



## Biennial Salary Survey – Peer Group Discussion Executive & Investment Management Positions

September 16, 2015



## Introduction

California Public Employees' Retirement System (CalPERS) asked McLagan to assess the salary, total cash compensation, and pay policy for ten executive and investment management positions:

Chief Executive Officer  
 Chief Actuary  
 Chief Financial Officer  
 General Counsel  
 Chief Investment Officer

Chief Operating Investment Officer  
 Managing Investment Director  
 Investment Director  
 Investment Manager  
 Associate Investment Manager

Following up on the August meeting, the objectives of today's discussion are to:

- Review the results for Investment positions based on the Committee-approved peer group.
- Approve incentive compensation opportunity for the Associate Investment Manager position.
- Review the value of CalPERS' DB and post-retirement health benefits.
- Compare and contrast CalPERS vs CalSTRS pay philosophy and decision making.
- Review and discuss the potential Executive Management peer group, and resulting market data.

## Investment Management Positions

---

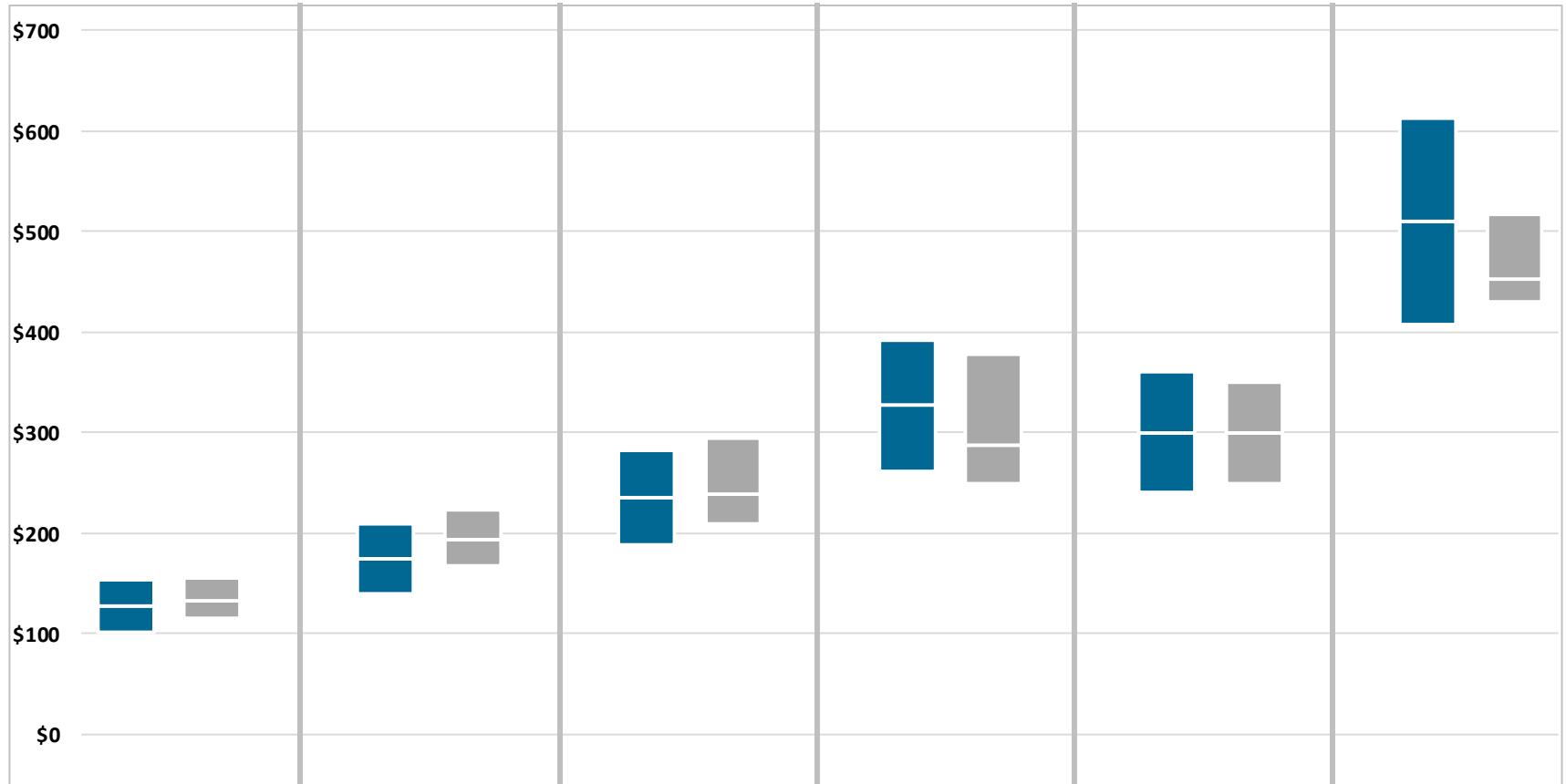
## CalPERS vs Investment Management Peer Group

