

HEALTH WEALTH CAREER

THE NORTH CAROLINA DEPARTMENT OF THE STATE TREASURER

SUPPLEMENTAL RETIREMENT PLAN STUDY

AUGUST 2015

MAKE TOMORROW, TODAY



MERCER IS PLEASED TO PRESENT THIS PROPOSAL TO THE NORTH CAROLINA DEPARTMENT OF STATE TREASURER (DST) FOR SUPPLEMENTAL RETIREMENT PLAN (SRP) PERSONNEL

We are pleased to have the opportunity to continue to work with the NC Department of State Treasurer after a successful project for the pension investment managers.

After conversations with DST staff, we have a solid understanding of the current situation, given the newly passed legislation which goes into effect on October 1, 2015

Questions concerning this proposal should be directed to:

Contact:	Josh Wilson
Mailing Address:	Mercer 3560 Lenox Road, Suite 2400, Atlanta, GA 30326
Phone:	404 442 3514
Fax:	404 442 3300
E-mail:	Josh.Wilson@mercercorp.com

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CORPORATE BACKGROUND



CORPORATE BACKGROUND HISTORY

Mercer is a global leader in human resource consulting and related services, serving more than 25,000 clients worldwide and approximately 10,000 in the United States. The firm works with clients to solve their most complex human capital issues by designing and helping manage health, retirement and other benefits. Mercer's 20,000 employees (approximately 6,300 in the US) are based in more than 40 countries.

Mercer is a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), a global team of professional services companies offering clients advice and solutions in the areas of risk, strategy and human capital, with 52,000 employees worldwide and annual revenue exceeding \$10 billion.

Marsh & McLennan Companies first established an employee benefits department in 1937 to serve the emerging benefit program needs of its clients. Mercer's beginnings date back to 1945 when the benefits consulting firm of William M. Mercer, Limited was founded in Canada. Acquired by Marsh & McLennan Companies in 1959, Mercer continued to expand services and capabilities as client needs grew, becoming a wholly owned subsidiary in 1975. Since then, Mercer has grown significantly, often through the acquisition of market-leading local firms, to become a pre-eminent global firm in its field.

Talent

Mercer's Talent business helps organizations globally make and implement the right choices regarding their investments in people in the areas of human capital strategy, talent management, rewards, and human capital operations, communications and technology solutions.

CORPORATE BACKGROUND

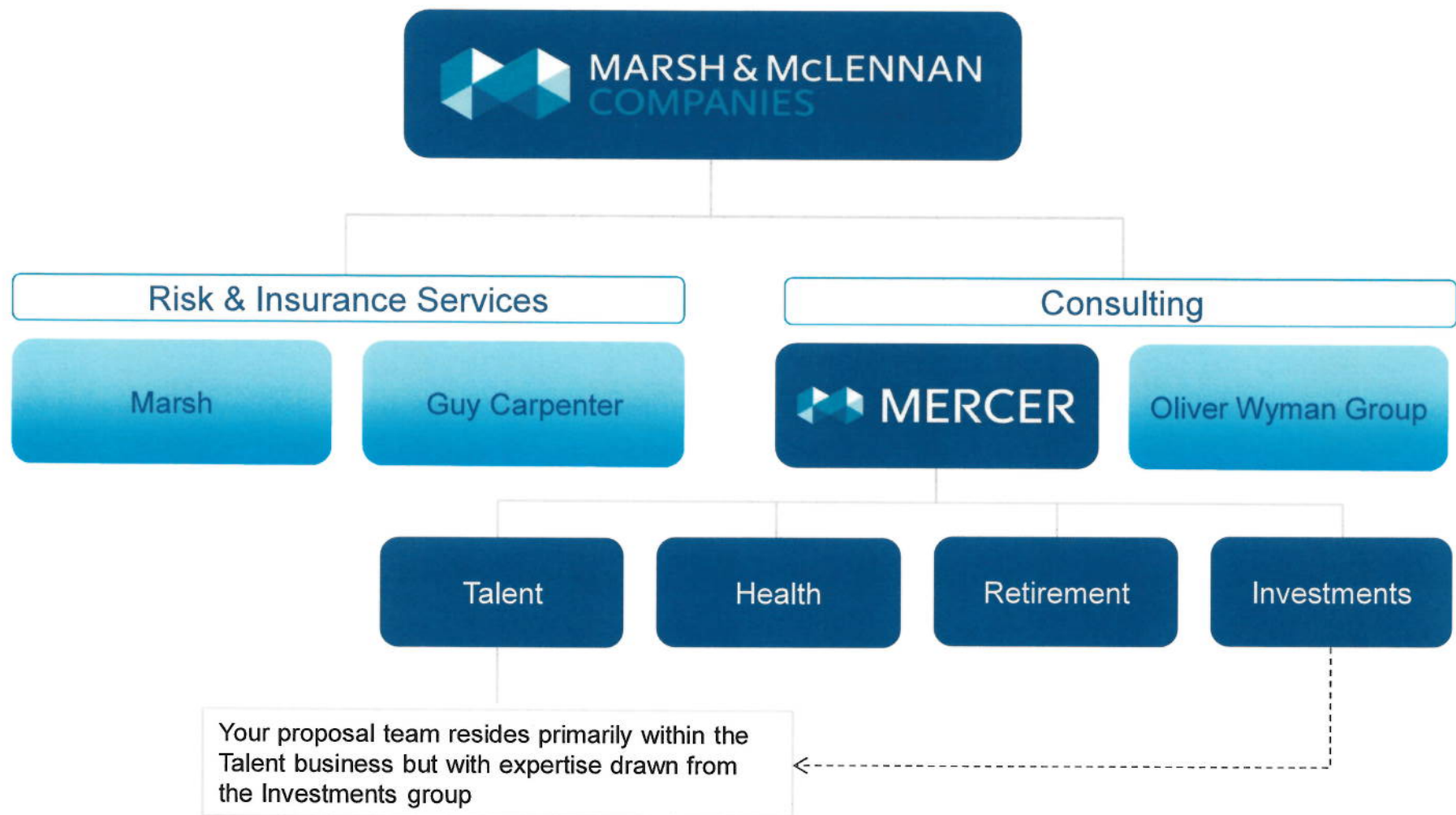
TALENT BUSINESS: AN OVERVIEW

- **Mercer's talent business is built on the premise that firms that effectively and efficiently manage human capital will achieve a strategic competitive advantage**
- **The tools, analysis and guidance we provide to management and boards of directors are designed to help organizations influence and focus behavior as well as contribute significantly to the creation of shareholder value**
- Our innovative approach
 - Rigorous, fact-based analytic approach and proprietary tools to objectively support our recommendations
 - Apply business economics and strategy to determine implications for human capital strategies and organizational alignment
- Our global depth and breadth
 - Mercer's talent business has > 950 employees working in 92 cities located in 39 countries/territories in the world
 - Together with Mercer's other lines of business and sibling companies, Mercer is a total solutions provider for clients' improved resiliency, profitability, sustainability and performance
- Our strong global client base
 - Our talent business provides consulting services to almost 50% of the *Fortune* 100 companies and over 40% of the *Fortune* 500. We also include a high percentage of the leading companies in Europe, Asia, Latin America and Australia, among our client base

