

MEETING  
STATE OF CALIFORNIA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
BOARD OF ADMINISTRATION  
PERFORMANCE, COMPENSATION &  
TALENT MANAGEMENT COMMITTEE

ROBERT F. CARLSON AUDITORIUM  
LINCOLN PLAZA NORTH  
400 P STREET  
SACRAMENTO, CALIFORNIA

TUESDAY, MAY 17, 2016

3:30 P.M.

JAMES F. PETERS, CSR  
CERTIFIED SHORTHAND REPORTER  
LICENSE NUMBER 10063

A P P E A R A N C E S

COMMITTEE MEMBERS:

Mr. Michael Bilbrey, Chairperson

Ms. Priya Mathur, Vice Chairperson

Mr. John Chiang, represented by Ms. Christina Elliott

Mr. Richard Costigan

Mr. Richard Gillihan, represented by Ms. Katie Hagen

Mr. Ron Lind

Ms. Theresa Taylor

BOARD MEMBERS:

Ms. Betty Yee, represented by Mr. Alan Lofaso

STAFF:

Ms. Anne Stausboll, Chief Executive Officer

Mr. Doug Hoffner, Deputy Executive Officer

Mr. Matthew Jacobs, General Counsel

Ms. Tina Campbell, Chief, Human Resources Division

Ms. Carol Takehara, Committee Secretary

ALSO PRESENT:

Mr. Bill Gentry, Grant Thornton, LLP

Mr. Eric Gonzaga, Grant Thornton, LLP

I N D E X

	PAGE
1. Call to Order and Roll Call	1
2. Executive Report	1
3. Consent Items	2
Action Consent Items:	
a. Approval of the April 19, 2016 Performance, Compensation & Talent Management Committee Meeting Minutes	
4. Consent Items	2
Information Consent Items:	
a. Annual Calendar Review	
b. Draft Agenda for the June 14, 2016 Performance, Compensation & Talent Management Committee Meeting	
5. Fiscal Year 2016-17 Compensation Review Project Recommendations: First Reading of Policy, Salary and Incentive Ranges, and Performance Metrics	2
Information Agenda Items	
6. Summary of Committee Direction	12
7. Public Comment	12
Adjournment	12
Reporter's Certificate	14

1 P R O C E E D I N G S

2 CHAIRPERSON BILBREY: I'll call this meeting of  
3 the Performance, Compensation and Talent Management  
4 Committee to order. I will begin with roll call, please.

5 COMMITTEE SECRETARY TAKEHARA: Michael Bilbrey?

6 CHAIRPERSON BILBREY: Here.

7 COMMITTEE SECRETARY TAKEHARA: Christina Elliott  
8 for John Chiang?

9 ACTING BOARD MEMBER ELLIOTT: Here.

10 COMMITTEE SECRETARY TAKEHARA: Richard Costigan?

11 COMMITTEE MEMBER COSTIGAN: Here.

12 COMMITTEE SECRETARY TAKEHARA: Katie Hagen for  
13 Richard Gillihan?

14 ACTING COMMITTEE MEMBER HAGEN: Here.

15 COMMITTEE SECRETARY TAKEHARA: Ron Lind?

16 COMMITTEE MEMBER LIND: Here.

17 COMMITTEE SECRETARY TAKEHARA: Priya Mathur?

18 VICE CHAIRPERSON MATHUR: Here.

19 COMMITTEE SECRETARY TAKEHARA: Theresa Taylor?

20 COMMITTEE MEMBER TAYLOR: Here.

21 CHAIRPERSON BILBREY: And I'd like to note for  
22 the record that Mr. Lofaso is here for Controller Yee.

23 The next is the Executive Report. Mr. Hoffner.

24 DEPUTY EXECUTIVE OFFICER HOFFNER: Thank you, Mr.  
25 Chair. Good afternoon. Just to be brief, today we've got

1 one item, which will be an update by the Board's executive  
2 compensation consultants regarding the current timeline  
3 and current status of where we are related to materials  
4 for the proposed policy changes, the pay ranges for  
5 incentive compensation and performance metrics.

6 With that, that concludes my report.

7 CHAIRPERSON BILBREY: Thank you.

8 Let's move on to action items. Consent items,  
9 approval of the minutes.

10 VICE CHAIRPERSON MATHUR: So moved.

11 COMMITTEE MEMBER TAYLOR: Second.

12 CHAIRPERSON BILBREY: So moved by Mathur,  
13 seconded by Taylor.

14 Any discussion on the motion?

15 Seeing none.

16 All those in favor say aye?

17 (Ayes.)