---

As shown on the following pages, an analysis of CalPERS' Investment Management pay positioning suggests:

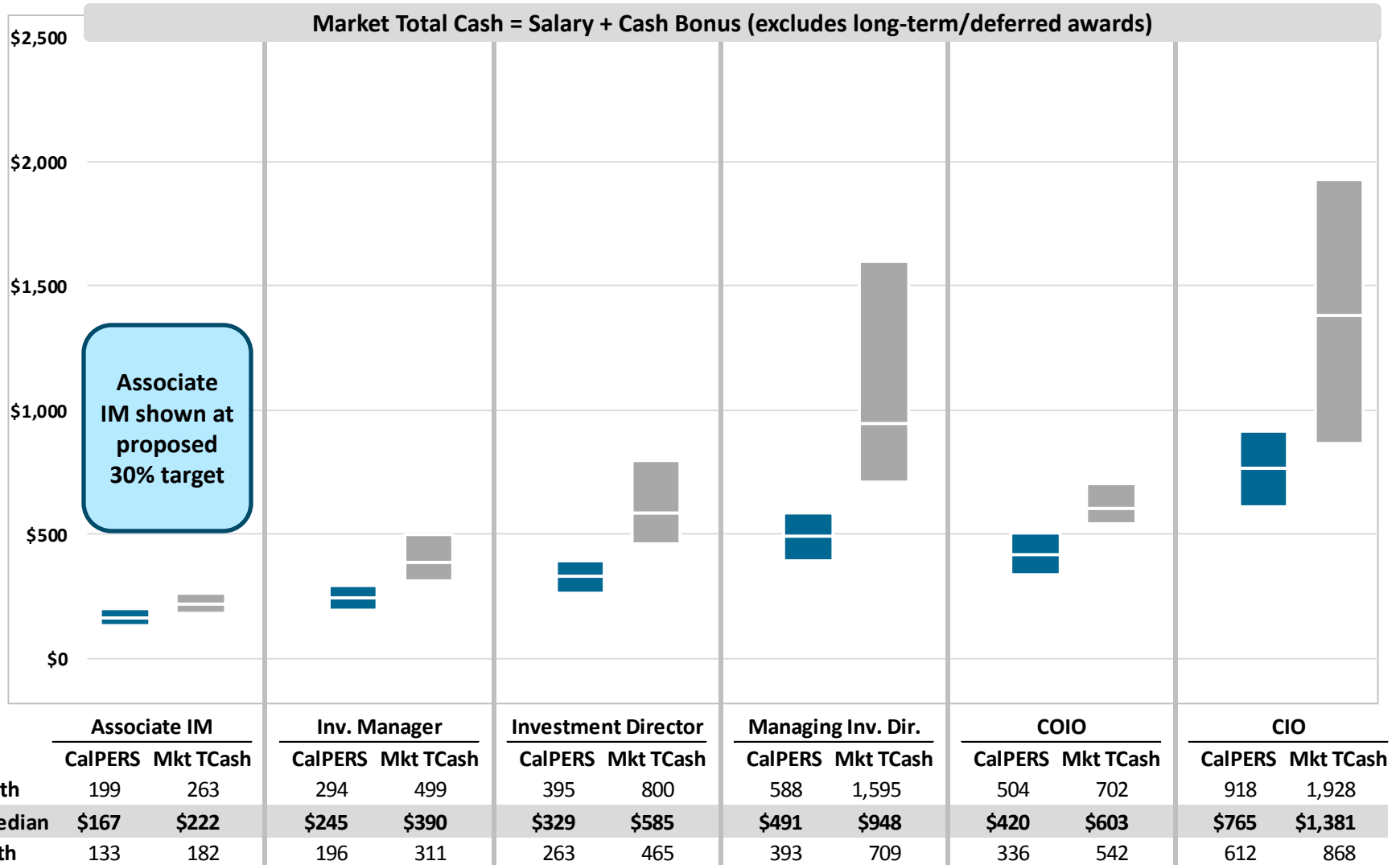
- CalPERS salaries are fairly mainstream, positioned near the competitive median.
- CalPERS target cash compensation levels (salary + target bonus) are positioned below the market 25<sup>th</sup> (low) percentile.
- CalPERS maximum cash compensation is also positioned below the market 25<sup>th</sup> (low) percentile.

