



Agenda Item 7

March 17, 2015

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 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 salary survey was conducted in May 2013 by McLagan. McLagan reviewed all base pay policy provisions, incentive award schedules, gathered salary data, and made recommendations for several changes for the Investment Management positions. The salary survey did not address any changes to the Non-Investment Executive positions under Government Code Section 20098.

As a result of McLagan's survey results, the Board adopted the following changes:

- Changed the salary data gathering methodology to include leading institutional investors and private sector asset management organizations with missions and/or investment operations similar to CalPERS in size and complexity;
- Approved the use of the new peer comparator group to be used for base salary benchmarking;
- Increased base salary ranges for Portfolio Manager, Senior Portfolio Manager, and Chief Operating Investment Officer positions; and
- Phased in incumbents not at the minimum of the new range over a two-year period.

Although the survey compared current incentive ranges against market data of the peer group used for base salary benchmarking, no action was taken to amend the incentive ranges for Investment Management positions.

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.

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 at a future meeting.

Attachment 1 displays the current base salary quartile ranges and the number of employees in each range. Given the Compensation Program Review Project currently underway, conducting a salary survey now would provide the Board with additional information for consideration, including current market data and analysis of CalPERS position in the talent marketplace.

BUDGET AND FISCAL IMPACTS

The approximate cost for the survey is estimated to be \$68,000, which will be funded from existing resources. Any costs that arise from the recommendations of the

completed survey, such as salary range changes, will be addressed at the time of the recommendations.

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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