
**MINUTES OF A MEETING OF
THE COMPENSATION COMMITTEE OF
THE MEMBERS OF THE HIGHER EDUCATION LOAN AUTHORITY
OF THE STATE OF MISSOURI
ON MAY 9, 2008**

The Compensation Committee of the Higher Education Loan Authority of the State of Missouri, a public instrumentality and body politic and corporate under the laws of the State of Missouri (the "Authority"), held a meeting on Friday, May 9, 2008 at 9:00 a.m. at the office of the Authority, located at 633 Spirit Drive in Chesterfield, Missouri. Proper notice of the meeting was forwarded to the State for publication, mailed and otherwise provided to the Compensation Committee, posted at the office of the Authority and on the Authority's website in advance of and during the meeting and provided to certain other individuals. On a roll call of the meeting, the following members of the Compensation Committee were found to be present in person unless otherwise stated:

Present

Dr. Robert H. Spence
Mr. Randy L. Etter
Mr. Gregory Upchurch

Absent

None

A quorum of the members of the Compensation Committee was present for the purposes of conducting business. Present in person and representing the staff of the Authority were Mr. Raymond H. Bayer, Jr., Executive Director, Chief Executive Officer and Assistant Secretary; Mr. Scott D. Giles, Director of Finance/Chief Financial Officer; Ms. Mary J. Stewart, Director of Loan Servicing; Mr. William C. Shaffner, Director of Business Development; Ms. Susan B. Crump, Assistant Director of Administration; Ms. Penny J. Hagan, Assistant Director of Finance & Controller; Mr. Daniel DeBoer, Human Resources Coordinator; Ms. Janet Saulich, Internal Auditor; Dr. James L. Matchefts, General Counsel; and Ms. Joan Conway, Paralegal. Also present in person were Messrs. Michael F. Lause of Thompson Coburn LLP, Special Counsel to the Authority and Tom Reiss of the Missouri Governor's Office. Ms. Conway of the Authority staff assisted Mr. Bayer in taking minutes of the meeting. Mr. Etter acted as Chair of the meeting and Mr. Bayer acted as Assistant Secretary.

Call to Order and Approval of Minutes

The Chair called the meeting to order at approximately 9:00 a.m. and asked if there were any public comments. There being none, he stated that the next item was the discussion, consideration and vote on approval of the minutes of the Compensation Committee meeting of October 5, 2007. Dr. Spence moved, and Mr. Upchurch seconded, a motion to approve the minutes of the Compensation Committee meeting of October 5, 2007 as drafted and presented and was unanimously approved by voice-vote.

Fiscal Year 2009 Employee Salary Budget Update

The Chair stated that the next item on the agenda was the update and discussion, regarding the Fiscal Year 2009 employee salary budget, pay grid and performance assessment increase grid. Mr. Bayer stated that the upcoming Audit Committee Meeting scheduled for May 23, 2008, includes an agenda item for a possible vote regarding recommending the Fiscal Year 2009 Budget to the Members. He stated that part of that budget includes the Salary Budget which is being presented to the Compensation Committee for any additional thoughts or comments. Mr. Bayer acknowledged that Fiscal Year 2008 started with a budget of 301 employees and that due to industry changes and the decision to no longer purchase consolidation loans the staffing level is currently at approximately 241 employees. It is anticipated that at the start of the new fiscal year the Authority will have 235 employees with Management expectations that the Authority will remain stagnant with the anticipated number of employees throughout the year. Mr. Bayer stated that the anticipated number of employees would call for a salary budget of approximately \$10.3 million. Mr. Bayer stated that the proposed budget includes a 4% average wage increase for employees and that although the increase is built into the budget, Management is still following the grid previously approved by the Members. He stated that the 4% is a weighted average which takes the anniversary date of the employees into account and the increase was built into the budget accordingly. A \$225,000 offset was also included within the budget to cover rolling vacancies, FMLA, FICA and 401(K) expenses.

Mr. Etter questioned whether there were any grade levels changes from what was previously approved the Members. Mr. Bayer replied, no. Mr. Bayer stated that Management began approximately one year ago making this a Member document and that Management will only operate within the grad structure and increase structure that the Members have approved. Mr. Bayer stated that Management would like to get the Committee's feedback on the average raise.

Mr. Upchurch questioned what the average raise was for state employees. Dr. Matchefts stated that for the current year, state employees received a 3% increase. Dr. Matchefts reiterated for the committee that the reflected increase amount is a performance based raise that could be from 0% to 6%. Mr. Bayer stated that the six month increase reflected on the charts is only for new employees and was previously called a probation review. Mr. Lause questioned what the approved Salary Budget was for Fiscal Year 2008. Ms. Hagen stated the approved salary budget for FY2008 was approximately \$13 million and that the proposed salary budget for FY2009 is approximately \$10 million. Mr. Etter stated before the next board meeting, he would like to see a visual display that shows where the Authority is and where it has been and that the average salary budget makes good business sense. He stated that the display should show how medical, dental etc. are reflected in the salary budget. Ms. Hagen stated that the Authority has been including an average wage increase of 4% for the last five years and that it has worked fairly well. Mr. Bayer stated that in the past the Authority has stayed away from COLA increases. Mr. Upchurch stated that he would be opposed to a COLA increase. Dr. Spence questioned whether there has ever been a time when Management did not give annual raise increases. Mr. Bayer answered no. Ms. Crump offered a caveat, stating that annual raises are based on performance. Mr. Etter questioned whether there is anything that would effect the approved grid. Mr. Etter questioned what the percentage of employees is for employees that would be maxing out at their grade levels assuming a 4% raise is attained by all employees. Ms. Crump stated that there is only one employee that is above the grid and that person is over by approximately

\$0.15 per hour. Ms. Crump discussed reviewing the effects of maxing out on the compensation grid. Mr. Bayer suggested awarding bonuses as opposed to raises to employees that are near the maximum for their grade levels, that way the base salary would stop growing. Mr. Upchurch questioned whether revenues are going to support the salaries within the operating budget. Mr. Bayer stated that the wage increases, offsets, etc. are calculated and built into the budget. Mr. Etter asked if the Committee was being asked to approve the budget or recommend it to the Members. Mr. Bayer stated that the Committee members are being given the opportunity to add anything additional they feel should be included or to possibly say slow this down.

