SETTLEMENT AGREEMENT AND RELEASE

A. PARTIES AND PURPOSE:

This mutual Settlement Agreement and Release ("Settlement Agreement") is made between the following parties:

1. The People of the State of California ex rel. Bill Lockyer, Attorney General of the Sate of California; and

2. The American National Red Cross ("ARC") and its chartered units, which include, but are not limited to, the San Diego & Imperial Counties Local Chapter of the ARC ("SDIC").

The foregoing parties to this Agreement are hereinafter referred to collectively as the "Settling Parties" and each separately as a "Settling Party."

3. This Settlement Agreement is for settlement purposes only and solely for the purpose of compromising and settling matters in dispute. The parties being released deny all allegations of liability. By entering into this Settlement Agreement, the ARC does not waive any defenses it may have to any action based upon sovereign immunity. Neither this Settlement Agreement nor any action taken pursuant to this Settlement Agreement shall constitute any admission of any wrongdoing, fault, violation of law, or liability of any kind by the Settling Parties.

B. RECITALS:

In 2002, the Attorney General commenced a charitable trust investigation of the ARC and the SDIC, including the officers and directors of the SDIC ("the Attorney General's Investigation" or "the Investigation"). The Investigation examined several allegations related to disaster relief in connection with the 2001 Alpine-Viejas fire in San Diego County; the accounting for funds that were donated to support the ARC's response to the Alpine-Viejas fire;

24 fundraising practices; excessive executive compensation; governance, oversight and
25 accountability; and conflicts of interest.

26 This Settlement Agreement resolves all issues that have been raised in connection with
27 the Investigation and will conclude the Investigation.

28 In connection with the Investigation, it is the position of the Attorney General that he
29 found evidence of the following: (1) the funds remaining in the Alpine-Viejas Fire Disaster
30 Fund were restricted for relief to victims of that disaster; (2) the ARC's nationwide Donor
31 DIRECT fundraising program included misleading solicitation language; (3) the ARC's policies
32 and procedures related to executive compensation were inadequate and provided little guidance,
33 oversight or accountability at the local and national levels; and (4) the former Chief Executive
34 Officer of the SDIC, Donita Rotherham, was excessively compensated during the period of July
35 1, 1997 through June 30, 2002. The ARC disputes this evidence.

36 Subsequent to being apprised of the findings in the investigation, the ARC disbursed all
37 of the funds remaining in the Alpine-Viejas Fire Disaster Fund to victims of the fire disaster in
38 the form of supplemental grants.

39 The ARC also proposed new procedures and guidelines relating to chapter executive
40 compensation and submitted them to the Attorney General for review and comment. The new
41 executive compensation procedures and guidelines have been adopted by the ARC for its use
42 nationwide.

43 In addition, in May 2006, the ARC's Board of Governors adopted new solicitation
44 language for its Donor DIRECT fundraising program, which now includes an advisement to
45 donors that they must designate their donations for a specific disaster if they want the donation to
46 be used only for that disaster and not other disasters.

47 The Settling Parties wish to avoid the expense and uncertainty of litigating any remaining
48 claims. It is the desire of the Settling Parties to fully and finally settle all charitable trust law
49 claims related to the Attorney General's Investigation.

50 **C. SETTLEMENT TERMS:**

51 1. The Attorney General will forego litigation against the ARC, the SDIC, current and
52 former directors and officers of the SDIC including Donita Rotherham, and current and former
53 members of the ARC Board of Governors related to the compensation Ms. Rotherham received
54 during the period of July 1, 1997, through June 30, 2002. This decision is based, in part, on the
55 fact that, under the ARC's applicable indemnification policy contained in Section 11 of the
56 ARC's Corporate Bylaws, in an action filed by the Attorney General against the ARC and others,
57 the ARC would have to reimburse directors and officers named as defendants for all litigation
58 costs arising from their services *and all damages* (i.e., the amount of excessive compensation)
59 found to have been caused by the directors'/officers' conduct, unless the officer/director acted in
60 bad faith and in a manner not reasonably believed to be in the best interests of the ARC, or acted
61 with malice, dishonesty or recklessness. Were the Attorney General to pursue such action and
62 the indemnification provision in Section 11 of ARC's Corporate Bylaws come into play, the
63 ARC would be forced to pay significant sums in defense costs and damages to the substantial
64 detriment of its valuable programs. This decision is also based upon the fact that the ARC's new
65 procedures and guidelines related to executive compensation, which were submitted to the
66 Attorney General's Office for review and comment, address the Attorney General's concerns
67 about inadequate controls, lack of guidance and lack of oversight and accountability; and should
68 help to avoid problems of excess compensation in the future;

69 2. With regard to all chapters located in California, the ARC agrees to follow the new
70 executive compensation policies, procedures and guidelines (the "Compensation Policy") that
71 the Settling Parties agreed to, which are attached to this Settlement Agreement as Exhibit 1 and
72 are incorporated by reference as if fully set forth herein. The Settling Parties recognize that from
73 time-to-time the ARC may review and amend its executive Compensation Policy for many valid
74 reasons – for example, to comply with changes to federal law or to update the procedures to
75 further ensure that executive compensation is reasonable and appropriate – and that such
76 amendments do not breach the terms of this Settlement Agreement. The Settling Parties agree,
77 however, that because they have worked together productively on this issue, that should the ARC
78 amend its executive Compensation Policy for any reason during the course of the next three
79 years, it will notify the California Attorney General 30 days before the amendments are
80 implemented (unless the ARC is legally required to implement the amendments earlier). The
81 Attorney General retains its right to investigate and litigate any instances of alleged excessive
82 compensation other than Ms. Rotherham's compensation received during the period of July 1,
83 1997 through June 30, 2002;

84 3. The new Donor DIRECT solicitation language (the "Solicitation Language"), which
85 was adopted by the ARC Board of Governors in May 2006, and which is attached to this
86 Settlement Agreement as Exhibit 2 and is incorporated by reference as if fully set forth herein,
87 will be included in all ARC-sponsored solicitations for donations to the ARC's National Disaster
88 Relief Fund in print media, by direct mail, or electronic mail (e-mail) occurring in California.
89 With regard to ARC-sponsored solicitations for donations to the ARC's National Disaster Relief
90 Fund by radio and television occurring in California, all such solicitations will include a
91 reference to the ARC's website, www.redcross.org or 800 telephone lines, 1-800-RED-CROSS

92 or 1-800-HELP-NOW, where the Donor DIRECT Solicitation Language is either located (in the
93 case of the website), or provided to the prospective donor (in the case of the telephone lines).
94 The Settling Parties agree that should such Solicitation Language be revised in the future
95 (for any reason, including but not limited to compliance with Federal law), such revision shall
96 not be a breach of this Settlement Agreement. However, prior to any such revision for the next
97 three years, the ARC shall give 30-days' notice of such proposed revisions to the Attorney
98 General. The Attorney General retains its right to investigate and litigate any future instances of
99 alleged misleading solicitations according to the facts which exist at such future time.
100 4. No later than December 31, 2006, the ARC shall pay the Attorney General's Office
101 $135,000 of the fees and costs the Attorney General incurred in connection with the
102 Investigation. Such payment shall be made to the California Attorney General's Litigation
103 Deposit Fund and delivered to the Attorney General's Office located at 300 Spring Street, Los
104 Angeles, CA 90013, to the attention of the Deputy Attorney General Sonja K. Berndt. Such
105 payment shall be used for the administration of the Attorney General's charitable trust
106 enforcement responsibilities.
107 5. Effective upon the execution of this Settlement Agreement and with the exception of
108 the respective obligations contained in this Settlement Agreement, the Settling Parties hereby
109 release and forever discharge each other, for themselves and on behalf of any persons or entities
110 whose interests the Settling Party represents, as well as any and all of the other Settling Parties'
111 current and former officers, directors, principals, employees, agents, donors, underwriters,
112 representatives, insurers, attorneys, predecessors, successors, parents, subsidiaries, affiliates, and
113 assigns from all claims, demands, causes of action, damages, losses and liabilities of any nature,
114 kind or description, whether in law or in equity, in contract or in tort, and whether or not

115 presently known, suspected, claimed or alleged, which may be based upon, arise from, or in any
116 manner relate to the Attorney General's Investigation. The Settling Parties understand this
117 release is a general release applicable to all potential claims they or their Agents may have
118 against each other arising out of the Attorney General's Investigation. The Settling Parties
119 expressly waive and relinquish all rights afforded by California Civil Code Section 1542, which
120 states: "A general release does not extend to claims which the creditor does not know or suspect
121 to exist in his favor at the time of executing the release, which if known by him must have
122 materially affected his settlement with the debtor."

123 **D. GENERAL PROVISIONS:**

124 1. **Entire Agreement:** This Settlement Agreement and Release contains the entire
125 agreement and understanding between the Settling Parties concerning its subject matter and
126 supercedes all other agreements of any kind concerning the subject matter of this Settlement
127 Agreement. Each of the undersigned warrants that no promise or inducement has been offered
128 except as set forth herein; that this Settlement Agreement is executed without reliance upon any
129 statement or representation by the person or parties released, or their representative, concerning
130 the nature and extent of injuries and/or damages and/or legal liability therefor.

131 2. **Benefit of Counsel:** Each Settling Party acknowledges that he, she or it has read this
132 entire Settlement Agreement and understands it and, in addition, has had an opportunity to
133 discuss it with an attorney and make whatever investigation or inquiry that party may deem
134 necessary or desirable in connection with the subject matter of this Settlement Agreement.

135 3. **Legal Capacity:** Each of the Settling Parties warrants that he, she or it is legally
136 competent to execute this Settlement Agreement.

137 4. **Cooperation:** Each Settling Party shall cooperate fully in the execution of this
138 Settlement Agreement and any other documents, and any other actions that may be necessary or
139 appropriate to give full force and effect to the terms and intent of this Settlement Agreement.

140 5. **Contractual Terms:** The terms of this Settlement Agreement are contractual and not
141 mere recitals.

142 6. **California Law:** This Settlement Agreement shall be governed by the laws of the
143 State of California.

144 7. **Successors and Assigns:** This Settlement Agreement shall be binding upon the heirs,
145 devisees, executors, affiliates, administrators, successors, assigns, officers, directors, former
146 directors, agents, employees, and former employees of the parties hereto, in addition to any
147 persons or entities whose interests are represented by one of the Settling Parties.

148 8. **Substitute Executive of Agreement:** Any person executing this Settlement
149 Agreement on behalf of any party does hereby personally represent and warrant to the other
150 parties that he/she/it has the authority to execute this Settlement Agreement on behalf of, and to
151 fully bind, that party.

152 9. **Severability:** If any provision of this Settlement Agreement is held to be invalid, void
153 or unenforceable, all of the remaining provisions shall nevertheless continue in full force and
154 effect without being impaired or invalidated in any way.

155 10. **Joint Product:** This Settlement Agreement is a product of bargained for, arms-
156 length negotiations between the Settling Parties and their counsel. No party shall be considered
157 the author of this "Settlement Agreement. This Settlement Agreement will not be construed for
158 or against any Settling Party or its representatives.

