

State Board of Administration of Florida (SBA) Compensation Consulting Services

AUGUST 16, 2012

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Why Mercer?

Mercer recognizes that SBA has a choice of vendors and should pick the best company to help ensure the continued success of the business. It is our belief that Mercer is the logical partner for SBA 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	New York University
CALPers	Ohio Public Employees Retirement System	Georgia Office of The Treasurer
Colorado Public Employees' Retirement Association	Cornell University	Alcatel-Lucent
University of California		

- 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 SBA and to provide availability and access to SBA

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 advice, assist with interviews and design
Project Lead	Jan Olson	<ul style="list-style-type: none"> • Provide overall project direction and guidance • Lead key interview and working sessions • Lead Incentive development • Accountable for all deliverables
Project Manager	Jon Mason	<ul style="list-style-type: none"> • Lead market pricing and pay structure development • Serve as project manager, coordinating all project activities for SBA and Mercer project team members
Technical Advisor	Nanci Hibschman	<ul style="list-style-type: none"> • Provide perspective from other similarly situated organizations (CALPers) and assist with market benchmarking and incentive plan design
	Thyrso Pizzoferrato	<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 in Appendix I.

Background and objectives

Background

- The SBA's existing compensation program has been in place for a number of years
 - Pay grades and ranges were last updated in 2006
- A 2009 review by an external consultant found:
 - Salaries and pay ranges were not competitive
 - Pay compression and internal equity issues relative to newly hired staff
- Periodic consultant studies have identified issues regarding competitiveness of investment staff compensation
- Some recruitment and retention funding has been provided in annual operating budgets and deployed by the SBA to begin to address the most serious competitive issues
- A modest incentive program for certain investment staff has been in place for much of the last decade, but payouts under the program have not been budgeted for several years
- Given the importance of recruiting and retaining highly skilled, high performing staff, a more comprehensive review is required

