s current total compensation position by employee segment to the market
- Develop a basis for assessing the appropriateness of the current benefits programs in supporting USNH’s broader human resource strategies
- Inform short- and long-term rewards strategy
- Conduct a high level audit of current compensation practices

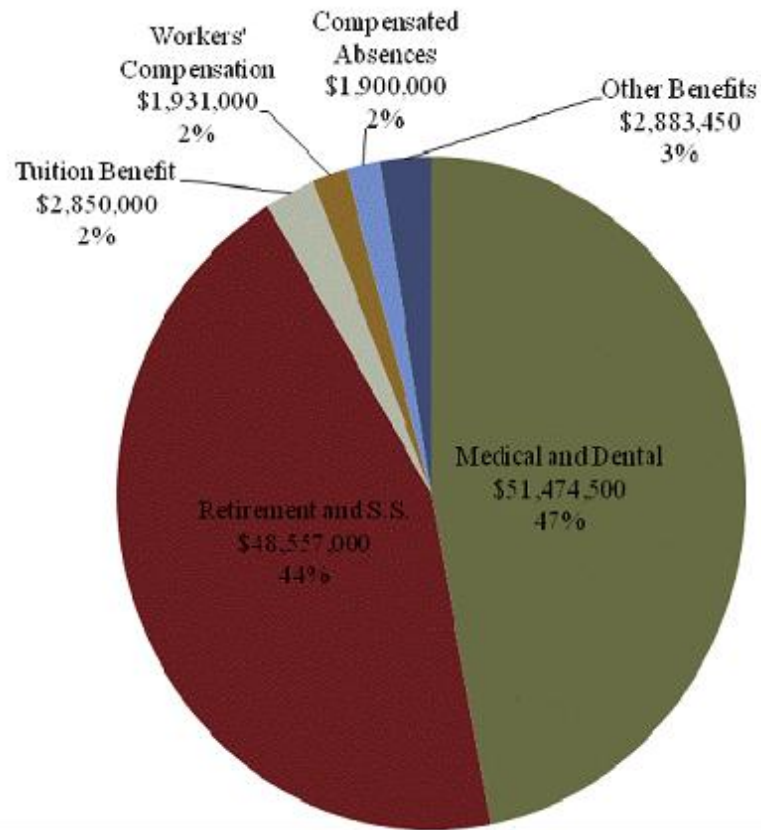


Context and Project Objectives

Our Understanding

- Data provided to the Financial Affairs Committee in November/December 2009

**FY09 Projected Fringe Benefit Summary: \$109.6 Million
Total Employer Expenses**



As of 03/09



Context and Project Objectives

Some Facts About the Study

- This project is one of a series of steps that the Board will need to conduct, on a going forward basis, to be sustainable and successful as an organization, while still motivating and attracting a diverse and talented workforce
- As a part of this process, employees have had the opportunity to be a part of this process on their respective campuses, through surveys, staff meetings, and open forums on the topic of benefits
 - Staff value their benefits and see this as a key factor in their overall employment experience
- The total compensation study covers approximately 90% of USNH's benefits' eligible employee population. Peer comparator organizations reflect USNH's market for talent, which include a variety of higher education institutions (both private and public) and general industry (e.g., financial services, retail, healthcare) organizations
 - Those positions not included in the study include those where the salary data was too old to be reliable or there was none available due to the unique nature of the position. Most excluded positions are instructional in nature.



Summary of Leadership and Employee Perspectives



Summary of Leadership and Employee Perspectives

Board Input

- On January 22nd, Mercer met with members of the Board to kick-off the project and discuss critical business challenges facing the institution
- The Board is focused on the challenge of motivating and attracting a diverse and talented workforce, in an unprecedented economic environment that requires the System to address rising and unsustainable costs
 - The challenges facing USNH include, but are not limited to:
 - The continued level of State funding and the real possibility that funding from the State will decrease
 - An overall decline in the demographic of traditional college age students
 - Vastly increased financial pressures on students and their families
 - Substantial, deferred maintenance costs of nearly one billion dollars to address in the next 15 years
 - The lack of substantial endowments and a tradition of advancement at our institutions
- USNH has begun to address some of the above issues in the following actions:
 - Base salary increases have been frozen since the 07/01/08 annual increases
 - Employees paid an annual increase in health benefit premiums in 2009 and 2010, plus an increased portion of the total premium in 2009
- The Board will continue to work with management and employees in developing cost management plans to provide efficient and economical benefits, that still provide a valuable employment experience in attracting, retaining and engaging talent



Summary of Leadership and Employee Perspectives

President Input

- A summary of the most significant reward challenges/areas for USNH institutions:
 - Providing competitive cash compensation levels to “buy” key talent (median market positioning does not provide enough flexibility)
 - Achieving the right balance of faculty/staff ratios
 - Attracting and retaining key management/faculty, particularly with location and cost of living (in some areas)
 - Effectively positioning the institution as a premier employer of choice, regionally, and nationally, for managerial, administrative and faculty talent
 - Pay compression and aligning a number of faculty to the desired compensation levels

- Culture and reward drivers for being an employer of choice:
 - Generous benefits package
 - Benefits are valued by staff, particularly health benefits
 - System mission
 - Work/life balance
 - Transparency and manager/employee input in campus challenges/issues

- Desired role of different reward components:
 - Competitive pay for attraction
 - Benefits are and should continue to be a significant retention tool for mid- to late-career employees
 - Work/life balance and careers can be a significant driver for new/early-career employees, however, career paths and succession planning need to be developed
 - Note: These areas are defined in HR’s strategic priority initiatives as areas of focus
 - Strong desire to ensure consistency of benefit offerings across all institutions
 - Understanding that cash compensation strategies will vary by institution based on business model, organizational size, aspirational peers, etc.