# Investment Management Peer Group – Salary vs Market



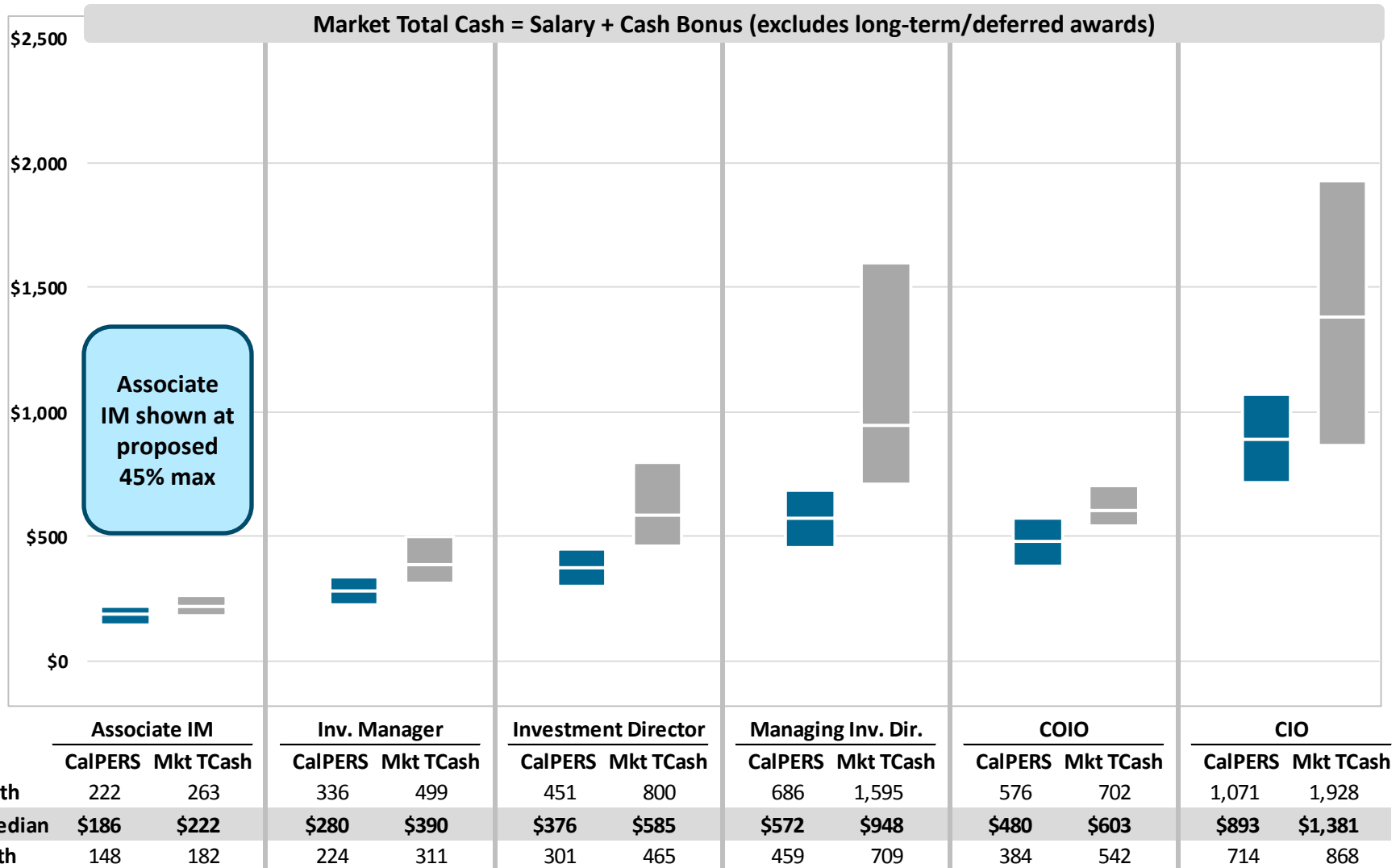
	Associate IM		Inv. Manager		Investment Director		Managing Inv. Dir.		COIO		CIO	
	CalPERS	Market	CalPERS	Market	CalPERS	Market	CalPERS	Market	CalPERS	Market	CalPERS	Market
Max / 75th	153	155	210	223	282	294	392	377	360	350	612	518
Mid / Median	<b>\$128</b>	<b>\$134</b>	<b>\$175</b>	<b>\$194</b>	<b>\$235</b>	<b>\$238</b>	<b>\$327</b>	<b>\$288</b>	<b>\$300</b>	<b>\$300</b>	<b>\$510</b>	<b>\$453</b>
Min / 25th	102	115	140	167	188	210	262	250	240	250	408	430

# Investment Management Peer Group – Target Cash vs Market



Associate IM shown at proposed 30% target

# Investment Management Peer Group – Maximum Cash vs Market



## CalPERS Loses Talent to the Private Sector

---

Following-up on information requested by the Committee in August:

- There have been 21 departures of CalPERS Investment Office Managers since January 2010.
  - 2 left for retirement.
  - 1 left for a promotion to CalSTRS.
  - 18 left for the private sector. Of these, the median tenure at CalPERS was less than 3.5 years.



