



Performance, Compensation and Talent Management Committee

California Public Employees' Retirement System

Agenda Item 7

October 20, 2015

ITEM NAME: Enterprise Risk Reports: Performance, Compensation and Talent Management Committee

PROGRAM: Administration

ITEM TYPE: Information

EXECUTIVE SUMMARY

Committee executives are presenting their individual committee-specific risk dashboards to their respective Board committees responsible for the risks identified on the Enterprise Risk Dashboard. The objectives of the presentations are to obtain the input and perspectives of the Committees that oversee the programs responsible for the first line of defense on those risks. Additionally, this information will enrich the collaborative enterprise assessment and management of risks and inform the annual recalibration and update of the enterprise dashboard. The culmination of the Committee presentations is scheduled to be presented to the Risk and Audit Committee in November 2015.

STRATEGIC PLAN

Enterprise risk management supports CalPERS 2012-2017 Strategic Plan Goal B: Cultivate a high-performing, risk-intelligent and innovative organization. To achieve this goal, management across the enterprise continues to contribute to a robust risk management framework that includes consideration of risk in decision-making, planning, and prioritization of business activities to achieve strategic and operational objectives.

BACKGROUND

Enterprise risk management is a vital function in facilitating risk identification and risk monitoring activities that inform and support decision-making and resource allocation priorities at both the strategic and operational levels across the enterprise.

Integrated Assurance is a structured approach to aligning and coordinating assurance processes within an enterprise to optimize risk and governance oversight. In the Integrated Assurance model, management is referred to as the "first line of defense" which ensures risks are assessed and managed properly within day-to-day operations. The Risk and Audit Committee directly oversees integrated assurance functions, including Enterprise Risk, Enterprise Compliance, and Audit Services, referred to as the second and third lines of defense in the Integrated Assurance model. In addition, the Risk and Audit Committee, as set forth in its Delegation Resolution, provides oversight and approval of the enterprise risk management

framework, including the assessment and management of the entire landscape of risks as an interconnected and interrelated risk portfolio.

The role of each Board committee is to ensure their respective functions are carried out in accordance with their Delegation Resolutions and include oversight and management of risks related to the delegated duties. A Benefit/Risk section is in each agenda item presented to Board committees to ensure risk consideration in committee actions and information. Also, to further enhance the assessment and management of enterprise risk, the respective Committees' risks are being presented in a series of agenda items for discussion and input.

Please refer to Attachment 1 for a graphical depiction of committee roles, responsibilities, and relationships as they relate to risk management.

ANALYSIS

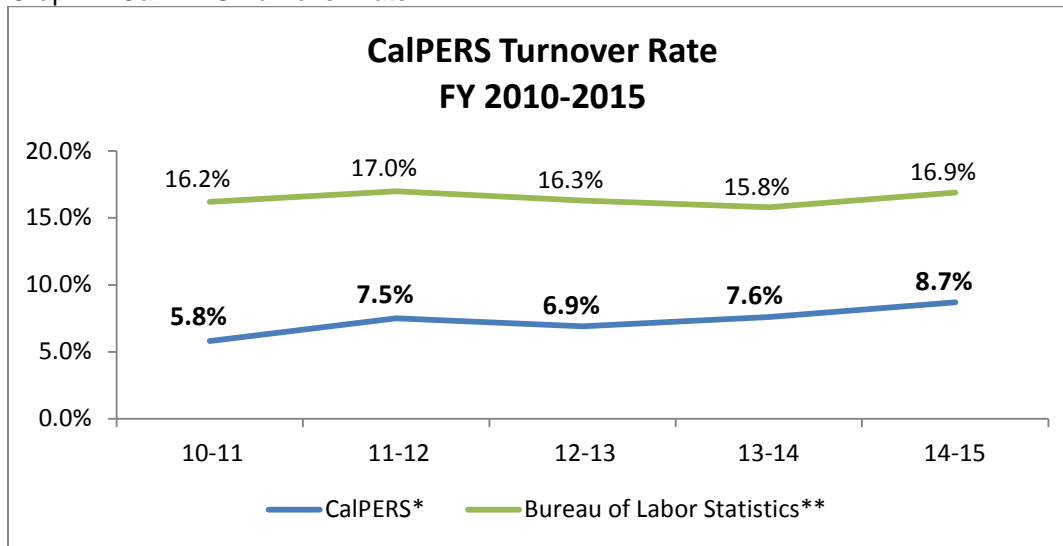
Risks overseen by the Performance, Compensation and Talent Management Committee

The Performance, Compensation and Talent Management (PCTM) Committee's responsibility includes oversight of talent management strategies, including practices to acquire, develop, motivate and retain competent employees, as well as oversee management of risks related to the duties delegated to the Committee.