Summary of Leadership and Employee Perspectives

Employee Perspectives from USNH

- Mercer reviewed employee input gathered by USNH related to the benefits that they value
 - Open forums were held at Keene State College and Plymouth State
 - Meetings were held on UNH campus
 - Open forums and an employee survey were conducted recently by Granite State College
 - Meetings have been held with System Presidents and their respective senior staff members

- Overall employees value the benefits at USNH with some stating that they came to the institution taking a reduction in cash compensation, knowing that the strong benefits program would offset that

- Specific prevalence data was available in the Granite State College survey. Some of that data is highlighted below:
 - All benefits in the Granite State College survey were rated very highly, particularly earned time, retirement and medical insurance (with over 90% stating they highly valued the benefit)
 - Approximately 20 to 50% (across the OS and PAT surveys) stated they highly valued flexible spending and health & wellness programs, indicating that there is some area for communications' enhancements
 - One employee indicated a desire for a cafeteria plan. "If we must cut somewhere, I would be in favor of a "cafeteria plan" for benefits, where employees are allotted a certain amount of money and can choose how to spend it among the entire benefits package. For example, I do not use the tuition benefit so it is not important to me and I would choose to pass on that one."



Total Compensation Review Findings



Methodology

Peer Group Selection

- In collaboration with USNH, three different peer groups were developed for the benefits valuation. Since USNH competes with a wide variety of employers for talent across national, regional, and local markets (based on the role), distinct peer groups were developed for the groupings of EEO categories.
 - It is important to highlight that these comparators were defined for benefit comparison purposes. Cash compensation peers should, and do vary by USNH institution based on type of institution and operating budget.
 - A listing of the employers included in the study are provided in the Appendix of this report

EEO	Brief Description	Peer Group	Brief Peer Group Description
A	Executive, Administrative, Managerial	Group 1: 20 national higher education institutions	<ul style="list-style-type: none"> ■ 20 higher education (16 public /4 private) ■ 11 are located in the Northeast US¹
B	Faculty		
C	Professional Non-Faculty	Group 2: 19 national higher education and service industry organizations	<ul style="list-style-type: none"> ■ 12 higher education (10 public/2 private) ■ 7 organizations in services industry ■ 17 are located in the Northeast US¹
D	Technical and Paraprofessional		
E	Department/Office/Program Support Services	Group 3: 18 prominent regional employers	<ul style="list-style-type: none"> ■ 5 higher education (all public) ■ 13 general industry including public sector, financial services, healthcare, retail, and utilities ■ All located in the Northeast US¹
F	Skilled Craft		
G	Service/Maintenance		

¹ Includes CT, DE, MA, ME, NH, NY, RI, VT.

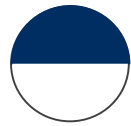


Total Compensation Review Findings

USNH Overall

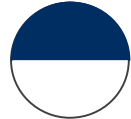
Summary	Key Findings
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Cash Compensation (Base Salary)



- Overall, USNH's base salaries are competitive with the market median (at 3% below the market), with variances by EEO category
- Variances range from -9% for EEO category D to +3% for category A, all, however, are within the +/-10% variance to the median

Health & Welfare (H&W) Benefits



- Overall, the value of USNH's H&W benefits are competitive (at 3% above market) and are driven by the following:
 - Medical benefits and employee contributions approximate market median levels, including no deductibles, no co-pays, and above market employee contributions
 - For life insurance, USNH compares favorably due to providing a 1.5x pay benefit with a \$1.5 M maximum, which is high relative to the peer group

Time Loss Benefits



- USNH compares favorably due to having competitive Paid Leave benefits¹, as well as a competitive STD comparison for exempt employees and a favorable comparison in the LTD area (for all staff)
 - In assessing *only* Paid Leave benefits, employees with 15 or more years of service for groups D, E, F & G have above median benefit levels (see page 16 for more information)



Below market



At Market (within \pm 10%)



Above market

¹ Paid Leave includes all time off (PTO, vacation, sabbatical for faculty, holidays, personal leave and sick leave); Time Loss is the sum of Paid Leave, STD and LTD values.



Total Compensation Review Findings

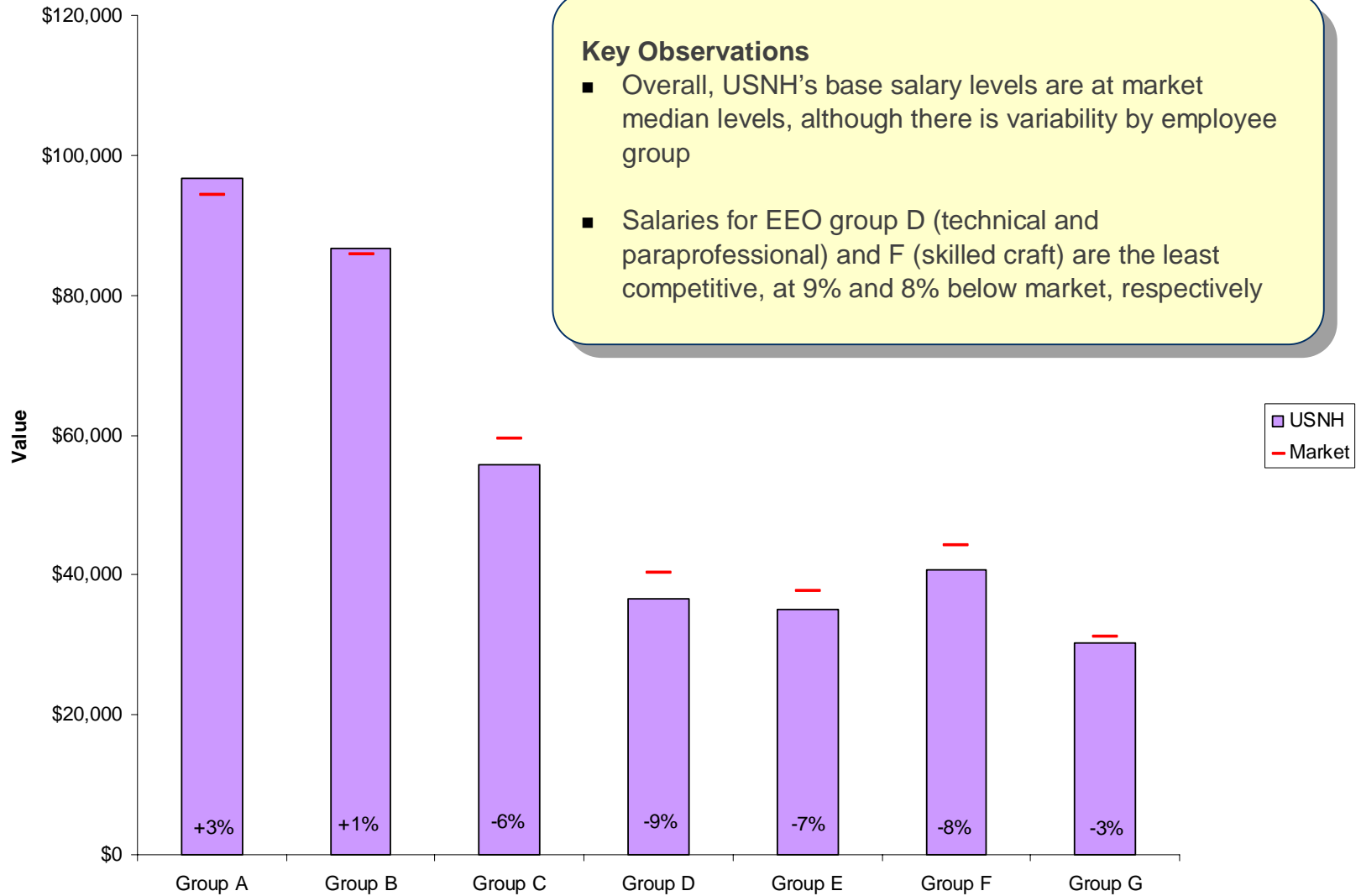
USNH Overall (cont'd)