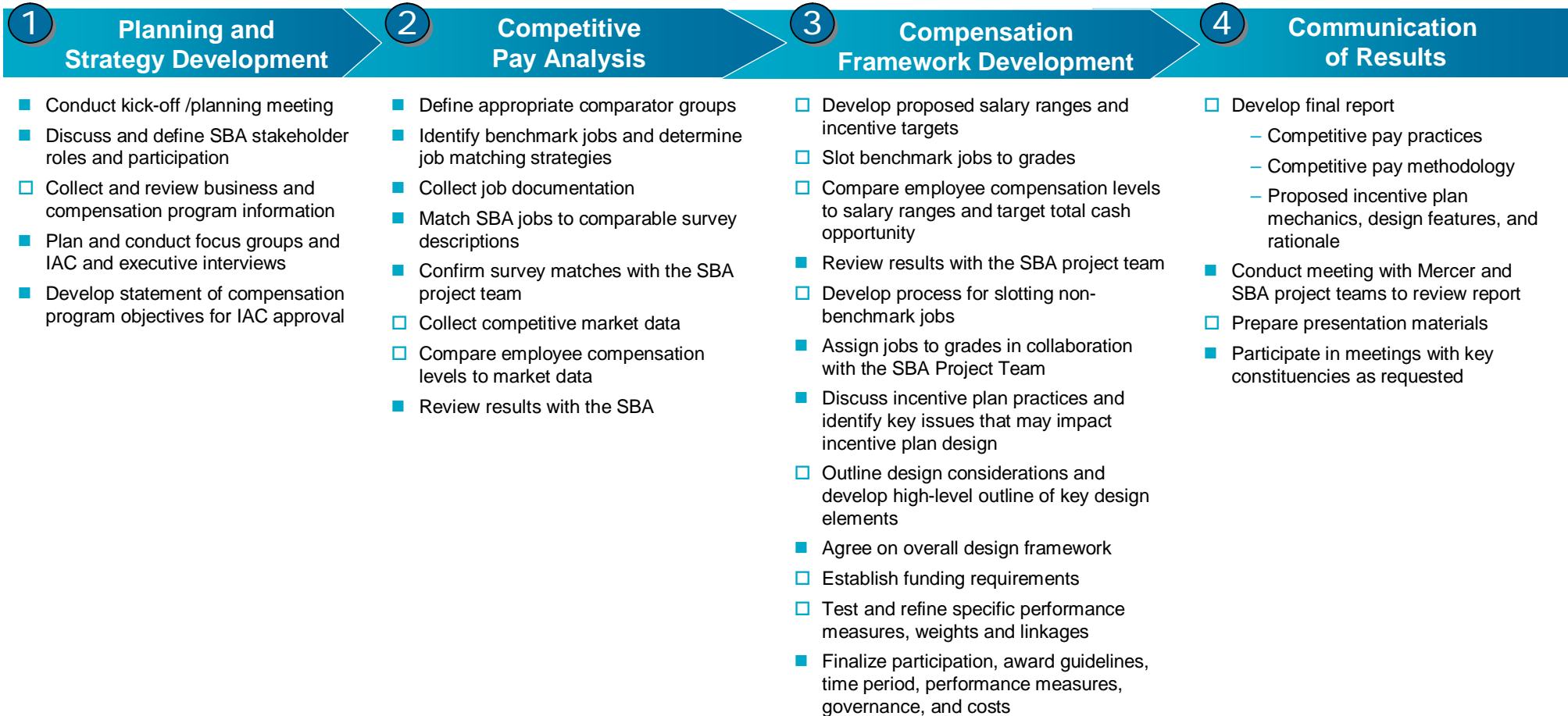
Objectives

- Review and recommend a sustainable classification and compensation structure for all positions at the SBA
 - Assure it meets the organization's objectives of aligning interests and prudently addressing human capital risk issues

Scope of services includes four primary areas

Preliminary responsibility:

- Mercer
- Shared Tasks (Mercer & SBA)



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 |

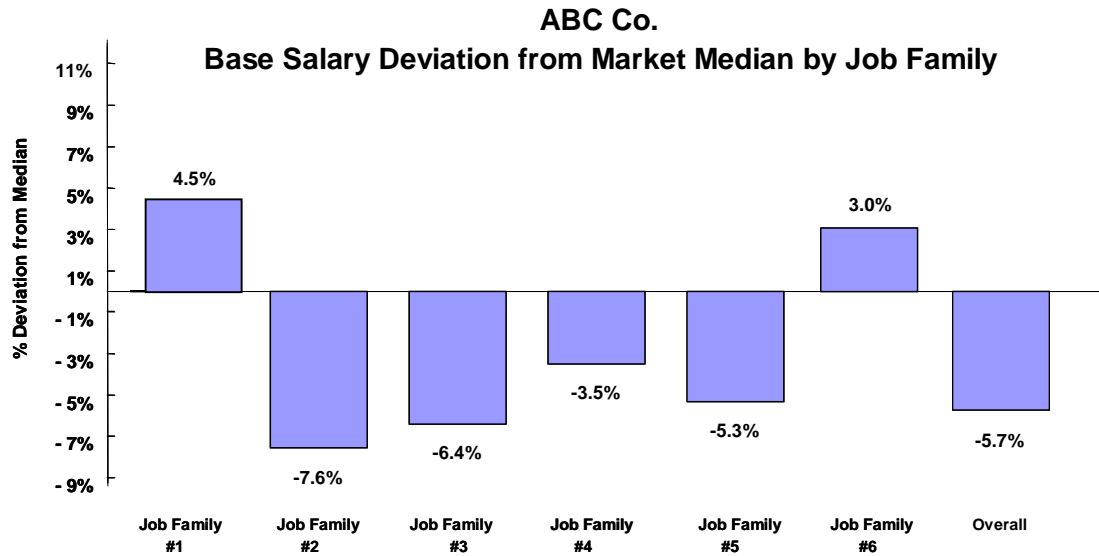
Mercer

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Illustrative

Preliminary Project Plan – Phase 2

Illustration of employee compensation comparison with market



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 - Engineered Papers	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	109%	135%
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 III	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	\$105.0	\$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	99%	86%
Industrial Nurse	2	\$33.5	\$44.0	\$49.5	76%	68%
Maintenance Foreman	5	\$30.0	\$51.0	\$56.0	98%	89%
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	\$60.0	\$64.0	\$79.0	94%	76%
Regulatory Program Manager (Environ.)	2	\$75.0	\$73.0	\$80.0	103%	94%
Sales Representative Level III	2	\$38.0	\$47.0	\$39.0	123%	98%
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%	93%
Solution Integrator	8	\$62.0	\$64.0	\$73.0	97%	85%
Supervisor, Ruling & Paper Machines	11	\$56.0	\$54.0	\$65.0	104%	86%
Transportation Coordinator	2	\$41.5	\$48.0	\$53.0	86%	78%
Overall¹					99%	84%

Base Salary and Total Cash Deviation from Market Median by Level

Organization Level	# of Emps	# 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%

¹ Blended Market Data - see Market Data Section 3

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

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.

