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AGENDA ITEM 6

TO: MEMBERS OF THE PERFORMANCE AND COMPENSATION COMMITTEE

I. SUBJECT: 2008 Salary Survey for Chief Executive Officer, Chief Actuary, General Counsel and Investment Management Positions

II. PROGRAM: Administration

III. RECOMMENDATION: Adopt either Alternative Option 1 or Alternative Options 2 as Presented in the 2008 Biennial Salary Survey Report

Staff Further Recommends the Committee Consider Revisions to the Policy as Presented in the Report

IV. ANALYSIS:

Background

Since the inception of the Board of Administration's executive compensation program, the emphasis has been on pay for performance and review of compensation as an essential part of a formal performance review process. The Performance and Compensation Committee has, over the years, continued to explore and refine the elements necessary for a sound executive compensation program and to weigh their importance in recruiting and retaining highly skilled executives.

Included in this ongoing review and refinement of the program, in accordance with the Executive Compensation Policies and Procedures, is the completion of a biennial salary survey.

The purpose of this agenda item is to present for consideration the 2008 biennial salary survey report (Attachment 1). This survey has been conducted to determine prevailing compensation for comparable executive, investment, actuarial, and legal positions in accordance with existing policy.

Survey History - 2004

In 2004, a number of agenda items were brought to the committee over a period of five months. Considerable discussion was focused on the definition of "median" of the data and how it was applied to setting the ranges. The outcome was a shift in the interpretation of the policy provision that defines "median of the data" for investment management positions.

In prior years, although not expressly stated in the policy, the practice was to use the median of the survey data to determine the maximum of the salary range. As a result of the committee's actions in 2004, the median was used to set the midpoint of the salary ranges. In addition, recommendations were adopted to widen the ranges for the investment management positions. These actions resulted in a number of increases to the base salary ranges of the investment management positions.

Survey History - 2006

In 2006, the salary data was relatively flat for all positions. Ranges were set using the median of the data as the midpoint as in 2004. To retain a leading rather than lagging position, base salary ranges for the CEO and Chief Actuary were adjusted by 6%, and base salary ranges for investment managers were adjusted by 7%.

No changes were made to incentive schedules in either 2004 or 2006.

Internal Considerations

There continues to be a significant gap between salaries for investment management positions and represented investment classifications whose salaries are set through the State's collective bargaining process.

Effective January 1, 2007, the following pay improvements were implemented for the Investment Officer I, II and III classifications as a result of 2006 negotiations:

- 5% pay differential (all represented classifications) for possession of a Chartered Financial Analyst (CFA) certification
- 0 – 15% pay for performance award (Investment Officer III only)
- 5% increase to the monthly maximum of the range (Investment Officer III only)

In addition, a reopener was agreed to by the State and SEIU to negotiate an increase in the salary ranges for Investment Officer I and II after January 2008. This is still in process.

Review of Existing Policy Language

As a starting point for the 2008 survey process, existing policy language under "Base Pay Policies" was reviewed to determine if it is still relevant and meaningful in today's marketplace and environment, and to insure it continues to provide a reliable and consistent platform for determining market levels of compensation. The policy provisions for surveying and setting base salaries have not been revised significantly since the inception of the executive compensation program in 1997. Market and performance based pay was not prevalent in the public sector at that time, so the policies were developed in a way that served the need to attract talent from the private sector but be acceptable in a public setting. CalPERS was on the leading edge of executive compensation for U.S. public pension funds at the beginning of the program.

Policy language was originally adopted for each position using a methodology that focused solely on private sector data for the Chief Actuary and Investment Management positions, and public sector data for the CEO position. Survey data are targeted differently for each position and survey sources vary. The basis for adjusting salaries was originally devised in a way that suited the environment at the time, but may no longer be meaningful.

As positions have been added to the program (Chief Operating Investment Officer and General Counsel), existing policy provisions were applied in the most equitable manner possible, absent a consistent salary setting methodology for all positions. However, it has become apparent the current policies do not provide consistency and flexibility, making it difficult to administer and apply as market conditions change or the program expands.

As a result, staff and the Board's compensation consultant, Watson Wyatt Worldwide, approached this survey with the goal of presenting alternative approaches in methodology and policy provisions for the Committee's consideration. The salary survey report prepared by staff in conjunction with Watson Wyatt Worldwide provides alternatives for each position for the Committee's consideration.

V. STRATEGIC PLAN:

Under Goal V of the Strategic Plan, CalPERS is committed to sustaining a high performance work culture. This can be accomplished at the highest executive levels through the establishment of methods that provide broad flexibility in the recruitment, retention and compensation of key personnel.

VI. RESULTS/COSTS:

The establishment of a competitive compensation program for executives at the highest levels of the organization is critical to the success of CalPERS. The cost of any compensation changes that might arise from the recommendations in this item will be funded from existing resources.

Chris O'Brien, Chief
Human Resources Division

Gloria Moore Andrews
Deputy Executive Officer - Operations

Attachments