Summary		Key Findings			
Retirement Benefits (DB/DC)*		<ul style="list-style-type: none"> USNH trails the median in retirement benefits when compared to organizations with DB and DC plans 21 of the 33 competitors maintain a DB plan. *Under Mercer's methodology, the value of the DB plans exceeds USNH's DC plan. USNH is closer to the market in groups E, F & G since fewer of the peers in those groups offer defined benefit plans. However, when assessing the value of DC plans only, USNH is market competitive. USNH aligns with market design practice today (and in the future) in that the trend is clearly away from DB plans and toward DC plans 			
Retiree Medical		<ul style="list-style-type: none"> USNH lacks competitiveness due to providing a defined-dollar subsidy for retirees USNH provides the same coverage as active employees for pre-65 retirees and also provides a 1% contribution to the retirement plan in lieu of post-65 medical coverage Many of the peers still provide traditional pre-65 and post-65 employer-subsidized coverage where the retiree pays a certain percentage of the premium It is important to recognize the USNH is in alignment with market design practice today (and in the future) in that the trend is away from offering retiree medical plans due to unsustainable costs 			
Total Compensation		<ul style="list-style-type: none"> USNH's total compensation competitive positioning falls slightly below market, but still within a competitive range (at 8% below market) due to at-market total cash compensation and H&W benefits and below market total retirement benefits when looking at organizations which offer DB and DC plans 			
	Below market		At Market (within \pm 10%)		Above market



Total Compensation Review Findings

Cash Compensation (Base Salary)



