



Board of Administration

Agenda Item 2a

November 30, 2022

Item Name: Compensation Policy Workshop and Proposed Changes to Peer Comparator Groups and Salary Adjustment Matrix

Program: Administration

Item Type: Action

Recommendation

- 1) Approve market comparator groups to be used in regular compensation benchmarking surveys for executive and investment management positions.
- 2) Approve a revised salary adjustment and performance matrix to provide clarity on performance levels and support appropriate application and pacing of base salary increases.

Executive Summary

The Board's primary compensation consultant, Global Governance Advisors (GGA), will facilitate a discussion on compensation topics based on direction received during the Performance, Compensation, and Talent Management Committee's (Committee) June 2022 meeting. GGA's presentation will set the foundation for the Board of Administration (Board) to consider policy options related to compensation for statutory positions covered under Government Code section 20098, including executive and investment management positions.

Today's discussion will include decision points for the Board to consider recommendations on:

1. Comparator groups for compensation benchmarking
2. Revisions to the salary adjustment and performance matrix.

The Board will also receive information and provide feedback on several other policy provisions so GGA can return with recommendations at a future meeting for specific policy changes to refine and improve the overall effectiveness of the compensation program.

Strategic Plan

This agenda item supports CalPERS' Strategic Goal to cultivate a diverse, risk-intelligent, and innovative culture through teams and processes, including promoting a high-performing and diverse workforce. The Board's Compensation Program for Executive and Investment

Management Positions provides a means to recruit and retain highly skilled executives and investment management professionals to meet organizational priorities.

Background

The Board's Compensation Policy for Executive and Investment Management Positions (Policy) is the basis by which incentive plans are designed and award payments and base pay rates are determined for positions covered under Government Code section 20098.

At the June 2022 Committee meeting, GGA presented several policy recommendations to the Committee. At that time, the Committee directed GGA and CalPERS team members to schedule a workshop for further discussion on Policy topics and recommendations. Based on Committee direction received, the following topics were identified as areas to be covered during the workshop:

- Program principles
- Incentive program design
- Measuring investment performance
- Comparator groups
- Salary adjustment and performance matrix
- Authority to defer, reduce, or eliminate incentive awards

Analysis

To prepare for the workshop, GGA conducted individual interviews with each Board member to gather input on the above topics. In consideration of the input received and relevant industry practices, GGA will provide information and recommendations intended to refine and enhance the Board's Compensation Program for Executive and Investment Management Positions.

Today's discussion will include decision points for the Board to consider recommendations on comparator groups for compensation benchmarking; and revisions to the salary adjustment and performance matrix.

The Board will also receive information and provide feedback on several other policy provisions so GGA can return with recommendations at a future meeting for specific policy changes to refine and improve the overall effectiveness of the compensation program.

Budget and Fiscal Impacts

Incentive awards and base pay increases are projected for and funded through the annual budget process. Any changes to the budget resulting from this agenda item will be determined based the impact(s) of the decision(s) and can be included in a future agenda item.

Benefits and Risks

Regular review of the Policy is a good governance practice, serving to ensure the Policy clearly communicates critical elements of the compensation program policy and administration. A clear and transparent policy is imperative for program participants, administrators, and stakeholders. Without a periodic and systematic review, there is a risk of the Policy becoming misaligned with the overarching goals of the organization.

Attachments

Attachment 1 – GGA PowerPoint Presentation

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