

Full Performance Review

**The Investment
Management Board**

**Comparison of Base Salary Levels for
Senior Management at the West Virginia
Investment Management Board**

**IMB Employee Health Insurance and Retirement Benefits
Exceed Those of State Employees
and Increase the Level of Compensation
of IMB's Upper Management Employees**



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John Sylvia
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January 6, 2003

The Honorable Edwin J. Bowman
State Senate
129 West Circle Drive
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The Honorable Vicki V. Douglas
House of Delegates
Building 1, Room E-213
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0470

Dear Chairs:

We are transmitting a Full Performance Review of the Investment Management Board, which will be presented to the Joint Committee on Government Operations on Monday, January 6, 2003. The issues covered herein are "Comparison of Base Salary Levels for Senior Management at the West Virginia Investment Management Board;" and "IMB Employee Health Insurance and Retirement Benefits Exceed Those of State Employees and Increase the Level of Compensation of IMB's Upper Management Employees."

We transmitted a draft copy of the report to the Investment Management Board on December 23, 2002. We held an Exit Conference with the IMB via telephone on January 2, 2003. We received the agency response on January 2, 2003.

Sincerely,

A handwritten signature in cursive script that reads "John Sylvia".

John Sylvia

JS/wsc

Joint Committee on Government and Finance

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Executive Summary

Issue 1: Comparison of Base Salary Levels for Senior Management At the West Virginia Investment Management Board.

The Investment Management Board (IMB) was created by the Legislature as an independent agency immune to changing political administrations and able to provide stable investment management. The agency's budget is consequently determined independently of the Legislature. An objective of the evaluation is to determine if the independence of the IMB's budget development results in higher salaries.

The West Virginia Legislative Auditor's Office surveyed 47 state public employees retirement systems and state treasurer's offices, and also obtained survey data from the Missouri State Employees' Retirement System (MOSERS). In September 2002, MOSERS completed a survey of 75 public retirement systems, receiving 71 responses. Both surveys focused on staff salary levels. The MOSERS survey focused exclusively on senior management salaries. MOSERS concluded that an important factor in determining salary levels appeared to be the placement of an agency's final budget authority. If this authority lay with an agency's board rather than with the legislature, senior management salaries tended to be notably higher. A considerable difference existed between the two types of agencies in terms of average salaries. Board control of an agency's budget clearly resulted in higher salaries, particularly with respect to the executive director's position.

The IMB's Personnel Committee approved bonuses for various employees from fiscal years 1998-2001. The IMB awarded no bonuses during fiscal year 2002 but the Personnel Committee retains the authority to do so in the future. The IMB currently does not have a performance-based method for awarding bonuses and does not have any current plans to develop one. Although the Legislative Auditor does not take issue with past bonuses that have been awarded, in the absence of such a methodology, the awarding of bonuses could potentially appear to be biased or arbitrary in nature. Six of the public agencies that provided data to the Legislative Auditor's Office indicated that they awarded bonuses to employees and only one agency did so solely at the Board's discretion. **The Legislative Auditor recommends that the IMB consider implementing a formal and objective methodology for calculating bonuses based on performance measures.**

As for the comparison of IMB salaries to other employees, the Legislative Auditor's Office review showed:

- i In comparison to all other public investment agencies nationwide, IMB's director salary and Chief Financial Officers salary are above the national average and the Chief Investment Officer and Director of Technology salaries are below the national average.
- i In comparison to the seven public retirement agencies most similarly structured as IMB, where external advisors make individual security selections, IMB executive salaries (except for the chief investment officer) are significantly above average.
- i In comparison to salaries of other state government managers (excluding higher education), the salaries of IMB's executive director, Chief Financial Officer, and Chief Investment Officer, are state government's third, sixth, and seventh highest salaries.
- i Summary data was obtained from a Wall Street Journal salary survey for Charleston which showed IMB's upper management salaries to be significantly below those of similarly listed private sector positions. However, the Legislative Auditor's Office could not determine the industry or realm of responsibility for these private sector positions covered by the survey.

Issue 2: IMB Employee Health Insurance and Retirement Benefits Exceed Those of State Employees and Increase the Level of Compensation for the IMB's Upper Management Employees.

The independence of the IMB has resulted in an employee health and retirement benefits structure that differs from that of other West Virginia state agencies. **The Legislative Auditor's review of the IMB's benefit structure indicates that it exceeds that of state employees and increases an IMB employee's annual salary by as much as 16%.** One example is the IMB's retirement plan, the Money Purchase Plan. It differs from the Public Employees Retirement System's (PERS) plan in that the IMB contributes 10% of the employee's annual salary and the employee contributes nothing. This amount becomes the employee's money after five years. Under PERS, the employer contributions cannot be withdrawn upon leaving employment with the State

and is only a benefit to the employee upon retirement. The IMB Money Purchase Plan places a greater risk on the employee to provide an adequate retirement, as opposed to the PERS Plan, which generates a predetermined retirement. The Legislative Auditor also found that IMB employees receive single health, long-term disability, group term life and group dental insurance at no cost to themselves, while paying relatively small premiums (\$60 per month) for family or couple health insurance. State employees covered under the Public Employees Insurance Agency (PEIA) contribute substantially more to premium costs for most types of insurance coverage, especially health insurance, which is the most costly type of insurance coverage. While IMB benefits are generous, in comparison to larger state agencies, the small number of staff employed by the IMB results in a relatively modest total cost to the Board for all benefits provided to employees.

Recommendations:

- 1. If the Legislature wishes to exercise closer oversight of the IMB's budget, the Legislature should consider amending WVC §12-6-3, placing final budget authority with itself instead with the IMB.*
- 2. The IMB should consider implementing a formal and objective methodology for calculating staff bonus performance measures.*
- 3. The IMB should consider implementing a benefits package more similar to that offered to state employees.*

Review Objective i Scope i Methodology

This is the second report on the Full Performance Review of the West Virginia Investment Management Board (IMB). The Legislature created the IMB in 1997 as a successor agency to the former Board of Investments (BOI), to operate i...as an independent board with its own full-time staff of financial professionals immune to changing political climates, in order to provide a stable and continuous source of professional financial management.î

Objective

The objective of this review is to examine the following issues:

- (1) Has the independence of the Investment Management Board resulted in exorbitant salaries for IMB employees?
- (2) Are the benefits received by the employees of the West Virginia Investment Management Board unusually generous in comparison to those received by other West Virginia State employees?