11. **Counterparts:** This Settlement Agreement may be executed in separate counterparts, each of which shall be deemed an original, and said counterparts shall together constitute one and the same Settlement Agreement, binding all parties hereto notwithstanding that all of the parties are not signatory to the original or same counterpart.

12. **Enforcement of Settlement Agreement:** Any action in law or in equity, including an action for declaratory or injunctive relief, brought to enforce or interpret the provisions of this Settlement Agreement, shall be brought in either the California Superior Court for the County of San Diego or the United States District Court for the Southern District of California. In any such action, the prevailing party shall be entitled to all of its attorneys' fees and costs in prosecuting or defending that action. This shall include, but is not limited to, any proceedings necessary to collect settlement payments.

13. **Investigation:** Each of the undersigned further acknowledges that the party executing this Settlement Agreement has made such investigation of the facts pertaining to the settlement and this Settlement Agreement and all matters pertaining hereto as he or she deems necessary and enters into this Settlement Agreement with full knowledge of those facts.

14. **Parties to Bear Own Costs:** Except as otherwise stated herein, each party shall bear its own attorneys' fees and costs.

IT IS SO AGREED:

AMERICAN RED CROSS

Dated: Dec. 21, 2006 By: _____

MARY S. ELCANO
General Counsel and Corporate Secretary

MORAVECS
A Professional Law Corporation

Dated: 12/27/2006

By: _____
HENRY J. MORAVEC, III. ESQ.
Attorney for the American National Red Cross

Dated: 12/27/2006

BILL LOCKYER, Attorney General
of the State of California
BELINDA JOHNS
Senior Assistant Attorney General
JAMES M. CORDI
Supervising Deputy Attorney General
SONJA K. BERNDT
Deputy General Counsel

By: _____
SONJA K. BERNDT
Deputy Attorney General

Attorneys for Bill Lockyer,
Attorney General for the State of California

EXHIBIT 1

EXHIBIT 1A

505.1.1. Chapter Executive Recruitment, Selection, Employment and Orientation

Date Issued:	November 15, 2004 (Revised August 1, 2006)
Purpose:	To provide guidance to staff engaging in the recruitment, selection, employment and orientation of Chapter Executives
Users:	NHQ and Service Area staff involved in recruiting, selecting, employing and orienting chapter executives, in particular Service Area Executives, Chapter Solutions Managers, Service Area VMHR Officers
NHQ Contacts:	For technical guidance on this process – Mike Kessler, Director Human Resources Policy and Planning, (202) 303-4188, kesslerm@usa.redcross.org. For legal advice and counsel – Chevanniese Smith, Senior Counsel, (202) 303-4936, SmithCheva@usa.redcross.org .

These procedures will be implemented as each Service Area becomes operational. The Service Area VMHR Officer will utilize Chapter Solutions Managers to support the chapter executive search and selection process as liaisons with individual chapter executive search committees as appropriate. Specific guidance to the chapter executive search committee is provided in the ***Guidelines and Procedures for the Chapter Search Committee*** (developed by NHQ HR).

Definitions:

Base Salary: Is the guaranteed fixed cash compensation usually calculated on an annual basis.

Total Compensation Package Matrix or Compensation Matrix: The chart attached at the end of this document which contains a list of the parameters of permitted compensation components and needed approval authorities.

Employment Agreement:: An employment agreement/contract drafted by the Office of General Counsel ("OGC") and approved by corporate management as the format required if a chapter receives special approval from the President and CEO, or his or her designee, to have such an agreement.

Final Total Compensation Package: Final offer to be given to the candidate selected for the chapter executive position. It includes all aspects of compensation including bonuses, incentives, benefits, etc. and has been approved by the chapter board in accordance with chapter bylaws/policies and the Service Area.

Guidelines: Guidelines and Procedures for the Chapter Search Committee, a document given to the chapter search committee by the Service Area.

HR Compensation: The Compensation group within the Human Resources Department at national headquarters.

Relocation: A component of compensation provided to a new hire to assist the new hire who relocates at the request of the Red Cross within the continental US and whose work location is at least 50 miles from his or her residence at time of hire.

Total Compensation Parameters: The set of compensation components and their ranges (e.g., a base salary range of $57-94k) approved by the chapter and the Service Area to be used as part of the chapter's recruitment process.

Total Compensation: Includes all components of compensation package including base salary, bonuses, incentives, benefits, etc.

Procedure:

I. Vacancy Occurs

Service Area is notified by the chapter of the vacancy. Vacancies will be tracked in each Service Area through the Workforce Vision database. The Service Area arranges for interim leadership, where required.

II. Preparing for the Local Search

A. Local chapter search committee forms. The Chapter Chairperson appoints a Search Committee Chairperson.
B. Service Area representative sends standard ***Guidelines and Procedures for the Chapter Search Committee*** (hereinafter "***Guidelines***") to the chapter.
C. Service Area Executive (or designee) connects with the chapter and reviews the ***Guidelines*** to ensure that the chapter search committee understands the rules and requirements involved in a local search. For example, the Service Area representative discusses the need for the finalist to be interviewed at National Headquarters, if applicable. Highlights of the ***Guidelines*** include:

    1. Identifying needs for the next chapter executive – prioritizing critical competencies, developing job description and completing the chapter profile report.
    2. Development of a recruitment plan with feedback from the Service Area.

3. Development, with final approval from the Service Area Executive, of the parameters of the total compensation package for the search process and the final total compensation package for the selected candidate.
4. Use of executive search firm. ***NOTE:*** *This guidance pertaining to executive search firm is effective for searches that enter the phases described below as of 1/1/05.* If the chapter seeks to use an executive search firm, the Service Area must approve the use of such firm and the specific firm to be used prior to the search committee engaging the services of the search firm.
    - National contracts are established by the Vendor Manager in Human Resources at NHQ with preferred search firms with nationwide reach. Use of alternate firms is discouraged and requires pre-authorization from the Service Area. The Service Area will review any potential conflict of interest prior to approving.
    - In cases where alternate firms are requested by the chapter search committee, it is recommended the search firm be a member of the Association of Executive Search Consultants (AESC).
    - The total compensation parameters that a chapter provides to an Executive Search firm for recruitment must be consistent with the parameters approved by the Service Area Executive.
    - Executive Search firms should be contracted to source and screen candidates only. Executive Search firms are **not** permitted to be involved in the negotiation of the total compensation package with candidates.
5. Developing a strong pool of job seekers - advertising the chapter executive vacancy, recruiting internally through "jobs" section of CrossNet, the StarTrack program and other internal mechanisms.
    - Credential screening
    - Interviews
    - Reference and background checking

III. Setting Reasonable and Appropriate Compensation Parameters

A. ***The param eters of the total compensation package for the chapter executive must be approved by the Service Area Executive before the chapter search committee begins its interview process***. At the outset of the local search process, the Service Area representative discusses the parameters of the total compensation package with the chapter search committee – including base salary range, relocation and other benefits. During the first discussion, the Service Area representative should determine the thoughts of the local search committee and board regarding the compensation package for the chapter executive position. At the same time, the Service Area representative should explain the ***Guidelines*** including the Red Cross's compensation philosophy, the Total Compensation Package Matrix (discussed later), and the necessary approvals involved in setting the compensation parameters and final compensation offer to the successful

candidate. If necessary, the Service Area representative should work with the search committee to reconcile the search committee's expectations with the corporate compensation philosophy and process.

B. In pre paration for discussions with the chapter search committee, the Service Area representative should request market specific data on appropriate base salaries for the chapter executive position from HR Compensation. The search committee may secure local non-profit employment market data and provide that data to the Service Area representative for analysis by HR Compensation as part of these discussions.

C. **Roles and Responsibilities**. As the total compensation parameters and then the final total compensation and employment package is established and approved the following roles and responsibilities exist:

1. **Service Area**
   - Begins process with chapter search committee by explaining the ***Guidelines*** including the process for establishing the parameters for the total compensation package.
   - Requests compensation analysis of the chapter executive position from HR Compensation. If chapter search committee has local non-profit market information that they would like considered in the process, the Service Area representative obtains that information and provides it to HR Compensation.
   - Reviews compensation analysis from HR Compensation and works with chapter search committee to stay within the specific parameters for the total compensation package **(see *Total Compensation Package Matrix* at end of 505.1.1(hereinafter "C*ompensation Matrix*"))**.
   - After discussion with the chapter search committee, Service Area Executive approves the total compensation package parameters proposed by the chapter search committee. Ensures that total compensation parameters fall within the ***Compensation Matrix***.
   - Once the final candidate has been identified *and prior* to any offer to the candidate, approves the final total compensation package to be offered. The final total compensation offer must be consistent with the Compensation ***Matrix*** unless special approval is received from the Senior Vice President, Service Areas ("SVP, Service Areas") or other approval authority designated in the ***Compensation Matrix***.
   - Requests guidance, as needed, from HR and OGC if compensation package deviates from ***Compensation Matrix***.
   - Seeks approval for base salary more than 25% of the market composite from the SVP, Service Areas.
   - Develops terms and conditions of chapter executive employment with the chapter board as reflected in the employment offer letter ensuring the offer letter reflects approved and negotiated terms and conditions.

- If a chapter search committee requests an employment agreement/contract, distributes Employment Agreement and works with OGC to finalize the agreement in discussion with the chapter search committee.

2. **Chapter Search Committee and Chapter Board**
   (1) Reviews ***Guidelines*** and ***Compensation Matrix*** provided by the Service Area and discusses compensation philosophy and procedures with the Service Area representative prior to beginning local search. Provides recommendation and thinking on the compensation parameters during initial discussions with the Service Area representative including any local non-profit market compensation data that they have.
   (2) Receives compensation analysis conducted by HR Compensation from Service Area representative. If necessary, reviews and discusses compensation analysis with Service Area representative. Proposes parameters of total compensation package, for approval by Service Area Executive, to be used during search process.
   (3) Conducts local search within the total compensation parameters approved by the Service Area Executive.
   (4) Once a final candidate is identified and before the chapter extends an offer, consistent with their local board policies including their chapter bylaws, the appropriate individuals (usually the Executive Committee of the board) reviews and analyzes the base salary recommendations from HR Compensation. The purpose of this review and analysis is to ensure that the Red Cross is providing reasonable and appropriate market-driven compensation to the chapter executive candidate. The analysis must consist of a critical study of the supporting data which includes reviewing information, asking questions about the information and deliberating on the issue. These actions must be documented in board approved minutes containing an explanation of the assessment of reasonable and appropriate compensation based on the independent compensation analysis. Sends a copy of the meeting minutes to the Service Area.
   (5) Approves the final total compensation package recommendation for the selected and approved candidate to be recommended to the Service Area Executive for final approval. The final total compensation package recommendation from the chapter must be within the pre-approved total compensation parameters (set before the search) or the chapter must get special approvals consistent with the Compensation Matrix. The Executive Committee or some other body designated by local chapter policy usually performs this step.

