

THE HOSPITAL FOR SICK CHILDREN

REPORT OF THE HUMAN RESOURCES COMMITTEE

As at October 1, 2011

The Human Resources Committee (HRC), comprised of volunteer Trustee members who are appointed annually by the Board of Trustees, is responsible for overseeing CEO and executive compensation programs including base salary, incentive compensation, pension, and benefits. In addition, the HRC oversees talent management strategy and progress as well as succession planning. This oversight includes approving Hospital and CEO objectives, evaluating performance, and approving the compensation for the CEO and executives of the Hospital.

In the 2010-2011 performance years (October 1, 2010 to September 30, 2011), the HRC's work included:

- Overseeing the performance and compensation strategy for the Hospital executive and approving the annual compensation as recommended by the CEO;
- Approving compensation arrangements/contracts for executives and/or clinical and scientific personnel;
- Reviewing and approving the CEO annual performance as well as associated merit increases and incentive payments;
- Providing input to and approving Hospital and CEO annual performance objectives;
- Reviewing the Hospital succession planning and talent management strategy and oversight into the executive development plans for the leadership pipeline;
- Reviewing management reporting on compliance for all regulatory reporting;
- Providing advice to the CEO/executive on leading management resource practices; and
- Reviewing and approving the Management Resource philosophy and policies ensuring alignment with the strategic directions of the Hospital.

Independent Advisors

To assist in executing its responsibilities, the HRC hires an independent compensation advisor who reports solely to the HRC. As the HRC's advisor, Mercer provides independent advice and counsel on executive compensation policies and practices. In addition, Mercer assists the HRC in developing compensation recommendations for the CEO and leads the CEO's annual performance appraisal process.

Human Resource Committee Composition

In keeping with best practices, the HRC is composed entirely of independent trustees who are knowledgeable about issues related to human resources, talent management, and compensation. The HRC met four times during the performance year ending September 30, 2011, and held a portion of each meeting excluding management.

COMPENSATION DISCUSSION AND ANALYSIS

This report of the Human Resources Committee sets out the approach to executive compensation plans at SickKids, the details of which are outlined below:

Executive Summary

Compensation levels for executives at SickKids are reviewed on an annual basis as follows:

- Base salary changes are made on a performance year basis (Oct 1 – Sept 30) and are effective October 1 if applicable
- Annual performance incentive plan awards are determined at the end of a 12 month performance year

This report summarizes compensation provided to executives at SickKids as at Oct 1, 2011, which reflects actual base salaries paid and Performance Incentive Plan awards paid for the performance period ending September 30, 2011.

In compliance with applicable legislation, no increases in executive compensation were made in 2011 except as permitted under the pre-existing Incentive Plan or to recognize performance based pay progression within a pre-existing salary range.

Each executive has a portion of their total annual compensation at risk for the achievement of Annual Organizational performance targets and their individual performance. The portion of pay at risk varies by role. Executive Performance Incentive Plan awards can range from zero to a maximum of 25% of Base Salary for VP's, zero to a maximum of 28% of Base Salary for EVP's and from Zero to 40% of Base Salary for the CEO varying with the achieved level of organizational and individual performance.

Compensation Philosophy

The objective of the executive compensation program is to drive and reward top performance, while also offering a total cash compensation program that supports the attraction and retention of the most talented leaders and professionals in order to fulfill our vision of Healthier Children. A Better World. The fundamental objectives of our philosophy are as follows:

- **Align with vision, mission, values and strategic directions** – ensure the performance based plan design aligns with, and rewards the behaviours and results needed to exceed in the areas of patient care, research and learning.
- **Comply with applicable legislation** – continually review and adopt compensation practices that align with legislative requirements and evolving best practices.
- **Fiscal responsibility** – adopt a plan design that demonstrates responsible use of taxpayer dollars, while ensuring that SickKids remains a world leader in paediatric health care.
- **Provide Competitive Compensation** - to enable the attraction and retention of high performing executives necessary to drive the sustainable success of SickKids.