# CalPERS Retirement Benefits

CalPERS staff modeled a number of retirement benefit scenarios. These values represent an estimated annual classic retirement (2% @ 55) allowance:

Investment Manager		
Vesting (Years of Service)	56% of current staff	
	Midrange Salary \$175,000	Maximum Salary \$210,000
5	\$22,860	\$27,468
10	\$41,292	\$49,836
15	\$59,724	\$71,772
20	\$78,156	\$93,924

Investment Director		
Vesting (Years of Service)	90% of current staff	
	Midrange Salary \$235,000	Maximum Salary \$282,000
5	\$30,768	\$36,960
10	\$55,572	\$66,768
15	\$80,388	\$96,576
20	\$105,192	\$126,384

Managing Investment Director		
Vesting (Years of Service)	100% of current staff	
	Midrange Salary \$327,000	Maximum Salary \$392,000
5	\$42,888	\$51,456
10	\$77,484	\$92,964
15	\$112,068	\$134,460
20	\$146,664	\$175,956

Post-retirement health benefit:  
 Less than 10 years = 0% benefit.  
 10 years = 50% benefit.  
 20 years = 100% benefit (+5% for each year between 10 and 20).

Note: The estimated allowance reflects assumptions of current value and a retirement at age 57. 44% of Investment Managers and 10% of Investment Directors fall under the Post-PEPRA allowance (2% at 62), with an annual cap for 2015 of approx. \$117,000 pensionable compensation.

## Executive Management Positions

---

## Executive Management Peer Group

At the August meeting, the Committee asked McLagan to assemble competitive pay data for the following peer organizations:

- Leading US and Canadian Pension Funds (11).
- Insurance and Bank asset management subsidiaries with AUM \$100 to 500B (20).
- CA-based agencies that are governed by Boards (11).

As shown on the following pages, McLagan, with the help of CalPERS' staff, gathered information about possible CA-based agencies to include in the Management peer group:

- While a number of agencies are governed by Boards, few have full pay-decision making authority. Moreover, the size, scale, and complexity of these organizations varies.
- While there are numerous other state agencies that CalPERS may recruit executive talent from, they were not included as comparators in this analysis as their salaries are set in statute.
- The competitive data shown on the following pages includes all CA-based agencies listed on the next page, regardless of their pay-making authority (e.g., by definition the resulting market data will be somewhat skewed towards state-wide and, in some cases, county-wide, pay restrictions).

# Executive Management Peer Group – CA-Based Agencies

Potential Peer Agency Comparators		
Agency	Governed by a Board	Independent Pay Authority
Bay Area Rapid Transit (BART)	✓	✓
City of Los Angeles	✓	
County of Los Angeles	✓	✓
Covered California (California Health Benefit Exchange)	✓	
East Bay Municipal Utility District	✓	✓
Los Angeles County Employee Retirement System (LACERA)	✓	✓
Los Angeles Department of Water and Power (LADWP)	✓	
Sacramento Municipal Utility District (SMUD)	✓	
San Diego City Employees' Retirement System (SDCERS)	✓	
Santa Barbara County Employees' Retirement System (SBCERS)	✓	
State Compensation Insurance Fund (SCIF)	✓	✓