The Human Resources Management Risk is identified as a top risk in organization and addresses the availability of an adequate knowledgeable workforce with sufficient training and skills to meet organizational goals and objectives into the future. Contributing reasons for the increased risk in this area when last reported was due to an increase in likelihood and impact in the sub-risks of turnover and succession planning. The Employee Turnover Measure is presented annually and Succession Planning data is presented twice a year to PCTM Committee.

Employee turnover is a naturally occurring event within all organizations. From time to time it is expected that employees will leave their employer for a variety of reasons whether it is to retire, promote or adjust to changing circumstances in their lives. As shown in Graph 1 on the following page, for the last five Fiscal Years (FY) between 2010 and 2015, CalPERS annual average employee turnover rate was below the Bureau of Labor Statistics (BLS) state and local government average turnover rate. Specifically, CalPERS annual average employee turnover rate for FY 2014-2015 was 8.7 percent and continued to be healthy when compared to BLS at 16.9 percent. During this same period 257 CalPERS employees were promoted. While a zero percent employee turnover rate may seem ideal, it is not desirable as low turnover and a stagnant workforce may inhibit new, innovative ideas and diverse perspectives.

Graph 1. CalPERS Turnover Rate



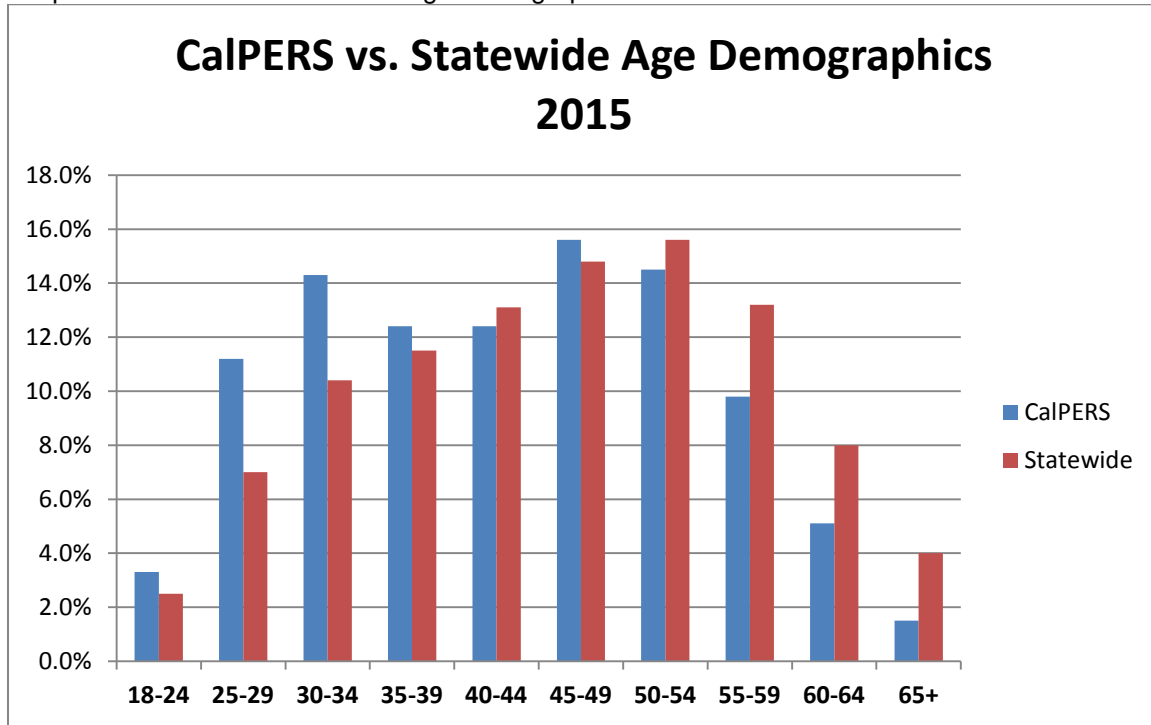
*Source: PeopleSoft HCM. CalPERS turnover rate includes voluntary and involuntary separations and retirements.

