

THE FUNDAMENTALS OF EXECUTIVE COMPENSATION
IN THE
PUBLIC SERVICE OF CANADA

1. Executive compensation in the Public Service is based on benchmarking EX-01 total compensation to that of equivalent positions in the external market, made up of the private sector and the public sector (e.g. other levels of government and public institutions, such as universities, hospitals and other not for profit sector organizations).
2. The compensation data is collected and analyzed by Hay Consulting annually. Both the Public Service and the survey population use the Hay job evaluation method, which facilitates the comparison. It is reviewed and recommendations are made to the President of the Treasury Board by the Advisory Committee on Senior Level Retention and Compensation, comprised of CEOs and senior executives from the private sector, as well as academics.
3. Total compensation includes base pay, at-risk pay, pensions and benefits. Any improvements to at-risk pay/bonuses or pensions and benefits must be offset by a lower economic adjustment.
4. The maximum of the salary scale or the job rate is considered the appropriate rate of pay for someone who is fully and effectively performing the basic duties of the position. The minimum pay rate is set 15% below the maximum. Progression through the salary range is based on performance on On-going Commitments under the Performance Management Program (PMP). There are no prescribed increments although it is expected that new appointees will reach the job rate within 3 years.
5. At-risk pay and bonuses are always paid as a lump sum based on performance on Key Commitments. Although this lump sum is paid out at the end of the fiscal year, because it is intended as an incentive, executives must be on strength into the following fiscal year (April 1st) to receive it.
6. Benefits include leave (e.g. vacation, sick, maternity/parental, family, personal, etc.), severance and insurance (e.g. health, dental, disability and life), which are assigned standardized values based on industry costs and, when conditional on a life event (e.g. disability, death, termination of employment), appropriate actuarial assumptions.

7. In 2004, total compensation in the Public Service and the external market was divided between base pay, at-risk pay/bonuses and pensions and benefits (non-cash) as follows:

	Public Service	External Market
Base Pay	75%	75%
At-Risk Pay/Bonuses	5%	9%
Pensions and Benefits	20%	16%

In other words, within total compensation comparability, a greater proportion of compensation is at-risk in the external market and a greater proportion of Public Service total compensation is in pensions and benefits.

8. Overall, the non-cash elements of executive compensation in the Public Service are 6% - 20% better than those in the broader public sector and about equal (plus or minus 5%) to those in the private sector. The detailed comparison is below:

EX-01	Federal Public Service compared to:	
	Public Sector	Private Sector
Survivor Benefits	+++	+++
Income Replacement Benefits	++	++
Health Care Benefits	+	++
Flexible Benefits	-	-
Total Group Benefits	+	+
Retirement Benefits	++	+
Total Employee Benefits	++	+
Perquisites and Stock option Plans	---	---
Time Off with Pay	+	++
Total Non-Cash Compensation	+	=
= Plus or Minus 5% + or - 6% above or below ++ or - 21% to 50% above or below +++ or --- at least 51% above or below		

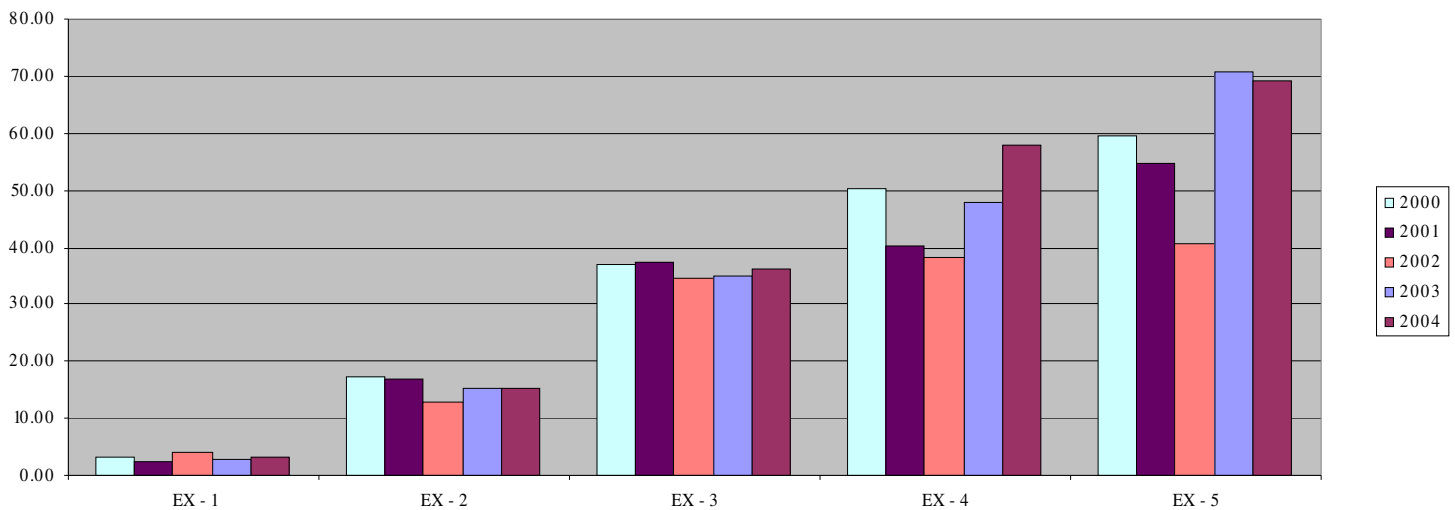
9. While EX-01 compensation is based on external comparability, compensation at higher levels is based on internal relativity. Job rates at the EX-02 and EX-03 levels are 12% higher than the lower level. At the EX-04 level the increase is 15% because it is felt by the Advisory Committee that there was a significantly different increase in responsibility at the ADM level. The difference between the job rates of an Ex-04 and an EX-05 returns to 12%.

10. The maximum at-risk pay available to EX-01s to EX-03s is 7% of the job rate, while EX-04s and EX-05s are eligible for up to 10%. EX-01s to EX-03s can earn an additional bonus of up to 3%; for EX-04s and EX-05s, bonuses can reach 5%.

11. Despite these adjustments, compensation for higher-level executive jobs in the Public Service remains well below equivalent jobs in the external market.

Public Service vs. External Market

Percentage Difference In Executive Total Compensation
2000 to 2004



1) In 1998 no comparisons were made because the increases of 1998 were to last for two years.

2) In 1999 no comparisons on a total compensation basis were done, only total cash comparisons. This was done since the Advisory Committee felt that benefits generally were about equal between the sectors.