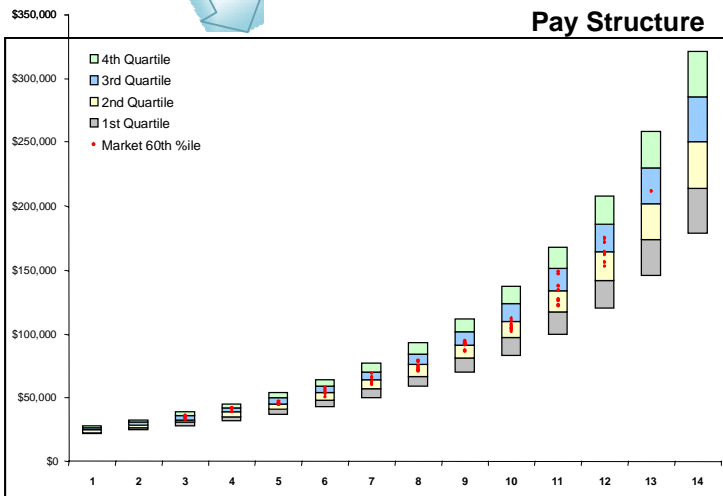
Other Considerations

- 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							3	\$ 36,000	103%
30,868	38,585	46,302	9									
33,954	42,443	50,922	10				4	\$ 43,000	101%	4	\$ 42,000	99%
37,350	46,687	56,025	11							5	\$ 44,000	94%
41,085	51,356	61,627	12									
45,193	56,492	67,790	13				5	\$ 55,000	97%			
49,713	62,141	74,569	14									
54,684	68,355	82,026	15				6	\$ 68,000	99%	6	\$ 68,000	99%
60,152	75,190	90,229	16									
66,168	82,710	99,251	17									
72,784	90,980	109,177	18	9	\$ 90,000	99%						
80,063	100,079	120,094	19				10	\$ 100,000	100%			
88,069	110,086	132,104	20							10	\$ 106,000	96%
96,876	121,095	145,314	21									
106,564	133,204	159,845	22									