**Source: www.bls.gov

During FY 2014-2015, five out of 45 executives and senior leaders, or 11.1 percent, separated from CalPERS. This group includes DEOs and other Executives (CFO, General Counsel, CIO, and Chief Actuary) as well as Division Chiefs at the CEA level and Investment staff at the Investment Director and above (formerly Senior Portfolio Manager). Two of these individuals retired while the other three individuals accepted promotional opportunities with other state agencies. When Human Resources Management was evaluated for risk in May 2015 there were five vacancies within our Executive group. Two of the five positions were then just recently vacated. Three of these positions had not been filled from 2014; two of which we've engaged search firms to assist in recruitment efforts and used interim assignments for staff development, and the other filled in May 2015. Between May and September 2015, only two senior leaders separated to other state agencies for promotional opportunities and one senior leader was promoted within CalPERS. The number of executive and senior leader vacancies in May 2015 may have contributed to the increase in risk for Human Resources Management. However, with the limited number of opportunities at this level, it is not unusual to see these types of separations. Given the emphasis on talent development, our talent pool includes many high-quality, competitive staff that are expanding their experience and exposure with other agencies. In time we may see them return to CalPERS. They would then bring a diverse perspective and new experiences to share.

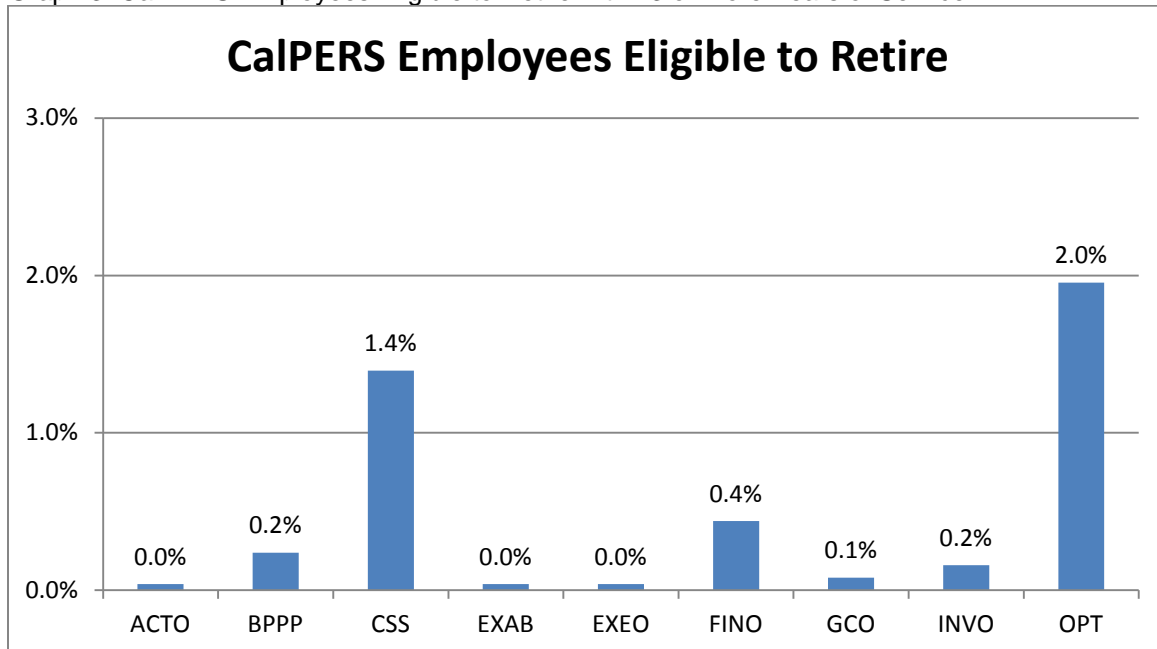
Currently, as shown in Graph 2 on the following page, 31 percent of CalPERS employees are over the age of 50. However, when compared to all state employees, 41 percent of them are in this same group. This illustrates that the statewide workforce is older than the CalPERS workforce and with these individuals approaching retirement, this will create new career advancement opportunities within other state agencies. This may present a challenge for CalPERS in retaining a pipeline of talent since we will be competing with other state agencies.