Scope

The scope of this review focuses on IMB salary and benefit levels at the time of this report's completion in fiscal year 2003. Although the conclusions of this report with respect to salaries and benefits apply to all positions of IMB, the analysis focuses primarily on upper level positions, specifically those positions earning close to \$50,000 or more. Nine of the IMB's twenty-one employees fall into this category and their salaries comprise 66% of the agency's total payroll.

Methodology

The Legislative Auditor's Office obtained data on salary levels of agencies in other states which are similar to the IMB in function, primarily public employees retirement agencies. Retirement agencies in the majority of states are responsible for both the operation of retirement programs and investment management, unlike in West Virginia, where the Consolidated Public Retirement Board manages retirement programs while the IMB manages the investment of retirement funds. The IMB also manages the State's operating funds which constitute the Consolidated Fund. This function is frequently performed by state treasurer's offices. For this reason, the Legislative Auditor's Office also obtained salary data for positions at various state treasurer's offices.

The Legislative Auditor's Office also obtained data from the Missouri State Employees' Retirement System (MOSERS) regarding a survey that agency completed in September 2002. MOSERS surveyed 75 public retirement systems regarding salaries of senior management and received responses from 71 systems. Since the MOSERS survey focused exclusively on senior management salaries, the Legislative Auditor's Office obtained more detailed data on salary levels for other positions from various public retirement agencies and state treasurer's offices.

Other data collected by the Legislative Auditor's Office included information on retirement benefits offered by the Public Employees Retirement System (PERS). The IMB provided information on IMB retirement and insurance benefits. This report determines benefits as health insurance and retirement plans. Other benefits such as annual and sick leave are not considered. The Wall Street Journal conducted a survey of private sector salaries for each region of the United States. The Legislative Auditor's Office used data from this survey that focused on the Charleston, West Virginia area for comparison purposes in this report.

Table 5 provides data on the number of agencies that responded to the MOSERS survey for each position listed, as well as data on the high and low salaries. The table also includes the number of agencies that provide bonuses to staff as well as the bonus ranges. While it is not unusual for members of senior management to receive bonuses in this type of public agency, most do not. Out of all agencies responding to this question on the MOSERS survey (60-70 agencies depending on the position), only 9-11 agencies provided bonuses for each of the positions with IMB counterparts.

Comparison of Base Salary Levels for Senior Management At the West Virginia Investment Management Board.

The Investment Management Board (IMB) was created by the Legislature as an independent agency, to be immune to changing political administrations and able to provide stable investment management. The agency's budget is consequently determined independently of the Legislature. An objective of the evaluation is to determine if the independence of the IMB's budget development has resulted in higher salaries for IMB's upper management.

The West Virginia Legislative Auditor's Office surveyed 47 state public employees retirement systems and state treasurer's offices, and also obtained survey data from the Missouri State Employees' Retirement System (MOSERS). In September 2002, MOSERS completed a survey of 75 public retirement systems, receiving 71 responses. Both surveys focused on staff salary levels. The MOSERS survey focused exclusively on senior management salaries.

Comparison of IMB Salaries With All Other Public Retirement Agencies

Tables 1 and 2 compare salaries at the IMB with those of similar public investment agencies, using data obtained from MOSERS and the IMB. The IMB Executive Director's salary almost matched the average salary, placing it in the second quartile, while that of the CFO was in the top quartile. Other senior management positions placed lower in the survey, with the CIO's salary below the average, placing it in the third quartile. The Director of Technology's salary fell considerably below the average, also in the third quartile.

Table 1		
Comparison of Current IMB Salaries with 71 Other Public Investment Agencies		
Position	IMB	2002 Average
Executive Director/CEO	\$134,562	\$129,298
Chief Financial Officer	\$116,526	\$81,180
Chief Investment Officer	\$113,010	\$138,821
Director of Technology	\$67,284	\$85,405

Data provided by the IMB and MOSERS

Table 2								
Salary Ranges by Position and Quartile								
Position	Top Quartile		2 nd Quartile		3 rd Quartile		Bottom Quartile	
	Low	High	Low	High	Low	High	Low	High
Executive Director/ CEO	\$154,577	\$344,000	\$110,000	\$154,000	\$95,000	\$110,000	\$51,022	\$95,000
Chief Financial Officer	\$104,040	\$220,000	\$80,360	\$104,000	\$63,602	\$79,908	\$42,672	\$62,933
Chief Investment Officer	\$161,468	\$350,000	\$135,814	\$160,000	\$108,000	\$135,283	\$57,000	\$107,486
Director of Technology	\$100,700	\$168,000	\$83,952	\$99,000	\$64,359	\$83,448	\$32,591	\$63,000

All data provided by MOSERS

The West Virginia Legislative Auditorís Office obtained data from 20 public employees retirement systems and state treasurerís offices. These data provided salary information regarding positions not covered in the MOSERS survey. Table 3 includes salary levels for the listed positions as provided by each responding agency. The only IMB position listed in Table 3 that appears to have a salary higher than most of the responding agencies is that of the Director of Operations. In the case of the two investment officer positions, IMB salaries are substantially lower than some of their counterparts in other states.

Comparison of IMB Salaries with Seven Similarly Structured Public Retirement Agencies

In addition to comparing IMB salaries to all 47 state public employees retirement systems and state treasurerís offices which PERD surveyed and the 71 responses received by the Missouri State Employeesí Retirement System (MOSERS) survey, PERD also attempted to compare IMBís upper management salaries to those retirement agencies which are similarly organized. The Legislative Auditorís Office was able to identify seven public retirement agencies that employed external investment managers for at least 92% of their funds. The IMB employs external managers for 100% of its funds. Table 4 lists the percentage of funds externally managed for each of these agencies as well as senior management salaries. Five of the seven agencies utilizing mostly external

Table 3 Comparison of IMB Positions and Legislative Auditor Survey Data		
Position	IMB Salary	Legislative Auditor Survey Salaries
Director of Operations	\$92,088	\$59,250 \$60,195 \$62,610 \$67,944 \$78,208 \$84,000 \$86,000 \$93,240 \$95,471 Average \$76,324
Investment Accounting Supervisor	\$49,680	\$36,730 \$44,900 \$58,843 \$61,376 \$62,613 \$65,040 \$67,800 \$140,000 Average \$85,864
Public Equity Investment Officer	\$79,524	\$44,051 \$47,590 \$75,000 \$114,206 \$132,840 \$155,000 \$187,000 \$199,992 Average \$171,729
Fixed Income Investment Officer	\$73,980	\$47,590 \$87,000 \$106,680 \$114,206 \$126,027 \$155,000 Average \$106,083
Internal Audit Associate	\$60,000	\$64,640 \$86,268 \$99,486 \$109,734 \$112,756 \$200,000 Average \$112,147
<i>Data provided by the IMB and 20 state retirement agencies and treasurer's offices. A number of agencies surveyed provided salary data as ranges instead of providing actual salary levels. The lack of specific data made these responses unusable for the purposes of this report.</i>		

investment managers indicated that their CEOs earned lower base salaries than that of the IMB's CEO. Four of these agencies indicated that their CFOs earned much lower salaries than their IMB counterpart. On the other hand, all four responding agencies indicated that their CIOs earned higher salaries than the IMB's CIO. The salary of the IMB's Director of Operations was higher than

that of two responding agencies, but lower than two others. Table 5 contains additional organizational data for the 7 states listed in Table 4.