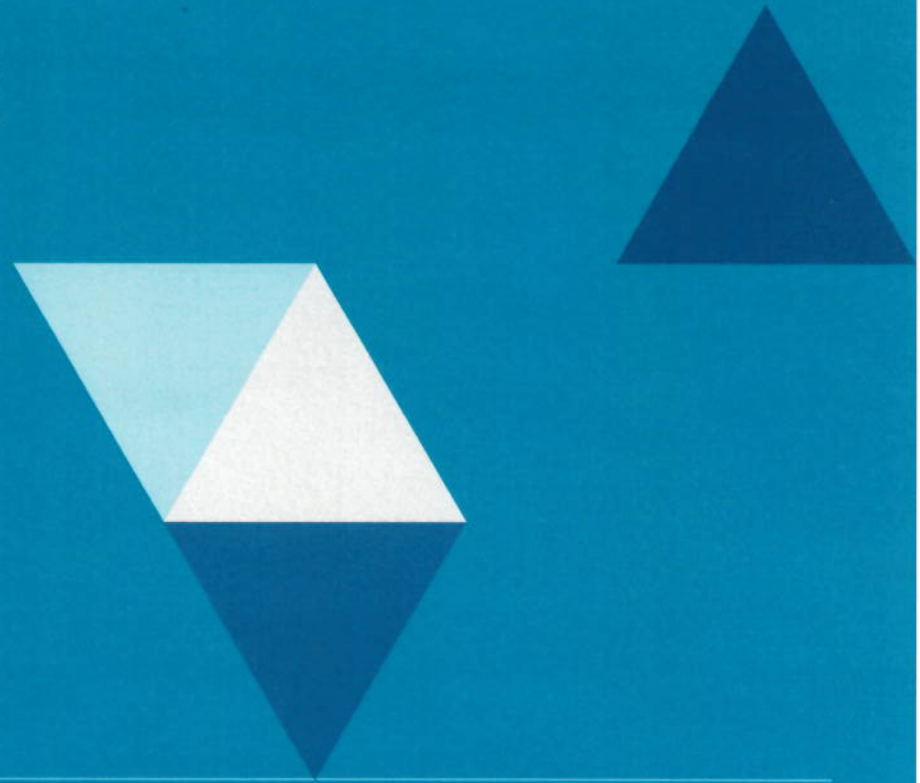
CORPORATE BACKGROUND INTELLECTUAL CAPITAL

- Total Remuneration Surveys that provide consistent accurate market data, covering the full rewards package for over 200 benchmark positions in more than 100 countries
- Global Compensation Planning Surveys on pay increase projections in 70 countries
- International Geographic Salary Differentials Survey, in-depth gross and net salary information for six position levels within 50 countries
- Policies and Practices Survey comprehensive view of HR policies and practices
- Global Disclosure Database with publicly-disclosed information from companies which provide details of executive remuneration
- Industry-specific surveys (energy, financial services, healthcare, insurance, manufacturing, retail, telecommunications, etc.)
- Function-specific surveys (accounting, contact centre, finance, human resources, information technology, legal, logistics/supply chain, marketing, etc.)
- Global mobility surveys and analyses (Cost of Living Survey, Quality of Living Survey, International Assignments Survey, Expatriate and Third-country National Benefits Survey, Worldwide Employment and Benefit Guidelines, etc.)
- What's Working Surveys of employees in more than 20 countries

CORPORATE BACKGROUND ORGANIZATIONAL CHART



PRIOR EXPERIENCE



PRIOR EXPERIENCE

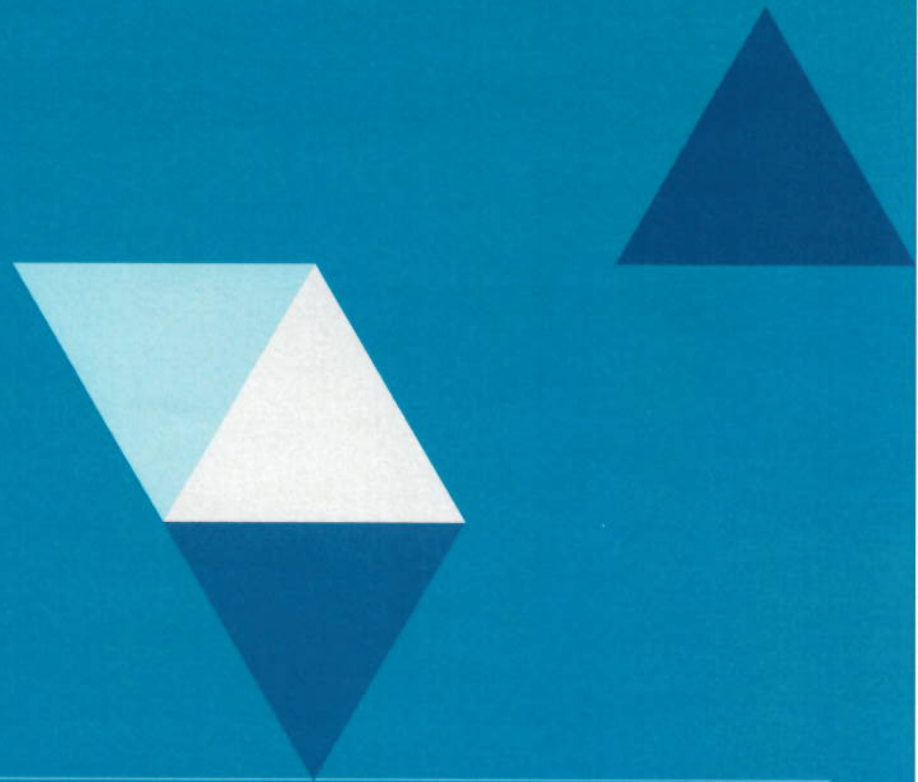
Mercer recognizes that DST has a choice of vendors and should pick the best company to help ensure the continued success of the business. For this reason, it is our belief that Mercer is the logical partner for DST for the following reasons:

- 1) Experience - Mercer has done similar projects for the following entities, which helps give us the background and understanding of the various forces and issues:

Georgia Division of Investment Services	New York State Common Retirement Fund	University of Illinois Foundation
North Carolina Department of the State Treasurer	Ohio Public Employees Retirement System	Georgia Office of The Treasurer
State Board of Administration Florida (SBA)	Cornell University	State of Wyoming Pension Plan
University of California	Colorado Public Employees' Retirement Association	University of Florida Investment Corporation

- 2) Investment Management Group & Compensation Consulting Group: Mercer's multi-disciplinary team combines the best thinking from a compensation design perspective, with leading edge investment management expertise
- 3) Mercer will invest multiple senior consultants on this project to ensure the best thinking for SRP and to provide availability and access to SRP

FINANCIAL STATEMENTS, CONFLICTS AND LITIGATION



FINANCIAL STATEMENTS, CONFLICTS AND LITIGATION

AUDITED FINANCIAL STATEMENTS

Mercer is a subsidiary of Marsh & McLennan Companies, whose global revenues in 2014 were more than \$12.9 billion. Thus, our access to capital and financial strength are major advantages over our competitors. Mercer is among the world's leading employee benefits, compensation and human resource consulting firms. Our stability is reflected in our roots which can be traced back to 1945 when the Mercer name first appeared in Canada. That firm was acquired by Marsh & McLennan Companies in 1959. Our business strategy has consistently included organic growth and the acquisition of firms that are leaders in key human resource areas. Revenue for Mercer and Marsh & McLennan Companies for the past five years is shown in the table below:

Five-year revenue history

Mercer and Marsh & McLennan Companies worldwide revenue					
	In US \$ millions				
Company	2014	2013	2012	2011	2010
Mercer	\$4,350	\$4,241	\$4,147*	\$4,004*	\$3,685*
Marsh & McLennan Companies	\$12,951	\$12,261	\$11,924	\$11,526	\$10,550