# Executive Management Peer Group – Summary

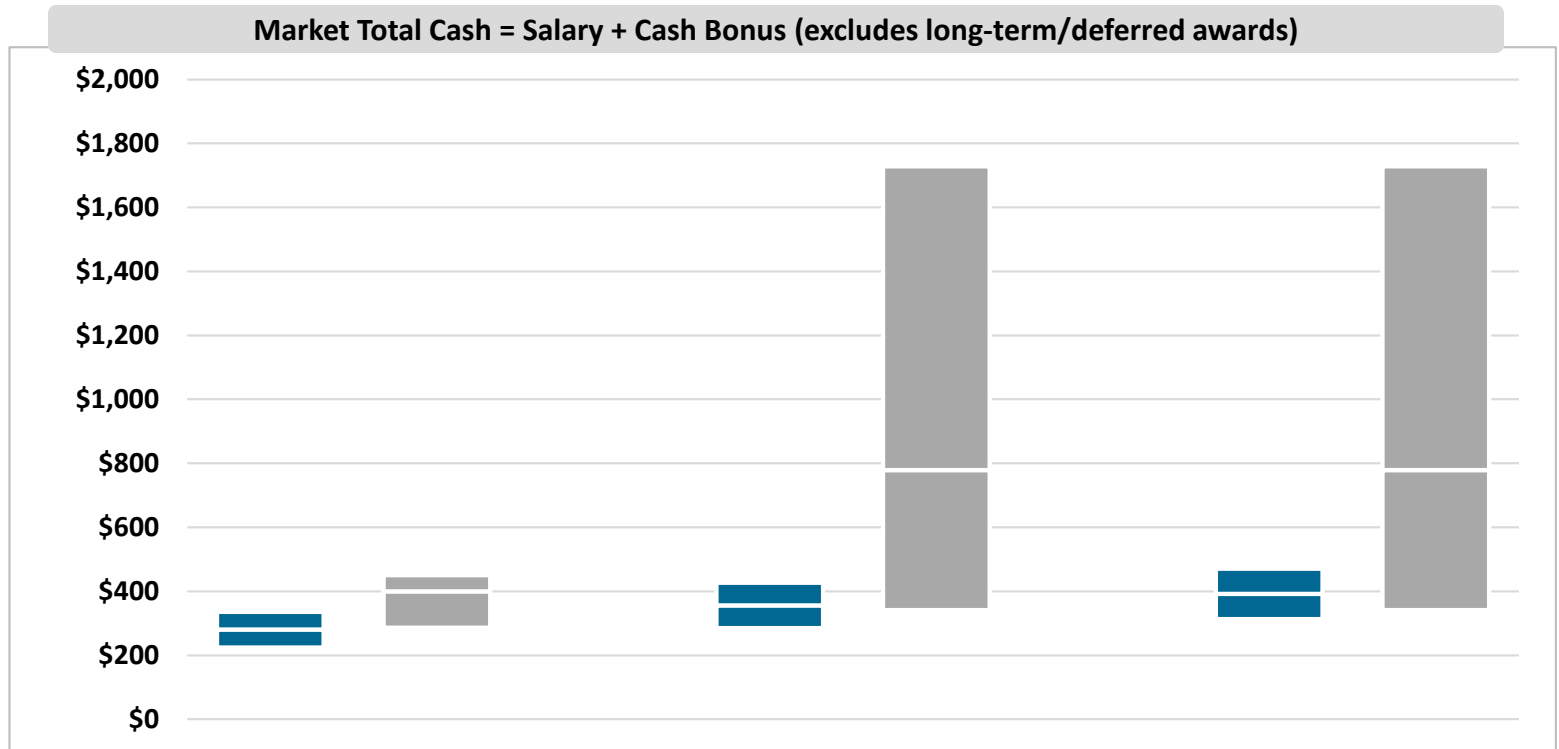
	Investment Function	Call Center	Asset Liability Mgmt	Mission-Driven	EE Size	Complexity	Comments
<b>Government</b>							
Leading US Public Funds	✓	✓	✓	✓		✓	Same as Inv Group
Leading Canadian Public Funds	✓	✓	✓	✓		✓	Same as Inv Group
CA-Based Agencies				✓	✓	✓	Board-governed Agencies
<b>For-Profit</b>							
Banks	✓	✓	✓		✓	✓	AUM \$100 to 500B
Insurance Companies	✓		✓		✓	✓	AUM \$100 to 500B