Table 4						
Percentage of Externally-Managed Funds and Senior Management Salaries Compared						
	Percentage of Funds Externally-Managed	Executive Director/CEO	Chief Financial Officer	Chief Investment Officer	Director of Technology	Director of Operations
1	100	\$100,120	N/A	N/A	\$37,500	\$62,610
2	100	\$84,136	\$65,000	\$145,142	\$68,868	\$60,195
3	100	\$89,840	\$78,350	N/A	\$55,263	N/A
4	100	\$167,434	\$101,868	\$140,128-195,052	\$64,394-96,353	N/A
5	100	\$76,000	\$65,000	N/A	\$45,000	N/A
6	99	\$90,439-110,906	N/A	\$154,000-200,000	N/A	\$70,000-110,000
7	92	\$170,000-220,000	N/A	\$150,000-200,000	N/A	\$70,000-110,000
WV	100	\$134,562	\$116,526	\$113,010	\$67,284	\$92,088
<i>N/A indicates that the responding agency was unable to identify a position corresponding to one at the IMB. Data provided by state retirement agencies surveyed by the Legislative Auditor's Office. States are numbered 1-7 to maintain confidentiality of their salaries</i>						

Table 5 Organizational Data on Agencies from Table 4			
State	Total Assets	Total Number of Employees	Number of Funds Managed
1	\$8 million	105+5 vacancies	1
2	\$7.6 billion	62	6
3	\$5.4 million	54+2 vacancies	2 plans managed as one fund
4	\$26.7 billion	185+7 vacancies	1
5	Unknown	19	Unknown
6	\$18.5 billion	144	5
7	\$8.7 billion	Unknown	3
WV	\$7 billion	21	13
<i>Data provided by the public retirement or investment agencies in each state.</i>			

Independent Budget Authority Instead of Legislative Authority Results in Higher Salaries

MOSERS concluded that pay levels appeared statistically unrelated to assets under management. An important factor in determining salary levels appeared to be the placement of an agency's final budget authority. If this authority lay with an agency's board, senior management salaries tended to be considerably higher. Table 6 provides the number of responding agencies that operated with final budget authority vested with the Legislature and the number with final budget authority assigned to the agency's board. A considerable difference existed between the two types of agencies in terms of average salaries. Board control of an agency's budget clearly resulted in higher salaries, particularly with respect to the executive director's position.

Position	Legislative Control		Board Control		Board Difference
	Number	Average	Number	Average	
Executive Director/ CEO	41	\$105,857	29	\$158,174	+48%
Chief Financial Officer	35	\$75,259	27	\$92,178	+22%
Chief Investment Officer	33	\$134,610	27	\$148,578	+10%
Director of Technology	35	\$76,260	28	\$96,347	+28%

Data provided by MOSERS

Bonuses Are Paid to Some Public Investment Agencies' Staffs, but These Agencies Are in the Minority

Table 7 provides data on the number of agencies that responded to the MOSERS survey for each position listed, as well as data on the high and low salaries. The table also includes the number of agencies that provide bonuses to staff as well as the bonus ranges. While it is not unusual for members of senior management to receive bonuses in this type of public agency, most do not. Out of all agencies responding to this question on the MOSERS survey (60-70 agencies depending on the position), only 9-11 agencies provided bonuses for each of the positions with IMB counterparts.

Table 7 Summary of Senior Management Salary and Bonus Ranges From MOSERS Survey							
Position	Agencies	Low	High	Median	Average	Bonus Eligible	
						Number	Bonus Range
Executive Director/ CEO	70	\$51,022	\$344,000	\$108,910	\$126,703	10	2.5%- 32%
Chief Financial Officer	62	\$42,672	\$220,000	\$79,129	\$82,627	11	3%-15%
Chief Investment Officer	60	\$57,000	\$350,000	\$135,549	\$140,895	11	5%- 100%
Director of Technology	63	\$32,591	\$168,000	\$83,952	\$85,187	9	3%-15%

Data provided by MOSERS

The IMB's Personnel Committee approved bonuses for various employees from fiscal years 1998-2001. The IMB awarded no bonuses during fiscal year 2002 but the Personnel Committee retains the authority to do so in the future. Table 8 lists individual bonuses awarded to IMB staff for each year along with the annual total. The IMB currently does not have a performance-based method for awarding bonuses and does not have any current plans to develop one. Although the Legislative Auditor does not take issue with past bonuses that have been awarded, in the absence of such a methodology, the awarding of bonuses could potentially appear to be biased or arbitrary in nature. Six of the public agencies that provided data to the Legislative Auditor's Office indicated that they awarded bonuses to employees and only one agency did so solely at the Board's discretion. **The Legislative Auditor recommends that the IMB consider implementing a formal and objective methodology for calculating bonuses based on performance measures.**

Table 8			
Bonuses Awarded to IMB Staff			
FY 1998	FY 1999	FY 2000	FY 2001
\$1,440	\$1,030	\$8,313	\$5,000
\$1,650	\$860	\$2,027	
\$1,800		\$2,783	
\$1,050		\$1,185	
\$735		\$500	
\$1,300		\$1,250	
		\$975	
		\$1,460	
		\$1,000	
\$7,975	\$1,890	\$19,493	\$5,000
<i>Data provided by the IMB. Each row represents an individual IMB employee.</i>			

IMB Senior Management Salaries Compared to Those of Various State Government Positions

The salary levels of IMB senior management exceed those of most state government employees (see Table 9). The IMB CEO's salary ranks at the top of state government salaries excluding the salaries of higher education employees and physicians employed by the State.