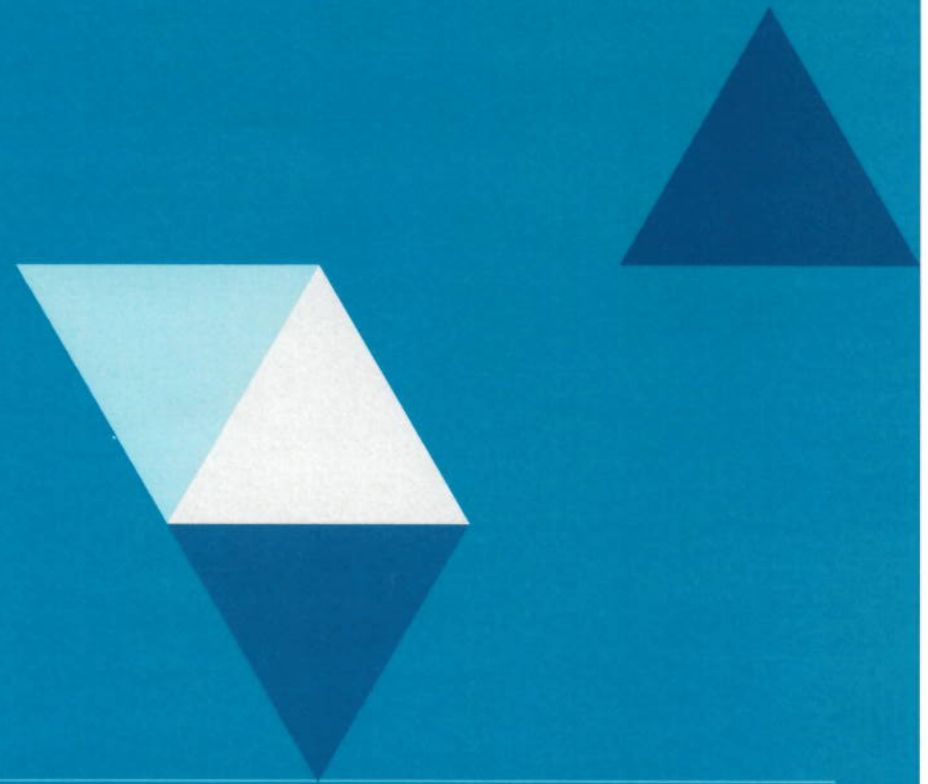
* Effective 1 January 2013, the Corporate Benefits and Association businesses, previously part of Marsh's U.S. Consumer operations, were transferred to Mercer. Also effective 1 January 2013, Mercer realigned management responsibility for its Benefits Administration business within its other lines of business. Mercer's financial results for 2010, 2011, and 2012 have been amended to reflect these changes.

FINANCIAL STATEMENTS, CONFLICTS AND LITIGATION

CONFLICTS OF INTEREST

- Given our broad client base and diverse business offerings, we face situations where the interests of one client may be in conflict with the interests of another, or even with the interests of our Company itself. We identify such situations promptly, resolve them with integrity and treat our clients fairly. More specifically, our Code of Conduct requires consultants to:
 - Identify potential business conflicts of interest promptly
 - Determine an appropriate course of action to manage the conflict. Potential resolutions for a conflict are:
 - disclosing the relationships to the relevant parties;
 - obtaining consent from the party at risk;
 - establishing information barriers (ethical walls); or
 - declining the engagement

PROJECT ORGANIZATION



PROPOSED MERCER TEAM

Project Role	Mercer Team	Project Responsibilities
Relationship Manager and Strategic Advisor	Josh Wilson	<ul style="list-style-type: none"> • Responsible for ensuring client satisfaction with Mercer team and deliverables, project billing/budget and contractual arrangements • Provide guidance, strategic advise, assist with interviews and design
Project Lead	Jon Mason	<ul style="list-style-type: none"> • Provide overall project direction and guidance • Serve as project manager, coordinating all project activities for DST and Mercer project team members • Lead market pricing and pay structure development • Accountable for all deliverables
Technical Advisor	Jason Harris	<ul style="list-style-type: none"> • Provide investment management input particularly as it relates to target setting, establishing performance criteria and understanding benchmarks
Additional Resources	Associates and Analysts	<ul style="list-style-type: none"> • Conduct analyses • Document results • Maintain project plan

Mercer's engagement team biographies are located on the following pages.

JOSH WILSON, CCP

RELATIONSHIP MANAGER AND STRATEGIC ADVISOR

Present Responsibilities

Josh Wilson is Mercer's Southeast Human Capital Market Business Leader and is located in Atlanta, Georgia. He has consulted to a variety of organizations for more than 17 years. Josh specializes in executive and employee compensation, annual incentive plan design and stock option program design.

Experience

Josh's background includes work in the development of human resources and reward strategies, job evaluation, market analysis, management of compensation surveys, stock option programs, and the design and implementation of executive, management and sales incentive plans.

Josh has worked across a wide variety of industries including high technology, pharmaceuticals, energy, financial services, airlines, automotive and other transportation. Some of his clients include Georgia Division of Investment Services, Georgia Office of the Treasurer, OPERS, State Board of Administration Florida (SBA). Prior to joining Mercer, Josh was the Market Business Leader for Watson Wyatt's Southeast Region and was a senior consultant at the Hay Group in Los Angeles. Josh has been with Mercer for five years.

Education

Josh holds an MBA degree in Finance and Management from Cornell University and a BA in History, also from Cornell University. Josh has earned the Certified Compensation Professional (CCP) designation from *WorldatWork* (formerly the American Compensation Association) of which he is a member. Josh is the past President of the Atlanta Area Compensation Committee, and has served on the board for several years and is currently the President of the Nashville Total Rewards Association. For the last two years, Josh has also been a guest lecturer at Vanderbilt University's Owen School of Business on designing variable pay plans.

JON MASON, PROJECT LEAD

Present Responsibilities

Jon Mason is a Principal in Mercer's Human Capital business in Atlanta, specializing in executive compensation with over nine years of consulting experience.

Experience

Jon primarily focuses on the areas of executive compensation, Non-Employee Director Compensation, financial pay-for-performance, and incentive plan design. His responsibilities include management of client projects, analysis, and development of program recommendations. During his time in consulting, Jon has worked with clients across all industry groups and ownership structures, including State Board of Administration Florida, University of Florida Investment Corporation and a large Quasi-Government Pension Fund.

Prior to joining Mercer, Jon worked as an Executive Compensation Consultant at Hay Group, as well as at The Home Depot. Jon has been with Mercer for four years.

Education

Jon holds an MBA in Finance from Emory University and a Bachelor of Arts in Political Science also from Emory University.

JASON HARRIS

INVESTMENTS ADVISOR

Present Responsibilities

Jason Harris is a Senior Associate in Mercer's Investments business. Based in Atlanta, he works with wealth management firms and other financial intermediaries on manager selection, performance evaluation, portfolio structuring and client education. Jason serves on Mercer's Wealth Management Strategic Research Team where he is responsible for the creation and adaptation of intellectual capital for use by financial intermediaries.

Experience

Jason has 8 years of experience in the investment management and consulting industry which includes work with large plan sponsors, foundations and high net worth individuals. Before joining Mercer, Jason worked with private wealth advisors to create and analyze investment and technology programs and strategies designed to meet the needs of high net worth clients.

Education

Jason received his bachelor's degree in economics from the University of Colorado-Boulder. Jason is a CFA Charterholder and CAIA Charterholder and is a member of the CFA Institute and the CFA Society of Atlanta.