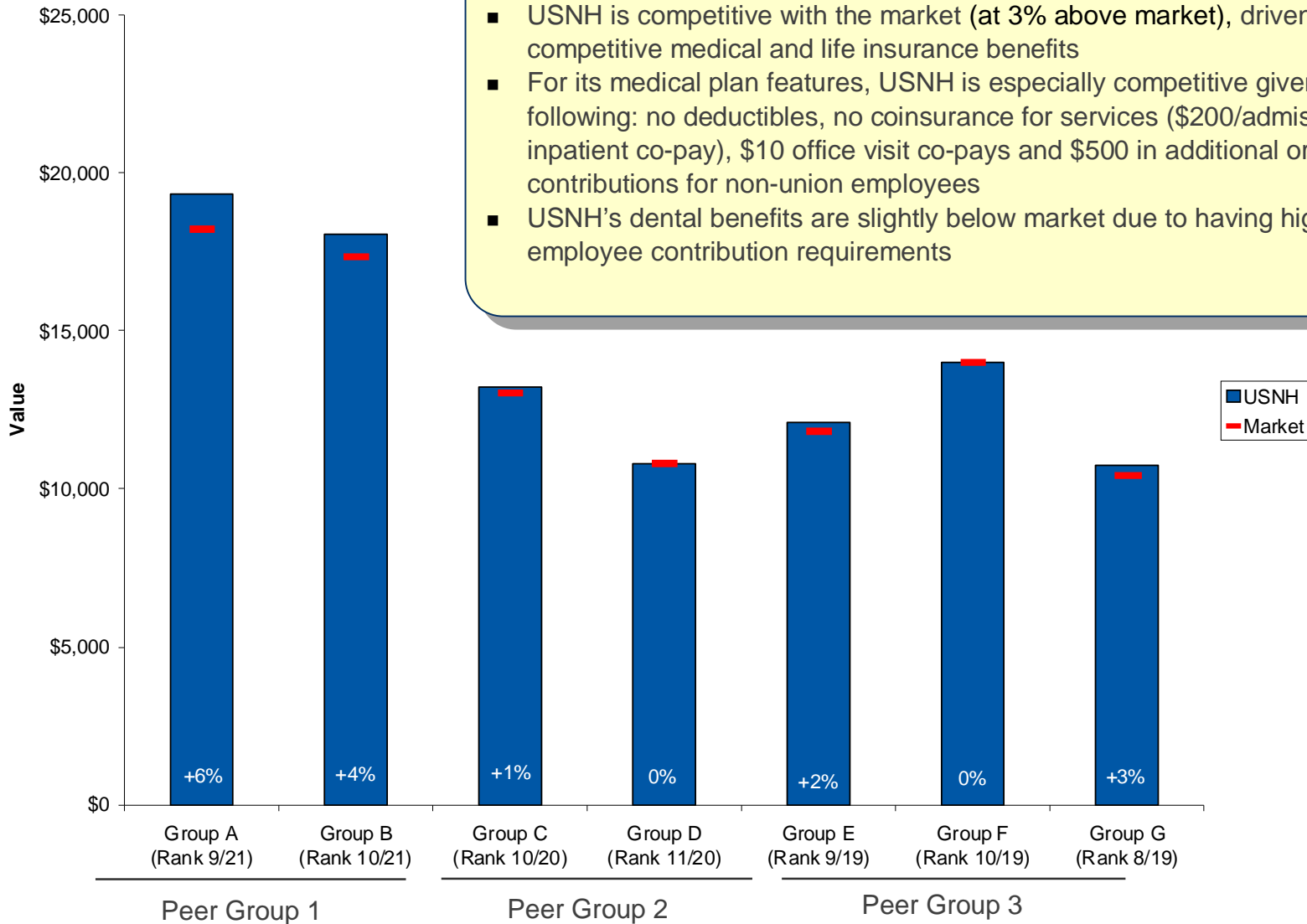


Total Compensation Review Findings

Total H&W Benefits

Key Observations

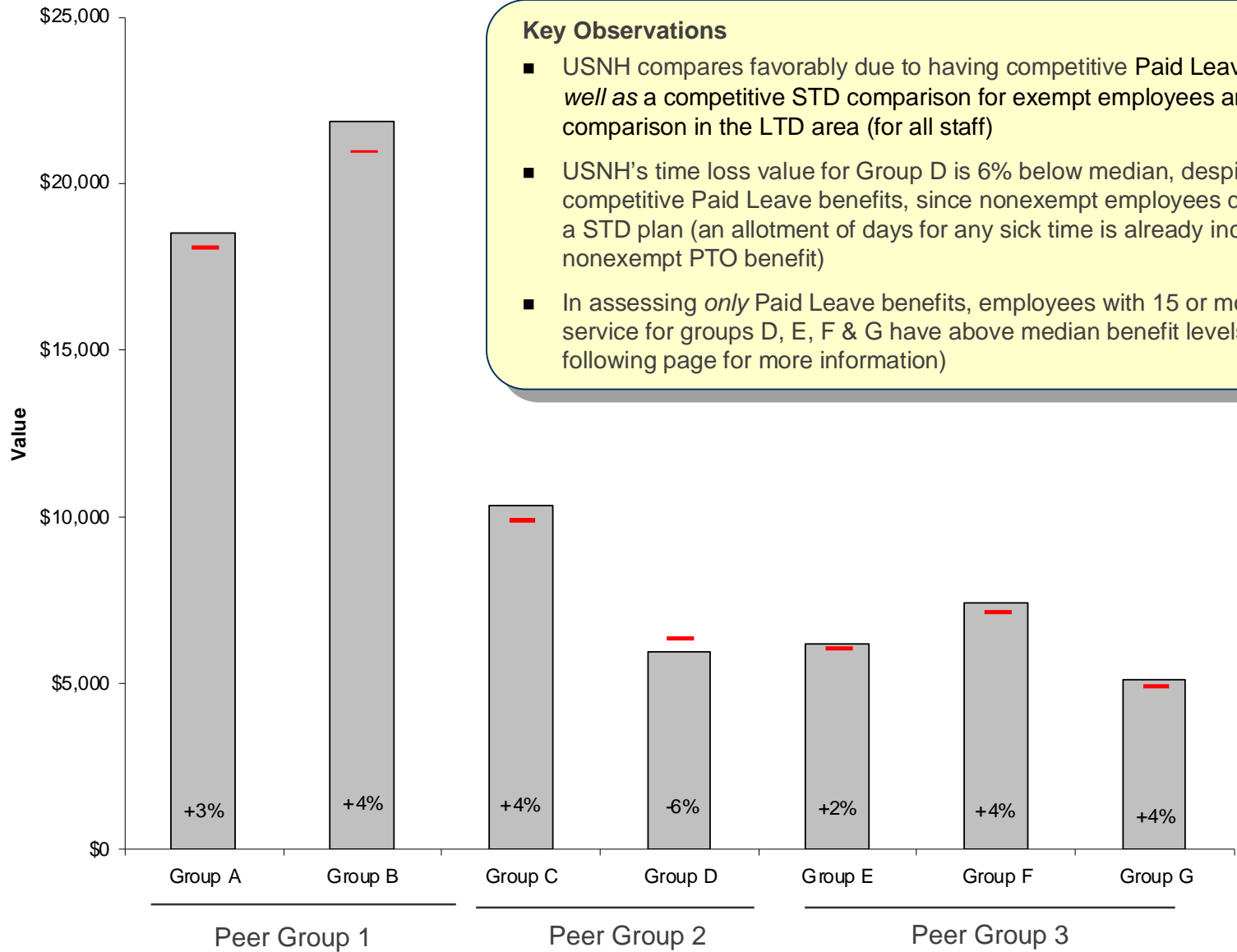
- USNH is competitive with the market (at 3% above market), driven by competitive medical and life insurance benefits
- For its medical plan features, USNH is especially competitive given the following: no deductibles, no coinsurance for services (\$200/admission inpatient co-pay), \$10 office visit co-pays and \$500 in additional organization contributions for non-union employees
- USNH's dental benefits are slightly below market due to having higher employee contribution requirements





Total Compensation Review Findings

Time Loss Benefits



Key Observations

- USNH compares favorably due to having competitive Paid Leave benefits¹, as well as a competitive STD comparison for exempt employees and a favorable comparison in the LTD area (for all staff)
- USNH's time loss value for Group D is 6% below median, despite having competitive Paid Leave benefits, since nonexempt employees do not receive a STD plan (an allotment of days for any sick time is already included in the nonexempt PTO benefit)
- In assessing *only* Paid Leave benefits, employees with 15 or more years of service for groups D, E, F & G have above median benefit levels (see following page for more information)

■ USNH
 - Market

¹Paid Leave includes all time off (PTO, vacation, sabbatical for faculty, holidays, personal leave and sick leave); Time Loss is the sum of Paid Leave, STD and LTD values.



