



Agenda Item 7

February 19, 2013

ITEM NAME: Biennial Salary Survey Approach

PROGRAM: Administration

ITEM TYPE: Action

RECOMMENDATION

Approve staff to conduct a comprehensive salary survey of all positions covered under the Board's Executive Compensation Policies and Procedures.

EXECUTIVE SUMMARY

The purpose of this agenda item is to present information relevant to conducting an executive salary survey for positions covered under Government Code Section 20098.

STRATEGIC PLAN

The Executive Compensation Program supports Goal B of the 2012-17 Strategic Plan in cultivating a high-performing, risk-intelligent and innovative organization. The program provides a means for recruiting and retaining highly-skilled executives to the benefit of the CalPERS organization as a whole.

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, Compensation and Talent Management Committee (formerly 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 the importance of the program 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 policy states in part that "*salary surveys of comparable executive positions are conducted every two years.*"

The last comprehensive salary survey was conducted in May 2008 by Watson Wyatt Worldwide. Watson Wyatt reviewed all base pay policy provisions, incentive award schedules, gathered salary data, and made recommendations for several changes. As a result, the Board adopted the following changes:

- Widened ranges to a consistent 50% width for all positions
- Changed salary data gathering methodology to include a blend of public and private sector
- Removed provision that provided for an immediate increase if range fell below median of the data
- Increased base salary range for all positions

In 2010, the Committee opted to defer a comprehensive survey for all covered positions, in part due to economic conditions at the time. However, salaries for the Investment Managers were reviewed as part of the Mercer incentive compensation redesign project, also conducted in 2010. Mercer's salary analysis found that the salaries for Investment Managers were consistent with current market conditions.

In 2012, the Committee deferred the salary survey and asked staff to revisit the survey in one year.

ANALYSIS

Determining the competitiveness of existing ranges is an essential element in recruiting and retaining highly skilled executives. In accordance with the Board's Compensation Policy, a comprehensive salary survey of all comparable executive positions may be conducted every two years to ensure salary ranges are appropriate and relatively competitive with current market levels.

In addition to the Committee's directive to revisit the salary survey in 2013, a request was made by a member of the Committee in September 2012, as part of the annual performance evaluation process, to conduct a compensation survey. Therefore, staff is seeking approval from the Committee to conduct a survey of all covered positions.

Should the Committee direct staff to conduct a salary survey, staff, with input from the Committee Chair, will select a firm from the existing Compensation Consultant Spring Fed Pool to conduct the survey. Staff will then work with the selected firm to outline the parameters for conducting the survey, including the following: 1) a review of the Board's salary setting policies governing total cash compensation, and 2) a review of the methodology for determining competitive base salary and incentive compensation ranges to ensure a meaningful comparison is made with current market levels. The survey findings, along with any other recommendations, will be presented to the Committee in May 2013.

It should be noted that as part of the Investment Office Classification and Organizational Study conducted in 2012, salary data for investment manager positions was collected. This data may be used in the salary survey.

BENEFITS/RISKS

Risks associated with not conducting a salary survey could include:

- Not having current market data to ensure that existing salary ranges are competitive;
- In the event existing salary ranges are not competitive, there is a risk of potential difficulty in the hiring and retention of qualified candidates for key positions.

A risk associated with conducting a salary survey could include:

- Negative public perception for considering compensation increases in the current economic climate.

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