

# **Public Sector Executive Compensation Reporting Form**

**British Columbia Lottery Corporation  
Reporting for 08/09**

***Statement of Executive Compensation***

**Filed June 22, 2009**

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# **Statement of Executive Compensation**

## **ITEM 1 – GENERAL PROVISIONS**

### **PURPOSE**

British Columbia Lottery Corporation (BCLC) must disclose all compensation provided to the Chief Executive Officer and the next four highest paid executives for the services they have provided to the organization in accordance with Bill 33.

## **ITEM 2 - COMPENSATION DISCUSSION AND ANALYSIS**

### **1. COMPENSATION DISCUSSION AND ANALYSIS**

BCLC manages Executive compensation in accordance with the compensation policy approved by PSEC.

Our compensation philosophy is to pay total compensation at the 50<sup>th</sup> percentile of our relevant market comparator groups as approved by PSEC, which considers primarily general industry.

Compensation principles for Executive compensation include the following:

- All Executive compensation falls within the PSEC guidelines and supports a performance based culture.
- Vice President's compensation is aligned and managed below the CEO's total compensation.

The Human Resource and Compensation Committee (HR&C) of the Board has the responsibility to review and make recommendations to the Board on the items detailed below, in accordance with corporate governance:

- The job description of the CEO;
- The appointment of the CEO;
- The CEO's performance against agreed upon annual objectives, at least annually;
- The CEO's compensation;
- The senior management structure including such duties and responsibilities to be assigned to officers of the Corporation;
- On the recommendation of the CEO, review and recommend the officers of the Corporation who report to the CEO;
- The compensation plans for senior management including salary, incentive, benefit and pension plans;
- Certain matters relating to all employees, including:
  - the Corporation's broad compensation strategy and philosophy;
  - new benefit programs or material changes to existing programs; and
  - material changes to the employee pension plans
- Ensure succession planning programs for the CEO and Senior Management are in place, including programs to train and develop management; and
- Provide advice and counsel to the CEO in the execution of the CEO's duties.

The Board has final approval on the above matters and the HR&C Committee then ensures decisions are implemented.

- a. The objective of the compensation program is to pay competitively with the external marketplace, with a total compensation philosophy to pay and reward for performance. Annual salary increases and incentive pay are based on individual, divisional and corporate performance. Base pay is designed to neither lead nor lag the market.



- b. Total compensation for the Executive includes base and incentive pay, benefits, pension, supplementary pension, vacation, and perquisite allowance. Following is a descriptor of each:

### **Base Pay**

Base pay is established at the median based on external benchmarking data. Based on the external data, as well as an internal job evaluation system outlining role accountabilities, jobs are valued and slotted within the appropriate salary range. Annual salary increases for the Executive is determined based on individual performance and placement in the range.

### **Incentive Pay**

BCLC's short term incentive plan is split between 50% corporate and 50% individual goals and is a variable pay program re-earnable each year. The incentive plan does not pay out any monies (corporate or individual) if corporate triggers are not met.

In addition to the short term incentive plan, the CEO is eligible for an annual incentive based on performance of corporate financial goals which is paid on a three year deferral basis.

The process is as follows:

- The Human Resources and Compensation Committee (HR&C) of the Board reviews and recommends to the Board, the appropriate corporate goals and targets.
- The Service Plan, which is approved by the Ministry, and the business plan, which is approved by the Board of Directors drives the overall corporate and individual goals set for the Executive
- The CEO's goals are determined by the Board of Directors.
- The CEO's goals are cascaded down to the Executive team and all goals established directly link to the approved business plan.
- The HR&C Committee reviews the attainment of corporate goals, and the individual goals for the CEO, and recommends to the Board the level of achievement against the target set at the end of the fiscal year.

*Note 1: Incentive pay at BCLC is pensionable.*

*Note 2: BCLC does not have a long term incentive program.*

The corporate goals for 08/09 were as follows:

**1. To provide outstanding gaming entertainment, generating income for the public good:**

Target:

- Net income of \$1,110.0 million
- Annual revenues of \$2,648.0 million

**2. Demonstrate Social Responsibility in all of our activities (as measured by surveys):**

Targets:

- Public Trust and Confidence in BCLC Games – 64%
- Player Satisfaction – 90%
- Player Awareness of Responsible Gaming Activities – 84%

### **Benefit Plan**

The flexible benefit program offered at BCLC provides all employees with an opportunity to purchase benefits based on their lifestyle needs. Employees are provided with preference credits, which are used to purchase medical, extended health, dental, AD&D, Life Insurance, etc. Long Term Disability premiums are paid for by the employee.

*The Executive do not have any additional perquisites in this regard.*

### **Pension**

BCLC has its own defined benefit pension plan which is a shared cost between the employee and the Corporation. Employees contribute 4.4% of their monthly earnings that are less than or equal to Year's Maximum Pensionable Earnings (YMPE) and 6.0% of their annual earnings that are in excess of the YMPE. The Corporation contributes additional amounts necessary to pay for the promised pension. An actuary who is certified in the determination of pension funding requirements calculates the amount of the Corporation's contribution.