Total Compensation Review Findings

Paid Leave

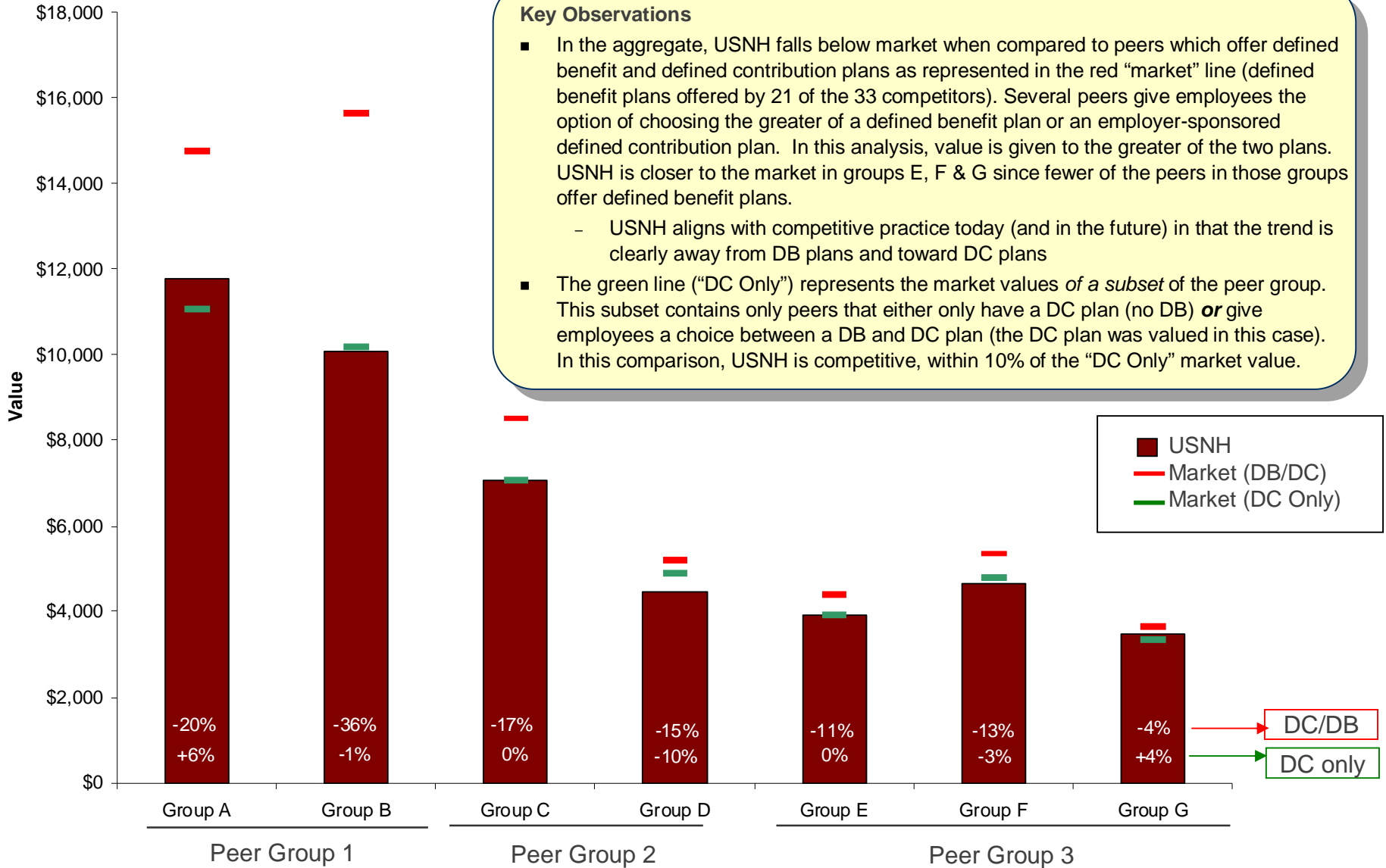
- USNH provides a competitive number of days at most service levels. Its positioning to median is high for employees with 15 or more years of service for groups D, E, F & G (see shaded areas below).
- The chart below shows USNH's total number of days off compared to the peer groups
 - Total days off for USNH and the peers include PTO, vacation, holidays, personal leave and sick leave; other time loss elements (i.e. sabbaticals and disability) are not included
 - A 35% utilization assumption was applied to sick days that cannot be cashed out at termination and/or retirement
 - If a peer has an informal sick leave plan, 10 days were valued; sick days in excess of 15 are counted in short-term disability and are not included below

Service Level	USNH Benefit		Peer Group Median				
	Exempt	Nonexempt	Group A	Group B	Group C	Group D	Groups E, F & G
1 Year	40	35	40	35	35	32	30
5 Years	40	35	41	37	38	37	34
10 Years	40	40	41	39	40	38	36
15 Years	40	45	41	40	41	40	38
20 Years	40	50	43	41	41	41	39
25 Years	40	50	45	42	42	42	41