3. **Senior Vice President, Service Areas**

(1) Reviews and approves requests from Service Area representatives of base salary exceptions greater than 25% above the market composite. Liaisons, as appropriate, with Office of General Counsel and NHQ HR.
(2) Facilitates and coordinates issues outside of this procedure with all appropriate NHQ units.
(3) If a chapter requests an employment agreement/contract, facilitates the review of employment agreement terms and conditions by the Executive Vice President, Chapter and International Operations ("EVP, Chapter and International Operations") and President/CEO.

4. **Office of General Counsel**
   (1) Provides advice and counsel to Service Areas and chapters, in coordination with HR, on issues of potential total compensation packages in excess of the parameters contained within the ***Compensation Matrix***. Participates, when requested by the Service Area representatives, in discussion with the chapter board on issues of potential excess total compensation.
   (2) Provides advice and counsel to Service Areas on chapter driven requests for employment agreements/contracts. Develops draft employment agreements, reviews with Service Area representatives, and participates with Service Area representatives, in discussion with chapters on content of employment agreements/contracts.

5. **Human Resources Department at National Headquarters including HR Compensation**
   (1) Develops and distributes philosophy on chapter executive total compensation including elements that are endorsed philosophically and do not require ongoing input from HR, the Office of General Counsel, the SVP, Service Areas, and the EVP, Chapter and International Operations.
   (2) Conducts a compensation analysis of the chapter executive position to provide base salary range for the chapter executive position to Service Area representatives based on market driven non-profit data. Analyzes any local non-profit employment market data provided by the chapter search committee through the Service Area representative. Works with Service Area representative on questions on base salary recommendations.
   (3) Provides advice and guidance to Service Area representatives on other elements of total compensation package and chapter executive search and selection process.

D. The following describes the process used by HR Compensation to conduct a compensation analysis for establishing the parameters of the total compensation package:

1. The Service Area Volunteer Management/Human Resources Officer will contact HR Compensation at the onset of the search process for a salary workup.
2. HR Compensation will review FOCIS data for the chapter.
3. HR Compensation reviews at least two reputable surveys on nonprofit salaries for appropriate position ranges.
4. HR Compensation reviews budget size and number of paid staff as the two primary factors in determining the appropriate salary recommendations based on categories provided on the surveys. HR Compensation will perform a regression analysis in cases where the surveys have different groupings or categories by budget size and number of paid staff.
5. HR Compensation establishes a market composite for the chapter executive position vacancy and provides the Service Area representative with a target range equivalent to +/- 10% of market with a potential width to flex to +/- 25% of market.
6. HR Compensation considers a geographic differential in the analysis.
7. HR Compensation will clearly document the base salary analysis in a formal document to the Service Area representative, attaching the backup data. The Service Area representative will share the documentation with the chapter search committee and board chairperson.
8. HR Compensation will assist the chapter and Service Area representative in assessing the market composite for elements of compensation other than base salary.

IV. Local Search Process: Recruitment and Selection

A. The chapter search committee follows the standard ***Guidelines***.
B. The chapter search committee advertises the position at sources identified in the recruitment plan. This may include: posting the position on CrossNet and leveraging national advertising vendors such as the Non-Profit Times and Chronicle for Philanthropy at discounted rates. Advertising costs are paid from the chapter search committee budget. The Service Area representative supports internal recruitment by accessing information on the Work Force Vision data base and notifying StarTrack Program contacts.
C. The Service Area representative supports and monitors the search process.
D. The chapter search committee reviews credentials of all job seekers and provides the Service Area representative with credentials on the top job seekers.
E. The Service Area Executive reviews the credentials of the top job seekers prior to interview. Only job seekers approved by the Service Area Executive may be interviewed by the chapter search committee. The Service Area Executive will document reasons for approval/denial. As part of the review process for internal, Red Cross job seekers (both current and former) endorsed by the Service Area Executive, additional assistance will be requested from other national headquarters resources. This assistance will

be sought prior to confirming endorsement with the chapter search committee. The Volunteer Management/HR Officer will query NHQ resources including:

1. OGC – input on any important legal issues where the internal job seeker may have been involved (including Concern Connection Line situations)
2. Human Resources – any additional information to supplement Service Area knowledge on job seeker
3. The Office of Chapter Quality Assurance – input on important trends and metrics from the Red Cross unit where the job seeker is currently or was most recently employed
4. Audit Services – input on recent audit findings from the Red Cross unit where the job seeker is currently or was most recently employed
5. Finance – input of financial standing of the Red Cross unit where the job seeker is currently or was most recently employed

Feedback from all national headquarters resources will be provided to the Service Area within 5 business days of receipt.

F. Interviews are conducted by the chapter search committee, with involvement from the Service Area representative, for the job seekers who have been approved by the Service Area Executive. The Service Area representative will exercise a range of discretion on the level of involvement in the interview process. Involvement may range from participating on the interview panel with the chapter executive search committee to an independent interview by the Service Area Executive. The level of involvement will be driven by a number of considerations including, but not limited to:

1. Prior performance of the chapter
2. Recent chapter issues
3. Size of the unit
4. Candidate credentials
5. Other considerations

G. The chapter search committee and Service Area Executive identify the top candidate.

H. ***For the 51st through the 75th largest units the final candidate will be interviewed by the SVP, Service Areas via telephone. For strategic chapters (largest 50) the final chapter executive candidate interviews with the SVP, Service Areas (or his or her designee) and EVP, Chapter and International Operations (or his or her designee) at National Headquarters prior to the extension of an employment offer. For very large units the President/CEO will also be part of the interview team. The procedure for strategic chapters is attached. For all other chapters, the Service Area Executive is the final National Headquarters representative in the approval process.***

I. Employment Offer protocols (including issues of employment agreements) are discussed with the chapter search committee.

V. Selection of Final Candidate and Employment Offer

A. **Background and Reference Check.** A background and reference check is conducted on the top candidate by the Service Area. This background check is funded by the chapter. Background and reference checking will include a review of employment history, academic credentials and a criminal background check.

B. If a successful background and reference check is obtained, the chapter search committee provides the chapter's recommendation on the final total compensation package offer to the Service Area representative. (See Section III.C.2(4) discussing process chapter is to use to develop their recommendation.) The Service Area Executive reviews the total compensation offer.

C. Service Area Executive approves the final total compensation package, consistent with total compensation philosophy, after finalist has been identified.

D. Service Area Executive requests approval through the SVP, Service Areas for total compensation that deviates from philosophy and/or for compensation that exceeds the Compensation Matrix.

E. The Service Area representative develops the terms and conditions of employment with the chapter board as reflected in employment offer letter.

F. If approved, the chapter search committee extends an employment offer to the top candidate. A formal offer letter is generated by the search committee using the standard template found in the ***Guidelines***. The Service Area Executive is copied on the formal written offer letter. The Service Area maintains a file on any employment information related to each chapter's executive search and the selected candidate.

G. If an employment agreement/contract is requested by a chapter, the Service Area representative will work with the Office of General Counsel to finalize the agreement. The chapter search committee will forward to the Service Area representative any employment terms and conditions that differ from the template Employment Agreement. The Service Area representative will forward the list of terms and conditions to the Office of General Counsel who will assist the Service Area representative and the chapter search committee in finalizing the terms list for submission to the President and CEO or his or her designee for approval pursuant to BoG Policy.

   1. Once the terms list has been drafted, the SVP, Service Areas will work with the EVP, Chapter and International Operations to present the chapter's request for an employment agreement/contract (which is an exception to the standard policy) and the specific list of terms being requested to the President and CEO, or his or her designee.

2. The President and CEO, or his or her designee, will approve in whole, approve in part, or deny in entirety the chapter's request for an employment agreement/contract and the specific terms.
3. The Service Area Executive will convey the decision of the President and CEO, or his or her designee, to the chapter search committee.
4. If a request for an exception to provide an employment agreement/contract to a chapter executive is approved, the employment agreement/contract must still conform to the Employment Agreement maintained by OGC. OGC will assist the chapter in putting the terms approved by the President and CEO, or his or her designee, into the Employment Agreement that will then be offered to the candidate. A copy of the fully executed chapter executive Employment Agreement is sent to the Service Area representative.

H. Upon acceptance of an offer, the Service Area representative updates the WorkForce Vision database.
I. The Training Leadership Development contact at national headquarters prepares the monthly list of new appointments using the Work Force Vision database and sends to CrossNet for posting.

VI. Beyond Offer

The chapter search committee provides for the establishment of annual goals with input from the Service Area Executive. Orientation and initial job training for the newly hired chapter executive begins and is coordinated by the Service Area representative. This includes the distribution of the Chapter Executive Quick Start Guide, scheduling of participation in the next Chapter Executive Institute, scheduling of participation in the next Creating Leadership Connections course and any other development that would be beneficial as initial orientation.

Total Compensation Package Matrix

Total Compensation Item	Parameters	Approval Required to Include in Total Compensation Package
Base salary	Pay within compensation philosophy at competitive market level (typically +/- 10% with a potential width to flex to +/- 25% of the market composite provided by HR Compensation at NHQ).	Chapter Board recommendation with approval from the Service Area Executive. Special approval to go outside +25% parameter needed by SVP, Service Area. Special approval to go outside -25% parameter needed by the Service Area Executive.
Automobile/Automobile Allowance	Provided for business purposes. Personal use is taxable income. Mid-range vehicles are recommended. Annual allowance or cost of company provided car will not exceed $7,500 without approval from Service Area Executive.	Chapter Board up to $7,500. Service Area Exeuctive approval for between $7,500 – 9,000.
Memberships – professional clubs and associations	Provided if business related	Chapter Board
Severance – outside of local HR policy	Document in consultation with OGC via signed severance agreement and general release.	President/CEO through EVP, Chapter and International Operations
Tuition reimbursement	Ongoing education supported, if financially feasible at the chapter in manner consistent with local HR policy. Academic programs, for degrees beyond those that are part of the minimum job requirements, are not fully funded by Red Cross. Degrees that are part of the minimum job requirements are expected upon hire.	Chapter Board
Incentive pay/plan	Must follow the standard template available through the Service Area.	Service Area Executive
Hiring Bonus	Not permitted.	N/A
Health and welfare (medical, dental, disability)	Provided if offered at the chapter at normal levels offered to eligible employees.	Chapter Board
Savings plan	Provided if offered at the chapter at normal level offered to eligible employees	Chapter Board
Retirement	Provided if offered at the chapter at normal level offered to eligible employees	Chapter Board
Special Retirement Arrangements/SERPs	Not permitted.	N/A
Special Deferred Compensation Arrangements	Not permitted.	N/A
Relocation	Provided up to a level equivalent with the national	Chapter Board with final approval from the Service Area

	sector policy based on the following guidelines: • Top 100 chapter (population) – Red Cross strongly encourages that a relocation package is provided. If relocation is provided, a national sector level I package should be provided • All other chapters – A relocation package may be provided. If relocation is provided, a national sector level I package should be provided	Executive
Holidays	Follow chapter holidays provided	Chapter Board
Vacation/PTO	In accordance with chapter policy.	Chapter Board

Exception approvals:

1. Base salary exceptions: More than 25% **below** market composite provided by HR Compensation, Service Area Executive approves. More than 25% **above** the market composite provided by HR Compensation SVP, Service Areas approves in consultation with HR and OGC.
2. All other exceptions to the matrix above or other areas not included in the matrix must be approved by the Service Area Executive. Service Areas are encouraged to contact HR at NHQ and OGC for guidance on approvals.