Dr. Spence inquired on whether it was anticipated that the Authority would be able to make the June, Lewis and Clark Discovery Fund payment. Mr. Bayer stated that the matter would require a full Board present to make a decision. He stated that until the Authority's equity position is at least 103 he would not recommend making the payment. He stated that the Authority has approximately \$30 million outside of bond contracts and that the Authority does not have the cash on hand to go forward and will need to attempt to borrow money this fall to allow the Authority to both buy loans and originate loans.

Mr. Lause stated that the way the statute reads, an LCDI payment is made unless the Members make certain findings about the negative impact on borrower benefits, operations, etc. and that it is structured in the ability to delay payments. He stated that if the unique credit crisis is a temporary situation, the hopes are that if the Authority can survive through this period, it will be able to catch up. Mr. Upchurch recommended that the Committee support the proposed salary budget based on current circumstances. Dr. Spence seconded Mr. Upchurch's recommendation. Mr. Bayer stated that it would be conveyed to the Audit and Finance Committee that the Compensation Committee has reviewed and endorses the salary components of the budget.

Healthcare Insurance Provider Update

The Chair stated that the next item on the agenda was the update and discussion regarding the selection of a healthcare insurance provider and related continuing cost increases. Mr. Bayer stated that United Healthcare has been the provider for a number of years, however this year they have presented a 9% increase which is not acceptable. Mr. Bayer referred the Committee Members to a historical chart that goes back to 2003 through 2008 and shows what the employee contributes and what the Authority contributes. He stated that the increases in premiums have been handled differently throughout the years. He stated that some years the increases have been divided equally between the Authority and the employees and that some years the entire increase has been passed on to the employees. Ms. Crump stated that last year the dollar amounts remained the same, as the increase from UHC was less than 2% and that none of the increased expense was passed on to the employees. Mr. Bayer stated that based on the increased amount the Authority is obligated to bid out. He further stated that if a company were to bid out every year they tend to become labeled in the industry among the providers. He stated that Ms. Crump is working with a broker and obtaining bids.

Ms. Crump listed the providers that she has received bids from and stated that she is favorable towards Mercy Health Plan as their premiums are comparable to what the Authority is currently paying. Dr. Spence inquired about the stability of Mercy's bid. Ms. Crump stated that being quoted a lower price initially with the possibility of the provider raising cost and pushing the Authority back out into the market is always a concern. She stated that she had previously obtained quotes from Mercy and their premiums appear to be consistent. Ms. Crump stated that Mercy tends to have a different philosophy, that being more proactive and geared towards preventive care. Dr. Spence questioned what the claims experience is for the Authority. Ms. Crump stated that 88% of premiums have been going to claims. She stated that Management has attempted to make changes that modify behavior.

Mr. Bayer stated that management has established the percentage of what the employees are responsible for paying towards the premiums and asked if this is something the Members would want to take ownership of or is Management to continue using its discretion within a reasonable range. Dr. Spence stated that his personal recommendation would be for this to become a Board review item. Mr. Etter suggested putting all the items that may be considered into the aforementioned visual display so that the Members can see historically what has been done. Mr. Bayer stated that he has an upcoming meeting regarding rules and all procedures should and will be included in the Policy Governance Manual. The Chair asked if there were any further questions or comments and, there being none, he called for a motion. Dr. Spence moved and Mr. Etter seconded a motion to close this portion of the meeting for the reasons stated pursuant to Sections 610.021 (1), (3) and (13) of the Revised Statutes of Missouri. The Chair called for any discussion on the motion. There being none, he called for a vote on the motion. Upon said motion being put to a vote, the following vote was recorded in favor of the adoption of such motion:

<u>Yeas</u>	<u>Nays</u>
Mr. Randy L. Etter	None
Dr. Robert H. Spence	
Mr. Gregory Upchurch	

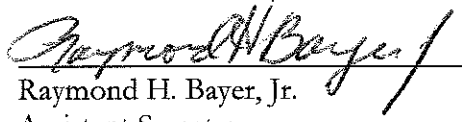
The Chair announced that the motion to move the meeting into closed session was unanimously approved, whereupon the meeting moved into closed session at approximately 9:50 a.m. and everyone except the Committee Members, Mr. Bayer, Dr. Matchefts, Ms. Crump and Mr. Lause exited the meeting.

The Members reconvened the regular meeting at approximately 10:30 a.m. after properly making a motion to do so which was made by Mr. Upchurch, seconded by Dr. Spence and was unanimously approved by roll call vote.

Informational Items and Adjournment

The Chair asked if there were any informational items or any additional items and, hearing none, he called for a motion to adjourn. Dr. Spence moved and Mr. Upchurch seconded a motion to adjourn the meeting which was unanimously approved by voice-vote. The meeting adjourned at approximately 10:35 a.m.

Approved:


Raymond H. Bayer, Jr.
Assistant Secretary