Overall Compensation Design and Approach

Compensation programs at SickKids are based on the following guidelines:

- Total Compensation (Base salary, Executive Performance Incentive, Pension, Perquisites and Benefits) should be competitive for similar roles in other large research and teaching hospitals
- Each Executive should have a substantial portion of their annual cash compensation at risk for the achievement of both Hospital and Individual performance
- Overall compensation practices need to comply with all applicable legislation
- Plan designs and practices should reflect market best practices

| Compensation Element | Purpose |
|---|---|
| Base Salary | To remain competitive with the practices of other leading research and teaching hospitals in Ontario. Base salary is based on the executive’s experience and level of responsibility. It is reviewed annually. Increases are based on a number of factors such as Hospital performance, legislative requirements and individual performance. |
| Executive Performance Incentive Plan | To ensure that total annual compensation reflects the achievement of the key hospital strategies and objectives while recognizing individual contributions to that success. |
| Perquisites | To cover business related expenses for the effective performance of the executive’s duties. |

| | |
|-----------------|---|
| Benefits | Competitive benefits including health, dental, short and long term disability, life insurance and vacation. |
| Pension | To provide a retirement benefit that is competitive with that provided by other leading research and teaching hospitals. All non bargaining employees participate in a Defined Benefit Pension Plan which provides a benefit based on the executive's compensation and their years of service. |

Base Salary

Base salary is a necessary element of compensation to attract, motivate and retain executives. Base salaries are reviewed each year and adjustments if any, consider the executive's level of compensation competitiveness, the performance of the Hospital, the performance of the executive and any applicable legislative restraints.

Where applicable, a salary range is developed for each executive position which reflects the range of competitive compensation appropriate for that role. Each executive may progress through the salary to a level deemed reflective of the incumbents experience and performance.

In compliance with Bill 16 (Public Sector Restraint Act), no adjustments to executive base salary ranges were made in 2011. Bill 16 provided for performance based pay adjustments where such programs were in place prior to the enactment of the legislation. Actual base salary adjustments were provided to some executives who were not yet paid at the appropriate level within the range to reflect normal performance based progression. The management team at SickKids voluntarily froze executive Salary Ranges in 2009, one year in advance of the *Public Sector Compensation Restraint to Protect Public Services Act, 2010* and no increases to Salary Ranges were made after the effective date of the legislation, March 24, 2010.

The CEO's last base salary increase was effective October 2008. There was no increase in 2011.

Annual Executive Performance Incentive Plan

Competitive annual total cash compensation includes base salary and a portion of total compensation which is at risk. This “at risk” portion is linked to both the Hospital’s and the executive’s performance during the year through the Executive Performance Incentive Plan. The at risk portion of compensation is only earned if both the Hospital and the executive meet the performance expectations of the plan.

The annual pay at risk opportunity for the CEO is 40% of base salary. The incentive opportunities for other executives vary by role but approximate 25% of base salary. The table below shows the annual proportion of base salary at risk through the annual Executive Performance Incentive Plan for each of the reported executives.

| Executive Performance Incentive Plan Ranges | | | |
|--|------------------------|---------|---------|
| Executive Job Title | Executive | Minimum | Maximum |
| President and CEO | Mary Jo Haddad | 0% | 40% |
| EVP Corporate Services | Jim Garner | 0% | 28% |
| EVP Clinical | Marilyn Monk | 0% | 28% |
| VP Medical & Academic Affairs | Dr. Stanley Zlotkin | 0% | 25% |
| VP Human Resources | Cheryl Craven | 0% | 25% |
| VP Finance & CFO | Denise Arsenault | 0% | 25% |
| VP Strategy, Performance, and Communications | Jeff Mainland | 0% | 25% |
| VP International Affairs | Cathy Seguin | 0% | 25% |
| Chief Nurse Executive | Margaret Keatings | 0% | 25% |
| VP & Chief Information Officer | Daniela Crivianu-Gaita | 0% | 25% |

Determining Performance Incentive Awards

The Executive Performance Incentive Plan has been in place for 7 years. It was implemented to ensure that each executive’s annual total cash compensation is aligned with the achievement of the Hospital’s key strategies and objectives while recognizing the executive’s contributions to that success.

