



Agenda Item 7

February 19, 2014

ITEM NAME: Compensation Policy Review Project

PROGRAM: Administration

ITEM TYPE: Information

RECOMMENDATION

This is an information item

EXECUTIVE SUMMARY

This item presents for information and input the proposed Compensation Policy Review Project. The project provides a comprehensive approach for conducting a review of compensation policy for all Executives, Senior Managers, and Investment staff covered under CalPERS compensation policies.

STRATEGIC PLAN

The Compensation Policy Review Project supports the CalPERS 2012-17 Strategic Plan Goal B to "Cultivate a high-performing, risk-intelligent and innovative organization". The review directly supports this goal by identifying a compensation strategy that is aligned with organizational objectives and effectively drives desired organizational performance and behaviors.

BACKGROUND

CalPERS currently administers compensation policies under three programs as follows:

- Executive and Investment Management Staff – Compensation setting authority is set under Government Code 20098 and covers the Chief Executive Officer, Chief Actuary, General Counsel, Chief Financial Officer, Chief Investment Officer and Investment Management positions.
- Career Executive Assignments (CEAs) – Compensation setting authority is approved by the California Department of Human Resources and includes both Executive and Senior Management staff, designated as CEA, not covered under Government Code 20098.
- Investment Officer III Staff – Compensation is approved through collective bargaining.

The current program for the Executive and Investment Management Staff was established in the mid-1990s. Over the years, periodic modifications to the original

design were made. The most recent review of the program occurred in 2010. The CEA incentive compensation program was established in 1998 and has had minor modifications over the years. The Investment Officer III incentive compensation program was approved through collective bargaining and implemented on July 1, 2007.

ANALYSIS

The overarching goal of this initiative is to conduct a comprehensive review of the programs to ensure alignment with CalPERS goals and strategies, and best practice in implementation. We anticipate this project will take at least 16 months.

In the short term, we intend to review and conduct best practice research and propose revisions to pay policies for improvements in FY 2014-15:

- Revise the performance measure rating criteria used to evaluate qualitative performance
- Review of base salary adjustment policies
- Review of special pay policies, including recruitment differentials and pay adjustments for equity and retention

Staff has begun a review of policies governing base salary adjustments, special pay adjustments, and performance measure rating criteria and will bring forward an information item in March outlining the current policies. Any recommendations resulting from the review of these policy provisions will be brought to the Committee for proposed implementation in FY 2014-15. In addition, staff are continuing to work on process improvements to ensure objectivity in conducting the independent review of the quantitative investment metrics.

Next Steps

The longer term planning effort to clarify the strategic direction of and identify the objectives for ensuring compensation policies are linked to strategy and performance will include:

- Engagement of a compensation consultant to assist in conducting the comprehensive review
- Board workshop in March to provide an overview of the California civil service structure, and the history and evolution of the various CalPERS compensation programs
- Panel discussion at the July Board Offsite to review various perspectives on compensation and the proposed project work plan

Attachment 1 is a high-level draft project action plan of activities proposed for both FY 2014-15 implementation and FY 2015-16 implementation.

BUDGET AND FISCAL IMPACTS

A funding request has been submitted through the Formal Budget Request process for fiscal year 2014-15 for a one-time appropriation of funds to be used to engage consulting services on the structure and design of the compensation programs, and for a two-year limited term resource to handle the day-day project management of the initiative. Any work performed in fiscal year 2013-14 will be identified within existing budgetary resources. The total projected cost of the project is \$510,000.

BENEFITS/RISKS

The review of the Compensation Policies serves to ensure the policies are designed to enhance the organization's ability to attract and retain highly skilled executive and investment professionals. The last policy review occurred in 2010. Without a periodic and systematic review, there is a risk of policies becoming misaligned with the overarching goals of the organization.

ATTACHMENTS

Attachment 1 – Draft Project Action Plan

KATRINA S. HAGEN, Chief
Human Resources Division

DOUGLAS HOFFNER
Deputy Executive Officer
Operations and Technology