References:

For executive resources, tools and information go to:
https://corpweb.redcross.org/chptsvcs/execs/introduction.asp

For information regarding StarTrack go to:
https://crossnet.redcross.org/chapters/leadership/exec/startrack_intro.asp

For a comprehensive guide and tools for recruiting selecting and orienting a chapter executive, consult: *American Red Cross Guidelines and Procedures for the Chapter Search Committee*

Attachment 1: Process Flow – Strategic Chapters

Procedure Approved By:

Jane Gilbert, Senior Vice President, Service Areas
Mike Kessler, Director, HR Policy, Planning & Staffing
Melissa B. Hurst, Deputy General Counsel

Date Revised and Approved:

505.1.6. Chapter Executive Compensation

Date Issued: August 1, 2006

Purpose: To provide guidance to Service Area staff responsible for approving chapter executive compensation adjustments

Users: Service Area Executive (SAE), Service Area HR/VRM Officer,

NHQ Contacts: Mike Kessler, Director HR Policy and Planning, (202) 303-4188, kesslerm@usa.redcross.org

Approvals required:
N/A

Procedure:
The Service Area Executive is accountable for approving any base salary adjustments, bonuses and incentives paid to chapter executives by their local board of directors.

(A) The Service Area will receive information from the chapter board requesting an adjustment to base salary or performance based bonus or incentive payment.
(B) The Service Area Executive will review the request for appropriateness. The Service Area will compare the base salary adjustment with the annual guidelines for chapter salary adjustments issued by HR/Compensation and entitled *Recommendations for Salary Budgets and Structure Increase Budgets*; incentive plan payments with the standard chapter executive incentive plan template; or bonus requests with pre-approved measurable objectives and quantifiable results. Additionally, the Service Area Executive will review comparable non-profit market data on compensation levels for the chapter executive.
(C) The Service Area Executive, or his or her designee, will provide feedback to the chapter board on the request and will approve or deny the request.
(D) The Service Area will issue a written response to the request and maintain a copy in the Service Area records.
(E) NHQ HR and OGC will be consulted on any issues or questions that arise.

FCC Number:
N/A

References:

Procedure Approved By:
Rick Pogue, Senior Vice President, Human Resources

Date Approved:
August 1, 2006

EXHIBIT 1C

American Red Cross

Together, we can save a life

Guidelines and Procedures for the Chapter Search Committee

Notices

This document is intended for the use of the Search Committee and chapter board and is not to be shared with staff other than your Service Area representatives. In particular, the sample interview questions are not to be shared with American Red Cross employees who may be future Chapter Executive job seekers. Your Service Area will work with you through all aspects of the chapter executive search and selection process.

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Information in this document may be confidential or proprietary to the American Red Cross. Specific technical questions regarding these guidelines and procedures should be directed to the Volunteer Management/HR Officer in your Service Area.

This document was written and produced, collaboratively, with input from:

- Service Area personnel
- Chapter Operations Support, national headquarters
- Human Resources, national headquarters

The Human Resources Department at national headquarters is responsible for updates and revisions to this document.

American Red Cross
National Headquarters
2025 E Street, N.W.
Washington, DC 20006

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Chapter Executive Search Checklist

The following checklist has been established to guide the Search Committee through the chapter executive search and selection process:

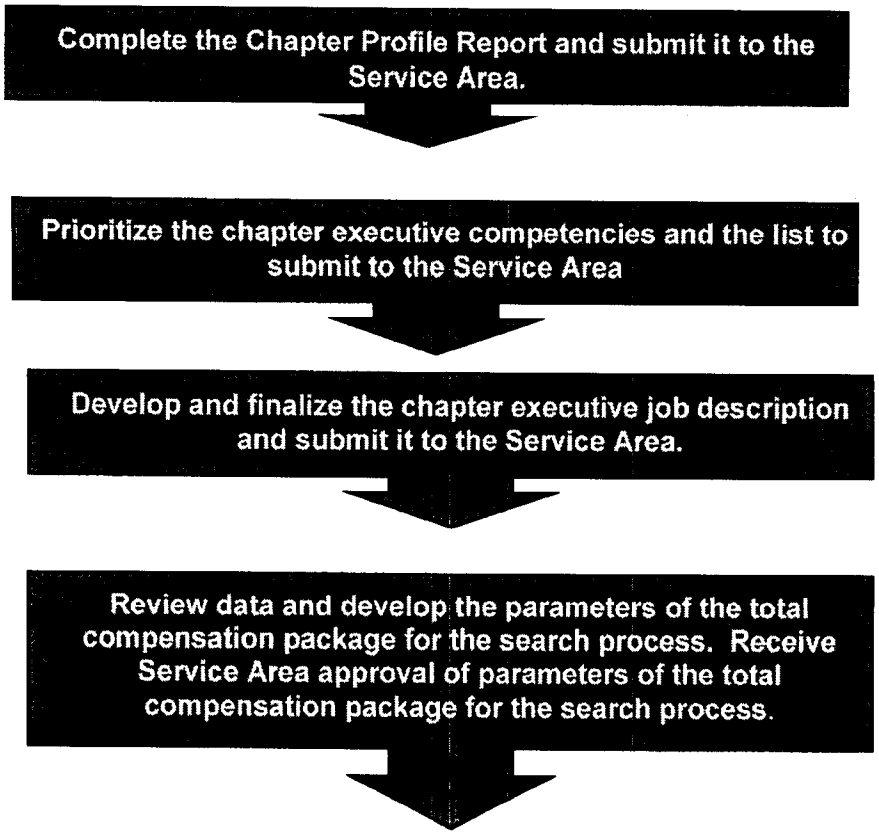
Section	Action	Responsible Party	Date Completed
Getting Started	Notify your Chapter Solutions Manager of the departure of your current chapter executive	Chapter Chairman	
	Identify interim leadership and receive approval from Service Area of proposed interim leadership.	Chapter Chairman, Service Area	
	Identify a slate of proposed Search Committee members and a Chairman. Complete Search Committee Roster and submit to Service Area representative **(see Attachment 1)**. Receive approval of the slate and Chairman from Service Area. The Search Committee members must reflect the diversity of community the chapter serves. Commission Search Committee.	Chapter Chairman, board of directors, Service Area	
	Advise the Search Committee Chairman of the committee's authority and financial resources. Identify responsibilities and authority of Search Committee.	Chapter Chairman, Search Committee Chairman, Search Committee	
	The Search Committee is assigned a Service Area representative who will serve as an ongoing source of input and resource during the search.	Service Area	
	Identify a human resources support person from the Search Committee to assist with the HR responsibilities of the search process.	Search Committee Chairman	
	Identify proposed timeline (based on the activities contained in this checklist) and budget **(Attachment 2)** for hiring the Chapter Executive. Submit to the Chapter Chairman and board for approval.	Search Committee Chairman/committee	
	Determine if an executive search firm will be used for the search process. If the chapter is using a search firm, ensure the Search Committee follows these guidelines for selecting and utilizing a search firm. Review all recommendations to use search firms with the Service Area representative. Search firms are not often used in the chapter executive search and selection process.	Search Committee, Service Area representative	
	Schedule and conduct meeting between the Service Area representative and the Search Committee to discuss among other things the Red Cross's compensation philosophy and procedures. Provide Service Area with recommendation and thinking on the compensation parameters including any local non-profit market compensation data.	Service Area representative, Search Committee, chapter Chairman	
	Keep the board apprised of the committee's progress, including budget and timelines.	Search Committee Chairman	Ongoing

Identifying Critical Chapter Areas of Focus	Complete the Chapter Profile Report **(Attachment 3)** and submit to your Service Area representative.	Search Committee	
	Complete the Chapter Executive Competency Worksheet **(Attachment 4)** and submit to the Service Area representative. Review and update the executive's job description and include with the Chapter Executive Competency Worksheet in submission to the Service Area representative.	Search Committee	
	Receive compensation analysis from Service Area and, if necessary, review and discuss same with Service Area representative.	Search Committee	
	Based on compensation data and analysis from Service Area propose parameters of total compensation package, including relocation, to be used during the search process for approval by the Service Area.	Search Committee Chairman and Service Area representative	
Recruitment	Complete a written recruitment plan **(Attachment 5)** including strategies to ensure a diverse pool of applicants. Send the recruitment plan to the Service Areas representative for review.	Search Committee, Service Area representative	
	Determine where applications will be sent and who will complete the Applicant Flow Log **(Attachment 7 – to be submitted to the Service Area later in the process).** Identify a record keeper on the Search Committee who will maintain original resumes and other important documentation throughout the process in the job file.	Search Committee Chairman	
	Work with the Human Resources Department at NHQ to post the position in the American Red Cross Jobs Section of CrossNet and Redcross.org.	Search Committee and NHQ HR	
	Advertise the position locally, within geographic region and nationally based on the recruitment plan.	Search Committee	
	Follow the recruitment plan and implement all proposed actions to attract a highly competitive, diverse pool of job seekers.	Search Committee	
	Set up a method for acknowledging receipt of resumes (ensure confidentiality).	Search Committee	
	Prepare the Executive Recruitment Packet (to be distributed at time of interview to job seekers who reach interview stage).	Search Committee	

Screening and Interviewing	Determine strategies/activities/tools for preliminary and final screening of job seekers. Develop a Rating Guide **(Attachment 6)** and forward to the Service Area representative for review.	Search Committee, Service Area representative	
	Receive resumes. Identify individuals who meet minimum position qualifications.	Search Committee	
	Screen credentials of each candidate, from the information contained on the resume, based on job requirements as listed on the Rating Guide **(Attachment 6)** to identify slate of 5-7 candidates or less.	Search Committee	
Hiring	Submit resumes of narrowed slate of job seekers to the Service Areas representative for approval prior to scheduling interviews. Receive feedback from the Service Area representative on candidates submitted.	Search Committee Chairman, Service Area representative	
	Confirm the interview process, prepare interview questions and obtain any materials needed to support an effective interview process. Confirm interview schedule.	Search Committee	
	Complete preliminary and final interviews. Request that each person interviewed complete an employment application, background check authorization and EEO Invitation for Self-Identification page – either at time of interview or just prior. Designated record keeper should separate EEO Invitation for Self-Identification page from all other materials and maintain that information in the original file (full distribution of this document to the entire Search Committee is not recommended). Maintain demographic data on all qualified candidates. Log all candidates interviewed on Applicant Flow Log **(Attachment 7)** and forward a copy to the Service Area representative.	Search Committee	
	Make decision on top candidate and alternate candidate(s) and notify the Service Area representative of the decision and need to begin the background and reference checking process. Forward application, background check authorization **(Attachment 9)** of top candidate to Service Areas representative. Volunteer Management/HR Officer in Service Area will complete the background and reference check using standard protocols. The background check results are typically obtained within 5-7 business days. If background check results are not positive, Search Committee will need to discuss potential of alternates or move back to the Recruitment stage of this checklist.	Search Committee Chairman, Service Area representative, Volunteer Management/HR Officer in Service Area.	