### **Supplemental Pension**

BCLC has a Supplementary Plan for its Vice-Presidents (the "SRP"). The SRP provides a pension payable at retirement on or after age 55. The pension is calculated using the formula from the RPP, without *Income Tax Act* maximum pension limits imposed on the RPP. The excess over the RPP pension is payable from the SRP. In other words, the SRP provides the pension that the *Income Tax Act* will not allow to be paid from the RPP. The SRP is simply a mirror of the RPP, with two exceptions. The VP does not have to contribute to the SRP. Also, if a VP terminates his employment before age 55, no benefit is payable from the SRP.

### **CEO Supplemental Pension**

The CEO Supplemental Pension is similar to the SRP for Vice-Presidents with one exception. The CEO receives 1.5 years of pension credit for each year worked.

### **Vacation**

20 days of vacation is provided for management staff, including the Vice Presidents. 30 days vacation is provided to the CEO. After 5 years, 1 additional day of vacation is earned and the maximum vacation provided to management and Executive is 35 days, which is earned after 25-30 years

### **Perquisite Allowance\***

A perquisite allowance is provided to the Vice Presidents in the amount of \$1,000 per month.

*\*Please note that a car allowance plus operating expenses was received by some of the Vice Presidents during the 08/09 fiscal year and newly appointed Vice Presidents received the perquisite allowance. However, effective January 1, 2009 all Vice Presidents received a perquisite allowance of \$1,000 per month and any car allowance and operating expenses were discontinued.*

- 2. There have been no new policies, actions or decisions made since the end of the fiscal year that affect a fair understanding of the Executive compensation for 08/09.**

## ITEM 3 - SUMMARY COMPENSATION TABLE

Name and Principal Position	Base Salary <sup>1</sup>	Incentive Plan Compensation Earned <sup>2</sup>	Pension <sup>3</sup>		All Other Compensation <sup>4</sup>	Total	Previous 2 Years Totals
	(\$)	(\$)	RPP (\$)	SRP (\$)	(\$)	(\$)	
<b>Michael Graydon</b> President & Chief Executive Officer	240,000	70,000	8,295	29,000	23,678	370,973	2007/08 = n/a
<b>Scott Norman</b> Vice President Information Technology & Chief Information Officer	196,963	37,824	8,295	18,500	30,375	291,957	2007/08 = \$ 281,641
<b>Jim Lightbody</b> Vice President Lottery Gaming	196,811	38,772	8,295	18,200	26,766	288,844	2007/08 = \$ 284,177
<b>Marsha Walden</b> Vice President Customer Strategy & Corporate Marketing	181,214	32,981	8,295	16,600	24,653	263,743	2007/08 = \$ 264,426
<b>Kevin Gass</b> Vice President Corporate Affairs	179,962	33,203	8,295	15,600	23,513	260,573	2007/08 = n/a
<b>Vic Poleschuk</b> Former Chief Executive Officer							2007/08 = \$ 842,201
<b>Dana Hayden</b> Former Interim Chief Executive Officer							2007/08 = \$ 257,729
<b>Doug Penrose</b> Former Vice President, Finance & Corporate Services							2007/08 = \$ 336,389

**Notes:**

<sup>1</sup> System limitations restrict salary reporting to whole pay periods. The salary reported is for the pay periods of April 11, 2008 – March 31, 2009.

<sup>2</sup> In 2008 the incentive compensation reported was for the achievement of 06/07 goals as they were paid in the 07/08 fiscal year. Incentive compensation reported above is for the achievement of 08/09 goals and paid in fiscal 09/10. Mr. Graydon's incentive compensation payment is comprised of annual bonus (\$46,614) and a three year deferred bonus (\$23,386) as per his employment contract.

<sup>3</sup> The following assumptions were used in pension calculations.

Discount rate	• 6.0% per year
Pensionable earnings definition	• Basic salary rate plus target bonus.*
Increases in pensionable earnings	• 4.0%
YMPE increases	• 3.50% per year
Increases in maximum pension permitted under the Income Tax Act	• 3.50% per year after 2009
Consumer Price Index	• 3.0% per year
Mortality	• UP94 projected to year 2015
Withdrawal	• None
Retirement age	• Age 62

*\*The target bonus percentage is 20% of earnings.*

Mr. Graydon's pension amount for the CEO SRP is in respect of 6 months of service accrual to reflect the fact that he joined the CEO SRP on October 1, 2008.

<sup>4</sup> This includes vacation payout, CPP, EI, WCB, Benefits, Car and Perquisite Allowance, Gas, Car Repairs & Insurance costs for all except Mr. Graydon. He did not receive the Car and Perquisite Allowance, Gas, Car Repairs and Insurance costs.

A \$3,000 bonus was paid to Mr. Norman to recognize the duties performed as acting CEO.