

PROGRESS REPORT

CalPERS Executive Compensation Policy Review

August 17, 2014

Project Scope

FutureSense, Inc. was retained on May 1, 2014 to provide a comprehensive compensation policy review of all Executives, Senior Managers designated as Career Executive Assignments (CEAs) and investment staff covered under CalPERS compensation policies. The goal of this review is to assess the current situation and, as appropriate, to develop a compensation strategy for each of these groups to align these critical employees with the organization's mission and strategy, and to simplify and make more effective the existing policies and processes that are used to administer compensation.

Deliverables required by this project include:

- Plan and facilitate an industry expert panel on compensation strategy to be held at the Board's July meeting
- Conduct interviews with Board members and key executive leaders to identify individual concerns and expectations of CalPERS compensation policy
- Conduct comparative research and analysis; document best practices
- Make recommendations on new strategy or revisions to existing strategy and process
- Depending on recommendations adopted, assist in the development of business rules and documents for implementation and compliance.

The project is expected to run from 5-1-2014 to 6-30-2015.

Activity Report

We have completed the following activities since the inception of the project:

1. **Knowledge of current situation.** We have received and read documentation about the current programs. We have met extensively with senior managers and executives to further understand the existing compensation policies, their history and their intent.
2. **Education of Board members.** We planned and facilitated an industry expert panel (including Bruce Ellig, Peggy Foran and Howard Risher) that discussed Compensation – Incentives and Best Practices – at the July 14, 2014 CalPERS Board of Administration and Executive Offsite. In addition, Jim Finkelstein and Michael Graham of FutureSense provided a workshop on the FutureSense framework for a Total Reward Strategy:
 - a. M1 – Market Attachment (Money) – the amount or level of awards and the evaluation of the appropriate market for these key positions,
 - b. M2 – Mix – the composition of various total reward elements within the overall reward program,
 - c. M3 – Messages – the communication of desired behaviors through reward program elements such as eligibility, performance factors and plan provisions,
 - d. M4 – Management – the authority chart for setting, monitoring and changing the reward programs

3. **Interview of Board members and key executive leaders.** FutureSense has completed or has scheduled the following interviews as part of our discovery of concerns and expectations:
 - a. Allan Emkin – Board Designee, Pension Consulting Alliance
 - b. Andrew Junkin – Board Designee, Wilshire Consulting
 - c. Pierre Lavallee - Canada Pension Plan Investment Board
 - d. Brian Cosgrove – Beacon Consulting
 - e. Anne Stausboll – CEO
 - f. Doug Hoffner – DEO
 - g. Ted Eliopoulos – Interim CIO
 - h. Dan Bienvenue – SIO
 - i. Cheryl Eason – CFO
 - j. Katie Hagen – Chief of HR
 - k. Michael Bilbrey – Board Member
 - l. Priya Mathur – Board Member
 - m. Henry Jones – Board Member
 - n. Dana Hollinger – Board Member
 - o. Bill Lockyer – Board Member
 - p. Rob Feckner – Board Member
 - q. JJ Jelincic – Board Member
 - r. Ron Lind – Board Member
 - s. Bill Slaton – Board Member
 - t. Richard Costigan – Board Member
 - u. Richard Gillihan – Board Member (scheduled)
 - v. Terrence McGuire – Board Designee
 - w. George Diehr – Board Member
 - x. Heather Mercer – CalPERS Executive Compensation Manager
 - y. Ann Boynton, Robert Glazier, Donna Lum – DEO Team
 - z. Wylie Tollette – COIO
 - aa. Eric Baggesen, Curtis Ishii – SIO Team

4. **Comparative Research and Analysis of Best Practices.** The FutureSense team has begun the process of discovering, decoding and digesting competitive information and best practices in light of the unique drivers and influencers on CalPERS compensation policies and programs. This is a complex set of dimensions that, when taken individually, could lead to different conclusions and recommendations by dimension. We are beginning the process of integrating all of these components so that we can ultimately provide alternative recommendations to the board for its consideration. Some of these dimensions that drive compensation philosophy and programs include the following:
 - a. Organization culture (including the vision, mission and core values of CalPERS)
 - b. Key stakeholders influence (the board, members, the executive team, employees, etc.)
 - c. The state environment (economics, population, public optics, political, etc.)
 - d. Business strategy and CalPERS 2012-2017 specific strategic goals (short, mid, long-term)
 - e. People strategy and organization dynamics (structure, staffing, development, critical success factors, etc.)

5. **Next Steps.** We anticipate being able to conduct a focused workshop on *Dimensions Driving CalPERS Compensation Programs and Policies, initial alternatives and criteria for selection development* at a board workshop in November 2014.