TECHNICAL APPROACH



INTRODUCTION

SCOPE OF SERVICES

Project scope includes four primary areas:

1. Planning, Executive Interviews and Develop Statement of Compensation Program Objectives

- Work with steering committee and the Supplemental Retirement Board (SRB) to facilitate the articulation of compensation program objectives (subject to approval of the State Treasurer)

2. Analyze Competitive Pay Levels

- Assess which roles possess “specialized skills or knowledge necessary for the proper administration of the Plan”
- Facilitate the definition of appropriate comparator groups for relevant positions
- Determine competitiveness of the incumbent pay levels for the relevant positions, including base salary and annual incentives
- Analyze competitiveness on an incumbent-by-incumbent and position-by-position basis
- Provide recommendations related to SRP’s current pay levels, pay mix, and salary ranges

INTRODUCTION

PROJECT SCOPE

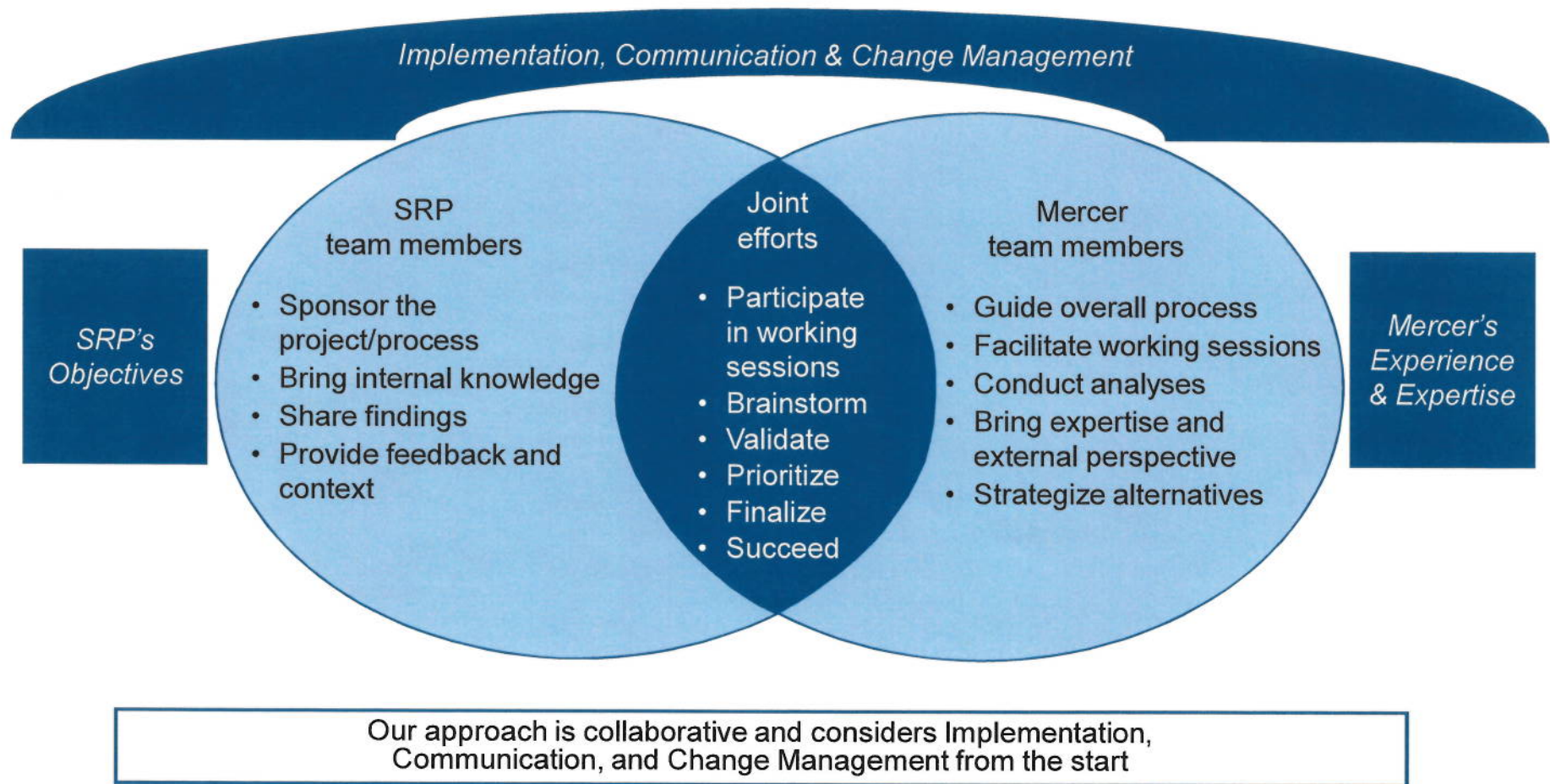
3. Develop Revised Compensation Structure

- Revised pay structure, including grades and ranges for each position and process for managing pay structure
- Help determine methodology and timeframe for ensuring market competitiveness of the relevant positions

4. Participate in Communication of Results

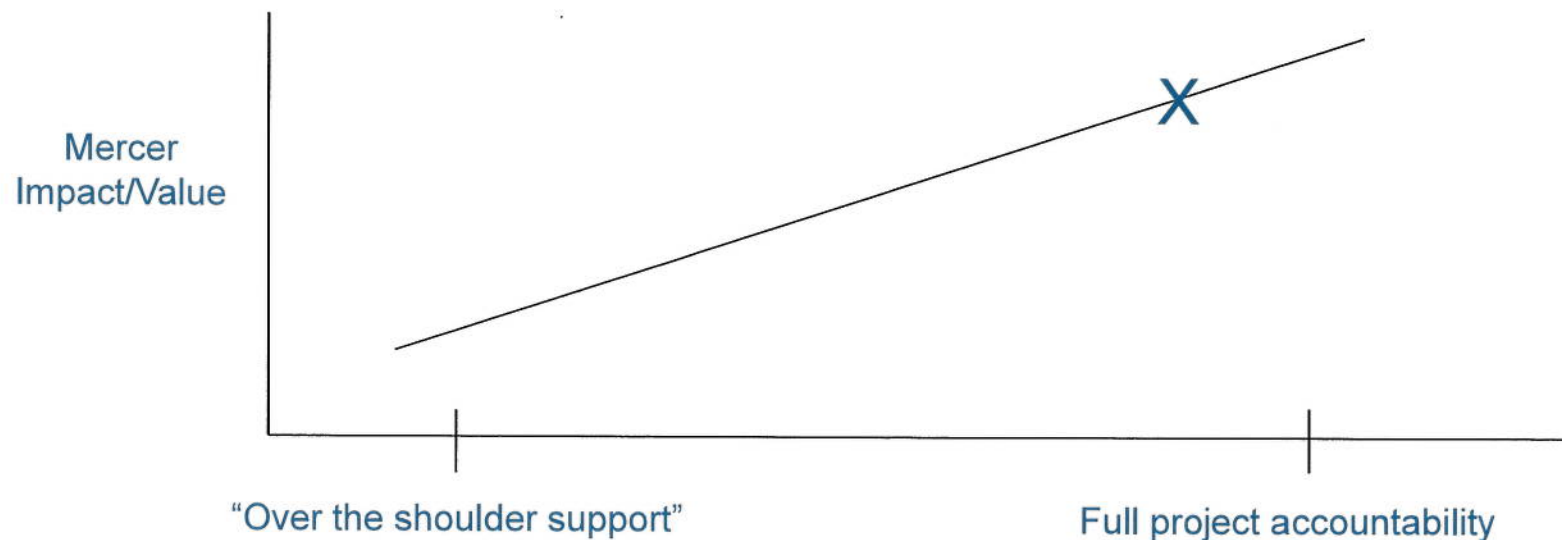
- Communicate study results and recommendations to key constituencies, including meeting presentation materials and attendance as requested
 - Competitive pay practices for investment management professionals in the public and private sectors
 - Methodology underlying the competitive pay level analysis
 - Proposed incentive plan's mechanics, key design features, and rationale

SUGGESTED APPROACH KEYS TO SUCCESS



SUGGESTED APPROACH KEYS TO SUCCESS

Mercer can tailor our level of involvement to meet your needs – from “over the shoulder support” to taking full accountability for the project