	If strategic chapter, arrange for interview with the Senior Vice President, Service Areas and Executive Vice President Chapter and International Operations at national headquarters (follow instructions of Volunteer Management/HR Officer in Service Area). The EVP Chapter and International Operations provides final approval of final candidates at strategic chapters. Please note: Some strategic chapter positions may include an interview with the President/CEO.	Volunteer Management/HR Officer in Service Area	Within 5-7 business days
	Recommend action to the board of directors for approval of finalist.	Search Committee Chairman	
	Consistent with local board policies including chapter bylaws, the appropriate individuals (usually the Executive Committee of the board) review and analyze the base salary recommendations and all compensation data obtained by the Search Committee from the Service Area and independent sources. The purpose of this review and analysis is to ensure that the chapter is providing reasonable and appropriate market-driven compensation to the chapter executive candidate. Document the deliberation and approval of the total compensation package to be offered to the finalist in board minutes and send a copy of the meeting minutes to the Service Area.	Executive Committee of the board (or other entity based on chapter by-laws), Search Committee Chairman, Service Area representative	
	Review with the Service Area representative the chapter's decision on the total compensation package to be offered and get final Service Area approval.	Search Committee Chairman, Service Area representative	
	Extend verbal offer for candidate. Prepare and send written offer letter **(Attachment 10)** with copy sent to the Service Area representative.	Chairman, board of directors	
	Send rejection letters **(Attachment 11)** to individuals interviewed who were not selected and all other internal candidates.	Search Committee Chairman	
	Handle inquiries from candidates who received rejection letters.	Search Committee Chairman	
	Send a personal thank you to individual Search Committee members. Recognize the Search Committee at the next board meeting.	Search Committee Chairman, Chapter Chairman	
The First 90 Days	Ensure that the executive is assigned a coach (if applicable) through the Service Area office. Attend Chapter Executive Institute at national headquarters and other chapter executive orientation programs available through the Service Area.	Chapter Chairman	
	Ensure that a one-year development plan is in place and performance goals are established within two months of hire.	Chapter Chairman, Chapter Executive	
	Schedule and attend Creating Leadership Connections with the new executive and Chapter Chairman.	Chapter Chairman, Chapter Executive	

Section 2 - Identifying Critical Chapter Areas of Focus



Determine the Salary Requirements and Benefits

Deliberating and establishing appropriate total compensation parameters is critical to ensuring you are able to identify and employ appropriate chapter executive candidates. The Red Cross has a compensation philosophy that rewards the achievement of results that are consistent with the Red Cross mission and business objectives. It is the Red Cross's goal to attract, retain, motivate, and reward the right talent with a compensation program that is competitive within the appropriate marketplace, appropriate for a not-for-profit organization, and reflective of responsible stewardship.

The following discusses and outlines the procedures to be used to set total compensation for the Chapter Executive.

- ***The parameters of the total compensation package for the Chapter Executive must be approved by the Service Area before the Search Committee begins its interview process.*** At the outset of the local search process, the Service Area representative discusses the parameters of the total compensation package with the Search Committee – including base salary range, relocation and other benefits. During the first discussion, the Search Committee and board should share with the Service Area any thoughts regarding the compensation package for the chapter executive position. At the same time, the Service Area will explain these guidelines including the Red Cross's compensation philosophy and the necessary approvals involved in setting the compensation parameters and final compensation offer to the successful candidate.

- During these discussions the Service Area will provide the Search Committee with market specific data on appropriate base salaries for the chapter executive position obtained from HR Compensation at national headquarters. The Search Committee may secure local non-profit employment market data and provide that data to the Service Area for analysis by HR Compensation as part of these discussions.

- **Roles and Responsibilities.** As the total compensation parameters and then the final total compensation and employment package is established and approved the following roles and responsibilities exist:

  1. **Service Area**
     (1) Begins process with Search Committee by explaining these guidelines including the process for establishing the parameters for the total compensation package.
     (2) Requests compensation analysis of the chapter executive position from HR Compensation at national headquarters. If Search Committee has local non-profit market information that they would like considered in the process, the Service Area obtains that information and provides it to HR Compensation.
     (3) Reviews compensation analysis from HR Compensation and works with Search Committee to stay within the specific parameters for the total compensation package.
     (4) After discussion with the Search Committee, approves the total compensation package parameters proposed by the Search Committee.
     (5) Once the final candidate has been identified *and prior* to any offer to the candidate, approves the final total compensation package to be offered. The Service Area Executive does not have authority to approve a proposed base salary greater than 25 percent above the market composite provided by HR Compensation. In a case such as this, the Service Area Executive must seek approval from the Senior Vice President, Service Areas before approving the final total compensation package.
     (6) Develops terms and conditions of chapter executive employment with the chapter board as reflected in the employment offer letter ensuring the offer letter reflects approved and negotiated terms and conditions.

(7) If a Search Committee requests an employment agreement/contract, distributes template Employment Agreement and works with OGC to finalize the agreement in discussion with the Search Committee.

2. **Search Committee and Chapter Board**

(1) Reviews these guidelines and discusses compensation philosophy and procedures with the Service Area prior to beginning local search. Provides recommendation and thinking on the compensation parameters during initial discussions with the Service Area including any local non-profit market compensation data that they have. This can include:

- Nonprofit executive salaries in your area
- Cost of labor and cost of living data
- Budget dollars available for chapter executive compensation
- Salary data on other employees in the chapter

(2) Receives compensation analysis conducted by HR Compensation from Service Area. If necessary, reviews and discusses compensation analysis with Service Area. Proposes parameters of total compensation package, for approval by Service Area, to be used during search process.

(3) Conducts local search within the total compensation parameters approved by the Service Area.

(4) Identifies a final candidate and develops a proposal for the final total compensation package consistent with the original total compensation parameters approved by the Service Area. Components of the total compensation package in addition to base salary will be driven by local unit human resources policies, procedures and practices while others will require the approval of the Service Area. Approvals associated with these additional components are as follows:

- Automobile (mid-range vehicles)/Auto allowance up to $7500 annually, professional memberships, tuition reimbursement, health and welfare benefits (medical, dental, disability, etc.), savings plan, retirement, holidays and vacation/PTO
  - Chapter board may approve provided benefits offered are consistent with local policy
- Relocation
  - Chapter board recommends with final approval from the Service Area
- Incentive pay/plan
  - Service Area approval required

Note that hiring bonuses and special retirement arrangements are not permitted.

(5) Once a final candidate is identified and before the chapter extends an offer, consistent with their local board policies including their chapter bylaws, the appropriate members of the board (usually the Executive Committee of the board) review and analyze the base salary recommendations from HR Compensation. The purpose of this review and analysis is to ensure that the Red Cross is providing reasonable and appropriate market-driven compensation to the chapter executive candidate. The analysis must consist of a critical study of the supporting data which includes reviewing information, asking questions about the information and deliberating on the issue. These actions must be documented in board approved minutes containing an explanation of the assessment of reasonable and appropriate compensation based on the independent compensation analysis. The Search Committee sends a copy of the meeting minutes to the Service Area.

(6) The appropriate members of the board, as discussed above, approve the final total compensation package recommendation for the selected and approved candidate to be

recommended to the Service Area for final approval. The final total compensation package recommendation from the chapter must be within the pre-approved total compensation parameters (set before the search) or the chapter must get special approvals from the Service Area. Further, if the final total compensation package recommended by the board includes a proposed base salary greater than 25 percent above the market composite provided by HR Compensation, then the Service Area Executive does not have the authority to approve it and must seek approval from the Senior Vice President, Service Areas.

3. **Senior Vice President, Service Areas**
   (1) If a chapter requests an employment agreement/contract, facilitates the review of employment agreement terms and conditions by the President/CEO.

4. **Office of General Counsel**
   (1) Provides advice and counsel to Service Areas and chapters, in coordination with HR, on issues of potential total compensation packages in excess of pre-established parameters. Participates, when requested by the Service Area, in discussion with the chapter board on issues of potential excess total compensation.
   (2) Provides advice and counsel to Service Areas on chapter driven requests for employment agreements/contracts. Develops draft employment agreements, reviews with Service Area, and participates with Service Areas, in discussion with chapters on content of employment agreements/contracts.

5. **Human Resources Department at National Headquarters including HR Compensation**
   (1) Develops and distributes philosophy on chapter executive total compensation including elements that are endorsed philosophically and do not require ongoing input from HR, the Office of General Counsel and EVP Programs and Services.
   (2) Conducts a compensation analysis of the chapter executive position to provide base salary range for the chapter executive position to Service Area based on market driven non-profit data. Works with Service Area on questions on base salary recommendations.
   (3) Provides advice and guidance to Service Areas on other elements of total compensation package and chapter executive search and selection process.

- The following describes the process used by HR Compensation to conduct a compensation analysis for establishing the parameters of the total compensation package:

  1. The Service Area Volunteer Management/Human Resources Officer will contact HR Compensation at the onset of the search process for a salary workup.
  2. HR Compensation will review FOCIS data for the chapter.
  3. HR Compensation reviews at least two reputable surveys on nonprofit salaries for appropriate position ranges.
  4. HR Compensation reviews budget size and number of paid staff as the two primary factors in determining the appropriate salary recommendations based on categories provided on the surveys. HR Compensation will perform a regression analysis in cases where the surveys have different groupings or categories by budget size and number of paid staff.
  5. HR Compensation establishes a market composite for the chapter executive position vacancy and provides the Service Area with a target range equivalent to +/- 10% of market with a potential width to flex to +/- 25% of market.
  6. HR Compensation considers a geographic differential in the analysis.
  7. HR Compensation will clearly document the base salary analysis in a formal document to the Service Area, attaching the backup data. The Service Area will share the documentation with the Search Committee and board chairman.

8. HR Compensation will assist the chapter and Service Area in assessing the market composite for elements of compensation other than base salary.

To be prepared to handle questions from job applicants on all of the above components of the total compensation package parameters during the search, the Search Committee must be knowledgeable on the parameters of the package.

EXHIBIT 1D

Prepared by Compensation Division
Rev. June 1, 2005

Template for
AMERICAN RED CROSS
CHAPTER EXECUTIVE PERFORMANCE INCENTIVE PLAN
[Date]

I. PURPOSE

The purpose of the [*Chapter Name*] Performance Incentive Plan (hereafter, the "Plan") is to provide a program that strengthens our commitment to service excellence.

II. DEFINITIONS

Awards: Monetary payments made accordance with Plan provisions and achievement of Plan objectives. Awards are subject to statutory withholding and are not increased to compensate for taxes or other obligations.

Employee(s): For purposes of the Plan, a regular full-time occupant of a position, paid by a unit of the American Red Cross, who is actively working.