18 CHAIRPERSON BILBREY: Opposed?

19 Motion carries.

20 Consent items. I've had no requests to remove  
21 the consent items.

22 Before we begin with Item 5, after our last  
23 month's meeting, Grant Thornton began working very  
24 diligently on a detailed policy that would embody the  
25 various high level concepts that had presented to the --

1 they had presented to the Committee.

2 I then asked Grant Thornton to obtain technical  
3 input from both our Human Resources Department, as well as  
4 the Legal Offices, as they developed the policy document.  
5 Given how comprehensive the proposals are, there were  
6 numerous technical questions that have come up regarding  
7 how the concept would work in practice and in  
8 implementation. And then some legal issues came up as  
9 well.

10 So this will take some time to work through these  
11 questions, which I believe is very critical to making sure  
12 that we have the best possible product and outcome.

13 So after discussing this with Grant Thornton, we  
14 have determined that the best course is to allow more time  
15 for this project, so that we end up again with the best  
16 policy and implementation plan possible.

17 We would also like to allow some additional time  
18 for some stakeholder education, as well as for changed  
19 management within the staff. We are confident that we  
20 will be able to accomplish all this in time to implement  
21 for the 2017-18 fiscal year.

22 In the meantime though, we are proceeding with  
23 the metrics aspect of the project. We believe we will be  
24 able to arrive at performance metrics in time to  
25 incorporate them into '16-'17 fiscal year plans, and we

1 will be reviewing those next month.

2           So at this time, I'd like to invite Grant  
3 Thornton to provide additional detail about the new  
4 proposed timeline.

5           MR. GONZAGA: Thank you. So, you know, what you  
6 have in front of you just a description of, you know, our  
7 very sequential approach to this. And I think that, you  
8 know, as Mr. Bilbrey referenced, you know, part of the  
9 reasons that, you know, we're moving through this and we  
10 want a little -- to run this in a little bit more linear  
11 basis is particularly because of, you know, the legal  
12 issues, and as well as working through, you know, the  
13 various policy definitions that need to be in the  
14 document.

15           So what we are proposing is, you know, over the  
16 next approximately seven months all the way leading up to  
17 the changed management piece is breaking this out into  
18 four steps. First and foremost would be in June, you  
19 know, coming back to this Committee for recommendations  
20 for specific incentive metrics that will drive the annual  
21 incentive plan for the year.

22           You know, between May and this meeting -- or  
23 April and this meeting, we did a lot of work in terms of  
24 understanding the appropriate metrics, the measurements  
25 that are out there, the potential definitions, as well as

1 the history of the performance behind these metrics  
2 working with all segments of the organization.

3 We do have the potential metrics identified.  
4 Now, it's a matter of, you know, picking the ones that are  
5 most appropriate for the year, and setting, you know,  
6 threshold target maximum goals consistent with the prior  
7 proposal. So that will be step one.

8 And in order to get there, we're going to conduct  
9 a handful of steps. First and foremost, we're in the  
10 middle of putting together score cards that identify the  
11 various metrics and we will be, you know, submitting those  
12 in a full review to, you know, management, subsequent for  
13 review to a subset of the Committee, namely Mr. Bilbrey  
14 and Ms. Mathur, you know, for their review. And after  
15 that, we will be live for the June meeting in terms of  
16 proposed annual incentive plan metrics.

17 Now, we expect that these metrics should be close  
18 to final, in terms of proposed metrics and definitions for  
19 the year. If there's any spill-over, you know, we would  
20 expect to present those for final refinement and approval  
21 in the August Committee meeting.

22 Any questions on that?

23 CHAIRPERSON BILBREY: Seeing none.

24 MR. GONZAGA: Okay. Well, you know, after that,  
25 obviously the most important piece of this is to full vet



1 out, and, you know, document a policy that is approved by  
2 this committee, and all is understood and vetted out.  
3 What we're aiming for is final approval in November of  
4 this year for the policy as it stands. And remember what  
5 we're talking about here is the new salary ranges, the  
6 reduction in the annual incentive opportunities, but the  
7 newer metrics, and the addition of the long-term incentive  
8 plan, along with some other certainly technical features  
9 as part of the plan.