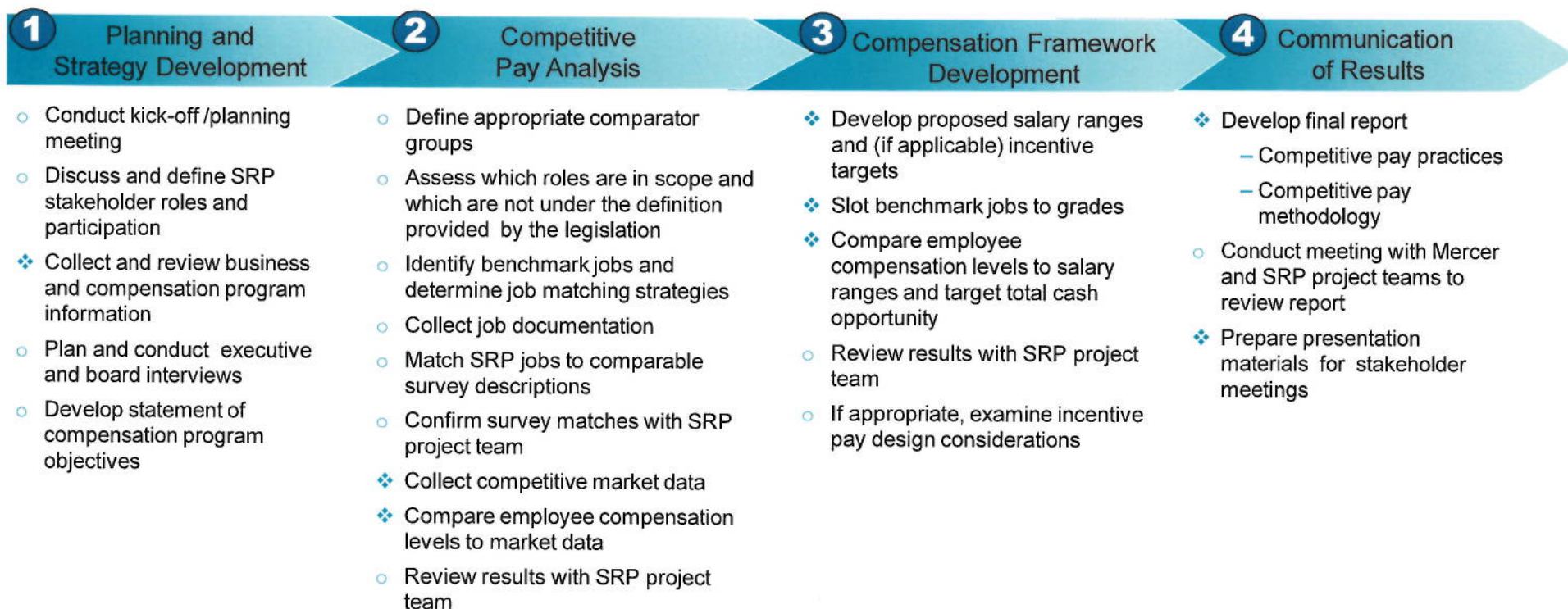
For purposes of this proposal, we have generally assumed Mercer will perform the majority of project tasks, but we will work with you to fine tune the level of involvement to deliver the greatest value and impact for SRP.

PRELIMINARY PROJECT PLAN - OVERVIEW

RESPONSIBILITIES WILL BE REFINED TO MEET YOUR NEEDS

Preliminary responsibility:

- ❖ Mercer
- Shared Tasks (Mercer & SRP)



PRELIMINARY PROJECT PLAN

PHASE 1 – PLANNING AND STRATEGY DEVELOPMENT

1

Purpose

To confirm project objectives, Mercer/SRP roles, and detailed plan to ensure deliverables are completed on time and consistent with Mercer/SRP quality standards. Develop statement of compensation objectives.

Work Activities

- Conduct kick-off/project planning meeting or call with SRP project team to confirm project approach, work activities, timing, deliverables and Mercer/SRP roles and responsibilities
- Collect and review key documents to develop an understanding of SRP's objectives, organization environment, and existing compensation programs
- Discuss SRP stakeholder participation; determine approach for inviting designated staff to participate:
 - Steering Committee for overall project sponsorship
 - Design Team to work with Mercer on key deliverables
 - Participants in executive interviews
- Develop structured interview guide for discussions with SRP leadership, including the Board
- Conduct forty-five minute, individual interviews with key leaders to solicit their input
- Develop statement of compensation objectives based on SRP input and Mercer consulting experience covering such areas as:
 - Definition of competitive markets for purposes of attracting and retaining talent
 - Desired level of compensation competitiveness versus market
 - Segmentation (e.g., investment vs. non-investment jobs, etc.)
 - Linkage to performance
 - Type of pay structure (traditional ranges, broad bands, etc.)
- Present statement of compensation objectives to Board and State Treasurer for approval

Study Timeline

- Weeks 1-3

Deliverables and Assumptions

Deliverables

- Project plan and timeline
- Plan for SRP stakeholder participation
- Clearly defined team roles and responsibilities
- Statement of compensation objectives to serve as a foundation for competitive analysis and incentive plan design

Assumptions

- One half-day session for project planning/kick-off
- 3-5 forty-five minute, executive interviews;
- One-hour meeting with Steering Committee, Board and State Treasurer

PRELIMINARY PROJECT PLAN – PHASE 1

ILLUSTRATION OF COMPENSATION OBJECTIVE STATEMENT INPUTS

A total compensation philosophy includes explicit, comprehensive principles that guide pay design and management

1	Segmentation	Degree of differentiation needed in the compensation strategy to support unique requirements for different workforce segments
2	Role of each element	Purpose of each compensation vehicle (e.g., base salary, incentives, benefits)
3	Comparator group(s)	Competitive talent market
4	Competitive positioning	Target positioning, mix
5	Performance orientation	Differentiation, time horizon, point of measurement, metrics
6	Internal equity	Importance of the internal relative value of work
7	Affordability	Degree of cost control required to ensure affordability and sustainability
8	Governance	Decision-making structure, management responsibility
9	Communication	Approach and vehicles for information sharing
10	Administration	Approach and point of management including regulatory compliance

Mercer

4

PRELIMINARY PROJECT PLAN

PHASE 2 – COMPETITIVE MARKET ANALYSIS

2

Purpose

To determine competitive base salary and total cash compensation levels

Work Activities

- Assess which jobs are “in scope,” given definitions provided by the legislation
- Define appropriate comparator groups for investment positions
 - Two comparator groups for investment positions (public pension funds and blend of public pension funds, university and endowment investment organizations)
- Identify benchmark jobs
 - Represent a cross-section of the organization (functions and levels)
- Determine job matching strategies
 - Match SRP job descriptions with survey descriptions
 - Use survey descriptions as basis to determine which matches exist at company (“reverse market match”)
- Collect job documentation
- Match SRP jobs to comparable survey positions
- Confirm survey matches with DST project team
- Collect competitive market data
 - 25th, 50th and 75th percentile base salary and total cash compensation
- Compare employee compensation levels to market data (by employee and position)
- Review results with SRP project team
- Prepare written report, including:
 - Rationale regarding comparator groups
 - Analysis of current SRP pay levels with competitive market
 - Recommendations regarding pay levels, mix and salary ranges

