



Performance, Compensation and Talent Management Committee

California Public Employees' Retirement System

Agenda Item 6

August 18, 2015

ITEM NAME: Primary Executive Compensation Consultant Request for Proposal

PROGRAM: Administration

ITEM TYPE: Action

RECOMMENDATIONS

Approve the issuance of the Primary Executive Compensation Consultant Request for Proposal (RFP), proposed Scope of Services, and selection process.

EXECUTIVE SUMMARY

In response to the Committee's direction, staff is seeking formal approval to initiate a competitive selection process to engage a consultant to be the Board's primary executive compensation consultant to provide executive compensation program services, including advice on streamlining and improving the current incentive compensation program.

STRATEGIC PLAN

This agenda item supports Goal B of the 2012-17 Strategic Plan in cultivating a high-performing, risk-intelligent and innovative organization. The Executive Compensation Program provides a means for recruiting and retaining highly-skilled executives and senior leadership, investment managers and financial services staff to the benefit of the CalPERS organization as a whole.

BACKGROUND

At the inception of the Board of Administration's (Board) executive compensation program, the Board solicited the services of a compensation consultant to assist in establishing and maintaining a sound and comprehensive executive compensation program for the Executive and Investment Management positions covered under Government Code 20098.

In 1995, the Board hired Watson Wyatt Worldwide (now Towers Watson) as its first Executive Compensation Consultant. Towers Watson was successively engaged as the Board's Compensation Consultant through consecutive competitive selections and contract awards through 2010.

In 2010, the Board initiated a competitive selection process for an Executive Compensation Consultant Spring-Fed Pool, and contracts went into effect May 1, 2011. Firms in the current Executive Compensation Consultant Spring-Fed Pool include McLagan, Pearl Meyer & Partners, and Koff & Associates. The Board does not currently have a primary executive compensation consultant that provides regular ongoing advice.

Recent feedback received through discussion with the Board and Committee indicates that it would be beneficial to secure a dedicated, primary executive compensation consultant to provide ongoing support to CalPERS executive compensation programs. Consultant services which would benefit the program include attendance at and involvement in scheduled Committee and Board meetings on compensation program matters, analysis and recommendations to improve and streamline the current program, and ongoing advice on administration of the program.

ANALYSIS

A competitive selection process is proposed, including issuance of a Request for Proposal (RFP), to secure a primary executive compensation consultant. The primary consultant will provide ongoing independent compensation expertise to the Committee and Board, including the following proposed service categories:

1. Consultation on Compensation Program Structure: Attend scheduled Committee and Board meetings as requested, and advise the Committee on the structure of the compensation program, including base salary ranges, performance awards, incentive criteria and levels.
2. Consultation on Compensation Program and Policy Administration: Act as primary advisor regarding ongoing administration and implementation of the compensation program and policies, including revisions.

The detailed proposed scope of services is provided in Attachment 1.

Proposed RFP Selection Process

Based on consultation with the Committee Chair, the proposed RFP competitive selection process would include the following:

- A Subcommittee of the Performance, Compensation and Talent Management Committee, conducts, in a noticed, open session meeting, the review, evaluation and scoring of the RFP responses submitted by the filing deadline, prior to the October Committee meeting.
- The Subcommittee conducts finalist interviews and recommends final selection of the Primary Executive Compensation Consultant to the Board.

An estimated schedule of events, in addition to other pertinent components of the RFP, will be developed with input from the Performance, Compensation and Talent Management Committee Chair upon approval of the issuance of the Primary Executive Compensation RFP.

BUDGET AND FISCAL IMPACTS

Ongoing costs associated with this contract will be funded from existing budgeted resources. Project-based funding needed beyond the current budgeted allocation will be addressed at the time of engagement.

BENEFITS/RISKS

The management of a competitive compensation program is critical for the attraction and retention of key executives at the highest levels of the organization. Contracting for executive compensation consultation services provides the necessary expertise to the Committee and the Board to ensure that CalPERS executive compensation program meets the needs of the system, and is based on sound compensation principles and best practices.

Without having a primary compensation consultant to provide ongoing, independent compensation expertise, there is risk of the CalPERS executive compensation program being out of alignment with organizational priorities. In addition, potential misalignment with relevant market compensation could result in difficulty in the hiring and retention of qualified candidates for key positions.

ATTACHMENTS

Attachment 1 – Primary Executive Compensation Consultant Proposed Scope of Services

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