Leave of Absence: An approved absence from work, for reasons such as those defined in the Family and Medical Leave Act [FMLA], or in chapter leave of absence policies.

Participant: An employee who is the head of the [*name of the chapter*], paid by the chapter, and approved by the [*name of the chapter*] Board as eligible for an award under the Plan.

Plan Administrator: The [*name of Chapter*] Board and Service Area Executive.

Plan Year: The Plan is effective [*for one year, specified by dates that permit the chapter to measure results, ordinarily coincident with the fiscal year: July 1, 200__ to June 30, 200__.*]

Service Area Executive: The American National Red Cross employee responsible for the service and financial performance of the geographic region where the chapter is located.

III. ELIGIBILITY

The head of the chapter, [*or title, such as, chapter executive, or chapter CEO*] is eligible to participate in the Plan as follows:

A. Actively at Work: The participant must be actively at work when the award is paid in order to receive it, except in cases of lay-off, retirement, death, or disability. Exceptions may be made only under extraordinary circumstances with the approval of the Plan Administrator.

B. Pro-rated Awards: A participant who becomes eligible for the Plan after the beginning of the Plan year and works in an eligible position for at least three months may receive a pro-rated award based upon the number of full months of eligibility during the Plan year.

C. Change in Status: Participants who transfer to a position within the American Red Cross that is not eligible for participation in the Plan; retire from the American Red Cross; are on a leave of absence; qualify for a benefit under an American Red Cross long-term disability plan; die, or are laid-off as a result of

workforce reduction or reorganization may be eligible for a pro-rated award based on the number of full months of eligibility during the Plan year.

D. Terminations: Should the employment of a participant terminate for any reason prior to payment of the award, other than those set forth in III.C above, the participant will not be eligible for payment under the Plan.

E. Ethics: Participants who engage in activities that compromise the confidentiality, reputation, or business or humanitarian activities of the American Red Cross forfeit any benefits for which they may otherwise have been eligible. Such determinations are at the sole discretion of the Plan Administrator.

IV. PAYMENTS

A. Payment of Awards: Awards are measured and earned annually. They will be paid as soon as possible following the end of the Plan year, provided that the Plan Administrator determines that the objectives were achieved in a manner consistent with American Red Cross code of conduct.

The Plan Administrator must verify the participant's achievement of Plan objectives before payment of the award is made. Appropriate written documentation must support all payments under the Plan. The Plan Administrator determines what constitutes acceptable documentation.

In order for an award to be paid to a participant who is no longer employed by the chapter, all American Red Cross property in the participant's possession must be returned, and any overpayments or outstanding advances must be satisfied. The Plan Administrator reserves the right to withhold from the award payment the amount of any overpayments, outstanding advances, or other monies owed to the American Red Cross.

B. Adjustments: The Plan Administrator reserves the right to make adjustments as necessary to ensure that award payments are accurate and in accordance with the provisions of the Plan.

C. Windfalls: The Plan Administrator reserves the right to exclude from Plan consideration any revenues that accrue with little or no effort on the part of the participant ("windfalls"). The Plan Administrator reserves the right to declare a windfall under circumstances including, but not limited to a disaster or war or business restructuring. The Plan Administrator, at its sole discretion, may then limit or deny Awards under the Plan.

V. PLAN GOALS AND OBJECTIVES

The objectives for Plan participants must be directly related to measurable results typically reflected in the achievement of Chapter Performance Standards. [*Specify what results are required for an award to be paid, such as chapter business results, financial improvement, etc. See the Sample Components of An Award.*]

- Goals are established prior to the beginning of the Plan year.
- The participant is informed in writing of individual goals and objectives.
- The Plan Administrator reserves the right to adjust the goals, objectives and awards, either by increasing or decreasing them, upon written notice to the participant.

VI. AWARDS

A. Potential Award: The target award is the amount paid if all goals are achieved. The target award is [*specify percentage, such as 10%, or flat dollar amount*] of the participant's annual base salary.

B. Partial Award: An amount less than the target award can be earned when the Participant achieves substantial objectives but does not achieve 100% of the Plan objectives. *[For example: If 3 objectives are established, all of equal value, and the Participant achieves 2 of them, he/she can earn 66% of the target award. These criteria are established prior to the beginning of the Plan Year and are incorporated into the Plan or, preferably, in a Plan Appendix. Objectives can have different values.]*

C. Maximum Payout: If goals are exceeded, the participant may be eligible for up to [*specify, i.e. two times*] the target award, or [*20%*] of base salary.

VII. PLAN ADMINISTRATION

The Plan Administrator makes all decisions, actions, and interpretations with respect to the application of the Plan, verifies and audits the accuracy of the award payments and has the authority to construe and interpret the Plan. All awards under the Plan are subject to the written approval of the Plan Administrator, who shall have full discretionary authority.

VIII. PLAN AMENDMENT, MODIFICATION OR TERMINATION

The Plan Administrator reserves the right to amend, modify or terminate the Plan, in whole or in part, at any time. Any amendments or modifications made during the term of the Plan shall be effective for the period that the Plan itself is effective, unless expressly stated in writing.

IX. SAVINGS CLAUSE

In the event that any section of the Plan is held to be invalid or unenforceable, such will not invalidate or render unenforceable any other section or the entire Plan.

X. EMPLOYMENT RELATIONSHIP

The Plan does not confer upon any participant any right to employment or to be retained in employment by the chapter, nor does it affect the right of the chapter to terminate the employment of any participant at any time. The existence of the Plan does not ensure eligibility for, or participation in, any future plan or program, nor does it ensure the granting of awards to participants in such plans or programs.

XI. PLAN APPROVAL

_____ _____
Chair, Board of Directors Date

_____
Service Area Executive Date

EXHIBIT 1E

Prepared by Compensation Division
September 2, 2004

Template:
Incentive Plan Components
American Red Cross
Chapter Executive Performance Incentive Plan

Preparation

- Establish 3-to-5 stretch objectives that will contribute toward achieving chapter business objectives. Incentives are awarded for meeting all objectives, not for simply satisfactory performance.
- The Chapter Board establishes the Plan objectives.
- The Service Area Executive approves the Plan objectives.
- All objectives must have clear, specific, measurable milestones & results that are appropriate for calculating an incentive plan award. Every performance objective may not be appropriate for an incentive plan. Performance objectives used in incentive plans must be measurable and time bound. The availability and accuracy of the data must be considered in establishing the goal.
- **The Association of Fund Raising Professionals prohibits basing incentives or compensation directly upon the amount of funds raised.** Please consult with the American National Red Cross Human Resources Department Compensation Division and OGC regarding compliance.
- Assign weights to the objectives.
- Specify in simple, specific measurements what level of achievement will result in an award; what will not result in an award; and what constitutes extraordinary success that results in maximum payment.

Sample Plan Objectives

Weight	Type of Objective
35%	**Financial Strength & Stability Standards** --Overall chapter results: Financial Strength and Stability Standards, Chapter Performance Standards, or --Selected Financial Strength and Stability Standards, or --Weighted Financial Strength and Stability Standards
35%	**Service Delivery Standards** --Overall chapter results: Service Delivery Standards, Chapter Performance Standards or --Selected Service Delivery Standards, Chapter Performance Standards or --Weighted Service Delivery Standards, Chapter Performance Standards
30%	**Specific Chapter [Local] Objectives** --No more than 3 items

Prepared by Compensation Division
September 2, 2004

Award

Level	Select One	Criteria for Award
Target	5% or 10% of annual base salary	Met all Plan objectives
Partial	A fraction of Target Award	Met most & most substantial Plan objectives
Maximum	10% or 20% of annual base salary	Exceeded most or all Plan objectives
Below Target	No pay-out	Did not meet all Plan objectives

Rating Scale

- Indicate the participant's level of achievement by assigning a point value of 0, 1, or 2 to each objective
- 0 indicates the objective was not met
- 1 indicates the objective was met
- 2 indicates the objective was exceeded
- Decimals may be used. For example, 1.25 indicates that the objective was met and slightly exceeded

Calculation

Base Salary of Participant x Target [5% or 10%] = $ Target x
[% Weight of Objective 1 (35%) x Rating Scale Points (Results) for Objective 1] +
[% Weight of Objective 2 (35%) x Rating Scale Points (Results) for Objective 2] +
[% Weight of Objective 3 (30%) x Rating Scale Points (Results) for Objective 3] =
$ Award

Example

Base Salary = $50,000 XTarget = 10% = $5,000

Objective	% Weight of Objective	X	Rating Scale Points	=	Results
Objective 1	35%		1.5 points		.525
Objective 2	35%		1.0 points		.350
Objective 3	30%		0.5 points		.150

Award = Target $5,000 X Total points = 1.025 = $5,125.00

Recommendations for Salary Budgets and Structure Increase Budgets American Red Cross Chapters February 2006

The proper maintenance of an organization's compensation system depends on an annual consideration of two pieces of market data: salary budgets and salary structure budgets. The information below is provided as a service to the chapters for setting their annual budgets and to the Service Areas as they review and approve chapter executive pay increases.

Salary Budgets

What is a salary budget? A salary budget, or budget for salary increases, is not a typical line item seen on a financial statement. It is a pool of money set aside at the beginning of the year to focus and control payroll growth and individual pay increases. Ninety-eight percent of United States employers use salary budgets as the principal vehicle to adjust pay. It is the primary way that an employer can keep salaries competitive with the marketplace.

Salary budgets are expressed as a percentage of payroll. For example, if a company's annual payroll is $1,000,000 at the start of the annual budget period, a 3.5% salary budget will allow the payroll to expand to $1,035,000 by the end of that year. In this example, the company has $35,000 to distribute among all employees for annual pay increases.

This approach to budgeting does not consider *when* pay increases are distributed, and it does not automatically control the actual dollars expended throughout the year. It only plans for the rate at which the payroll will grow during the year. Actual costs can be lower by year-end because of employee turnover and vacancies or, they may be higher because of promotions and adjustments.

The most important compensation decision an organization makes is how to distribute the budget. In the Red Cross and typically in industry, distribution occurs through a merit increase determined by the employee's performance.

Current Market Conditions [1]: **[Insert language specific to annual assessment.] An effective merit increase program provides the highest performers with the highest increases.**

Recommendation: The American Red Cross supports giving the best performers the highest increases because this retains the highest quality staff. A merit

[1] Sources: **XXXX** Compensation Planning Survey, William M. Mercer, © **XXXX**; **XXXX-XXXX** Salary Budget Survey, World@Work, © **XXXX**; and **XXXX** Compensation Planning Survey, Compensation Resources, © **XXXX**.

program makes us more competitive and is consistent with being good financial stewards by not rewarding mediocre performance. **We recommend a salary budget of [Insert recommendation for percentage increase] to be distributed through a performance- and results-based merit increase program.**

Salary Structure Budgets

What is a salary structure budget? For organizations that use a formal job classification system[2] and salary structure[3] to establish and control pay, a salary structure budget is the mechanism by which the ranges stay competitive with the job market. It is not a budget line item in that there is not a specific cost associated with a structure. Only actual salaries affect the company's costs.

