

1. Title

Establishing Compensation for Highly Compensated Employees

2. Policy

Sec. 1 Policy Statement. Institutions of The University of Texas System are charged with setting compensation levels for highly compensated personnel in such a way that compensation is reasonable and adequate documentation is maintained for supporting the reasonableness of compensation paid. This policy provides for the establishment of setting compensation for highly compensated personnel within the U. T. System.

Sec. 2 Compensation of Highly Compensated Employees. To accomplish its mission, the U. T. System must attract, retain, recognize, and reward the performance of high-quality, dedicated employees of competence and distinction. The market competition for such employees among employers is often intense. The compensation of highly compensated employees will be set in such a way that the public will understand that the level of compensation is reasonable when provided with full information on the basis of the compensation decision.

2.1 Process. An institution needing to attract, retain, or reward highly compensated employees will establish and document a process for use in setting the appropriate level of compensation. A copy of the institution's process will be included in the institution's *Handbook of Operating Procedures*.

2.2 Initial Compensation. The process for setting the initial compensation of highly compensated employees will include, as a minimum, the factors listed below:

- (a) the nature of the duties of the position, including level of responsibility;
- (b) the need of the organization for the services of the person whose compensation is being determined;
- (c) the person's background, experience, knowledge in the field, accomplishments, salary history, and time devoted to the organization;
- (d) the employee's contributions to the organization's goals, objectives, and success;

- (e) the levels of compensation paid to similarly qualified people performing comparable duties in organizations in the market from which normally recruited, e.g., local, regional, national;
- (f) the nature of the organization, e.g., purpose, size, and complexity; and
- (g) the relationship to the compensation of other employees.

2.3 Adjustments to Compensation. The above factors will be included in making adjustments to the compensation of highly compensated employees, as appropriate, depending on the nature of the adjustment.

Sec. 3 Approval of Compensation for Highly Compensated Employees.

- 3.1 Board of Regents' Approval. The Board of Regents must approve the compensation of employees of the U. T. System whose total annual compensation is \$1 million or more (Board of Regents' *Rules and Regulations*, Rule 20204) and who are not covered by Board of Regents' *Rules and Regulations*, Rule 20203.
- 3.2 Executive Vice Chancellor Approval. The appropriate Executive Vice Chancellors, in consultation with the Chancellor, must approve the compensation of employees of the U. T. System whose total annual compensation is \$500,000 or more but less than \$1 million and who are not covered in Board of Regents' *Rules and Regulations*, Rule 20203.
- 3.3 Institutional Recommendations. Employing institutions will submit recommendations for total annual compensation of \$500,000 or more to the appropriate Executive Vice Chancellor. Recommendations will include a summary of the information required by Section 1 above. The Executive Vice Chancellors will coordinate with the Chancellor any recommendations requiring Board of Regents' approval.

Sec. 4 Compensation Records. Appropriate records will be maintained to document compensation decisions of highly compensated employees.

- 4.1 Institutional Records. U. T. System institutions will maintain a record of how the recommendation for total annual compensation of highly compensated employees was derived. Included in the record will be all documents or extracts thereof that support the recommendation, e.g., salary surveys, records

of achievement, etc. The presidents of the institutions will designate a central location at which such records will be kept.

- 4.2 Executive Vice Chancellor Records. The appropriate Executive Vice Chancellors will maintain the recommendations and supporting information used to set the total annual compensation of highly compensated employees.

Sec. 5 Application. This policy does not apply to the compensation of presidents and key executives for whom the compensation setting process is covered by Board of Regents' *Rules and Regulations*, Rules 20202 and 20203, respectively.

3. Definitions

Highly Compensated Employees - employees of the U. T. System whose total annual compensation is \$500,000 or more and not covered in Board of Regents' *Rules and Regulations*, Rule 20203, Compensation for Key Executives.

Total Annual Compensation - salary or wages, employer contributions to the Teacher Retirement System of Texas and the Optional Retirement Program, practice plan salary supplements, incentive plan payments, and unpaid deferred compensation, excluding employer-provided insurance, expense allowances, and other fringe benefits.

4. Relevant Federal and State Statutes

Internal Revenue Code [Section 162](#) – Trade or Business Expense

Internal Revenue Code [Section 4958](#) – Taxes on Excess Benefit Transactions

Internal Revenue Manual, [Section 4233.27](#)

5. Relevant System Policies, Procedures, and Forms

Board of Regents' *Rules and Regulations*, [Rule 20202](#) – Cash Compensation for Chief Administrative Officers

Board of Regents' *Rules and Regulations*, [Rule 20203](#) – Compensation for Key Executives

Board of Regents' *Rules and Regulations*, [Rule 20204](#) – Highly Compensated Personnel

6. Who Should Know

Presidents and Chief Business Officers of U. T. System institutions
U. T. System Executive Vice Chancellors

7. System Administration Office(s) Responsible for Policy

Office of the Chancellor

8. Dates Approved or Amended

January 1, 2006
Amended September 10, 2009
Amended May 24, 2011

9. Contact Information

Questions or comments about this policy should be directed to:

- bor@utsystem.edu