Graph 2: CalPERS vs. Statewide Age Demographics



In calendar year 2013, the average CalPERS employee retired at 59 years of age with 23 years of state service credit. In July 2015, 4.4 percent of CalPERS employees were at least 55 years of age with 23 or more years of state service and immediately eligible for retirement. In FY 2014-2015 there were 71 retirements.

Graph 3: CalPERS Employees Eligible to Retire with 23 or More Years of Service



Source: SCO MIRS, pulled July 2015.

Note: Years of service does not include any purchase of service credit or service years earned from outside of state government.

As shown in Graph 3 on the previous page, although CSS and OPT stand out with the highest percentage of staff that are immediately eligible for retirement, they are also our two largest branches. The risk is not as great as depicted when the percentages are revealed for each division within those branches. With a focused emphasis on knowledge transfer and documented processes the risk in these areas can be minimized.

Mitigation strategies

At CalPERS, we pride ourselves in our ability to recruit, retain, develop and empower a broad range of talents to sustain the complex and dynamic operations of CalPERS. Human Resources offers a variety of talent management and employee engagement programs, as well as oversees succession planning, mentoring and knowledge transfer strategies in order to retain our employees and transfer critical institutional knowledge from the few employees that exit the CalPERS workforce. These initiatives attest to our high retention rate of approximately 91 percent for FY 2014-2015.

An example of this is demonstrated within the Information Technology Services Branch where there is an ongoing initiative to continue knowledge transfer from designated consultants to state staff. This structured initiative includes the rigor to ensure knowledge transfer occurs and ultimately reduces CalPERS' reliance on consultants and increases the knowledge base of state staff.

Human Resources leads a number of initiatives in support of talent acquisition and talent management including tailored career development services for employees, outreach at general and focused career fairs, improvements to the hiring process to increase efficiency, as well as creating and revising classifications as needed to competitively recruit for the most qualified candidates. Most recently was the addition of the Associate Investment Manager, to bridge the transition from Investment Officer III to the new Investment Manager classification. Other changes included the classification revisions (Portfolio Manager to Investment Manager; Senior Portfolio Manager to Investment Director; Senior Investment Officer to Managing Investment Director). Human Resources is working on the development of the new examinations for the entire management classification series. Also, in an effort to retain some of our hardest to recruit and fill classifications, Human Resources has submitted to CalHR for review and approval, three pay differential proposals specific to Actuarial classifications.

CalPERS conducts pre-employment screenings for prospective employees including reference checks, Official Personnel File (OPF) reviews (for current/former State employees only), and in December 2014 began Live Scan fingerprinting for all new-to-CalPERS employees to ensure the most qualified candidates are selected.

This new pre-employment screening requirement process is an industry best practice in financial, pension, and health organizations as well as in other State departments. It also reflects CalPERS commitment to protecting the interests of the State,

members, constituents, employers, and workforce. The pre-employment screening process seeks to minimize employment-related claims, including negligent hiring claims, and other legal proceedings by striving to achieve the following goals:

- Support increased security of CalPERS employees, information, and assets
- Support consistent hiring and screening practices
- Proactively reduce the risk of employee-related loss; and,
- Mitigate the likelihood of an adverse incident(s) occurring within CalPERS that could jeopardize customer or employee confidence.

We have also implemented an extensive onboarding program including a formal New Employee Orientation, a checklist for managers to complete with new hires on their first day of work, and the Onboarding Buddy where managers are asked to identify a current staff member to act as a “go-to” person for questions and guidance. In addition, Human Resources launched the CalPERS Student Internship Program (CSIP) in September 2014 to provide valuable, unpaid opportunities for on-the-job experience related to a student intern’s field of study which in turn provides a potential candidate pool for current and future CalPERS vacancies.

To support CalPERS employee-centric culture and retain our staff, CalPERS continues to offer a nationally recognized three-dimensional Employee Recognition Program, as well as a robust Wellness Program which incorporates balance, fitness and nutrition for all employees. In addition, our corporate citizenship efforts for United Way, March of Dimes, Susan G. Komen and the statewide annual food drive help position us strongly within the community, setting a good example for other businesses. These efforts build on one of our greatest strengths – our employees. Our staff take great pride in knowing that their involvement and participation in CalPERS fundraising and charitable activities helps to make a difference in the lives of others.