Table 9 Relative Rankings of IMB Senior Management Compared to Various State Positions		
1	Executive Director, Development Office	\$175,000
2	Superintendent, Department of Education	\$146,100
3	Executive Director/CEO, Investment Management Board	\$134,562
4	Director, Public Employees Insurance Agency	\$125,000
5	Executive Director, Workers Compensation Fund	\$120,000
6	CFO, Investment Management Board	\$116,526
7	CIO, Investment Management Board	\$113,010
8	Director, Department of Education	\$107,200
9	Public Utilities Director, Public Service Commission	\$105,174
10	DHHR, Hospital Administrator	\$102,072
Salaries of Other Key Government Officials		
1	Supreme Court Justices	\$95,000
2	Governor	\$90,000
3	Legislative Auditor	\$83,000
4	State Auditor	\$70,000
5	State Treasurer	\$70,000
<i>Data provided by the State Auditor's Office and the Department of Administration. Data excludes higher education employees and physicians employed by the State.</i>		

Attempt to Compare IMB Salaries to Similar Positions In the Charleston Private Sector

PERD attempted to compare IMB's upper management salaries to those of their private sector counterparts in the Charleston, West Virginia Area. Table 10 illustrates that some IMB senior management positions tend to earn less than their private-sector counterparts according to the Wall Street Journal private sector salary data. However, the Legislative Auditor could not determine the industry or the realm of responsibility for these private sector positions. As such, it is not clear whether these private sector positions are comparable to IMB senior management positions.

Position	IMB	Private Sector Average
Executive Director/CEO	\$134,562	\$216,860
Chief Financial Officer	\$116,526	\$121,449
Director of Technology	\$67,284	\$125,159
Director of Operations	\$92,088	\$81,149
Internal Auditor	\$60,000	\$41,739

Data provided by the IMB and the Wall Street Journal

Features of the IMB that Differentiate It from Other Public Agencies

The IMB does have some aspects of its organization and duties that differentiate it from many other public agencies. The range of funds managed by the IMB is one example. Rather than having all state retirement funds managed by one agency as with the IMB, many states have separate retirement agencies that individually manage both the retirement program and the investment of their respective funds. The management of state agency operating funds, generally a duty of state treasurer's offices, is also the responsibility of the IMB. Finally, the level of fiduciary responsibility placed upon each IMB employee greatly increases the level of responsibility exercised by IMB staff. This responsibility is not generally placed on other West Virginia state employees. West Virginia Code §12-6-4(f) states:

The trustees and employees of the board are not liable personally, either jointly or severally, for any debt or obligation created by the board; Provided, That the trustees and employees of the board are liable for acts of misfeasance or gross negligence.

Recommendations:

1. *If the Legislature wishes to exercise closer oversight of the IMB's budget, the Legislature should consider amending WVC §12-6-3, placing final budget authority with itself instead of with the IMB.*
2. *The IMB should consider implementing a formal and objective methodology for calculating staff bonuses based on performance measures.*

IMB Employee Health Insurance and Retirement Benefits Exceed Those of State Employees and Increase the Level of Compensation of IMB's Upper Management Employees.

The independence of the IMB has resulted in an employee health and retirement benefits structure that differs from that of other West Virginia state agencies. **The Legislative Auditor's review of the IMB's benefit structure indicates that it exceeds that of state employees and increases the IMB employees' annual salary by as much as 16%.** One example is the IMB's retirement plan, the Money Purchase Plan. It differs from the Public Employees' Retirement System's (PERS) plan in that the IMB contributes 10% of the employees' annual salary and the employee contributes nothing. This amount becomes the employees' money after five years. Under PERS, the employer contributions cannot be withdrawn upon leaving employment with the State and is only a benefit to the employee upon retirement. The Legislative Auditor also found that IMB employees receive single health, long-term disability, group term life and group dental insurance at no cost to themselves, while paying relatively small premiums (\$60 per month) for family or couple health insurance. State employees covered under the Public Employees Insurance Agency (PEIA) contribute substantially more to premium costs for most types of insurance coverage, especially health insurance, which is the most costly type of insurance coverage.

IMB Money Purchase Plan and the Public Employees Retirement System Compared

Most state employees receive their retirement benefits through PERS, which is a defined benefit plan. Active employees covered by PERS contribute 4.5% of their salary to the plan, while their employers contribute 9.5%, for a total contribution of 14%. All employee contributions are tax deferred. Benefits are received in the form of annuity payments. All employees covered by PERS are eligible to receive work-related total and permanent disability benefits, however, for non work-related total and permanent disability benefits, an employee must have ten years or more of credited service.

The IMB Money Purchase Plan is a defined contribution plan that permits employees to direct the investment of their retirement assets in their individual plan accounts. The IMB contributes 10% of an employees' annual salary into the plan over the course of a year. The employee contributes nothing. An important difference between IMB's retirement plan and PERS is that the

IMB contributions become the employee's money after five years of employment with the agency.¹ Under PERS, the employer's contributions cannot be withdrawn upon leaving state employment and they do not benefit the employee unless the employee retires. IMB's plan permits employees to receive retirement benefits in the form of annuity payments, in a lump sum payment upon retirement or to roll over to another plan or IRA. The IMB Money Purchase Plan also provides benefits for totally and disabled employees. Totally and permanently disabled employees become fully vested in the value of their participant accounts. An IMB employee normally becomes fully vested for retirement benefits at age 65. Total annual contributions by the IMB to this plan are currently \$119,358 for all staff. If these same employees were covered under PERS, the total annual employer contribution would total \$113,390. The IMB's Money Purchase Plan costs the employer slightly more than PERS.

IMB Health Insurance Coverage under Carelink Compared to PEIA Carelink Coverage

IMB employees receive health insurance from the Board at less cost to themselves than a similar plan that covers other state employees under PEIA. IMB employees are covered by Carelink, but not by the Carelink plans offered through PEIA. The main difference in terms of cost is the monthly premium paid by employees for health insurance. IMB employees pay nothing for single coverage, while coverage for families or couples costs \$60 per month. State employees covered under PEIA's Carelink program pay on a graduated scale according to their salary level, even for single coverage.

Table 11 compares annual total premiums charged for the PEIA Carelink Enhanced Plan and the Carelink Plan offered by the IMB. PEIA also offers a Carelink Basic Plan that covers only generic prescriptions. The Carelink Enhanced Plan is more comparable to the IMB's Carelink coverage, so it is used for comparison purposes in this report. The following example illustrates the possible difference in the premium amounts paid for multiple person coverage under the IMB's and PEIA's plans. If an IMB employee had a salary between \$100,001-\$125,000, he or she would only pay \$720 annually for family coverage (\$60 per month). If this same employee was covered under PEIA, he or she would pay \$5,580 in premiums each year for family coverage. Another example would be an employee with a salary between \$75,001 and \$100,000. The individual would pay \$4,488 annually under PEIA, but under the IMB's family coverage plan the individual would pay the standard amount of \$720.

¹If an employee leaves IMB employment prior to five years, the employee receives a fraction (20% for each year employed) of the amount contributed by the agency.