10 Obviously, that takes a lot of review along the  
11 way. And so we will present for a first reading in  
12 September, you know, the proposed policy. And the hope is  
13 to have it finalized in November. Now, we're not waiting  
14 until September to move that all the way through. I know  
15 that as we went through, there were a number of  
16 suggestions, and intended additional research that needs  
17 to be done, as well as to, you know, flesh out the  
18 recommendations a little more, in terms of how should  
19 discretion be applied, or how do we choose participation  
20 or eligibility for the long-term incentive plan, things of  
21 that nature, that do need to be spelled out in a little  
22 bit more detail.

23 What we will be doing is working with HR, you  
24 know, essentially on a monthly basis to provide updates,  
25 revise policy, answer all questions as part of that in

1 June. We'll do it again in July. If necessary, we'll do  
2 it one more time in August, before we come prepared in  
3 September to present the full policy that covers all  
4 elements, both with respect to the design, as well as the  
5 procedures, the governance around the plans, you know, in  
6 question.

7           So that is the recommended approach for the  
8 policy recommendation and implementation. Again, first  
9 reading in September, final reading hopefully for approval  
10 in November.

11           Now, after that, you know, obviously a big part  
12 of this was what should -- if we move to certain salary  
13 ranges, and we bring down the annual incentive  
14 opportunities, what should that look like?

15           Well, as soon as we get the policy approved, the  
16 intention is to present to this Committee a first reading  
17 of salary ranges and incentive opportunities for approval  
18 in November, and a second reading for final approval in  
19 December.

20           So again, following incentive metrics, first,  
21 policy, then we move on to salary ranges and incentive  
22 ranges. And the approach would be November and December.  
23 And then after that, the hope is that we have the plans  
24 approved. We're ready to go live for '17-'18. That will  
25 give us plenty of time, you know, essentially from January

1 up to July to implement the plan in full detail with the  
2 appropriate changed management associated with it.

3 So any questions?

4 CHAIRPERSON BILBREY: Yeah, we have a few.  
5 Before we move on though, I do want to note, and this is  
6 built and centered around that we have July as our  
7 off-site meeting, and that we have -- the Board has  
8 decided that October we would have no meeting. So this is  
9 how we've sort of built around those two key months.

10 With that, Ms. Mathur.

11 VICE CHAIRPERSON MATHUR: Thank you. I just want  
12 to say that I think we're very much on the right path. I  
13 think it is prudent for us to slow the process down a  
14 little bit to ensure that we're moving forward as  
15 thoughtfully and deliberately as possible, and make sure  
16 we cross all of our T's and dot all our I's, but I am very  
17 supportive of the direction that we're moving in.

18 Thanks.

19 CHAIRPERSON BILBREY: Ms. Hagen.

20 ACTING COMMITTEE MEMBER HAGEN: Thank you. I  
21 just had a question on scope. I was trying to remember  
22 some of the prior briefings we've had. I believe the --  
23 there was a recommendation on looking at this at various  
24 categories of employees. And so just by reading this, I'm  
25 assuming this first category is -- would be everyone

1 covered under 20098, is that correct?

2 MR. GONZAGA: That's correct.

3 ACTING COMMITTEE MEMBER HAGEN: Okay.

4 MR. GONZAGA: That's correct.

5 ACTING COMMITTEE MEMBER HAGEN: And then the plan  
6 would be subsequent phases to look at --

7 DEPUTY EXECUTIVE OFFICER HOFFNER: Can I clarify  
8 that? Are you asking about the metrics, Ms. Hagen, or are  
9 you talking about all of the implementation pieces there?

10 ACTING COMMITTEE MEMBER HAGEN: I guess it would  
11 be the metrics, and then followed by that is policy  
12 changes. So I'm assuming it would be the policy over the  
13 20098 classes.

