



# Performance, Compensation and Talent Management Committee

California Public Employees' Retirement System

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## Agenda Item 5

September 16, 2015

**ITEM NAME:** 2015 Biennial Salary Survey for Executive and Investment Management Positions

**PROGRAM:** Administration

**ITEM TYPE:** Action

### **RECOMMENDATION**

The item presents the results of the 2015 Biennial Salary Survey, conducted by the Board's compensation consultant, for the Committee's recommendation.

### **EXECUTIVE SUMMARY**

The purpose of this agenda item is to present for consideration comparator groups and total compensation data for Executive and Investment Management positions covered under Government Code 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**

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 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. 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.

In April 2015, the Committee directed staff to move forward with conducting a comprehensive salary survey of all positions covered under the Board's Executive Compensation Policies and Procedures. McLagan was selected by the Committee Chair and Vice Chair.

In August 2015, the Committee confirmed the current Investment Management comparator group for use in gathering 2015 salary data and gave direction to gather salary data for the Executive Management group to include leading US public funds, leading Canadian public funds, select California-based agencies (including large local agencies), banks and insurance companies.

As a follow up to the Committee's discussion in August, an analysis of staff turnover and tenure for covered positions included in Attachment 1.

### **ANALYSIS**

Per the Committee's direction last month, the Board's compensation consultant, McLagan, has conducted a pay level analysis for covered Executive and Investment Management positions (Attachment 2) based on the comparator groups requested by the Committee in August 2015.

The goals of today's meeting, which will be presented in detail by Michael Oak of McLagan, are the following:

1. Approve a peer group for the Executive Management positions;
2. Review the pay level analysis for the Executive Management positions and retain or modify the base salary ranges and/or incentive ranges;
3. Review the pay level analysis for the Investment Management positions and retain or modify the base salary ranges and/or incentive ranges; and
4. Approve an incentive range for the Associate Investment Manager

Attachment 3 displays the current base salary quartile ranges and the number of employees in each range. Currently, there are six staff whose salaries have reached the maximum of the existing salary ranges, as noted in Attachment 3.

Any changes to the existing salary ranges and incentive schedules will be made effective July 1, 2015, for the 2015-16 fiscal year. It should be noted that any changes resulting in an increase to the existing salary ranges will not result in automatic pay increases to staff, except in any case where the incumbent's current salary falls below the minimum of the new salary range. In such a case, the incumbent's salary will be brought up to the minimum of the revised salary range. Pay increases for eligible staff will continue to be considered at the end of each fiscal year as part of the annual appraisal process.

Staff will incorporate any approved changes to comparator groups, base salary ranges and incentive schedules into the Policy and will bring back the updated policy at a future meeting.

**BUDGET AND FISCAL IMPACTS**

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**

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 – Executive and Investment Management Tenure and Turnover Analysis

Attachment 2 – McLagan’s Biennial Salary Survey Results and Recommendations

Attachment 3 – Current Salaries by Quartile

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