To apply a salary structure budget, the organization increases its range midpoints by the selected percentage, then adjusts the minimums and maximums accordingly. The only actual costs associated with a structure budget occur when an employee falls below the minimum of the adjusted structure and the company elects to raise the employee's salary to the minimum.

Current Market Conditions[4]: **[Insert language specific to annual assessments.]**

Recommendation: For chapters with a formal salary structure, **we recommend a salary structure budget of [Insert recommendation for percentage increase.]**

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[2] A job classification system is how an organization determines the hierarchy of its grades. Most organizations use a combination of external market data and internal job value to establish the basis for grouping similar jobs together and creating a salary structure.

[3] A salary structure is the hierarchy of job grades and pay ranges within an organization. Each grade has a minimum and maximum pay rate; the middle of the pay range is designated by a "midpoint." Most organizations anchor the midpoint values to the competitive market value for the jobs in that grade and expect that incumbents will eventually reach the midpoint if they have sustained good performance and meet the requisite qualifications for the job.

[4] Sources: **XXXX** Compensation Planning Survey, William M. Mercer, © **XXXX**; **XXXX-XXXX** Salary Budget Survey, World@Work, © **XXXX;** and **XXXX** Compensation Planning Survey, Compensation Resources, ©**XXXX**

Summary

- Effective industry salary administration programs have both a salary budget and a salary structure budget that are reviewed on an annual basis.
- A **Salary Budget** ensures that employee **salaries** keep pace with the market, allowing the chapter to attract, hire and retain employees.
- A **Salary Structure Budget** ensures that an organization's **job classification system** keeps pace with market.

How to Develop Merit Increase Guidelines

One of the easiest and most equitable ways to develop merit pay increase guidelines is through a merit matrix. Using a matrix approach can accomplish two things.

- First, it gives department managers and HR managers a baseline to evaluate the fairness of merit allocations among employees and it allows the flexibility to distinguish between performance levels.
- Second, if the organization has formal salary ranges, it ensures that employees with a similar level of sustained performance will eventually converge toward the midpoint (or market) by awarding bigger increases to employees lower in their salary range and smaller increases to employees higher in their salary range.[1]

This approach has two major advantages. It reduces the tendency to inflate the pay of long-term employees and it builds trust among employees because, over time, employees who perform well tend to be paid comparably.[2]

Developing a Matrix in Organizations without Formal Salary Ranges

Developing a matrix requires only two sets of information: a salary budget (also called "merit budget") expressed as a percent of total payroll and the performance rating distribution. Some of the calculations that follow may seem a bit complex. For further assistance, we distribute along with this guide a "plug-and-play" Excel template that guides you step-by-step through the process.

Definitions :

Salary Budget: The amount that management budgets for all salary increases, expressed as a percent of total payroll. For the following example, the salary budget is 3.5%.

Performance Rating Distribution: The percentage of employees who are eligible for a merit increase within each of the performance rating categories. For the following example, assume that there are 3 rating categories: Exceeds Expectations, Meets Expectations, and Below Expectations.

Methodology

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[1] Source: Steven P. Seltz, CCP and Robert L. Heneman, Ph.D., *Linking Pay to Performance: An Approach to Designing a Merit Pay Plan* (Scottsdale: American Compensation Association, 1999), 16.
[2] Ibid., 17.

1. Determine the performance rating distribution of eligible employees by counting the number of employees that are rated in each category, then divide by the total number of employees rated. Since an organization usually develops its matrix before ratings are issued, most companies use the previous year's distribution or an estimate of the current year's distribution.

Table 1: Performance Rating Distribution

Rating	# of Employees	% Distribution of Employees
Exceeds (E)	12	15%
Meets (M)	60	75%
Below (B)	8	10%
Totals	**80**	**100%**

In this example, since 12 employees rated Exceeds Expectations out of 80 employees rated, the distribution for the Exceeds Expectations category is 15%. Table 1 shows the distribution for all three categories.

2. Through a refinement process, the next steps are to assign an increase guideline for each category and check for adherence to budget. The objective is to *ensure that the differences between the performance-based merit increases are significant, so that differences in performance are recognized by meaningful differences in rewards*.[3] One way to begin is to determine where top performers should fall in relation to the salary budget. For example, the Exceeds Expectations employees might be eligible for at least two times the budgeted increase. A second consideration may be to target the Meets Expectations employees for an increase equivalent to the budget amount. Another option is to give Below Expectations employees no increase. The next table displays these 3 options.

Table 2: Merit Increase Allocation – 1st Draft

Rating	% Distribution of Employees	Merit Increase Guideline %
Exceeds (E)	15%	7.0%
Meets (M)	75%	3.5%
Below (B)	10%	0%

3. To determine if this is a sound recommendation in relation to the budget, multiply the % distribution column by the merit increase guideline %, then sum the products.

[3] Ibid., 11.

Table 3: Merit Increase Allocation – 1st Draft

Rating	% Distribution of Employees		Merit Increase Guideline %		% Dist. X Merit Inc. %
Exceeds (E)	15%	X	7.0%	=	1.05%
Meets (M)	75%	X	3.5%	=	2.625%
Below (B)	10%	X	0%	=	0%
Total					**3.675%**

4. The sum overruns the salary budget by 0.175%. To get closer to the budget of 3.5%, refine these numbers down. A revised allocation appears below.

Table 4: Merit Increase Allocation – 2nd Draft

Rating	% Distribution of Employees		Merit Increase Guideline %		% Dist. X Merit Inc. %
Exceeds (E)	15%	X	6.8%	=	1.020%
Meets (M)	75%	X	3.3%	=	2.475%
Below (B)	10%	X	0%	=	0%
Total					**3.495%**

5. The revised sum is 3.495%. This is slightly under the budget of 3.5%, but it is virtually impossible to get to exactly 3.5%. The organization needs to decide what its threshold for acceptability is. For this example, a total of 3.495% is sufficiently close to the budgeted amount.

6. The final step is to decide if managers should have additional discretion in assigning an increase beyond what is allocated above. We recommend that instead of a single percentage allocation for each category, the organization establish a range of acceptable percentages for each category. For this example, the managers will have a 2% (± 1%) range to work with in each category as shown below.

Table 5: Merit Increase Allocation – Final

Rating	Merit Increase Guideline %
Exceeds (E)	5.8% - 7.8%
Meets (M)	2.3% - 4.3%
Below (B)	0%

Developing a Matrix in Organizations with Formal Salary Ranges

For organizations that have formal salary ranges, only three sets of information are required to create a matrix: a salary budget expressed as a percent of total payroll; the quartile distribution of eligible employees within the structure; and the performance rating distribution of eligible employees. The following steps use

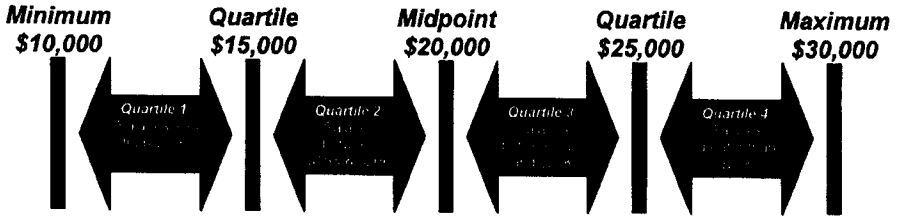
the same merit budget and performance rating distribution as the previous example.

Definitions

Quartile Distribution: The percentage of eligible employees who are within each of the four quartiles of a salary range. Examples of calculating these figures follow in the next section.

Methodology

1. Determine the quartile distribution of eligible employees. A salary range is divided into 4 parts called quartiles.
    a. Quartile 1 is the range of salaries between the minimum and halfway to the midpoint.
    b. Quartile 2 is the range of salaries between halfway to the midpoint and midpoint.
    c. Quartile 3 is the range of salaries between the midpoint and halfway to the maximum.
    d. Quartile 4 is the range of salaries between halfway to the maximum and the maximum.
    e. Salaries falling below the minimum are usually placed in Quartile 1; salaries falling above the maximum are usually placed in Quartile 4. However, you may create two more categories to accommodate these situations, especially if there are large numbers of staff salaries in these categories.



For the purposes of this example, assume that there are 80 eligible employees distributed in the salary ranges as follows.

Table 6: Salary Range Distribution

Salary Falls Within:	# of Employees	% of Employees
1st quartile (Q1)	20	25%
2nd quartile (Q2)	24	30%
3rd quartile (Q3)	24	30%
4th quartile (Q4)	12	15%
Totals	**80 employees**	**100%**

2. Determine the performance rating distribution of eligible employees. This example uses the performance rating distribution from Table 1.

Table 7: Performance Rating Distribution

Rating	% of Employees
Exceeds (E)	15%
Meets (M)	75%
Below (B)	10%
Totals	**100%**

3. Create a 3 row (# of ratings) by 4 column (# of quartiles) table. (Add one extra column and one extra row for titles.) A spreadsheet application works best for this. This results in a table of 12 cells, which represent the 12 possible categories in which an individual employee may fall (a category representing both the rating an employee receives and the quartile in which the employee's salary falls.)

Table 8: Employee Categories

Rating/Quartile	Quartile 1 (Q1)	Quartile 2 (Q2)	Quartile 3 (Q3)	Quartile 4 (Q4)
Exceeds (E)	1. E X Q1	2. E X Q2	3. E X Q3	4. E X Q4
Meets (M)	5. M X Q1	6. M X Q2	7. M X Q3	8. M X Q4
Below (B)	9. B X Q1	10. B X Q2	11. B X Q3	12. B X Q4

4. Compute the probability that an employee will fall into each category. The probability is the product of the salary range quartile distributions and the performance rating distributions. Tables 9a and 9b demonstrate the calculation of the probabilities.

Table 9a: Performance/Quartile Category Probability

Rating/Quartile	Quartile 1 (Q1)	Quartile 2 (Q2)	Quartile 3 (Q3)	Quartile 4 (Q4)
Exceeds (E)	15% X 25%	15% X 30%	15% X 30%	15% X 15%
Meets (M)	75% X 25%	75% X 30%	75% X 30%	75% X 15%
Below (B)	10% X 25%	10% X 30%	10% X 30%	10% X 15%

Table 9b: Performance/Quartile Category Probability

Rating/Quartile	Quartile 1 (Q1)	Quartile 2 (Q2)	Quartile 3 (Q3)	Quartile 4 (Q4)
Exceeds (E)	3.75%	4.5%	4.5%	2.25%
Meets (M)	18.75%	22.5%	22.5%	11.25%
Below (B)	2.5%	3%	3%	1.5%

5. As a double-check, add the probabilities of all 12 cells. The sum should equal 100%.

(3.75% + 4.5% + 4.5% + 2.25% + 18.75% +22.5% + 22.5% + 11.25% + 2.5% + 3% + 3% + 1.5%) = 100

6. The next step is to determine an appropriate merit increase guideline for each category. There are no specific rules for assigning these. It usually involves continuous refinement of the inputs until the target salary budget is reached. Keep in mind:
    a. decrease the percent as the quartile increases, and
    b. decrease the percent as the rating decreases.