Study Timeline

- Weeks 3-6

Mercer Deliverables and Assumptions

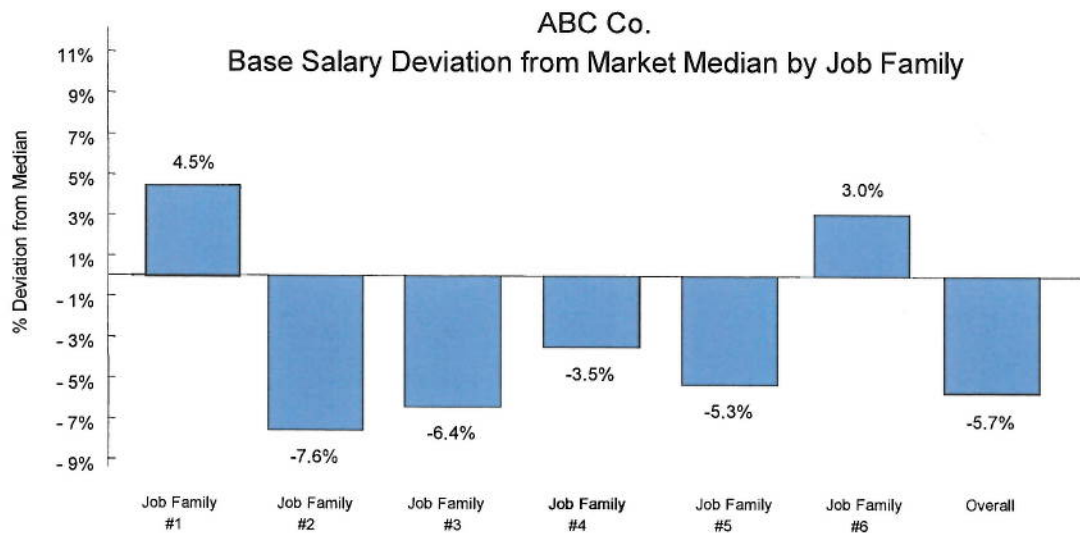
Deliverables

- Benchmark job survey matches
- Market 25th, 50th and 75th percentile base salary and total cash compensation data for benchmark jobs
- Analysis of DST compensation levels versus market for benchmark jobs (by employee and position)
- Detailed written report

Assumptions

- Market data will be provided for approximately 50 benchmark jobs
 - Market data will be provided for two comparator groups for investment positions (approximately 50 positions)

PRELIMINARY PROJECT PLAN – PHASE 2 ILLUSTRATION OF EMPLOYEE COMPENSATION COMPARISON WITH MARKET



Base Salary and Total Cash Deviation from Market Median by Level

Organization Level	# of Empls	# of Jobs	Base to Mkt 50th Ratio	TCC to Mkt 50th Ratio
Senior Management	5	5	95%	85%
Director	8	8	98%	91%
Management	6	6	91%	86%
Professional	20	9	93%	87%
Hourly	36	6	86%	85%
Overall	75	34	94%	88%

Position	# of Incumbents	Current Base Salary	Market Consensus Base Salary		Current Base as a % of Market Consensus Base	
			50th %ile	75th %ile	50th %ile	75th %ile
Account Manager - Engine and Pumps	3	\$68.0	\$79.0	\$98.0	86%	69%
Administrative Assistant	7	\$33.5	\$32.0	\$35.5	105%	94%
Associate Counsel	1	\$75.0	\$110.0	\$140.0	68%	54%
Boiler Machine Tender	10	\$38.0	\$36.5	\$43.0	104%	88%
Business Analyst	8	\$63.0	\$59.0	\$68.0	107%	93%
Business Support Director	3	\$91.0	\$81.0	\$93.0	112%	98%
Chemist/Engineer II	5	\$57.0	\$62.0	\$71.0	92%	80%
Computer Operations Manager	1	\$60.0	\$62.0	\$78.0	97%	77%
Corporate Buyer	1	\$52.0	\$54.0	\$62.0	96%	84%
Corporate Counsel	1	\$10.50	\$140.0	\$180.0	75%	58%
Corporate - Procurement Manager	1	\$67.0	\$73.0	\$86.0	92%	78%
Customer Support Representative	4	\$28.0	\$28.0	\$32.5	100%	86%
Director of Business Unit HR	1	\$73.0	\$77.0	\$91.0	95%	80%
Director of Mill HR	3	\$78.0	\$68.0	\$77.0	115%	101%
Director, Compensation & Benefits	1	\$83.0	\$94.0	\$96.0	88%	86%
Industrial Nurse	2	\$33.5	\$44.0	\$49.5	76%	68%
Maintenance Foreman	5	\$30.0	\$51.0	\$56.0	59%	53%
Manager of Digital Products	1	\$78.0	\$79.0	\$98.0	99%	80%
Mill Manager	3	\$120.0	\$84.0	\$98.0	143%	122%
Payroll Clerk	3	\$17.8	\$29.0	\$32.5	61%	55%
Product Assurance Manager	1	\$90.0	\$64.0	\$79.0	141%	113%
Regulatory Program Manager (Environ.)	2	\$75.0	\$73.0	\$80.0	103%	94%
Sales Representative Level III	2	\$38.0	\$47.0	\$59.0	81%	64%
Senior Project Engineer	10	\$65.0	\$59.0	\$66.0	110%	98%
Senior Sales Engineer (Eng. Products)	5	\$69.0	\$61.0	\$72.0	113%	96%
Senior Scheduling Engineer	3	\$40.0	\$40.5	\$48.0	99%	83%
Shift Manager	5	\$52.0	\$47.0	\$55.0	111%	95%
Solution Integrator	8	\$62.0	\$64.0	\$73.0	97%	85%
Supervisor, Rolling & Paper Machines	11	\$56.0	\$54.0	\$65.0	104%	86%
Transportation Coordinator	2	\$41.5	\$48.0	\$53.0	86%	78%
Overall ¹					94%	88%

¹ Standard Market Data - see Market Director Data

² Only includes positions for which both internal and market data are available

PRELIMINARY PROJECT PLAN

PHASE 3 – COMPENSATION FRAMEWORK DEVELOPMENT

3

Purpose

To develop a compensation structure and assign jobs to grades using a collaborative process involving manager and employee input in Design Teams.
To review current incentive plan design and provide recommendations to improve.

Work Activities

Pay Grades and Ranges

- Develop proposed salary ranges
- Slot benchmark jobs to grades
- Compare employee compensation levels to salary ranges and target total cash opportunity (by employee and position)
- Review results with SRP project team
- Develop process to confirm placement of benchmark jobs and facilitate placement of non-benchmark jobs
- Meet with the SRP project team to assign non-benchmark jobs to grades and review final grade assignments

Incentive Plan Design

- If an incentive plan for the SRP is seriously considered, Mercer will be happy to assist in the design and modeling of the plan. However, this proposal assumes that the pay changes will focus on base salary and therefore incentive design and modeling, beyond a high level conversation, would be out of scope

Study Timeline

- Weeks 6-8

Deliverables and Assumptions

Deliverables

- Proposed salary ranges
- Jobs assigned to grades
- Process for managing pay structures
- Analysis of employee compensation with proposed ranges and target total cash opportunity

Assumptions

- Call or meeting with SRP project team to slot non-benchmark jobs

PRELIMINARY PROJECT PLAN – PHASE 3 ILLUSTRATION OF SALARY STRUCTURE DESIGN METHODOLOGY

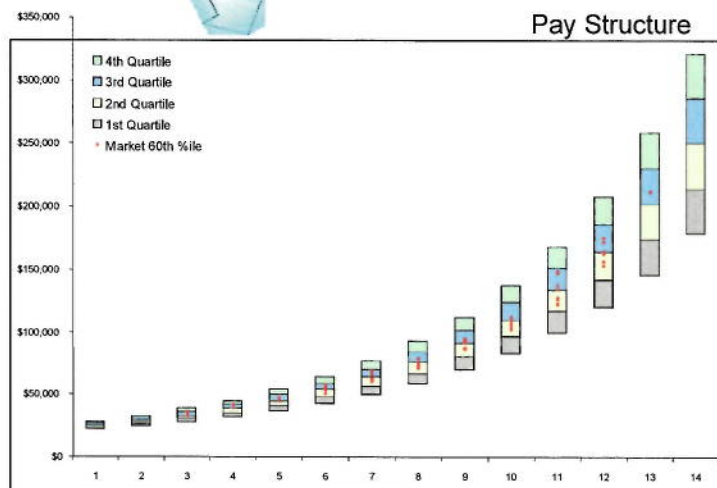


Design Issues

- Base pay policy line
- Number of job grades
- Midpoint progression
- Range minimum
- Range maximum
- Range spread
- Range overlap
- Number of structures
- Geographic differentials
- Etc.