Another effective way to increase employee engagement and retention is to offer a variety of developmental and training opportunities. Human Resources offers 100 web-based classes and 66 unique instructor-led classes. This equated to 289 training opportunities in which 4,778 employees participated. As a result of some courses and offerings being so popular we have a waiting list for some classes. Included in the instructor-led courses is the recent Supervisory Skills Enhancement series to refresh current managers’ knowledge of positive employee relations, performance management and coaching, and the civil service hiring process.

Other Highlights and Trends

Informal Mentoring along with Mentor Your Manager have been successful programs as they encourage knowledge transfer and continuous learning and engagement among CalPERS employees at all levels. A new training program Human Resources is currently developing is Emerging Leader which will prepare non-supervisory employees for future leadership roles. There are also plans to expand the Succession Planning Program to the Staff Services Manager III level (and equivalent) to strengthen our talent pool for the Division Chief and Investment Director level positions.

Human Resources is exploring the implementation of an Employee Life Cycle (ELS) survey to capture and measure key indicators of workforce health at various stages of an employee's career with CalPERS. Some key indicators include talent retention, employee and leader engagement, willingness to recommend CalPERS as an employer, intent to stay and overall job satisfaction. During FY 2014-2015, the median tenure of a CalPERS employee was 6.4 years. According to the Bureau of Labor Statistics, the median tenure of an employee in January 2014 was 4.6 years. The new ELS survey may provide Human Resources with insight on what currently maximizes employee engagement and job satisfaction which contribute to CalPERS higher employee tenure and employee retention rate of approximately 91 percent.

Lastly, CalPERS staff developed a new internal, professional networking site, Illuminet, to provide staff with an online environment similar to LinkedIn to voluntarily share their knowledge, skills and certificates in a database repository. The Information Technology Services Branch is currently piloting the site and in FY 2015-2016, CalPERS plans to implement Illuminet to at least three additional Divisions. Illuminet will be a helpful future resource as the organization reduces its reliance on outsourced expertise and as Baby Boomer staff approach retirement.

Challenges

As shared in the Workforce Strategic Plan last month, the statewide workforce is older than the CalPERS workforce. With these individuals approaching retirement, this will create new career advancement opportunities within other state agencies. Given the emphasis on talent development, our talent pool includes many high-quality, competitive staff. This may present a challenge for CalPERS in retaining a pipeline of talent since we will be competing with other state agencies. We also face the unknown pace of retirements of our staff. We can predict based on average years of service and age as we complete division level workforce planning, but individual financial situations, readiness and planning also play a large part in that decision for each employee.

Conclusion

Overall, CalPERS has a healthy level of employee turnover. We are one of the leading departments in Succession Planning and long recognize our employees are our greatest asset. We have made attracting and retaining a well-qualified workforce an organizational priority. To further reduce risks to our workforce, Human Resources will continue to analyze our workforce data and will share our Employee Turnover Measure findings with this committee in December 2015. Human Resources will collaborate with divisions to identify specific areas of risk and discuss workforce planning efforts to ensure CalPERS continues to be a destination employer which provides retirement and health benefits to CalPERS members and beneficiaries.

BUDGET AND FISCAL IMPACTS

Funding for risk management activities is provided through the approved enterprise operating budget.

BENEFITS/RISKS

Each committee's focus on its respective risks will assist the Board to effectively oversee enterprise risk and ensure it is being appropriately managed. The committee overseeing individual risks will have the opportunity to bring different considerations and input to the assessment of risks to further ensure management has appropriate and robust risk response strategies to achieve business objectives and reduce unwanted risk.

Failure to monitor risks, trends, and mitigations may reduce the likelihood of attaining the benefits of effective enterprise risk management. Without regular reassessment and updates, risk information may fail to guide effective deployment of resources and significant risks may not be managed appropriately.

ATTACHMENTS

- Attachment 1 – Risk Management - Committee Roles and Responsibilities
- Attachment 2 – Dashboard for the Performance, Compensation and Talent Management Committee
- Attachment 3 – Risk Management Heat Map Trends – Performance, Compensation and Talent Management Committee
- Attachment 4 – Risk Management Enterprise Heat Map

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