Using an example with a lower salary range, if an employee earned between \$30,001-\$36,000, the employee would pay \$2,208 annually for coverage under PEIA. At any salary level, premiums for multiple person coverage under the PEIA Carelink HMO Enhanced Plan exceed the \$60 per month charged for the IMB's Carelink HMO Option H1 Plan. IMB employees do not pay premiums for single coverage, whereas state employees covered under PEIA pay from \$372 to \$1,848 annually depending on their salary level. **IMB**

Table 11
Comparison of Annual Total Premiums Charged to Employees:
PEIA and IMB Carelink Plans

Salary	PEIA Carelink HMO Enhanced Plan: Single Coverage	PEIA Carelink HMO Enhanced Plan: Employee and Children Coverage	PEIA Carelink HMO Enhanced Plan: Family Coverage	IMB Carelink HMO Option H1: Single Coverage	IMB Carelink HMO Option H1: Couple or Family Coverage
\$0-\$20,000	\$372	\$1,200	\$1,680	Provided at no charge to IMB staff	\$720 per Year
\$20,001-\$30,000	\$516	\$1,416	\$2,100		
\$30,001-\$36,000	\$564	\$1,464	\$2,208		
\$36,001-\$42,000	\$600	\$1,572	\$2,424		
\$42,001-\$50,000	\$744	\$1,884	\$2,844		
\$50,001-\$75,000	\$960	\$2,340	\$3,624		
\$75,001-\$100,000	\$1,260	\$2,964	\$4,488		
\$100,001-\$125,000	\$1,620	\$3,576	\$5,580		
\$125,001 and above	\$1,848	\$4,116	\$6,408		

Data provided by the IMB and PEIA

employees save anywhere from \$516 to \$5,688 per year on health insurance premium costs compared to what they would pay under PEIA.

Comparison of the PEIA PPB Plan and the IMBis Carelink Plan

Table 12 provides the premium schedule for both PEIA PPB Plans, which are the alternatives to the Carelink HMO Plans (see Table 11) offered to state employees covered by PEIA. Under the PEIA PPB Plan Standard Premium, if an employee's salary level is above \$20,000, premiums for multiple-person coverage exceeds the \$60 paid at the IMBis couple and family health insurance rate. This is also true at salary levels above \$30,000 with the PEIA PPB Plan Preferred Premium. Under both PEIA PPB rates, employee-only coverage requires the employee to pay a monthly premium, whereas the IMBis employee-only coverage does not.

Table 12								
Monthly Premiums Charged to Employees under PEIA								
Salary	PEIA PPB Plan Standard Premium				PEIA PPB Plan Preferred Premium			
	Employee Only	Employee and Children	Family	Family w/ Employee Spouse	Employee Only	Employee and Children	Family	Family w/ Employee Spouse
\$0-\$20,000	\$23	\$52	\$79	\$58	\$13	\$32	\$59	\$38
\$20,001-\$30,000	\$35	\$70	\$114	\$84	\$25	\$50	\$94	\$64
\$30,001-\$36,000	\$39	\$74	\$123	\$91	\$29	\$54	\$103	\$71
\$36,001-\$42,000	\$42	\$83	\$141	\$101	\$32	\$63	\$121	\$81
\$42,001-\$50,000	\$54	\$109	\$176	\$129	\$44	\$89	\$156	\$109
\$50,001-\$75,000	\$72	\$147	\$241	\$191	\$62	\$127	\$221	\$171
\$75,001-\$100,000	\$97	\$199	\$313	\$263	\$87	\$179	\$293	\$243
\$100,001-\$125,000	\$127	\$250	\$404	\$354	\$117	\$230	\$384	\$334
\$125,001 and above	\$146	\$295	\$473	\$423	\$136	\$275	\$453	\$403

Data provided by PEIA

While the difference in employee premiums is considerable on an individual basis for IMB employees earning higher salaries, this report has already stated that only eight individuals have salaries of at least \$60,000 out of a total of 21 employees. The small number of staff employed by the IMB results in a relatively modest total cost to the Board for all benefits provided to employees, in comparison to larger state agencies.

Summary of Other IMB Employee Benefits and the Total Cost to the Board

Table 13 lists the IMB's total annual cost for each type of insurance provided to the Board's staff. With the exception of couple or family health insurance, employees of the IMB are not required to pay premiums on other types of insurance coverage. Health insurance coverage is by far the greatest single cost paid by the IMB.

Table 13	
Total Annual Cost for Insurance Provided to IMB Staff	
Insurance Type	IMB Annual Cost
Health	\$188,847
Long-term Disability	\$7,134
Group Term Life	\$1,514
Group Dental	\$12,797
<i>Data provided by the IMB</i>	

State employees covered under PEIA are also eligible for long-term disability, life and dental insurance. With the exception of \$10,000 in basic life insurance which is automatically provided to active state employees, the other two types of insurance coverage require PEIA members to pay premiums, unlike similar types of coverage for IMB employees. PEIA optional long-term disability insurance is priced at a monthly rate based on an employee's monthly salary and age. If IMB employees had to pay premiums for long-term disability insurance at the rate of the PEIA plan, they would pay an estimated annual total of \$6,923. Another added benefit of the IMB's long-term disability insurance is that it pays benefits equal to 70% of pre-disability income while PEIA's best

plan only pays 60%.

PEIA's Delta Dental Plan offers either a Basic Plan, which ranges from an annual rate of \$217 for employee only coverage and \$700 for family coverage, or an Enhanced Plan, which ranges from an annual rate of \$349 for employee only coverage to \$1,158 for family coverage. The other dental program offered by PEIA, CompBenefits Prepaid Dental Care, offers two benefit schedules the C250 or C450. The C250 schedule ranges from an annual rate of \$151 for employee-only coverage to \$401 for family coverage. The C450 schedule ranges from an annual rate of \$113 for employee-only coverage to \$301 for family coverage. This contrasts with IMB employees who pay nothing for their dental insurance coverage.

Table 14 summarizes the effect of the IMB's enhanced benefits package on the salaries of the Board's highest paid employees. The health and retirement benefits received by IMB employees have the effect of increasing salaries by as much as 16%. This would be the case if an employee worked for IMB for five years, in which case all of the employer's retirement contributions would belong to the employee. It is not clear how this compares with the private sector. According to the *Career Journal* from the *Wall Street Journal* (WSJ.com), the benefits for the same positions listed in Table 14 are 15% to 16% in the private sector for the Charleston, West Virginia area. However, the Wall Street Journal calculation includes the value of other benefits such as vacation time and sick leave.