Total Compensation Review Findings

Retirement Benefits from Two Perspectives



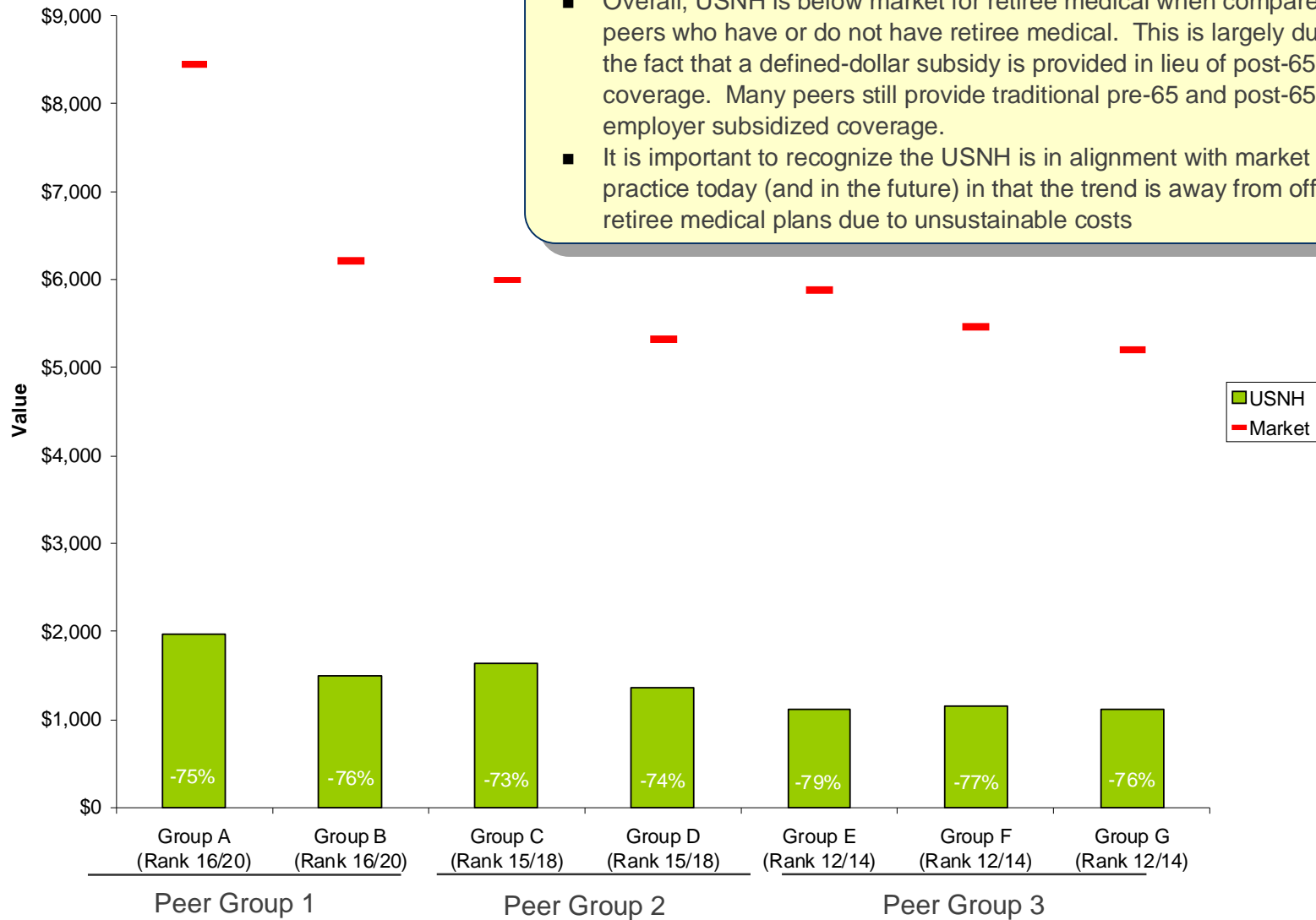


Total Compensation Review Findings

Retiree Medical

Key Observations

- Overall, USNH is below market for retiree medical when compared to all peers who have or do not have retiree medical. This is largely due to the fact that a defined-dollar subsidy is provided in lieu of post-65 coverage. Many peers still provide traditional pre-65 and post-65 employer subsidized coverage.
- It is important to recognize the USNH is in alignment with market design practice today (and in the future) in that the trend is away from offering retiree medical plans due to unsustainable costs



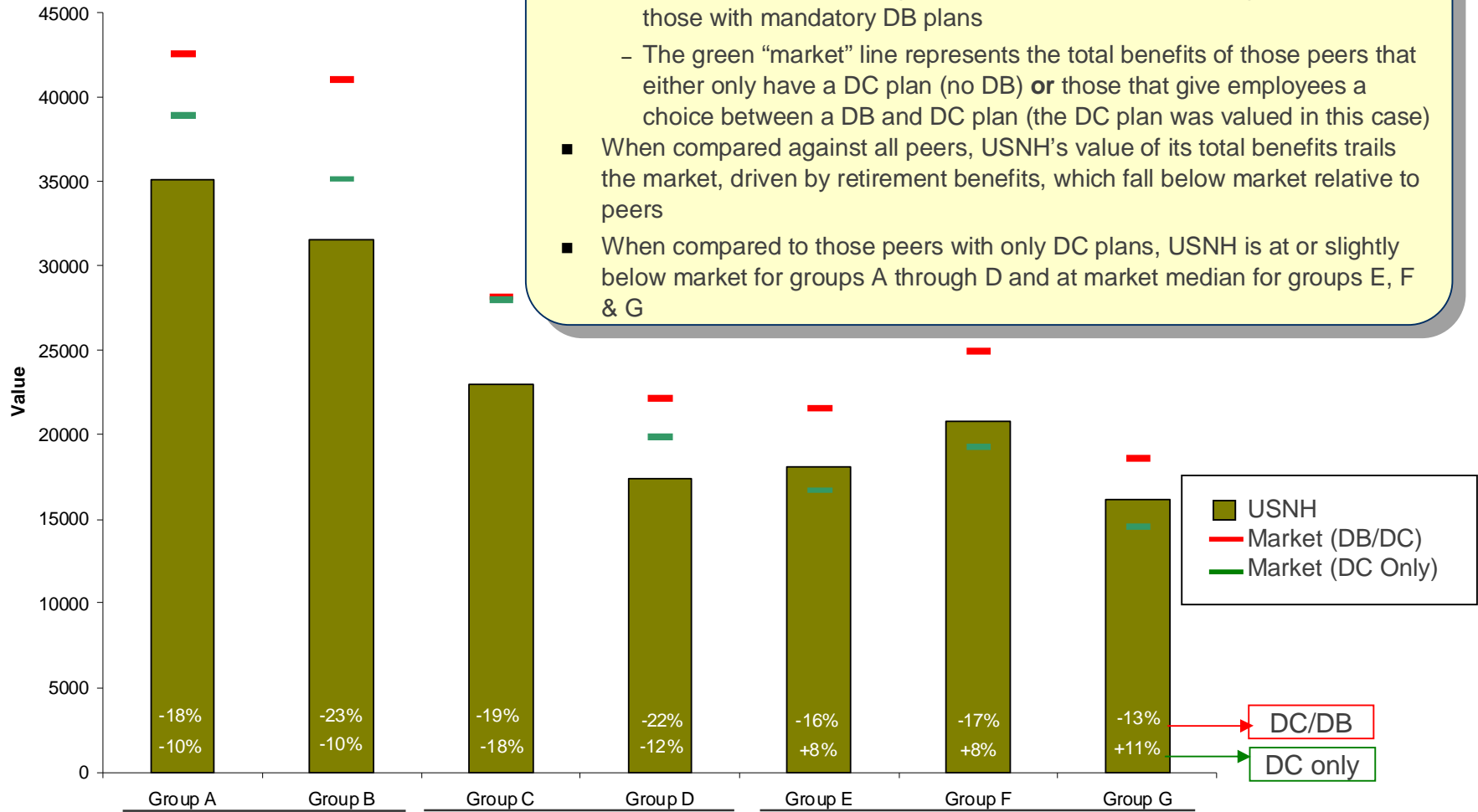


Total Compensation Review Findings

Total Benefits from Two Perspectives

Key Observations

- In this chart:
 - The red "market" line represents the total benefits of **all** peers, even those with mandatory DB plans
 - The green "market" line represents the total benefits of those peers that either only have a DC plan (no DB) **or** those that give employees a choice between a DB and DC plan (the DC plan was valued in this case)
- When compared against all peers, USNH's value of its total benefits trails the market, driven by retirement benefits, which fall below market relative to peers
- When compared to those peers with only DC plans, USNH is at or slightly below market for groups A through D and at market median for groups E, F & G