   A good way to begin is to decide where top performers should fall in relation to budget. For example, Exceeds Expectations employees in Quartile 1 might be eligible for at least three times the budgeted increase. Another consideration is to target the Meets Expectations employees in Quartile 2 or 3 for an increase equivalent to the budget amount. After filling in these two sections, it is usually easy to determine the rest of the numbers. A first attempt at a merit amount for each category appears below.

Table 10: Merit Increase Allocation – 1st Draft				
Rating/Quartile	**Quartile 1 (Q1)**	**Quartile 2 (Q2)**	**Quartile 3 (Q3)**	**Quartile 4 (Q4)**
Exceeds (E)	10.5%	9%	8%	6%
Meets (M)	7%	5%	3.5%	2%
Below (B)	0%	0%	0%	0%

7. How do you know if this is an appropriate matrix? As indicated above, there is no exact formula. You must be consistent with the objectives of the merit program and organizational goals. The goal of a merit increase matrix is to have employees with similar performance converge to midpoint (market). To do this, the example shows an allocation of higher percentage increases to categories below the midpoint and lower percentage increases to categories above the midpoint. Conceptually, the example makes sense and must now be checked to ensure that this allocation adheres to the budget. To do this, multiply the probability in each cell from Table 9b by the corresponding merit increase cell in Table 10.

Table 11a: Check for Adherence to Budget				
Rating/Quartile	**Quartile 1 (Q1)**	**Quartile 2 (Q2)**	**Quartile 3 (Q3)**	**Quartile 4 (Q4)**
Exceeds (E)	10.5% X 3.75%	9% X 4.5%	8% X 4.5%	6% X 2.25%
Meets (M)	7% X 18.75%	5% X 22.5%	3.5% X 22.5%	2% X 11.25%
Below (B)	0% X 2.5%	0% X 3%	0% X 3%	0% X 1.5%

Table 11b: Check for Adherence to Budget				
Rating/Quartile	**Quartile 1 (Q1)**	**Quartile 2 (Q2)**	**Quartile 3 (Q3)**	**Quartile 4 (Q4)**
Exceeds (E)	0.39375%	0.405%	0.36%	0.135%
Meets (M)	1.3125%	1.125%	0.7875%	0.225%
Below (B)	0%	0%	0%	0%

Then, sum the values of all 12 categories and compare to the allocated budget.

(0.39375% + 0.405% + 0.36% + 0.135% + 1.3125% + 1.125% + 0.7875% + .225% + 0% + 0% + 0% + 0%) = 4.74375%

Since 4.74375% exceeds our budget of 3.5%, refine the matrix down until the sum matches the budget amount as closely as possible. A revised matrix appears below.

Table 12: Merit Increase Allocation – 2nd Draft				
Rating/Quartile	**Quartile 1 (Q1)**	**Quartile 2 (Q2)**	**Quartile 3 (Q3)**	**Quartile 4 (Q4)**
Exceeds (E)	8.25%	7.25%	6.25%	5.25%
Meets (M)	4.75%	3.75%	2.5%	1.5%
Below (B)	0%	0%	0%	0%

Check again for adherence to budget by following Step 7.

Table 13a: Check for Adherence to Budget				
Rating/Quartile	**Quartile 1 (Q1)**	**Quartile 2 (Q2)**	**Quartile 3 (Q3)**	**Quartile 4 (Q4)**
Exceeds (E)	8.5% X 3.75%	7.25% X 4.5%	6.25% X 4.5%	5.25% X 2.25%
Meets (M)	4.75% X 18.75%	3.75% X 22.5%	2.5% X 22.5%	1.5% X 11.25%
Below (B)	0% X 2.5%	0% X 3%	0% X 3%	0% X 1.5%

Table 13b: Check for Adherence to Budget				
Rating/Quartile	**Quartile 1 (Q1)**	**Quartile 2 (Q2)**	**Quartile 3 (Q3)**	**Quartile 4 (Q4)**
Exceeds (E)	0.31875%	0.32625%	0.28125%	0.118125%
Meets (M)	0.890625%	0.84375%	0.5625%	0.16875%
Below (B)	0%	0%	0%	0%

(0.31875% + 0.32625% + 0.28125% + 0.118125% + 0.890625% + 0.84375% + 0.5625% + 0.16875% + 0% + 0% + 0% + 0%) = 3.51%

8. A 3.51% matrix total is acceptably close to the budget established at 3.5%. The second draft will become the baseline for the merit matrix. There are many ways to adjust the numbers. It is within the organization's discretion to

determine an acceptable allocation based on the budget constraints and organization goals.

Table 14: Merit Increase Allocation – Final				
Rating/Quartile	**Quartile 1 (Q1)**	**Quartile 2 (Q2)**	**Quartile 3 (Q3)**	**Quartile 4 (Q4)**
Exceeds (E)	8.25%	7.25%	6.25%	5.25%
Meets (M)	4.75%	3.75%	2.5%	1.5%
Below (B)	0%	0%	0%	0%

9. The final step is to provide an appropriate range for merit increases in each rating category based on the numbers established in the allocation. For this example, a range of ±1% of the allocated percentage in each category (for a total of a 2% range) is established. It is within the organization's discretion to decide how much latitude a manager can have when determining merit increases. An example of a 2% range is shown below. Notice that the percent allocation determined in Table 14 is the midpoint of each range.

Table 15: Merit Increase Ranges—Final				
Rating/Quartile	**Quartile 1 (Q1)**	**Quartile 2 (Q2)**	**Quartile 3 (Q3)**	**Quartile 4 (Q4)**
Exceeds (E)	7.25% -9.25%	6.25% - 8.25%	5.25% - 7.25%	4.25% - 6.25%
Meets (M)	3.75% - 5.75%	2.75% - 4.75%	1.5% - 3.5%	0.5% - 1.5%
Below (B)	0%	0%	0%	0%

Next Steps: Putting the Matrix into Practice

Once an organization creates a matrix, the next step is to decide which level of management will have the authority to make the salary decisions. Then, each of those managers should receive a copy of the matrix, a departmental employee list including salary and quartile (if applicable), and the total amount of the department's merit pool.

The department's merit pool is the total of all the base annual salaries in the department multiplied by the merit budget percent. Clearly, the more people in a department, the larger the pool available. This should be taken into account when deciding the management level at which salary planning is done. It becomes difficult to differentiate increases when there are only a small number of employees in a grouping. A sample department of 10 employees is shown below.

Table 16: Sample Department Planning Roster						
Name	*Title*	*Grade*	*Quartile*	*Performance*	*Salary*	*Increase*
Mike Brady	Technician	3	Q1	Meets	$25,000	
Carol Brady	Assistant	4	Q2	Meets	$32,000	
Greg Brady	Associate	7	Q2	Meets	$45,000	
Marcia Brady	Supervisor	10	Q4	Below	$60,000	
Peter Brady	Assistant	5	Q3	Meets	$38,000	
Jan Brady	Technician	4	Q2	Meets	$30,000	
Bobby Brady	Associate	8	Q4	Meets	$50,000	
Cindy Brady	Associate	8	Q2	Meets	$43,000	
Alice Nelson	Sr. Associate	9	Q1	Exceeds	$45,000	
Tiger Brady	Manager	12	Q4	Meets	$80,000	
Total of Annual Salaries = $448,000						
Merit Pool ($448,000 x 3.5%) = $15,680						

Managers must follow the established guidelines closely. Any deviation could cause him/her to exceed the departmental budget. An example of a manager who has followed the guidelines but still exceeded budget is shown below.

Table 17: Sample Department Planning Roster						
Name	*Title*	*Grade*	*Quartile*	*Performance*	*Salary*	*Increase*
Mike Brady	Technician	3	Q1	Meets	$25,000	$1,437.50 (5.75%)
Carol Brady	Assistant	4	Q2	Meets	$32,000	$1,520 (4.75%)
Greg Brady	Associate	7	Q2	Meets	$45,000	$2,137.50 (4.75%)
Marcia Brady	Supervisor	10	Q4	Below	$60,000	$0 (0%)
Peter Brady	Assistant	5	Q3	Meets	$38,000	$1,330 (3.5%)
Jan Brady	Technician	4	Q2	Meets	$30,000	$1,425 (4.75%)
Bobby Brady	Associate	8	Q4	Meets	$50,000	$750 (1.5%)
Cindy Brady	Associate	8	Q2	Meets	$43,000	$2,042.50 (4.75%)
Alice Nelson	Sr. Associate	9	Q1	Exceeds	$45,000	$4,050 (9%)
Tiger Brady	Manager	12	Q4	Meets	$80,000	$1,200 (1.5%)
Total of Annual Salaries = $448,000						Total Increases = $15,892.50
Merit Pool ($448,000 x 3.5%) = $15.680						Over Budget = $212.50

A revised version of the same department follows. In this example, the manager has stayed within the guidelines and stayed within the department budget.

Table 18: Sample Department Planning Roster						
Name	*Title*	*Grade*	*Quartile*	*Performance*	*Salary*	*Increase*
Mike Brady	Technician	3	Q1	Meets	$25,000	$1,437.50 (5.75%)
Carol Brady	Assistant	4	Q2	Meets	$32,000	$1,520 (4.75%)
Greg Brady	Associate	7	Q2	Meets	$45,000	$2,025 (4.5%)
Marcia Brady	Supervisor	10	Q4	Below	$60,000	$0 (0%)
Peter Brady	Assistant	5	Q3	Meets	$38,000	$1,330 (3.5%)
Jan Brady	Technician	4	Q2	Meets	$30,000	$1,425 (4.75%)
Bobby Brady	Associate	8	Q4	Meets	$50,000	$757.50 (1.52%)
Cindy Brady	Associate	8	Q2	Meets	$43,000	$1,935 (4.5%)
Alice Nelson	Sr. Associate	9	Q1	Exceeds	$45,000	$4,050 (9%)
Tiger Brady	Manager	12	Q4	Meets	$80,000	$1,200 (1.5%)
Total of Annual Salaries = $448,000						Total Increases = $15,680
Merit Pool ($448,000 x 3.5%) = $15.680						Over Budget = $0

- At a minimum, the Director of Compensation will review the results of the survey data and prepare a summary report for the Executive Vice President, Chapter and International Operations (former title Chief Operating Officer) highlighting any equity or market issues relative to the chapter executives with a copy to the President & CEO.

- The Chief Financial Officer meets with the President & CEO to discuss the preparation of the organization's Form 990 and reviews the data and information that will be reported on the Form 990 including the salaries of the highest five executives.

EXHIBIT 2

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You can help the victims of thousands of disasters across the country each year, disasters like [insert name], by making a financial gift to the American Red Cross Disaster Relief Fund. This Fund enables the Red Cross to provide shelter, food, counseling and other assistance to victims of disasters. The American Red Cross honors donor intent. If you wish to designate your donation to a specific disaster please do so at the time of your donation.