



GLOBAL
GOVERNANCE
ADVISORS

Compensation Policy Review cont'd



California
Public Employee
Retirement
System

Outline

NEXT STEPS

Next Steps 4

Overview of Items Presented in April

Review of Key Items 6

Follow Up Items that Required More Detail

Merit Adjustments 8

Treatment of Pro-Rata Awards 10

Treatment of Terminations 12

Eliminating, Adjusting, Deferring Incentive Payouts 14



NEXT STEPS

Next Steps

© all rights reserved 2022



Moving forward, GGA recommends that the CalPERS Board:

- Consider and approve the current recommendations and proposed changes to the policy.
 - GGA will then work with CalPERS HR insert final changes aligned to the decisions and outcomes from today's meeting.

OVERVIEW OF ITEMS PRESENTED IN APRIL

Review of Key Items

© all rights reserved 2022



Previous Items:

- Addition of program principles
 - To be more prescriptive
 - Will require board input and ownership
- Timing of Compensation assessments
 - To help avoid lags which could result in larger gaps to market
- Adjustment to private sector peers
 - To appropriately identify peers that are of similar size and complexity
- Treatment of new hires and/or appointments
 - To ensure that objective processes are in place to ensure equal treatment and consideration of internal & external candidates

FOLLOW UP ITEMS THAT REQUIRED MORE DETAIL

Merit Adjustments



© all rights reserved 2022

MARKET ALIGNMENT:

- A recent North American survey throughout all major sectors showed that the median expected merit increase increased to 3% for 2022.
- Proper assessment ranges normally has most of the employees landing on target or “Fully Meets Performance” levels.
- The following is a generally accepted standard for employee performance distribution:

Individual Performance Rating	Targeted % of Employee Population
High Performer (Far Exceeds/Exceeds Expectations)	25%-30%
Target Performer (Successfully Meets Expectations)	60%-70%
Low Performer (Partially Meets/Does Not Meet Expectations)	5%-10%

Merit Adjustments



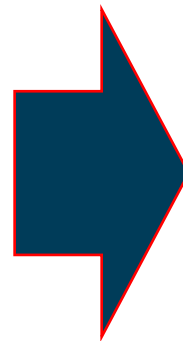
© all rights reserved 2022

RECOMMENDATION:

- To help normalize the assessment of merit performance pay adjustments, GGA recommends CalPERS:
- Expand its original 4-level assessment rating to the proposed 5-level standard.

Current Matrix

Overall Performance Rating	Percentage Increase
Outstanding	7%
Consistently Exceeds Standards Expectations	5%
Meets Standards	3%
Does Not Fully Meet Standards Expectations	0%



Recommended Matrix

Overall Performance Rating	Percentage Increase
Exceptional	6%
Consistently Exceeds Expectations	4.5%
Fully Meets Expectations	3%
Occasionally Meets Expectations	1.5%
Does Not Meet Expectations	0%

Treatment of Pro-Rata Awards



© all rights reserved 2022

MARKET ALIGNMENT:

- The pro-rating of awards is a normal practice in both public and private organizations especially under special circumstances.
- However, offering incentive awards that are based on less than 6 months is not a prevalent practice within today's market.

RECOMMENDATION:

To ensure that CalPERS is aligned with normal market practice and that incentives are based on sufficient time to achieve them, GGA recommends CalPERS:

- Cease the discretionary awarding of partial year awards that are based on less than the last 6 months of the fiscal year for new appointees.
- Clarify conditions and eligibility requirements pertaining to board discretion under special circumstances.

Treatment of Pro-Rata Awards



© all rights reserved 2022

RECOMMENDATION:

To ensure that CalPERS is aligned with normal market practice and that incentives are based on sufficient time to achieve them, GGA recommends the following treatment:

Situation	Treatment
Appointed on or before Dec. 31	Eligible for prorated awards
Appointed on or after Jan 1	Not Eligible for prorated awards
Vacates position within 6 months of appointment	Not Eligible for prorated awards
Promoted from IO Classification to a covered position	Eligible for prorated awards

Treatment of Termination

© all rights reserved 2022



MARKET ALIGNMENT:

- In many organizations, the treatment of payouts upon various termination situations could, in some instances, lead to less than favorable situations:
 - i.e., Employees might mentally check out but feel that they must stay on for the full fiscal year to remain eligible for incentive payouts.

RECOMMENDATION:

To eliminate all possibilities of employees feeling they must stay beyond their recognized retirement date, and to better define the treatment of all types of termination, GGA recommends:

- CalPERS clarify the treatment of special situation, pro-rated incentive payouts for all employees whose termination is the result of retirement, death, or disability. In the event of a termination associated with voluntary or “for cause” all outstanding incentives should not be paid out.

Treatment of Termination



© all rights reserved 2022

RECOMMENDATION:

To eliminate all possibilities of employees feeling they must stay beyond their recognized retirement date, and to better define the treatment of all types of termination, GGA recommends:

- CalPERS clarify the treatment of special situation, pro-rated incentive payouts for all employees whose termination is the result of retirement, death, or disability. In the event of a termination associated with voluntary or “for cause” all outstanding incentives should not be paid out.

Termination	Treatment
Retirement, death or disability on or after Jan 1	Eligible for prorated awards (unless they relinquish their duties)
Retirement, death or disability on or before Dec 31	Eligible for prorated awards (only with compelling circumstances)

- The termination date for determining a former employee’s prorated award will be the date the individual substantially relinquishes their primary duties, prior to the exhaustion of leave credits.

Eliminating, Adjusting, Deferring Incentive Payouts



MARKET ALIGNMENT:

- Compensation policies need to be clear on the specific situations/circumstances when their incentives might be eliminated, adjusted, or deferred.
- Higher levels of attrition is a common outcome when employees pay is altered and they feel caught off-guard, treated unfairly or perceive their employment rights were breached in some way.

RECOMMENDATION:

In order to protect the best interests and sustainability of the System, CalPERS must retain the ability to alter incentive payouts under clear and extenuating circumstances, therefore GGA recommends:

- This section be expanded to more clearly identify situations and/or circumstances where plan participants can anticipate payout and/or timing adjustments.
 - The proposed language is similar to what is currently found in CalSTRS' compensation policy, which has been recently reviewed.

Eliminating, Adjusting, Deferring Incentive Payouts



RECOMMENDATION:

In order to protect the best interests and sustainability of the System, this section now outlines:

- Three distinct “Qualifying Triggers”
 - Investment (Total Fund & Asset Class)
 - Policy Violations
 - Reputational Risks
- Actions that will be taken upon any trigger violation



GLOBAL
GOVERNANCE
ADVISORS



Peter Landers, Senior Partner

peter.landerson@ggainc.com
+1.416.799.6640

Brad Kelly, Partner

brad.kelly@ggainc.com
+1.416.707.4614