



Performance, Compensation & Talent Management Committee

Agenda Item 7a

February 13, 2023

Item Name: Compensation Review for Statutory Positions

Program: Administration

Item Type: Information

Executive Summary

This item presents compensation survey data for classifications covered by the Board's Compensation Policy for Executive and Investment Management Positions, including the Chief Executive Officer, Chief Actuary, Chief Financial Officer, Chief Operating Officer, General Counsel, Chief Investment Officer, and all investment management classifications.

Strategic Plan

This agenda item supports CalPERS' Strategic Goal to promote a high-performing and diverse workforce in the 2022-27 Strategic Plan. The Executive Compensation Program provides a means for recruiting, retaining, and empowering highly skilled executives and investment professionals to meet organizational priorities and strengthen the long-term sustainability of the pension fund by generating returns to pay member benefits.

Background

The Board's Compensation Policy for Executive and Investment Management Positions (Policy), recommends a compensation survey of all comparable executive and investment management positions be conducted every two years. The purpose is to ensure compensation levels are competitive with the Board-approved market comparator group as defined in the Policy.

In June 2022, the Committee requested a workshop to discuss several key compensation topics, including comparator groups for executive and investment management positions. At the workshop, the Board approved the addition of weights to the comparator group, including a blend of private and public-sector data as follows:

Executive Management Positions:

- 1/3 Weighting – Leading US and Canadian public funds,
- 1/3 Weighting – Select California-based agencies (including large local agencies),
and

- 1/3 Weighting – Banks and insurance companies.

Investment Management Positions:

- 2/3 Weighting – Large and complex US and Canadian public funds,
- 1/3 Weighting – Private sector asset management organizations of comparable size (\$150 billion to \$350 billion AUM) that are key competitors for CalPERS team members, including: Investment management/advisory firms, university endowment funds, insurance companies and banks.

The Board also approved team members to engage McLagan Partners in gathering current market compensation data to bring back to the Committee in February 2023.

It should be noted that although the Policy defines private sector asset management organizations of comparable size to be between \$150 billion to \$350 billion assets under management, the analysis conducted by McLagan uses a range of \$100 billion to \$500 billion to better compare to the current size of CalPERS' assets, which reached the \$500 billion mark in December 2021.

In January 2023, the Board approved a 4% increase to the maximum of the ranges for the following classifications. Chief Actuary, Chief Health Director, Chief Financial Officer, and General Counsel. For the approximately 120 covered investment management positions (including Associate Investment Managers, Investment Managers, Investment Directors, Managing Investment Directors, and Deputy Chief Investment Officer), approximately 20% are in the first quartile, 32% are in the second quartile, 37% are in the third quartile, and 10% are in the fourth quartile of their respective ranges.

Analysis

The item presents McLagan's compensation review and analysis for executive and investment management positions covered under the Board's compensation setting authority (Attachment 1). The Board's primary executive and investment compensation consultant, Global Governance Advisors, has reviewed the survey data and will provide their initial observations to aid the Committee in determining next steps.

Chief Health Director Compensation Analysis

The Chief Health Director (CHD) position is not included in the McLagan data, as they do not survey similar positions and it's uncommon to find a health function in CalPERS' comparator group organizations. When a compensation review item was presented June 2022, CalPERS team members worked with GGA to identify potentially comparable compensation data to determine current competitiveness. Based on alignment of essential functions with the Covered California Chief Deputy Executive position (with a salary range supported by comparable industry data), consideration of required duties and expertise, it still seems to be the best comparator for the CalPERS Chief Health Director role. Current compensation data was not readily available but is being researched and will be provided with GGA's recommendations at a future meeting.

The goal of today's meeting is to review the data and discuss gaps in compensation, where applicable. Based on the Committee's direction, GGA could return in April 2023, with recommendations on compensation ranges for covered positions.

Budget and Fiscal Impacts

The cost of the compensation survey was \$50,000, which was funded from existing resources. Any costs that arise from the recommendations of the completed survey, such as salary range changes, will be addressed at the time of the recommendations.

Benefits and Risks

The conducting of a regular salary survey demonstrates good governance and risk management practices, as well as aids in the refining of strategies for the recruitment and retention of highly skilled executives and investment managers.

Risks associated with adopting revised salary and/or incentive levels could include a negative public perception for considering compensation increases. However, in the event existing salary ranges are not competitive, there is a risk of difficulty in hiring and retention of highly qualified candidates for key positions.

Attachments

Attachment 1 – McLagan's Compensation Review Presentation

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