At the beginning of each performance year (October 1 to September 30) the HRC approves the key performance objectives and targets that will be used to evaluate overall Hospital performance. Targets are set to ensure that SickKids continues to enhance performance

year over year and maintain its position as a leader in health care on critical measures such as inpatient pain management, wait times, operating margin, and overall organizational engagement. Performance measures include goals aligned with the Hospital's Quality Improvement Plan ("QIP").

Each performance objective has a predetermined target performance level by which annual results are judged. Each measure is also weighted to reflect the relative importance of the objective. 2010/11 objectives and performance results are shown in the chart below.

The Performance Year for the purpose of determining "pay at risk" differs from the Fiscal Year. Prior to 2006 SickKids established an annual planning cycle for determining Base Salary and Executive Performance Incentive Awards that was based on an October 1 to September 30th cycle. Given the passing of Bill 46 (Excellent Care for All Act, 2010) the HRC has determined that the performance planning cycle would better align with the Fiscal Year of the Hospital. Full implementation of this change will be in effect for fiscal 2012/13.

Following the completion of the Performance year, actual hospital results are measured and compared to the agreed scorecard objectives.

2010/11 RESULTS - Organization Performance Indicators

| QIP | SickKids Strategy | Results | 2010/11 Targets | | | |
|------------------------|---------------------------|---|---|--|---|--|
| | | 10/11 Actual Oct/10-Aug/11 | Needs Improvement | Fully Competent | Highly Competent | Outstanding |
| | Recruit and Retain | Objectives | | | | |
| | | People - 33%: <i>Organizational Engagement</i> ¹ | 72.7% Fully Competent | ≤71.6% | 71.7% - 73.9% | ≥75.2% |
| | | <i>Job Engagement</i> ¹ | 75.0% Fully Competent | ≤74.2% | 74.3% - 76.5% | ≥ 77.8% |
| | Timely Access | Operations - 34%: <i>Wait time for inpatient bed from ED</i> ² | 44.7% Fully Competent | <41% | 41-45% | >50% |
| Access | | | | | | |
| | Service Excellence | <i>Inpatient Pain Management</i> ³ | 78.8% Oct-June Highly Competent | <76.5% | 76.6 - 77.6% | >79% |
| Patient Centred | | | | | | |
| | Service Excellence | <i>Service Support</i> ⁴ | 74.5% Fully Competent | < 73.8% | 73.8 - 76.0% | > 77.2% |
| Patient Centred | | | | | | |
| | Patient Safety | <i>Specimen Labeling</i> ⁵ | 2.2% Needs Improvement | <50% | 50-64.9% | >75% |
| Safety | | | | | | |
| | Financial Health | Financial - 33%: <i>Operating Margin</i> ⁶ | \$3.0 million Highly Competent | Did not achieve Fully Competent Criteria | Achieved Plan +/- \$1 million plus met priorities | Fully Competent plus additional priorities and/or exceeded Plan for a combined total of \$1 to 5 million |
| Effectiveness | | | | | | Fully Competent plus additional priorities and/or exceeded Plan for a combined total >\$5 million |

¹ Based on Metrics at work (MAW) survey

² Percentage of patients admitted from ED with length of stay of 8 hours or less

³ Pain Management Satisfaction dimension score for all inpatient units

⁴ Based on MAW survey question "People in other areas are supportive when I ask for things I need"

⁵ Percentage reduction of unlabeled samples or specimens received in laboratory (excluding pathology and molecular genetics)

⁶ Amount by which total revenues exceed or fall short of total expenses excluding the impact of facility amortization

In addition, each executive's individual performance is assessed by the CEO for the executive team and by the HRC for the CEO.

The individual performance of the CEO is assessed against: 1) pre-defined individual performance objectives set by the CEO and approved by the Board at the beginning of the performance year, and 2) pre-defined behaviours, approved by the HRC, designed to measure the CEO's demonstration of the Hospital's values. The appraisal process includes a self appraisal that is completed by the CEO, an assessment that is completed by members of the Board, and a robust 360 assessment process which incorporates feedback from key stakeholders which is administered by Mercer.