# CalPERS vs Executive Management Peer Group

As detailed on the following pages, an analysis of CalPERS' Executive pay versus market shows:

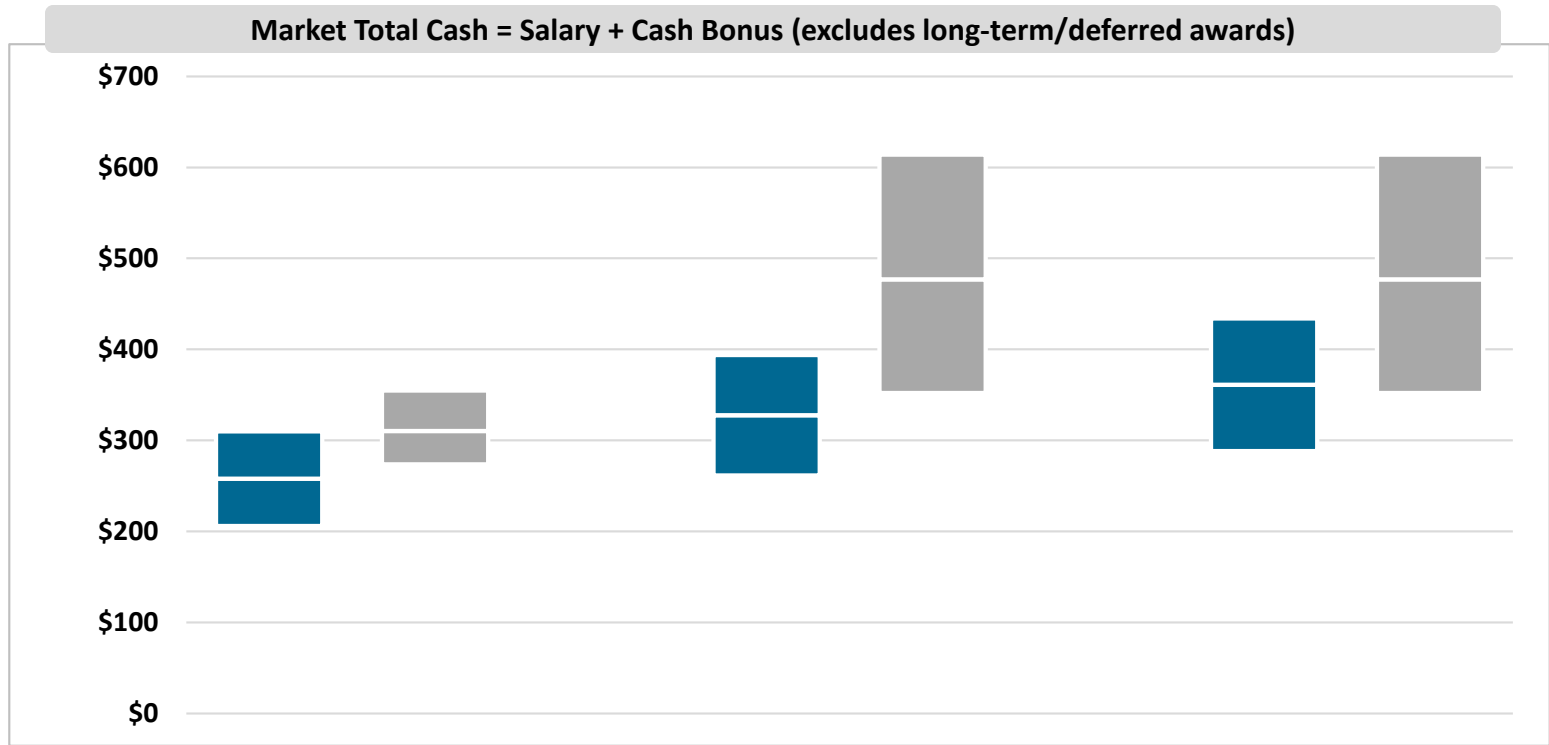
Position	Salary	Target Cash	Max Cash
CEO	25 <sup>th</sup> Percentile	25 <sup>th</sup> Percentile	Just above 25 <sup>th</sup>
Chief Actuary	<25 <sup>th</sup> Percentile	<25 <sup>th</sup> Percentile	Approx. 25 <sup>th</sup>
CFO	Median	Just below Median	Just above Median
General Counsel	25 <sup>th</sup> to median	Just below Median	Just above Median