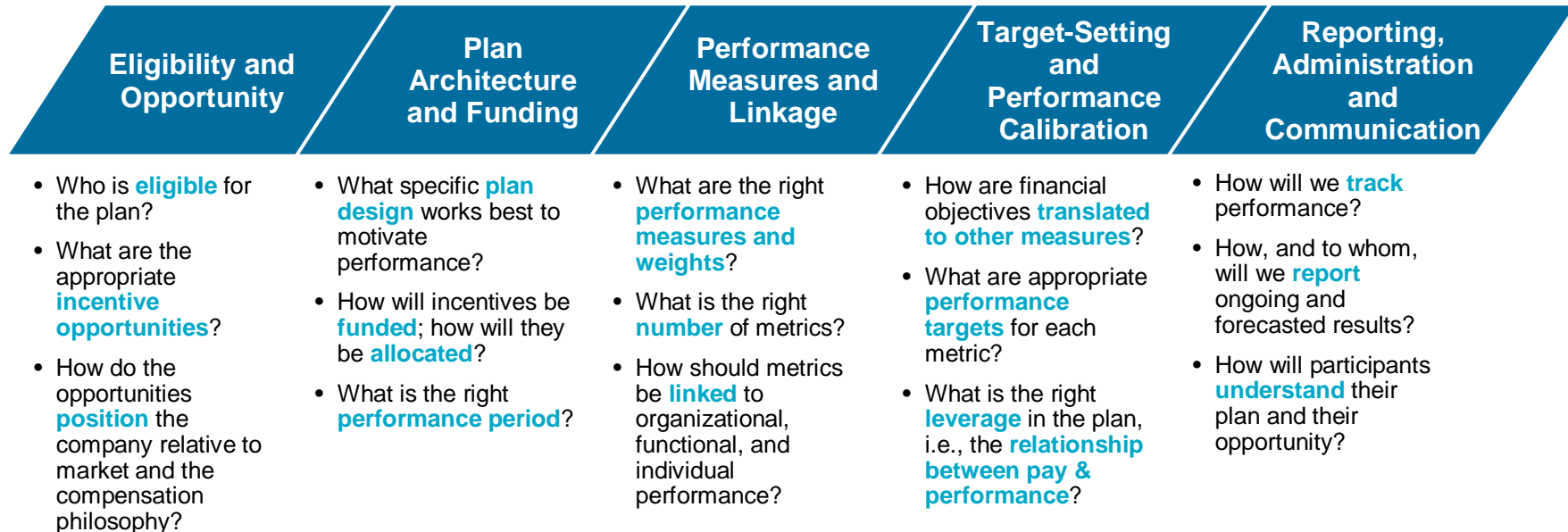


Cost Impact Modeling

	Mkt Base 50th Percentile	Employee Name	Annual Base Salary	Proposed Structure			Amount to Amount to Market 50th Over				# <	# >	# of Ees
				Minimum	Midpoint	Maximum	Minimum	Midpoint	Base	Maximum			
ional	\$ 49,947	Confidential	\$ 38,347	\$ 41,481	\$ 56,000	\$ 70,519	\$ 3,134	\$ 17,653	\$ 11,600	\$ -	1	0	0
	\$ 40,418	Confidential	\$ 31,200	\$ 34,568	\$ 46,667	\$ 58,766	\$ 3,368	\$ 15,467	\$ 9,218	\$ -	1	0	0
	\$ 40,418	Confidential	\$ 31,200	\$ 34,568	\$ 46,667	\$ 58,766	\$ 3,368	\$ 15,467	\$ 9,218	\$ -	1	0	0
on Associate	\$ 24,698	Confidential	\$ 36,158	\$ 19,259	\$ 26,000	\$ 32,741	\$ -	\$ -	\$ -	\$ 3,417	0	1	0
al	\$ 57,441	Confidential	\$ 74,818	\$ 41,481	\$ 56,000	\$ 70,519	\$ -	\$ -	\$ -	\$ 4,299	0	1	0
essional	\$ 47,692	Confidential	\$ 37,172	\$ 41,481	\$ 56,000	\$ 70,519	\$ 4,309	\$ 18,828	\$ 10,520	\$ -	1	0	0
rofessional	\$ 72,401	Confidential	\$ 89,089	\$ 49,778	\$ 67,200	\$ 84,622	\$ -	\$ -	\$ -	\$ 4,467	0	1	0
al	\$ 57,441	Confidential	\$ 75,000	\$ 41,481	\$ 56,000	\$ 70,519	\$ -	\$ -	\$ -	\$ 4,481	0	1	0
al	\$ 57,441	Confidential	\$ 75,517	\$ 41,481	\$ 56,000	\$ 70,519	\$ -	\$ -	\$ -	\$ 4,988	0	1	0
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:



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.

Estimated Project Timeline

- Based on the work plan outlined in this document, we have defined the project steps and communications plan to be completed in approximately 12 weeks.
- We anticipate modifying this timeline further with the SBA during the project planning phase.

Step	Week											
	1	2	3	4	5	6	7	8	9	10	11	12
1. Planning and Strategy	■	■	■	■								
2. Competitive Analysis			■	■	■	■						
3. Compensation Framework			■	■	■	■	■	■	■	■		
4. Communication											■	■



Appendix I Project Team Biographies

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 14 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, United Community Bank of Georgia, Stein Mart, and Office Depot. 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 two 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.

Jan Olson, Principal Project Lead

Present Responsibilities

Jan Olson is a Principal in Mercer's Human Capital business in Chicago. Jan has over 25 years of consulting and corporate compensation experience. She leads projects in the areas of compensation strategy, base and variable pay program design, job evaluation, and involvement and implementation strategies.