Other Considerations

- Alignment with market
- Skill responsibility distinctions
- Supervisor/subordinate relationships
- Job/pay progression
- Administrative considerations



Preliminary Structure with Benchmark Jobs

Pay Range				HRIS			HR Generalist			OD/Performance/Training		
Min	Mid	Max	Grade	Career Level	Market Rate	Compa-Ratio	Career Level	Market Rate	Compa-Ratio	Career Level	Market Rate	Compa-Ratio
14,400	18,000	21,600	1									
15,840	19,800	23,760	2									
17,424	21,780	26,136	3									
19,166	23,958	28,750	4									
21,083	26,354	31,625	5									
23,191	28,989	34,787	6									
25,510	31,888	38,266	7									
28,062	35,077	42,092	8									
30,868	38,585	46,302	9									
33,954	42,443	50,932	10									
37,350	46,687	56,025	11									
41,085	51,356	61,627	12									
45,193	56,482	67,790	13									
49,713	62,141	74,569	14									
54,684	68,355	82,026	15									
60,152	75,190	90,229	16									
66,168	82,710	99,251	17									
72,784	90,980	109,177	18	9	\$							
80,063	100,079	120,094	19									
88,069	110,086	132,104	20									
96,876	121,095	145,314	21									
106,564	133,204	159,845	22									

Slot Non -Benchmarks

Job Title	Career Group	Job Family	Career Level
Compensation Analyst	Human Resources	Compensation and Benefits	Entry Professional
Jr. Analyst	Human Resources	Compensation and Benefits	Entry Professional
Jr. Compensation Analyst	Human Resources	Compensation and Benefits	Entry Professional
Team Leader Benefits	Human Resources	Compensation and Benefits	First-Level Manager
Team Leader Compensation	Human Resources	Compensation and Benefits	First-Level Manager
Specialist, Pension	Human Resources	Compensation and Benefits	Intermediate Professional
Performance Development Spec	Human Resources	Compensation and Benefits	Intermediate Professional
Sr. Compensation Specialist	Human Resources	Compensation and Benefits	Senior/Lead Professional
Coordinator, Compensation	Human Resources	Compensation and Benefits	Senior/Lead Support
Corrective Action Spec	Human Resources	Employee Relations	Entry Professional
Employee Service Rep	Human Resources	Employee Relations	Entry Professional
Supervisor, Corrective Action	Human Resources	Employee Relations	First-Level Manager
Coordinator, Labor Relations	Human Resources	Employee Relations	Senior/Lead Support
Manager, HRIS	Human Resources	HRIS	Second-Level Manager
Clerk	Human Resources	Human Resources Generalist	Associate Support
Generalist I	Human Resources	Human Resources Generalist	Entry Professional
Manager, HR	Human Resources	Human Resources Generalist	First-Level Manager
Generalist II	Human Resources	Human Resources Generalist	Intermediate Professional
Clerk, Intermediate	Human Resources	Human Resources Generalist	Intermediate Support
Generalist III	Human Resources	Human Resources Generalist	Senior/Lead Professional
Senior VP, HR	Human Resources	Human Resources Generalist	Third-Level Manager
Safety Advisor I	Human Resources	Safety	Entry Professional
Safety Advisor II	Human Resources	Safety	Intermediate Professional
Manager, Corporate Safety	Human Resources	Safety	Second-Level Manager

Cost Impact Modeling

	Mkt Base 50th Percentile	Employee Name	Annual Base Salary	Proposed Structure			Amount to				# <	# >	# of Ees
				Minimum	Midpoint	Maximum	Minimum	Midpoint	Base	Over Maximum			
ional	\$ 49,947	Confidential	\$ 38,347	\$ 41,481	\$ 56,000	\$ 70,519	\$ 3,134	\$ 17,653	\$ 11,600	\$ -	1	0	
	\$ 40,418	Confidential	\$ 31,200	\$ 34,568	\$ 46,667	\$ 58,766	\$ 3,368	\$ 15,467	\$ 9,218	\$ -	1	0	
	\$ 40,418	Confidential	\$ 31,200	\$ 34,568	\$ 46,667	\$ 58,766	\$ 3,368	\$ 15,467	\$ 9,218	\$ -	1	0	
on Associate	\$ 24,698	Confidential	\$ 36,158	\$ 19,259	\$ 26,000	\$ 32,741	\$ -	\$ -	\$ -	\$ 3,417	0	1	
al	\$ 57,441	Confidential	\$ 74,818	\$ 41,481	\$ 56,000	\$ 70,519	\$ -	\$ -	\$ -	\$ 4,299	0	1	
essional	\$ 47,692	Confidential	\$ 37,172	\$ 41,481	\$ 56,000	\$ 70,519	\$ 4,309	\$ 18,828	\$ 10,520	\$ -	1	0	
essional	\$ 72,401	Confidential	\$ 89,089	\$ 49,778	\$ 67,200	\$ 84,622	\$ -	\$ -	\$ -	\$ 4,467	0	1	
al	\$ 57,441	Confidential	\$ 75,000	\$ 41,481	\$ 56,000	\$ 70,519	\$ -	\$ -	\$ -	\$ 4,481	0	1	
al	\$ 57,441	Confidential	\$ 75,517	\$ 41,481	\$ 56,000	\$ 70,519	\$ -	\$ -	\$ -	\$ 4,998	0	1	
Cost Impact Results							\$ 14,179	\$ 67,415	\$ 40,556	\$ 21,662	4	5	9

PRELIMINARY PROJECT PLAN – PHASE 3

EFFECTIVE INCENTIVE PLAN DESIGN CAN BE BROKEN DOWN INTO FIVE KEY AREAS

Eligibility and Opportunity	Plan Architecture and Funding	Performance Measures and Linkage	Target-Setting and Performance Calibration	Reporting, Administration and Communication
<ul style="list-style-type: none"> Who is eligible for the plan? What are the appropriate incentive opportunities? How do the opportunities position the company relative to market and the compensation philosophy? 	<ul style="list-style-type: none"> What specific plan design works best to motivate performance? How will incentives be funded; how will they be allocated? What is the right performance period? 	<ul style="list-style-type: none"> What are the right performance measures and weights? What is the right number of metrics? How should metrics be linked to organizational, functional, and individual performance? 	<ul style="list-style-type: none"> How are financial objectives translated to other measures? What are appropriate performance targets for each metric? What is the right leverage in the plan, i.e., the relationship between pay & performance? 	<ul style="list-style-type: none"> How will we track performance? How, and to whom, will we report ongoing and forecasted results? How will participants understand their plan and their opportunity?

In order for an incentive plan to be effective, it must be both market competitive and aligned with the organization's compensation philosophy and key performance measures. The plan must also be easy to understand and administer. Mercer's approach addresses each of these specific areas, as well as other important aspects of incentive design.

PRELIMINARY PROJECT PLAN

PHASE 4 – COMMUNICATION OF RESULTS

4

Purpose

To communicate study results and proposed incentive plan concept to key constituencies.