Table 14 Value of Benefits Provided Annually By the IMB to the Highest Paid Employees (Equals the difference between IMB employee costs and those of other state employees)						
Title	Salary	Retirement*	Health Insurance**	Long-term Disability***	Group Dental****	Total Value of Salaries and Benefits
Executive Director	\$134,562	\$13,456	\$5,688	\$780	\$1,158	\$155,645
CFO/COO	\$116,526	\$11,653	\$4,860	\$676	\$1,158	\$134,872
CIO	\$113,010	\$11,301	\$4,860	\$655	\$1,158	\$130,984
Director of Technology	\$67,284	\$6,728	\$2,904	\$390	\$1,158	\$78,465
Director of Operations	\$92,088	\$9,209	\$3,768	\$534	\$1,158	\$106,757
Public Equity Investment Officer	\$79,524	\$7,952	\$3,768	\$461	\$1,158	\$92,864
Fixed Income Investment Officer	\$73,980	\$7,398	\$2,904	\$429	\$1,158	\$85,869
<i>*Equal to the 10% of each employee's salary contributed by the IMB to the Money Purchase Plan. **Subtracts the IMB Carelink HMO Option H1 family coverage total annual premiums from PEIA Carelink HMO Enhanced Plan family coverage total annual premiums. ***Calculated at the rate for ages 35-39. ****Compares the IMB's group dental plan provided at no employee cost to total annual premiums paid for PEIA's Delta Dental Enhanced Plan family coverage.</i>						

Conclusion

IMB employee health insurance and retirement benefits exceed those of state employees and significantly increase the level of compensation of IMB's upper management employees. Employees of the IMB receive retirement benefits as well as single health, long-term disability, group term life and group dental insurance at no cost to themselves, while paying relatively small premiums (\$60 per month) for family or couple health insurance. This contrasts with state employees covered under PERS and PEIA who receive similar types of benefits but contribute substantially to premium costs and do not benefit from the employer's retirement contribution unless they retire. The employer-paid health and retirement benefits received by

IMB employees have the effect of increasing their annual salaries by as much as 16%. While IMB benefits are generous, in comparison to larger state agencies, the small number of staff employed by the IMB results in a relatively modest total cost to the Board for all benefits provided to employees.

Recommendation:

3. *The IMB should consider implementing a benefits package more similar to that offered to state employees.*

Appendix A: Transmittal Letter to Agency

WEST VIRGINIA LEGISLATURE *Performance Evaluation and Research Division*

Building 1, Room W-314
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0610
(304) 347-4890
(304) 347-4939 FAX



John Sylvia
Director

December 23, 2002

Craig Slaughter, Executive Director
Investment Management Board
One Cantley Drive, Suite 3
Charleston, WV 25314

Dear Mr. Slaughter:

This is to transmit a draft copy of the Full Performance Evaluation of the Investment Management Board. This report is scheduled to be presented at the Sunday, January 5, 2003 interim meeting of the Joint Committee on Government Operations. It is expected that a representative from your agency be present at the meeting to orally respond to the report and answer any questions the committee may have.

We need to schedule an exit conference to discuss any concerns you may have with the report. We would like to schedule the meeting with you sometime before January 2, 2003. Please notify us to schedule an exact time. In addition, we need your written response by noon on January 2 in order for it to be included in the final report. If your agency intends on distributing additional material to committee members at the meeting, please contact the House Government Organization staff at 340-3192 by Thursday, January 2 to make arrangements.

We request that your personnel treat the draft report as confidential and that it not be disclosed to anyone not affiliated with your agency. Thank you for your cooperation.

Sincerely,

Handwritten signature of John Sylvia in cursive script.
John Sylvia

Enclosure

Joint Committee on Government and Finance

The Investment Management Board

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Appendix B: Agency Response

West Virginia Investment Management Board

One Cantley Drive • Suite 3
Charleston, West Virginia 25314

Phone: (304) 345-2672
Fax: (304) 345-5939
Web: www.wvimb.org

January 2, 2002

VIA MESSENGER

John Sylvia, Director
West Virginia Legislature
Performance Evaluation and Research Division
Building 1, Room W-314
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0610

Re: Performance Evaluation of the Investment Management Board

Dear Mr. Sylvia:

Thank you for providing a draft copy of your second report on the full Performance Evaluation of the Investment Management Board (IMB). I congratulate the Performance Evaluation and Research Division (PERD) on a very thorough and well-researched report.

I would like to take this opportunity to provide additional information and insight from the IMB's perspective, first, regarding budgetary independence, and, second, specific compensation comparability issues. I hope that these observations and comments are helpful to you in your review process.

The first sentence of Issue No. 1 states "the Investment Management Board (IMB) was created by the Legislature as an independent agency in order to be immune to changing political administrations and to provide stable investment management." It is important to emphasize this sentence, since the genesis of the IMB was the ashes of the investment firestorm of the 1980s. No one wants to relive that period. Those who were part of the cleanup effort were impressed with the important realization that politics and investments do not mix. The reason is very simple—time horizon mismatch. In the political realm, the horizon is short; with investments it is generally long. The solution to this mismatch, fortunately, is also relatively simple—insulate investments from the political climate and structure incentives to achieve the overriding goals of good, long-term investment management.

In the private sector, independence is controlled by the profit motive. Owners have an incentive to run a good business. Where profit is not a goal, a different set of incentives has to be created.

For those investing assets as fiduciaries, the incentive is created by law. Thus, most fiduciaries are subject to personal liability for the failure to attend to duty. Personal liability, however, demands budgetary independence. These two structural features are core tenets of the Uniform Management of Public Employees Retirement System Act (UMPERSA) completed in 1997 when the IMB was formed. A testament to the effectiveness of personal liability as an incentive is the fact that no other state has expressly adopted that provision of the UMPERSA. To my knowledge, only West Virginia has done so, thus, becoming a leader in this area.