# Implications of Executive Management Peer Group – CEO



	Salary		Salary + Target		Salary + Max	
	CalPERS	Market	CalPERS	Mkt TCash	CalPERS	Mkt TCash
Max / 75th	336	450	427	1,729	470	1,729
Mid / Median	<b>\$280</b>	<b>\$400</b>	<b>\$356</b>	<b>\$779</b>	<b>\$392</b>	<b>\$779</b>
Min / 25th	224	286	284	341	314	341

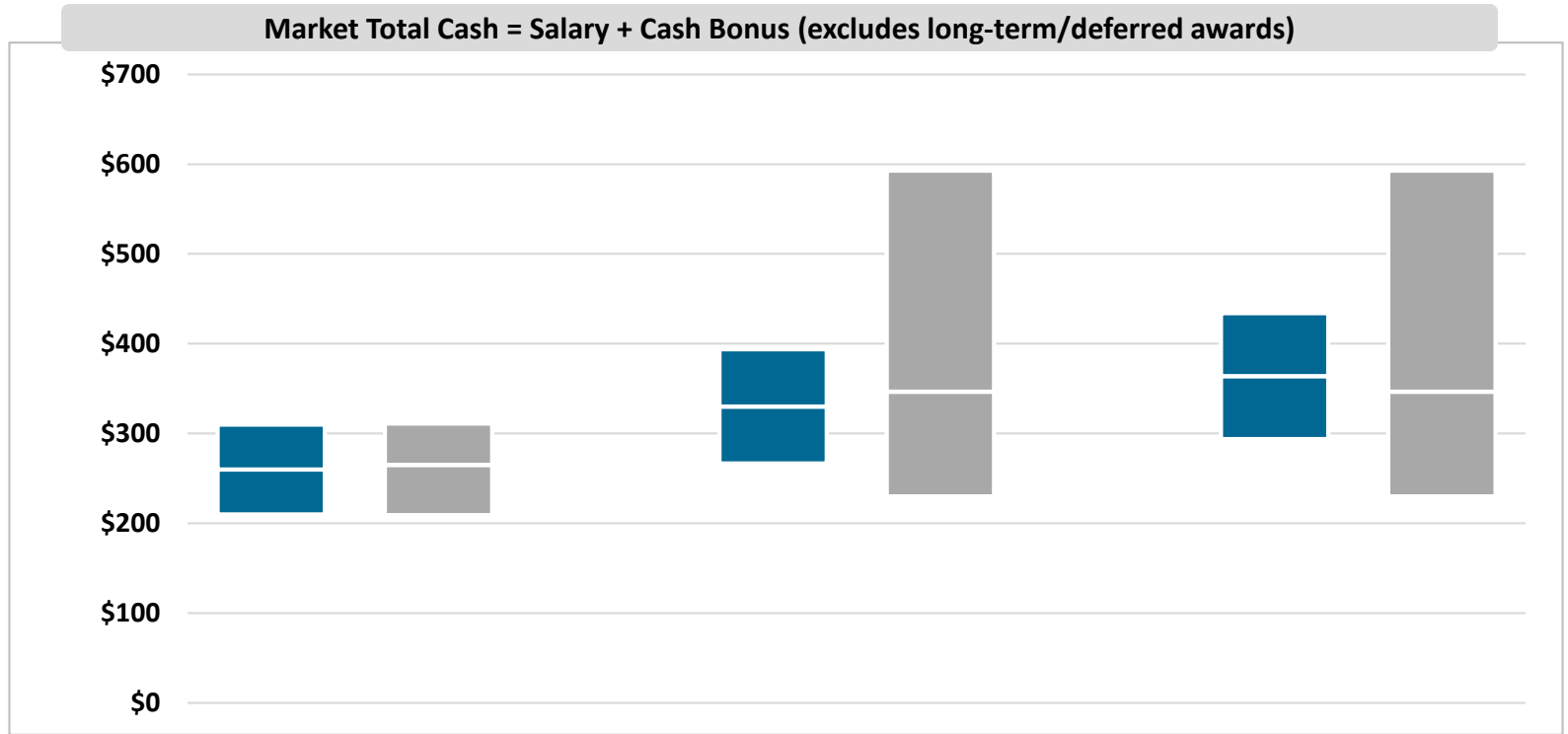
# Implications of Executive Management Peer Group – Chief Actuary



