



## Agenda Item 6

May 15, 2012

**ITEM NAME:** Year-End Performance Evaluation Process Overview

**PROGRAM:** Administration

**ITEM TYPE:** Information

### **EXECUTIVE SUMMARY**

This agenda item presents an overview of the revised year-end performance evaluation process for all positions covered under the Board's compensation-setting authority, reflecting the recently adopted Board governance changes, including the Powers Reserved and the revised CEO delegation.

### **ANALYSIS**

Historically, the Board has reviewed and approved the Committee's performance appraisals and award and salary recommendations for the Chief Executive Officer (CEO), Chief Actuary, General Counsel, Chief Investment Officer (CIO), Chief Operating Investment Officer (COIO) and Senior Investment Officers (SIOs). This practice is reflected in the Board's Compensation Policies and Procedures. In accordance with the recently adopted Board governance changes, Powers Reserved, and revised CEO delegation, only the CEO and CIO performance appraisals and compensation recommendations will be submitted to the Board for approval.

The Board's Executive Compensation Policy needs to be updated to accurately reflect the Board's governance and delegation changes. Human Resources staff is working on detailed revisions to the policy, and will bring the proposed revisions to the Committee later this year. In the meantime, the process described below, reflects the recent Board actions and decisions.

### **Changes in Approval Levels Recently Adopted by the Board**

The process outlined below is consistent with the Powers Reserved for the Board and CEO delegation changes recently approved by the Board. To align with the governance and delegation changes, the approval processes will occur as follows:

- Only the performance appraisals of the CEO and CIO will be brought to the Committee and Board for completion and approval.
- The appraisals for the Chief Actuary and the General Counsel will be completed by the CEO and will be presented to the Board for approval/veto.
- The appraisal for the COIO and SIOs will be completed by the CIO and submitted to the CEO for final approval.
- The appraisals for the Senior Portfolio Managers (SPMs) and the Portfolio Managers (PMs) will be completed by the SIOs, and submitted to the CIO and CEO for final approval.

The table below depicts the revised approval levels:

<b>Position</b>	<b>Appraisal Completion / Approval</b>
Chief Executive Officer Chief Investment Officer	Appraisals completed by the Performance and Compensation Committee and approved by the Board.  Awards and base salary increases approved by the Board.
Chief Actuary General Counsel	Appraisals completed by the CEO, with appraisal outcomes reported to the Board.  Awards and base salary increases approved or vetoed by the Board.
Chief Operating Investment Officer Sr. Investment Officers	Appraisals completed by the CIO.  Appraisals, awards and base salary increases approved by the CEO.
Sr. Portfolio Managers Portfolio Managers	Appraisals completed by Senior Investment Officers for approval by the CIO and CEO.  Awards and base salary increases approved by the CEO.

### **Process and Timing**

In the past few years, the year-end performance appraisal process included a full Board closed session in the month prior to the Committee meeting. Staff suggests that to simplify and streamline the process, the Board consider eliminating the separate, earlier meeting of the Board. Under this approach, the closed session Committee and Board meetings would both take place in the same month, to conduct the following business:

<b>Position</b>	<b>Appraisal Completion / Approval</b>
Chief Executive Officer Chief Investment Officer	Performance and Compensation Committee (P&CC) meets in closed session to complete CEO and CIO performance appraisal, assign ratings, and recommend incentive award and base salary increase if warranted. CEO provides input on CIO's performance appraisal.  Full Board meets to approve or modify P&CC's recommended ratings, comments, and incentive award and salary recommendations.

All Board members may attend the Committee’s performance evaluation meeting and provide input at that time, or make their comments at the full Board meeting. Eliminating the separate Board meeting the month prior to the Committee meeting will streamline the process, while still providing all Board members an opportunity to discuss the ratings and provide their input.

**Schedule for Revised Year-End Process**

All discussions on the CEO and CIO performance appraisals and approval and review of all other performance appraisal outcomes will take place in September. This will provide sufficient time for Wilshire, the Board’s investment consultant, to complete the calculations of the quantitative investment performance measures after the close of the fiscal year, and allow staff time to prepare all materials for Committee and Board consideration as shown below:

Month	Event
<b>July</b>	Staff complete year-end (4 <sup>th</sup> quarter) status reports and Summary of Accomplishments.
<b>August</b>	Calculation of quantitative performance multipliers and preparation of appraisals and award summary document.
<b>September</b>	<p>Performance and Compensation Committee (P&amp;CC) meets in closed session to complete CEO and CIO performance appraisal, assign ratings, and recommend incentive award and base salary increase if warranted. CEO provides input on CIO’s performance appraisal.</p> <p>Full Board meets to:</p> <ul style="list-style-type: none"> <li>• Approve or modify P&amp;CC’s recommended ratings, comments, and incentive award and salary recommendations for the CEO and CIO;</li> <li>• Approve or modify the CEO’s incentive award and any proposed base salary increases for the Chief Actuary and General Counsel;</li> <li>• Receive summary of incentive awards and base salary increases for all other covered positions, as approved by the CEO.</li> </ul>
<b>September / October</b>	Board President and designated Board member(s) provide feedback to CEO and CIO; award letters payments issued.

**Appraisal Outcome Summary**

A comprehensive summary reflecting the overall performance ratings, performance award amounts and any base salary increases as approved by the CEO, will be submitted to the Committee for all covered positions in September.

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