With regard to the comparability of IMB's salaries, it is good to see that the data PERD collected reaches many of the same conclusions our Board has reached in the same process. Generally speaking, the Board's goal in setting salaries is to make sure they are comparable to salaries of other public funds, while taking into consideration private sector levels and operational differences. With regard to specific discussion in the report, I make the following notes:

1. It is important to emphasize the discussion PERD included regarding the features of the IMB that differentiate it from other public agencies in other states. There are a number of differences, some of which were noted in more or less detail by PERD. The primary point is that many of the comparisons to other entities and positions within those entities are really apples to oranges at best. West Virginia actually runs a more complex system than virtually all of its counterparts in other states. This is driven by the fact that all funds are invested by one entity, whereas in most other states multiple entities are managing funds. In fact, in most states there is a separate entity for each of the statewide retirement plans, a Treasury investment office, and multiple other entities for assets like Workers' Compensation, etc. By combining them, West Virginia has achieved a number of economic efficiencies, but from an operational standpoint, the management difficulties increase many fold. Moreover, because of this complex structure, the IMB has found that portfolio accounting can be better done in-house as opposed to relying on master custody banks for the service. This was a decision based upon experience with poor performance by custody banks and the advent of adequate software at reasonable prices to handle the job. West Virginia was one of the first public funds to venture down this path, a direction others are following. Compensation on the operational side (CFO, Director of Operations and, to some extent, the Executive Director) reflects these complexities.
2. Additionally, one of the lessons learned from the fiasco in the 1980s was that the investment losses were exacerbated by the fact that no one knew they were happening. This is because investment accounting was virtually non-existent and reporting was done on a cost basis, to the extent it was done at all. The lesson for West Virginia is that operational functions like investment accounting and reporting can be just as important as investment management. Compensation should reflect that conclusion.
3. PERD attempted to compare IMB's upper management salaries with those of retirement systems which are similarly organized, examining the effect of external versus internal management on compensation. While this is a worthwhile question to consider, I think

the results of PERD's analysis suggests what we have suspected—that it should not make much difference. From the IMB's perspective, whether the organization manages portfolios internally or externally, should not be the primary determinant of compensation. The Brinson, Hood, Beebower and, secondarily, the Ibbotson and Kaplan studies on asset allocation, demonstrate that return is dictated primarily by asset allocation, which manager one chooses, fee levels, incentive fee structures, and many other issues that are dealt with and resolved by the IMB and staff. Individual security selection, while important, pales in comparison to the impact of all of the other decisions.

4. PERD also attempts to compare IMB salaries to similar positions in the Charleston private sector, noting that they were not able to determine the industry or the realm of responsibility for the private sector positions. IMB's conclusion from similar analysis is that the local private sector is not a comparable universe for the IMB for the simple reason that there are no large private sector investment organizations in West Virginia with the possible exception of the West Virginia University Foundation. For this reason, comparisons to entities outside West Virginia are appropriate. Within the private sector, the proper entities are investment management companies, mutual fund companies, etc. While our Board recognizes and accounts for differences between the IMB and these organizations, it also recognizes that it is closer to these organizations than to banks or other financial institutions in West Virginia. Recently, *The Charleston Gazette* compared the IMB to Harvard's Foundation (over the last few years it is a very favorable comparison on a return basis). Thus, as an example of compensation in the foundation/private sector, I have attached Schedules IV and V from the fiscal year 1999-2000 Form 990 for the Harvard Management Company which discloses compensation ranges from \$2,000,000 to \$16,700,000.
5. PERD also attempts to compare IMB senior management salaries to other state government positions. While including salaries of department heads and elected officials, PERD specifically excludes the salaries of higher education employees in positions employed by the state. According to the State Auditor's records, including those listed in PERD's report, there are forty-one state positions with salaries ranging from \$135,000 to \$252,500 in excess of the salary of the Executive Director of the IMB. I will not attempt to explain the rationale for the exclusion of those salaries, but the attached article from Iowa provides an interesting discussion.
6. As to the recommendation PERD makes with regard to bonuses and the need for a formal and objective methodology for calculating bonuses in the future, we wholeheartedly agree. In fact, the Personnel Committee of the Board discontinued its bonus policy upon staff's recommendation. Our research suggested that performance for many positions at the IMB would not be easily enhanced by incentive compensation. Some other positions may potentially benefit from incentive compensation, but only with a more carefully designed decision-making structure and methodology.

With regard to benefits generally, the IMB has structured its total compensation package to accomplish two things: (1) address the demands of an investment organization that must compete with the private sector; and (2) avoid some of the unintended consequences of policies the State implemented many years ago. As noted in the PERD report and above, the IMB's salaries are still generally well below the private sector—always an issue when trying to attract and retain qualified personnel. One of the ways the IMB chose to deal with that is to try to provide an attractive benefit package to shore up deficiencies in salary. Even so, the IMB has tried to be responsible about its benefit package and not over compensate. Thus, some benefits are more lucrative than the State's while others are not. There is no reason to rehash the information provided by the PERD, but I will note some other issues that were not addressed.

1. **Vacation** — The columns below clearly demonstrate that the State enjoys a more lucrative vacation package than employees at the IMB.

	IMB	State
First 2 years	10 days	15 days
3 – 5 years	12-1/2 days	15 days
6 – 7 years	15 days	18 days
8 – 10 years	17-1/2 days	18 days
11 – 15 years	20 days	21 days
16 – 20 years	22-1/2 days	24 days
21 years, plus	25 days	24 days

2. **Holidays** — These differences are primarily driven by the need to be open when the markets are open. State employees enjoy three more holidays than employees of the IMB every year and every other year State employees get an additional two days off for elections. The net economic savings to the IMB generated by this difference in holiday packages is \$21,604.80.
3. **Increment Pay** — The IMB does not provide the increment payment that State employees receive. The economic savings to the IMB is \$7,471.
4. **Sick Leave** — The IMB caps sick leave at 60 days. State employees have unlimited carry forward, which may be used at retirement to increase retirement benefits or to purchase healthcare. Upon retirement from the IMB, all accrued sick leave is forfeited. The savings generated as a result is an actuarial calculation that we have not done. The IMB tries to provide an alternative for the cap on sick leave by providing a long-term disability benefit, as noted in the report.

*Mr. John Sylvia
Performance Evaluation and Research Division
Page 5 of 5
January 2, 2003*

5. **Health Plan** — Note that the premium cost to the employee is indexed to the overall cost. Consequently, employees have experienced and expect to continue to see increases in their premium payments over time.
6. **Retirement Plan** — As noted in the report, the IMB has a defined contribution retirement plan, while the State has a defined benefit plan. The IMB's plan was structured this way for two reasons. First, I understand that some of the beneficiary interest groups requested it to avoid any potential conflicts of interest. Second, the portability features of a defined contribution plan are important to the IMB's ability to attract qualified personnel. The trade-off for the employee is the assumption of risk. Employees of the IMB have to get through retirement only on what they earn. There is no guaranteed benefit as with the state's plan. Additionally, the lack of a provision for employee contribution in the IMB plan is dictated by IRS Code and is considered a negative by staff. Note, also, recent actions by the CPRB to increase the State's contributions to 10.5 percent funding will, in effect, make the cost of the IMB's plan less than the PERS plan going forward. Moreover, it is impossible for the IMB plan to become underfunded, since the IMB plan is a defined contribution plan.

