



Agenda Item 6

April 17, 2013

ITEM NAME: Biennial Salary Survey Approach and Methodology

PROGRAM: Administration

ITEM TYPE: Information

EXECUTIVE SUMMARY

At the request of the Performance, Compensation and Talent Management Committee (Committee), staff is presenting this agenda item for the purpose of presenting alternatives for the 2013 Biennial Salary Survey methodology, including appropriate comparator groups.

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

As part of a sound executive compensation program and according to the Executive Compensation Policies and Procedures, a salary survey of comparable executive positions is to be conducted every two years. These salary surveys assist the Committee in exploring and refining strategies for the recruitment and retention of highly skilled executives and investment managers, and demonstrate good governance and risk management practices.

The last comprehensive salary survey was conducted in May 2008 and resulted in increases to base pay salary ranges and revisions to the survey methodology. In 2010 and 2012, the Committee opted to defer a comprehensive survey for all covered positions and revisit the survey in 2013.

In February 2013, the Committee approved staff to move forward with conducting a salary survey. The Committee requested that staff bring back an agenda item in April to allow for input and discussion from the Committee on the best comparator group and appropriate methodology for conducting the survey. The survey findings, along with any other recommendations, will be presented to the Committee in May.

ANALYSIS

The Board's compensation consultant, McLagan, has identified three comparator group and methodology alternatives for the Committee's consideration based on industry best practices and staff input:

1. The first alternative is to **retain and clarify the current peer group** by using a select group of leading U.S. and Canadian public funds (weighted 50%) and a select group of large banks and insurance companies (weighted 50%). This option would benchmark against both public and private sector data, which acknowledges the broad range of firms with which CalPERS competes for talent. However, CalPERS is larger and more complex than most public funds, and banks and insurance companies do not provide a quality comparison for the majority of investment management positions.
2. The second alternative is to **continue the 50% public, 50% private blend, but modify the private sector peers**. The comparator group would be defined as a select group of leading U.S. and Canadian public funds (weighted 50%) and a select group of private sector organizations, including investment management firms, banks, and insurance companies (weighted 50%). Compared with the first alternative, the private sector peer group is expanded to include investment management firms. This option would retain the existing blended approach and provide higher quality matches for benchmarking both executive and investment management pay.
3. The third alternative would be to **adopt a new peer group focused on leading institutional investors**, including U.S. and Canadian public pension plans, endowments and foundations, and corporate plan sponsors. These comparators have similar missions to CalPERS and are often comparable to CalPERS. This comparator group would not include banks and insurance companies whose executives have different responsibilities than CalPERS peers. However, many of these peers lack CalPERS operating complexity and do not manage money internally.

These comparator groups would be used for base salary and cash compensation benchmarking. Based on the Committee's input and discussion today, McLagan will work with staff to bring forward data and recommendations on targeted positioning within the peer groups (e.g., low quartile, median) for both base and incentive pay, as well as any applicable implementation steps or refreshed policy language to address needed changes.

ATTACHMENTS

Attachment 1 – Identifying a Compensation Comparator Group for Executive and Investment Management Staff (McLagan)

Attachment 2 – Excerpt from: Compensation Policies and Procedures for Executive and Investment Management Positions

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