	Salary		Salary + Target		Salary + Max	
	CalPERS	Market	CalPERS	Mkt TCash	CalPERS	Mkt TCash
Max / 75th	310	355	394	614	434	614
Mid / Median	<b>\$258</b>	<b>\$311</b>	<b>\$328</b>	<b>\$477</b>	<b>\$361</b>	<b>\$477</b>
Min / 25th	206	274	262	352	288	352

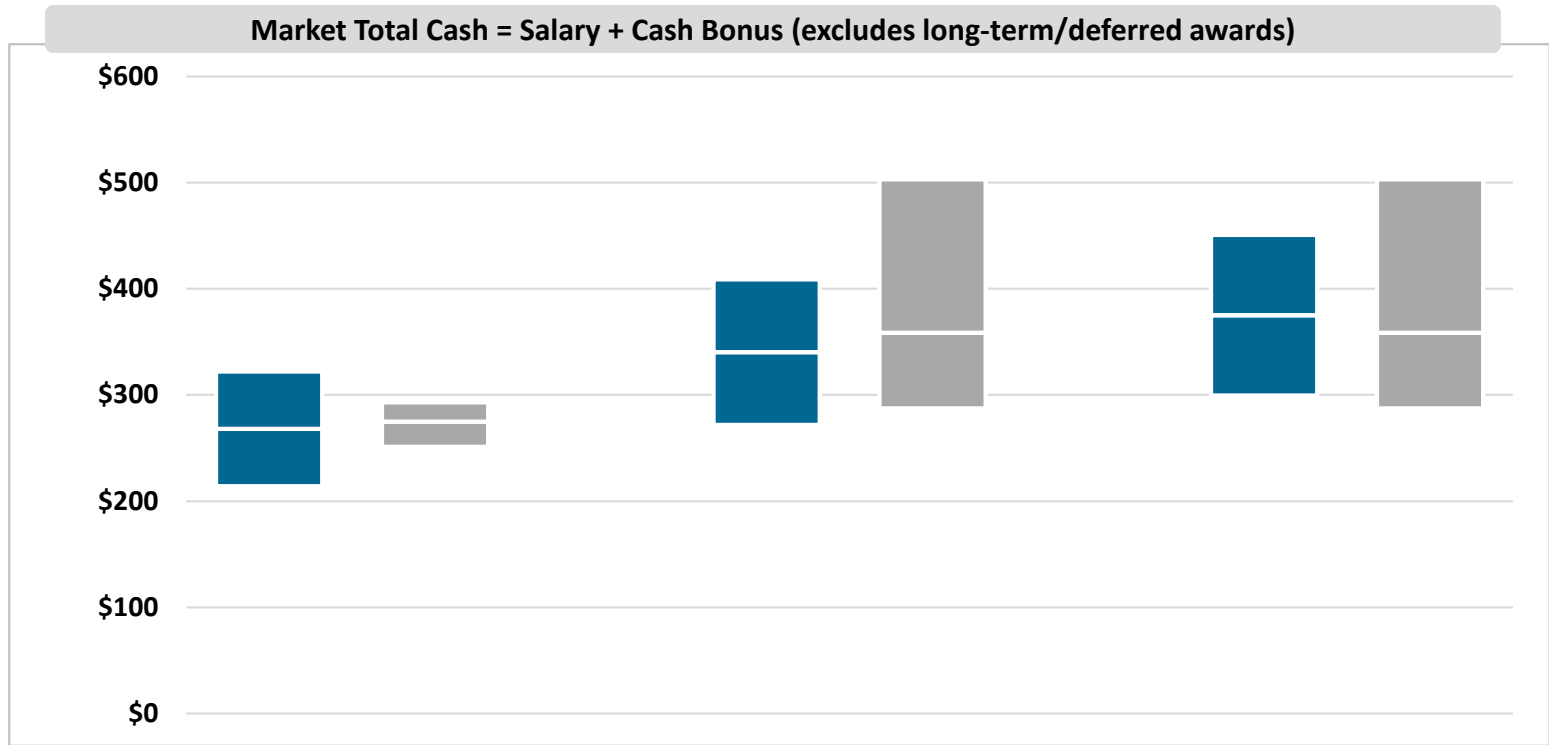


# Implications of Executive Management Peer Group – CFO



	Salary		Salary + Target		Salary + Max	
	CalPERS	Market	CalPERS	Mkt TCash	CalPERS	Mkt TCash
Max / 75th	310	311	394	593	434	593
Mid / Median	<b>\$260</b>	<b>\$265</b>	<b>\$330</b>	<b>\$347</b>	<b>\$364</b>	<b>\$347</b>
Min / 25th	210	209	267	230	294	230

# Implications of Executive Management Peer Group – General Counsel



	Salary		Salary + Target		Salary + Max	
	CalPERS	Market	CalPERS	Mkt TCash	CalPERS	Mkt TCash
Max / 75th	322	293	409	503	451	503
Mid / Median	<b>\$268</b>	<b>\$275</b>	<b>\$340</b>	<b>\$359</b>	<b>\$375</b>	<b>\$359</b>
Min / 25th	214	251	272	287	300	287

## Appendix

---

# Investment Management Peer Group – Institutional Peer Details

Leading Institutional Managers (15)				
		12/31/2014 AUM	% Internally Managed	# of Inv Staff
Canada Pension Plan Investment Board	Canadian Pension Fund	\$265.0		
Caisse de depot et placement du Quebec	Canadian Pension Fund	225.9		
California State Teachers' Retirement System	US Public Fund	188.8		
Ontario Teachers Pension Plan Board	Canadian Pension Fund	154.5		
Teacher Retirement System of Texas	US Public Fund	129.9		
GE Asset Management Inc.	US Corp. Plan Sponsor	118.0		
State of Wisconsin Investment Board	US Public Fund	96.1		
General Motors Asset Management	US Corp. Plan Sponsor	86.3		
Georgia Employees Retirement System	US Public Fund	82.4		
Lockheed Martin Investment Management Company	US Corp. Plan Sponsor	76.3		
State Teachers Retirement System Ohio	US Public Fund	73.6		
Ontario Municipal Employees Retirement System	Canadian Pension Fund	72.0		
Healthcare of Ontario Pension Plan	Canadian Pension Fund	68.0		
Virginia Retirement Systems	US Public Fund	65.9		
DuPont Capital Management	US Corp. Plan Sponsor	31.0		
	<i>US Public Fund</i>	6	40%	
	<i>Canadian Pension Fund</i>	5	33%	
	<i>US Corp. Plan Sponsor</i>	4	27%	
		15		
	<b>High Quartile</b>	\$142.2	89%	111
	<b>Median</b>	86.3	72%	74
	<b>Low Quartile</b>	72.8	40%	38
<b>California Public Employees' Retirement System</b>		<b>\$295.8</b>	<b>69%</b>	<b>210</b>
<i>CalPERS' Rank</i>		<i>1 of 16</i>	<i>9 of 16</i>	<i>3 of 16</i>

## CalSTRS vs CalPERS

- The Committee asked McLagan to compare and contrast CalPERS' pay CalSTRS. A review of CalSTRS compensation philosophy and decision making process shows a number of similarities to CalPERS as well as a number of differences:
  - Like CalPERS, CalSTRS:
    - ❑ Conducts a competitive market assessment every two years.
    - ❑ Includes both public and private peers.
    - ❑ Varies the peer group used for investment staff and executive management.
    - ❑ Pay program includes a salary and incentive opportunity.
    - ❑ In it's July 2013 meeting reviewed a pay comparison of (1) CalSTRS (2) CalPERS and (3) various peer groups.
  - Unlike CalPERS, CalSTRS:
    - ❑ Targets cash compensation opportunity (e.g., salary + maximum bonus) at the 50<sup>th</sup> percentile.
    - ❑ Made changes to salary and incentive ranges in 2013.
    - ❑ Peer group for investment staff consists only of other leading institutional managers (e.g., US and Canadian public funds, corporate plan sponsors, endowments, foundations).
    - ❑ Peer group for executive management includes a 67% weighting to leading public funds and a 33% weighting to a broad-range of private-sector investment management organizations.