Experience

Prior to joining Mercer, Jan was a senior compensation consultant with another major consulting firm for over 18 years before moving to corporate roles where she led the compensation functions for A.T. Kearney, Franklin Templeton Investments, and Nuveen Investments.

Jan's consulting engagements have included a full range of compensation solutions including issue assessment, technical analysis, modeling, and solution design. Her engagements have included compensation audits, compensation strategy development and implementation, base and variable pay program design and implementation, job evaluation, performance management, recognition, and competitive compensation reviews. Jan has worked with clients in a broad range of industries, including higher education, professional services, financial services, not-for-profit, manufacturing, and utilities.

In her corporate roles, she designed and implemented global job levels, salary structures and bonus targets, target salary models, step rate structures, variable pay plans, employee stock purchase plans, performance-based restricted stock, and web-based compensation training modules. Jan has been with Mercer for one year.

Education

Jan received a Bachelor of Business Administration from the University of Wisconsin – Milwaukee.

Jon Mason, Senior Associate Project Manager

Present Responsibilities

Jon Mason is a Senior Associate in Mercer's Human Capital business in Atlanta specializing in executive compensation with over five 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 Office Depot, Morgan Stanley, Sonic Automotive, Old Dominion Freight Line, nTelos, Payless Shoe Source, and Alfa Insurance.

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 one year.

Education

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

Nanci Hibschan, Principal Technical Advisor

Present Responsibilities

Nanci Hibschan is a Principal in Mercer's Human Capital business in San Francisco. She leads Mercer's national Human Capital Tax-Exempt Organization industry group and consults exclusively to not-for-profit organizations. Nanci leads Mercer's annual *Compensation Survey of Investment Groups within University Endowments and Foundations*. She was recently interviewed for Mercer's *HR Radio*, discussing executive remuneration and best practices for tax exempt organizations. In October 2010 she co-presented a Mercer national webcast on "Talent Management in Private Foundations."

Experience

Nanci has over 17 years of consulting experience, with primary expertise in tax-exempt organization executive compensation and specialization in compensation for foundation and endowment investment professionals. Recent engagements include:

- Ongoing trusted advisor to the boards of not-for-profit organizations, including private foundations, public charities, associations, colleges and universities, and healthcare organizations
- Executive total remuneration study, including assessment of cash compensation, benefits and perquisites
- Bonus/incentive compensation design and implementation
- Trustee compensation evaluation
- US and international employee benchmarking
- Design and development of custom compensation and benefits surveys
- Corporate governance and Intermediate Sanctions guidance

Prior to joining Mercer, Nanci was in the Human Capital practice of Deloitte Consulting, partnering with clients in the areas of executive and employee pay. Previous experience also includes roles in boutique compensation consulting and financial services firms.

Education

Nanci received her M.A. from Pepperdine University and a B.A. from University of San Diego.

Thyrso Pizzoferrato, Principal Investment Management Advisor

Present Responsibilities

Thyrso Pizzoferrato is a principal in Mercer IC's New York office. Thyrso joined Mercer IC's Sao Paulo, Brazil office in 1999 and led our Investment Consulting business in Brazil in 2005-2006. In 2007, Thyrso relocated to New York. He is responsible for providing investment policy, evaluation of asset allocation, manager structure and search, and the measurement and analysis of portfolio performance for corporate and public defined benefit and defined contribution plans

Experience

In 2007, Thyrso relocated to New York. He is responsible for providing investment policy, evaluation of asset allocation, manager structure and search, and the measurement and analysis of portfolio performance for corporate and public defined benefit and defined contribution plans. Before joining Mercer IC, Thyrso worked as risk manager in a local financial institution in Brazil.

Education

Thyrso graduated in 1994 with a degree in economics from Pontifícia Universidade Católica de São Paulo/Brazil and has a Master's degree in economics from the Universidade Federal do Rio Grande do Sul/ Brazil with a concentration in quantitative methods (econometric science).



Appendix II About Mercer

About Mercer 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.

Human Capital

Mercer's Human Capital 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 and technology solutions.

About Mercer

Human Capital Business: An Overview

- **Mercer's human capital 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 human capital 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 human capital 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

Mercer is a global leader in the provision of remuneration information

Provide up-to-date and robust data to assist in decision-making process

- 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, health care, 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