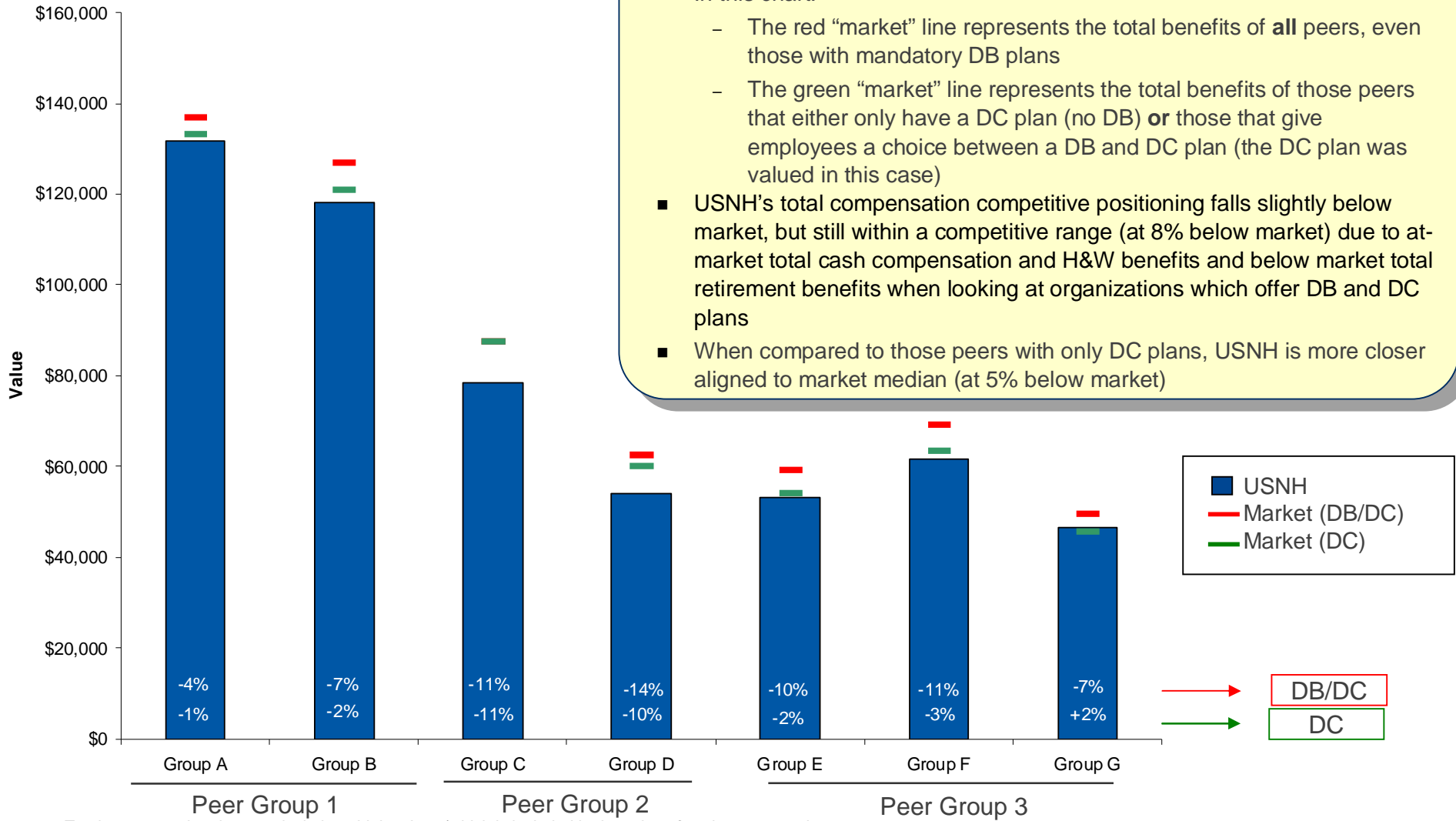


Total benefits includes health and welfare, retirement (including stock purchase and retiree medical), educational assistance, and LTD.



Total Compensation Review Findings

Total Compensation



Total compensation does not include paid time loss (which is included in the value of cash compensation).



Total Compensation Review Findings

Tuition Reimbursement

- Tuition reimbursement is included in the total benefits value and total compensation figures
- USNH compares less favorably in groups A & B due to providing only 50% reimbursement for spouses and dependents
- Many of the higher education peers in the group offer full reimbursement to spouses and dependents
- USNH is more competitive in groups C through G since most private organizations do not provide reimbursement for spouses and dependents



Next Steps



Next Steps

- As defined by the Board, the next steps in this process will be to outline a multi-year plan to assess further changes to its rewards programs, working with management, and seeking input from employees through the process
- Mercer recommends USNH begins with defining an overall rewards strategy and define the prominence and design of all its reward programs (i.e., cash compensation, health and welfare, retirement, and careers and development) for future sustainability
- The purpose of a reward strategy and guiding principles is to provide a framework for decision-making on rewards programs and to ensure alignment with USNH's future business and talent needs. A definition to the overall objectives of this strategy are outlined below:
 - Use a mix of reward vehicles that balances System and diverse employee needs, while aligning costs with value
 - Facilitate attracting, retaining, motivating and building the talent and capabilities needed to execute the institutional strategy and grow in the marketplace
 - Drive desired behaviors and encourage and recognize strong levels of individual performance
 - Communicate that while long service is still greatly valued, rewards should be less tenure-based and more performance-based
 - Provide market competitive compensation and benefits, but with a greater emphasis on career growth/opportunity



Appendix

Benefits Peer Group

Summary of All Organizations

(Three different peer groups were used based on EEO category)