Based on this annual assessment and in consultation with the HRC’s independent advisor, the HRC determines the CEO’s total cash compensation which includes her “at risk” incentive payment as well as any adjustment to her base salary for the following year.

The final cash performance incentive payment is determined by combining the CEO’s scores on the achievement of individual performance objectives, demonstration of Hospital values, and the overall performance of the organization. Based on this combined score the CEO is eligible to receive a cash incentive payment ranging from 0 - 40% of base salary.

The process for other executives is the same as for the CEO except the determination of each executive’s individual performance objectives and the assessment of performance is determined by the CEO. Base salary changes and Executive Performance Incentive awards are recommended by the CEO to the HRC. The HRC must approve the final Performance Incentive Award paid to the executive, along with all compensation plan changes and recommendations brought forward by management.

The table below shows the most current annual total cash compensation earned for each of the executives as at October 1, 2011 and reflects both Base Salary and any earned Performance Incentive Awards for the performance year ending September 30, 2011. For 2011, Performance Incentive awards paid varied from 60% to 96% of the Performance Incentive opportunity reflecting the achieved performance of the Hospital and the Executive.

ANNUAL TOTAL CASH COMPENSATION

| Executive Job Title | Executive | Total Cash Compensation |
|--|------------------------|-------------------------|
| President and CEO | Mary Jo Haddad | \$712,000.03 |
| EVP Corporate Services | Jim Garner | \$465,013.64 |
| EVP Clinical | Marilyn Monk | \$374,654.83 |
| VP Medical & Academic Affairs ¹ | Dr. Stanley Zlotkin | \$307,654.26 |
| VP Human Resources | Cheryl Craven | \$315,255.60 |
| VP Finance & CFO | Denise Arsenault | \$299,005.95 |
| VP Strategy, Performance, and Communications | Jeff Mainland | \$303,827.84 |
| VP International Affairs | Cathy Seguin | \$272,132.50 |
| Chief Nurse Executive | Margaret Keatings | \$262,187.38 |
| VP & Chief Information Officer | Daniela Crivianu-Gaita | \$274,507.32 |

¹Incumbent works 0.8 FTE in his executive role

ADDITIONAL DISCLOSURE

EXECUTIVE EMPLOYMENT AGREEMENTS

Each executive's employment is governed by an agreed employment contract which is subject to the approval of the HRC. Each contract specifies the employment terms and conditions applicable to that specific hire. Employment contracts were revised in 2011 to ensure that they were compliant with applicable legislation, and contained consistent terms and conditions.

A copy of each employment agreement is attached.

Employment agreements generally have the following provisions:

- Term
- Duties of Employment
- Compensation
- Base salary
- Executive Performance Incentive Participation
- Pension and Benefits eligibility
- Perquisites
- Vacation entitlement
- Statutory Holidays
- Termination Provisions
- Other conditions of employment

BENEFITS INFORMATION FOR EXECUTIVES

The CEO and executives participate in a benefits program which provides comprehensive coverage to meet the needs of the employees and their families. Benefits may include medical, vision, dental, life and income protection benefits.

EXECUTIVE PROGRAMS OVERVIEW

Each executive is entitled to participate in the SickKids Executive Perquisite Program which covers business –related expenses for the effective performance of the Executive’s duties. These expenses generally include:

- **Car allowance**
- **Retirement counseling**
- **Paid parking**

EMPLOYEE PENSION PLAN

The CEO and executives participate in the same pension arrangements as other SickKids employees, the Sick Children Employee Pension plan. SickKids does not participate in the HOOPP arrangement. SickKids administers its own Defined Benefit Pension arrangement which provides a pension benefit comparable to that provided to executives in other hospitals who participate in HOOPP. Executives at SickKids are required to contribute to the pension plan.

The Pension arrangement for the CEO provides for an enhanced service credit. This feature was negotiated when the CEO returned to the Hospital in March of 2000. At that time she was not the CEO however when appointed CEO in 2004 this pension enhancement was grandfathered.