



Performance, Compensation &
Talent Management Committee
Agenda Item 7

March 15, 2016

Item Name: Compensation Review Project Update

Program: Administration

Item Type: Information

Executive Summary

The purpose of this agenda item is to present an update on the progress of the Compensation Review Project. The project provides a comprehensive approach for conducting a review of compensation policy for all Executives, Senior Managers, and Investment Staff covered under CalPERS compensation policies.

Strategic Plan

This agenda item supports Goal B of the 2012-17 Strategic Plan which is to “cultivate a high-performing, risk-intelligent and innovative organization.” The review directly supports this goal by identifying a compensation strategy that is aligned with organizational objectives and effectively drives desired organizational performance and behaviors.

Background

In August 2015, the Committee directed staff to initiate a competitive selection process to engage a consultant to be the Board’s primary executive compensation consultant. The final contract awardee would be responsible for providing ongoing support to CalPERS executive compensation programs, including advice on streamlining and improving the current incentive compensation program. In November 2015, the contract was awarded to Grant Thornton LLP.

At the January 2016 Board Offsite, Grant Thornton facilitated a discussion to establish a framework for identifying and implementing a compensation strategy that is aligned with organizational objectives and effectively drives desired organizational performance and behaviors to ensure that CalPERS compensation policies, philosophy and rationale remain appropriate and relevant.

CalPERS currently administers compensation policies under three programs as follows:

- Executive and Investment Management Staff – Compensation setting authority is set under Government Code 20098 and covers the Chief Executive Officer, Chief Actuary, General Counsel, Chief Financial Officer, Chief Investment Officer and Investment Management positions.

- Career Executive Assignments (CEAs) – Compensation setting authority is approved by the California Department of Human Resources and includes both Executive and Senior Management staff, designated as CEA, not covered under Government Code 20098.
- Investment Officer III Staff – Compensation is approved through collective bargaining.

The current program for the Executive and Investment Management Staff was established in the mid-1990s. Over the years, periodic modifications to the original design have been made. The CEA incentive compensation program was established in 1998 and has had minor modifications over the years. The Investment Officer III incentive compensation program was approved through collective bargaining and implemented on July 1, 2007, and remains unchanged.

Analysis

The overarching goal of this initiative is to conduct a comprehensive review of the programs to ensure alignment with CalPERS' goals and strategies, as well as best practice in implementation. The project is anticipated to take at least 18 months.

Today's compensation review project update will be presented by Bill Gentry and Eric Gonzaga of Grant Thornton LLP.

Budget and Fiscal Impacts

The total projected cost of this five-year primary compensation consultant to the Board is \$600,000. Funds for work in the current fiscal year 2015-16 have been encumbered based on budget projections, and any additional funding will be requested through the formal budget request process.

Benefits and Risks

The review of the Compensation Policies serves to ensure the policies are designed to enhance the organization's ability to attract and retain highly skilled executive and investment professionals. Without a periodic and systematic review, there is a risk of policies becoming misaligned with the overarching goals of the organization.

Attachments

Attachment 1 – Grant Thornton LLP Presentation

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