14 DEPUTY EXECUTIVE OFFICER HOFFNER: So I thought  
15 what they were looking at was really the 20098s, but  
16 that's the CEO, CIO, General Counsel, Chief Actuary, that  
17 level group --

18 ACTING COMMITTEE MEMBER HAGEN: Right.

19 DEPUTY EXECUTIVE OFFICER HOFFNER: -- and then  
20 the --

21 ACTING COMMITTEE MEMBER HAGEN: The executive  
22 group.

23 DEPUTY EXECUTIVE OFFICER HOFFNER: The executive  
24 group, and then we have CEAs, which is a different  
25 policy --

1           ACTING COMMITTEE MEMBER HAGEN: Correct.

2           DEPUTY EXECUTIVE OFFICER HOFFNER: -- but we want  
3 to have connectivity to these things.

4           ACTING COMMITTEE MEMBER HAGEN: Right.

5           DEPUTY EXECUTIVE OFFICER HOFFNER: So to the  
6 degree the Board implements policy changes to the first  
7 policy, those could be reflected in the following, sort  
8 of, cascading down within the organization.

9           ACTING COMMITTEE MEMBER HAGEN: Gotcha. Okay.  
10 Thank you.

11          CHAIRPERSON BILBREY: Ms. Taylor.

12          COMMITTEE MEMBER TAYLOR: So I'm trying -- thank  
13 you very much for this. And I also appreciate that we  
14 slowed this down, because I was feeling like we weren't  
15 ready. But I had a question and it could be because I'm  
16 trying to read this too fast. You have on your lovely  
17 graph, you have in green, development of refinement of  
18 salary ranges and incentive opportunities, which is here  
19 on your paper as well. But the part that I don't see on  
20 paper is development and review of revised compensation  
21 program policy.

22          MR. GONZAGA: That would be in blue below that.

23          COMMITTEE MEMBER TAYLOR: In the blue, but I  
24 didn't see it here where you go right to --

25          CHAIRPERSON BILBREY: In the memo.

1 MR. GONZAGA: That would be --

2 COMMITTEE MEMBER TAYLOR: Oh, it is. Policy  
3 changes. I was thinking that was change management.  
4 Never mind. Thank you.

5 CHAIRPERSON BILBREY: I told you I was trying to  
6 read it too fast.

7 CHAIRPERSON BILBREY: No, and I just -- I mean,  
8 with the discussions we've had, you know, post the April  
9 meeting, you know, I agree with Ms. Mathur that, you know,  
10 I think the discussions that we've had I think we're in a  
11 really good place, you know, in terms of understanding of  
12 what we're trying to accomplish here and the potential  
13 strategies, the metrics, and the design opportunities.

14 And, you know, I'm glad -- I mean, there are a  
15 lot of -- any time you make this big of a change, although  
16 strategic and important as this decision is, I think that  
17 it is very prudent to, you know, deal with it one by one  
18 by one by one. And I think that, you know, this was a  
19 very logical and prudent decision, so...

20 CHAIRPERSON BILBREY: And I do want to say, and  
21 especially to Grant Thornton, the fantastic job that  
22 they've been doing. In making sure to move this forward,  
23 they were trying very hard to keep within the timelines.  
24 It was myself, in concert with Ms. Mathur, talking about  
25 all of a sudden we had gone to this spot, and there was

1 all this still looming, and it just seemed so unfair to  
2 them to make them meet a deadline that really wasn't  
3 realistic.

4           So I think that we've all recognized that we got  
5 going a little faster than we wanted to, but that we want  
6 a really robust policy, really good process, one that we  
7 can all feel very comfortable with in the entire  
8 organization, when we're all down with this. So I think  
9 we're on the right track. I thank you for your times and  
10 efforts. We're very excited. We see the light. We've  
11 been working on this for a little while, and we finally  
12 are on a road to the right spot that we would all like to  
13 be.

14           Is there any other comments or questions from  
15 committee?

16           Seeing none, we will see you next month with the  
17 metrics.

18           MR. GONZAGA: Thank you.

19           CHAIRPERSON BILBREY: With that, I believe there  
20 is no summary of Committee direction, other than we've got  
21 the new implementation timeline, and I have no public  
22 comment. So we are adjourned.

23           (Thereupon the California Public Employees'  
24 Retirement System, Board of Administration,  
25 Performance, Compensation, & Talent Management

Committee meeting adjourned at 3:43 p.m.)

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C E R T I F I C A T E O F R E P O R T E R

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration, Performance, Compensation & Talent Management Committee meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California;

That the said proceedings was taken before me, in shorthand writing, and was thereafter transcribed, under my direction, by computer-assisted transcription.

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 23rd day of May, 2016.

JAMES F. PETERS, CSR  
Certified Shorthand Reporter  
License No. 10063