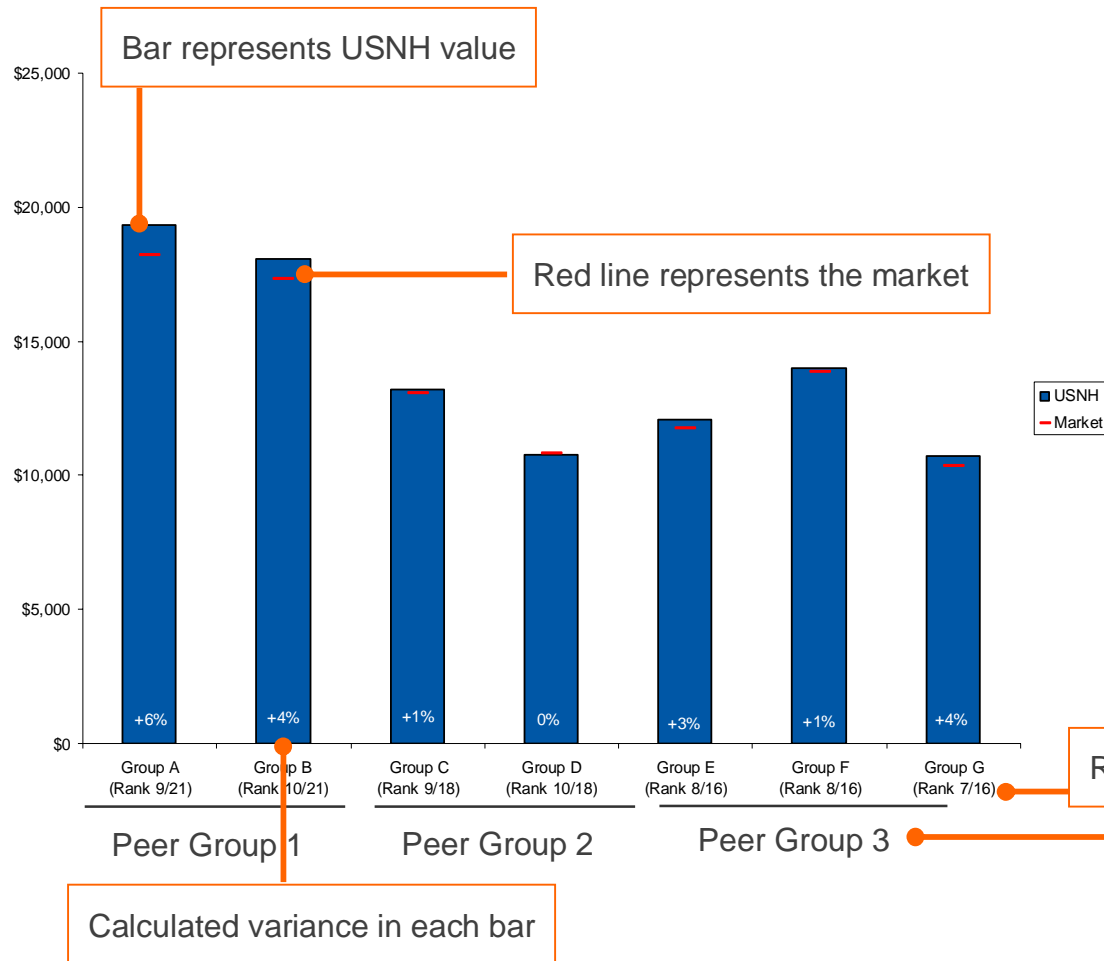
Organization Name	Location	Industry	Group 1 (EEO A, B)	Group 2 (EEO C, D)	Group 3 (EEO E, F, G)
American Express	New York, NY	Financial Services		X	X
California State University, East Bay	Bakersfield, CA	Higher Education - Public	X		
CVS Caremark	Woonsocket, RI	Retail			X
Dartmouth College	Hanover, NH	Higher Education - Private	X	X	
Fidelity Investments	Boston, MA	Financial Services		X	X
Frostburg State University	Frostburg, MD	Higher Education - Public	X	X	
Harvard Pilgrim Healthcare, Inc.	Wellesley, MA	Healthcare		X	X
L.L. Bean	Freeport, ME	Retail		X	X
MetLife	New York, NY	Insurance		X	X
Mt. Holyoke College	South Hadley, MA	Higher Education - Private	X		
Northeastern University	Boston, MA	Higher Education - Private	X	X	
PricewaterhouseCoopers	New York, NY	Professional Services		X	X
Public Service of New Hampshire	Manchester, NH	Utilities			X
Shippensburg University (Pennsylvania State System)	Shippensburg, PA	Higher Education - Public	X	X	
Smith College	Northampton, MA	Higher Education - Private	X		
Southwest Minnesota State University	Marshall, MN	Higher Education - Public	X		
State of Maine	Augusta, Maine	State Government			X
State of New Hampshire	Concord, NH	State Government		X	X
State of Vermont	Montpelier, VT	State Government			X
State University of New York at Buffalo	Buffalo, NY	Higher Education - Public	X	X	
University of Colorado at Boulder	Boulder, CO	Higher Education - Public	X		
University of Connecticut	Storrs, CT	Higher Education - Public	X	X	X
University of Delaware	Newark, DE	Higher Education - Public	X	X	
University of Maine	Orono, ME	Higher Education - Public	X	X	X
University of Mary Washington	Fredericksburg, VA	Higher Education - Public	X		
University of Massachusetts	Boston, MA	Higher Education - Public	X	X	X
University of North Carolina at Asheville	Asheville, NC	Higher Education - Public	X	X	
University of Rhode Island	Kingston, RI	Higher Education - Public	X	X	X
University of South Carolina	Columbia, SC	Higher Education - Public	X		
University of Vermont	Burlington, VT	Higher Education - Public	X	X	X
University of Wisconsin	Madison, WI	Higher Education - Public	X		
Wegmans Food Markets, Inc	Rochester, NY	Retail			X
Wentworth-Douglass Hospital	Dover, NH	Healthcare			X

Note: For those organizations with multiple locations, location reflects the headquarters' location.



Methodology

About the Charts



- In the next section of the report, the following charts summarize the findings by EEO category
 - The bar represents the value for USNH
 - The red line (or green line for some exhibits) represents the market median
 - The percent figure inside each bar represents the variance (calculated as USNH/Market minus 1)
 - Rank, where available, is the ordered position of USNH value for a benefit or total when compared to all organizations with that benefit
 - A rank of 1 signifies the highest value



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