John, I appreciate the PERD's professionalism and courtesy in auditing entities like us and in the preparation of these reports. I hope the additional information provided above is helpful. Also, in accordance with your suggestion, a representative from the IMB will be present at the meeting of the Joint Committee on Government Operations at the December interims to respond to the report and answer any questions the Committee may have. If you have any questions, please contact me at your convenience.

Sincerely,



H. Craig Slaughter
Executive Director

HCS:jah

SCHEDULE IV
HARVARD MANAGEMENT COMPANY, INC.
FEDERAL I.D. #23-7361259
FYE 6/30/00
FORM 990

SUPPORT FOR:
PART V - LIST OF OFFICERS AND DIRECTORS

NAME	TITLE	AVERAGE HOURS/WEEK	COMPENSATION	CONTRIBUTIONS TO BENEFIT PLANS	EXPENSE ACCOUNTS
JACK MEYER 600 ATLANTIC AVE BOSTON, MA 02210	PRESIDENT TREASURER CLERK	36+	2,088,000	24,872	-0-
EDWARD H. LADD STANDISH, AYER & WOOD ONE FINANCIAL CENTER BOSTON, MA 02111	DIRECTOR	.5	20,000	-0-	-0-
ROBERT G. STONE, JR. CHRYSLER BUILDING 405 LEXINGTON AVE. NEW YORK, NY 10174	DIRECTOR	.5	22,000	-0-	-0-
RICHARD A. SMITH HARCOURT GENERAL, INC. 27 BOYSTON STREET CHESTNUT HILL, MA 02167	DIRECTOR	.5	18,000	-0-	-0-
HERBERT S. WINKUR, JR. CAPRICORN PARTNERS, L.P. 30 EAST 84TH STREET GREENWICH, CT 06830	DIRECTOR	.5	20,000	-0-	-0-
JOSEPH W. O'CONNOR 526 GROVE ST NEEDHAM, MA 02492	DIRECTOR	.5	16,000	-0-	-0-
D. RONALD DANIEL MCKINSEY AND COMPANY, INC. 35 EAST 52 STREET NEW YORK, NY 10055	DIRECTOR	.5	-0-	-0-	-0-
NEIL L. RUDENSTINE HARVARD UNIVERSITY MASSACHUSETTS HALL CAMBRIDGE, MA 02138	DIRECTOR	.5	-0-	-0-	-0-
JAY O. LIGHT HARVARD BUSINESS SCHOOL MORGAN 409 SOLDIERS FIELD ROAD BOSTON, MA 02183	DIRECTOR	.5	18,000	-0-	-0-
HILDA OCHOA-BRILLEBOURG STRATEGIC INVESTMENT MGMT. 1001 19TH ST. NORTH POTOMAC TOWER, 16TH FLOOR ARLINGTON, VA 22209	DIRECTOR	.5	18,000	-0-	-0-

Schedule V
 HARVARD MANAGEMENT COMPANY, INC.
 Form 990
 FY 1999-2000

<u>NAME</u>	<u>TITLE</u>	<u>AVERAGE HOURS/ WEEK</u>	<u>SALARIES & BONUSES</u>	<u>BENEFITS</u>	<u>TOTAL</u>
JEFFREY B. LARSON 600 ATLANTIC AVE BOSTON, MA 02210	SENIOR VICE PRESIDENT- INTERNATIONAL EQUITY	40+	16,732,995	24,972	16,757,967
DAVID R. MITTELMAN 600 ATLANTIC AVE BOSTON, MA 02210	SENIOR VICE PRESIDENT- FIXED INCOME	40+	10,719,174	78,472	10,797,646
PHILLIP T. GROSS 600 ATLANTIC AVE BOSTON, MA 02210	VICE PRESIDENT- EQUITY	40+	8,663,164	72,471	8,735,635
ROBERT G. ATCHINSON 600 ATLANTIC AVE BOSTON, MA 02210	SENIOR VICE PRESIDENT- EQUITY	40+	7,239,984	75,972	7,315,956
FRANK DUNAU 600 ATLANTIC AVE BOSTON, MA 02210	VICE PRESIDENT- EQUITY	40+	5,829,732	24,972	5,854,703

NOTE: A SUBSTANTIAL PORTION OF COMPENSATION IS COMPRISED OF CURRENT OR PRIOR YEAR BONUS PAYMENTS, OR BOTH, THAT ARE BASED ON THE RETURNS OF ASSETS MANAGED BY THE EMPLOYEE RELATIVE TO PREDETERMINED BENCHMARK RETURNS.

Pay for government talent

Iowa should stop trying to get by on the cheap.

Gov. Tom Vilsack pulled off a minor coup last week when he hired Michael Blouin away from the Greater Des Moines Partnership to be the state's economic-development leader.



Blouin



Vilsack

It almost didn't happen. The state very nearly could not afford Blouin. It wouldn't have happened were it not for Blouin's willingness to take a cut in pay and a sweetener from a private fund.

Think about that for a minute. The great State of Iowa is unable to lure the best and brightest to a key state job.

It's not because the state can't afford it, despite a short-term revenue trough. The cost of competitive salaries for top-flight talent is the equivalent of paving a few feet of highway.

The problem is not one of wallet but of will. The state chooses to offer no competitive compensation for top department heads and elected officials out of a backwater view that public service is a second-rate calling unworthy of pay equivalent to the private sector.

Like so much else in Iowa, mediocre salaries for state officials is good 'nuff. If you want to make big bucks, go somewhere else.

This rule does not apply, however, to really important jobs like football coaches. Fans of state university athletics understand that if Iowa expects to attract coaches who can field teams on par with the best of their conferences, they have to pay the going rate. Some

may grumble about a football coach pulling down a million dollars a year, yet few would seriously argue that Iowa should pay coaches what the governor earns (\$107,482).

In fact, the Legislature's salary caps do not apply to state university administrators or faculty. Why? Because lawmakers know that if we really believe our boasting that we want our universities to be among the best in the nation, we've got to pay the going rate for a football coach or a medical professor.

So why doesn't this apply to the rest of state government? The job of directing the state's economic development strategy is the last place Iowa should get by on the cheap.

Yet the salary as capped by the Legislature doesn't come close to comparative pay in the private sector. Just to get in the ballpark, Vilsack had to dip into a fund set up by private businesses to subsidize state economic development efforts.

That is dangerous. It's OK for donors to endow a chair at the university, but it shouldn't work that way with state officials. They should answer to the taxpayers, not business interests.

If Iowa expects to sail out of the economic doldrums, it has to make some fundamental changes in the way it thinks about things. Pay for key state officials is a place to begin.

The state of Iowa should at least want to be as good as its football teams.

