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Performance, Compensation and Talent Management Committee

California Public Employees' Retirement System

Agenda Item 5

May 14, 2013

ITEM NAME: Biennial Salary Survey Comparator Group(s), Target Quartile Selection and Recommended Policy Changes

PROGRAM: Administration

ITEM TYPE: Action

RECOMMENDATION

Approve a salary survey methodology, comparator group(s), target base pay quartile selection, and corresponding policy revisions.

EXECUTIVE SUMMARY

The purpose of this agenda item is to present for consideration the 2013 Biennial Salary Survey pay level analysis for Investment Management positions covered under Government Code 20098. The analysis compares CalPERS pay levels to its current policy and the alternative peer group(s), and provides recommendations for revising existing Executive Compensation Policy.

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 (Policy), a salary survey of comparable executive and investment management positions is to be conducted every two years. These salary surveys assist the Performance, Compensation and Talent Management Committee (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 and requested that staff bring back information in April for the Committee's input and discussion on the best comparator group and appropriate methodology for conducting the survey. Staff and the Board's compensation consultant, McLagan, provided comparator group and methodology options to the Committee, and received direction to bring back data in May for a modified comparator group focused on leading institutional investors.

In February, the Committee also requested that staff bring back an Investment Management turnover analysis. Attachment 1 reflects historical turnover data for the last three years, including the reasons for separation (promotion, private sector opportunity, retirement, etc.). This data demonstrates that since 2009, nine of twenty four separations have departed for a private sector opportunity. The overall turnover rate spiked from 2010-2012, but has declined in the last year. The current average rate of 8.5 percent is low, particularly given the overall increase in staff in the last year. Eliminating the promotions and retirements as "acceptable" turnover, only 4.2 percent in the last year occurred due to private sector opportunities.

ANALYSIS

Per the Committee's direction last month, the Board's compensation consultant, McLagan, has conducted a pay level analysis for covered Investment Management positions (Attachment 2) based on the custom comparator group requested by the Committee in April.

Staff recommends the Committee adopt a new peer group for Investment Management positions that focuses on a cross section of leading institutional investors and private sector asset management organizations that have missions and/or investment operations similar to CalPERS in size and complexity. Staff further recommends that these comparators be used for base salary benchmarking.

Base Salary Ranges for Investment Management Positions

McLagan's pay level analysis revealed that CalPERS salary levels are competitive with market, approximating the median of the alternative peer group. As outlined in the analysis, current salary levels for the Portfolio Manager, Senior Portfolio Manager and Chief Operating Investment Officer fall slightly below the median. The following table reflects alternative changes to the existing base salary ranges if salaries are benchmarked at the median of the data in relation to the alternative peer group:

	CURRENT BASE SALARY RANGE	ALTERNATIVE BASE SALARY RANGE	IMPACT TO CURRENT SALARY RANGE
Portfolio Manager	$126,000 - $190,000	$140,000 - $210,000	**~ 11% ↑ at min.**
Senior Portfolio Manager	$179,000 - $268,000	$188,000 - $282,000	**~ 5% ↑ at min.**
Senior Investment Officer	$262,000 - $392,000	$262,000 - $392,000	No Change
Chief Operating Investment Officer	$212,000 - $318,000	$240,000 - $360,000	**~13% ↑ at min.**
Chief Investment Officer	$408,000 - $612,000	$408,000 - $612,000	No Change

Staff recommends the Committee adopt one of the following options for base salary ranges:

1. Retain existing base salary ranges,
2. Approve the alternative salary ranges, and bring those incumbents not at minimum of range up to the minimum, or
3. Approve the alternative ranges and phase in incumbents not at the minimum of the new range over a specified period of time.

It should be noted that any changes resulting in an increase to the existing salary ranges will not result in an automatic pay increase to staff unless specifically approved by the Board as outlined in options 2 and 3 above. Pay increases for eligible staff will continue to be considered at the end of each fiscal year as part of the annual appraisal process. Currently, there are five (5) staff at the Portfolio Manager level whose salaries fall below the minimum of the alternative salary range. Additionally, there are currently four (4) Senior Portfolio Managers, and five (5) Portfolio Managers whose salaries have reached the maximum of the current salary range.

Any changes to the existing salary range can be made effective for the 2013-2014 fiscal year if adopted prior to July 1, 2013.

Incentive Ranges for Investment Management Positions

The Policy includes a provision for the periodic review of incentive schedules by the Committee. However, current Policy does not define a peer group for benchmarking incentive compensation. As such, McLagan has completed the pay level analysis using the alternative comparator group used in base pay benchmarking above.

Data gathered by McLagan, including actual cash compensation paid to investment managers for the 2011-12 fiscal year, indicates CalPERS current incentive compensation levels are not competitive with the data at the lowest quartile of the alternative peer group. Though turnover is low, recruitment still tends to be difficult, particularly in certain asset classes and increasing total cash compensation could aid with recruitment efforts.

A comparison of the current incentive ranges against the market data of the alternative peer group at both the low quartile and median is as follows:

CURRENT		ALTERNATIVE	
	Current Incentive Range	**Low Quartile Incentive Range**	**Median Incentive Range**
Portfolio Manager	0 – 45% 0 – 60% 0 – 75%	0 – 83%	0 – 150%
Senior Portfolio Manager	0 – 60% 0 – 75%	0 – 98%	0 – 165%
Senior Investment Officer	0 – 75%	0 – 98%	0 – 180%
Chief Operating Investment Officer	0 – 60%	0 – 60%	0 – 60%
Chief Investment Officer	0 – 75%	0 – 98%	0 – 187%

Staff recommends the Committee review the current incentive schedules and provide input as to whether you would like to discuss incentive pay alternatives at a subsequent Committee meeting.

<u>Non-Investment Executive Positions</u>

Staff recommends deferring identifying a peer group for CalPERS non-investment executive positions (Chief Executive Officer, General Counsel, Chief Actuary, and Chief Financial Officer) with a reevaluation of the salary ranges at a later date. Current incumbent salaries fall at or below the third quartile of the existing ranges, which would allow for salary movement within the range until a survey is completed.

<u>Amendments to Policies and Procedures</u>

Upon approval, any proposed recommendations for changes to the policy will be presented in a separate agenda item to the Committee at a future meeting.

BENEFITS/RISKS

The conducting of a regular salary survey demonstrates good governance and risk management practices, as well as aids in the refining of strategies for the recruitment and retention of highly skilled executives and investment managers.

Risks associated with adopting a revised total compensation structure could include a negative public perception for considering compensation increases. However, 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.

ATTACHMENTS

Attachment 1 – Investment Management Turnover Analysis
Attachment 2 – McLagan Presentation: Identifying a Compensation Comparator Group for Investment Management Staff

KATRINA S. HAGEN, Chief
Human Resources Division

DOUGLAS HOFFNER
Deputy Executive Officer
Operations and Technology