Work Activities

- Prepare meeting presentation materials, including:
 - Background on competitive pay practices for investment management professionals in the public and private sectors
 - The methodology underlying the competitive pay level analysis
 - Proposed incentive plan mechanics, design features, and rationale
- Conduct meeting with Mercer and SRP project teams to review presentation materials
- Finalize presentation materials
- Participate in meeting with key constituencies as requested

Study Timeline

- Weeks 8-12

Deliverables & Assumptions

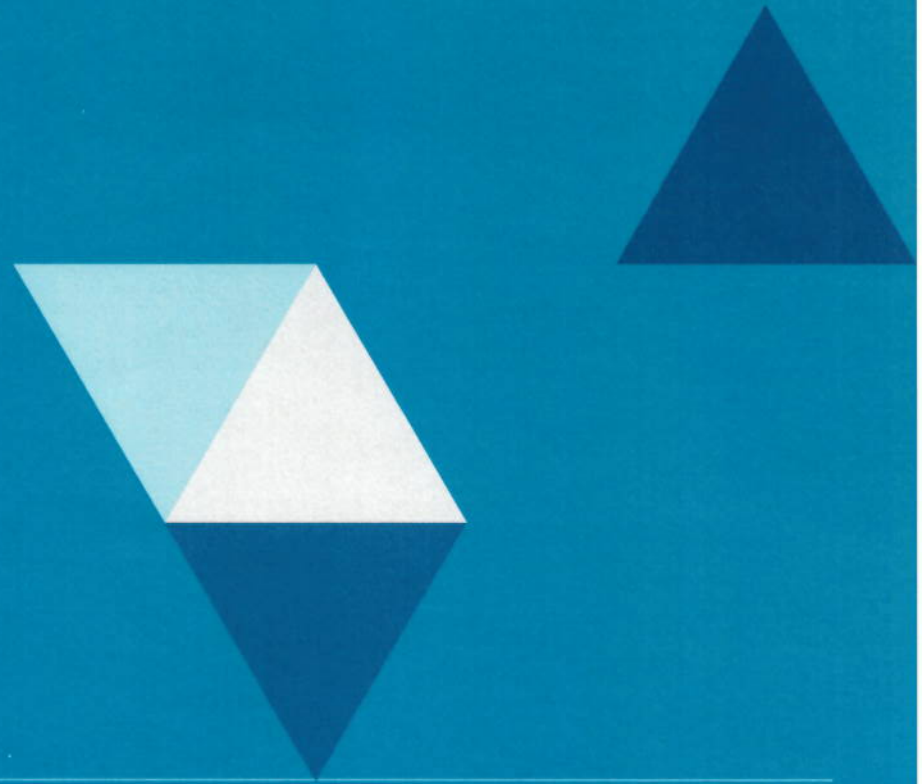
Deliverables

- Final report detailing all program components
- Implementation plan for rolling out proposed changes
- Content for manager and employee information sessions, and Manager Toolkit including talking points and FAQs
- Refined communication strategy

Assumptions

- One meeting with SRP project team to review draft report
- Up to two meetings with key constituencies

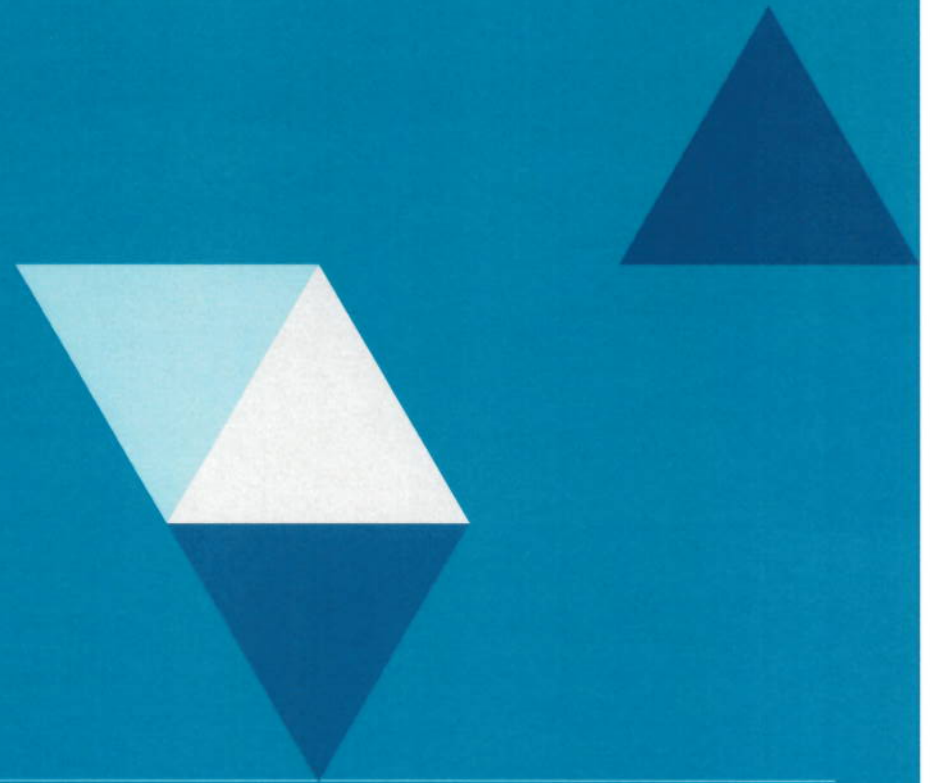
COST PROPOSAL



ESTIMATED PROFESSIONAL FEES OVERVIEW

- Our professional fees for the work plan described in this document are outlined on the following pages. We look forward to discussing the scope of the engagement and the specific allocation of work with you
- Our professional fees are based on consultant hours multiplied by our hourly rates
- In addition to professional fees, Mercer is reimbursed for expenses for reasonable travel and other costs that originate with outside vendors (such as FedEx mailings) that are directly related to the project. Travel expenses would be in addition to consulting fees and would be billed at cost. Our practice is to bill monthly unless other arrangements have been agreed to prior to the start of the engagement
- Mercer's standard practice for all deliverables is to provide an initial draft, a second draft based on the client's consolidated comments and a final draft for the client's approval. Additional edit rounds are typically billed at cost
- Once the scope of the project has been determined and agreed to, Mercer will prepare an Engagement Letter and Statement of Work (SOW) for SRP's signature

APPENDIX



PROFESSIONAL LIABILITY INSURANCE

- Mercer is covered under a comprehensive insurance program designed by Marsh & McLennan Companies, our parent company. The insurance program provides limits of coverage that meet or exceed usual and customary standards of insurance for similar firms insuring similar risks
- Mercer currently maintains the following insurance coverage:
 - Errors and Omissions (E&O) (aka Professional Liability) -- The Company's professional liability insurance coverage is provided by Epsilon (US) Insurance Company, with liability limits of \$10,000,000 per claim and aggregate
- A certificate of insurance, evidencing such insurance coverage can be provided upon request

CLIENT SATISFACTION

- Mercer's goal is to be the preeminent human resource consulting firm worldwide, providing personal service of the highest quality to clients on matters concerning human resource management and the financial management of human resource programs
- Mercer focuses on quality in consulting and service:
 - Quality consulting. We seek to ensure that we diagnose a client's issues correctly and develop practical and suitable recommendations. Mercer is committed to quality assurance through training, peer review and professional standards
 - Quality service. We seek to deliver our consulting in a timely manner. We are available to discuss all issues confronting our clients. We monitor service quality by listening to our clients and asking them if they are satisfied
- We help ensure quality in our operations and strive to differentiate ourselves from our competitors in the following ways:
 - Mandatory peer review. Mercer requires all substantial consulting work to be reviewed by a qualified Mercer professional before being released to the client
 - Professional development. Our professional development program takes a strategic focus, targeting ongoing training activities for both senior and junior staff to individual developmental needs and organizational objectives
 - Client appraisals. Our most important source of information about quality performance is our clients. Our senior people meet with clients periodically to evaluate our work. On a national basis, we regularly survey our clients on their satisfaction with the technical and service quality of our work

**MAKE
TOMORROW,
TODAY**

