



Performance, Compensation &
Talent Management Committee
Agenda Item 5

August 16, 2016

Item Name: Fiscal Year 2016-17 Compensation Review Project Recommendations:
Second Reading of Performance Metrics

Program: Administration

Item Type: Action

Recommendation

Approve, as a second and final reading, the proposed performance metrics and policy amendments.

Executive Summary

The purpose of this agenda item is to present Executive performance plan metrics and policy amendments for Committee review and approval based on the recommendations of the Board's Executive Compensation Consultant for implementation in Fiscal Year 2016-17.

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 November 2015, contract was awarded to Grant Thornton LLP to be the Board's primary executive compensation consultant, responsible for providing ongoing support to CalPERS executive compensation programs, including advice on streamlining and improving the current incentive compensation program.

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.

In March 2016, Grant Thornton provided an update on the compensation review project and received direction from the Committee to gather input from additional employee groups, including Executive Staff and Investment Managers, bringing back the additional feedback for further discussion and refinement at the April Committee meeting. The April presentation included an update on the compensation review project, including proposed design concepts.

The Committee directed Grant Thornton to prepare a draft policy containing the proposed compensation philosophy and design, pay ranges, incentive ranges, and metrics for first reading at the May 2016 Committee meeting. Subsequent to the April meeting, Grant Thornton worked with key staff and the Board's investment consultants – Pension Consulting Alliance, LLC and Wilshire Consulting – to define and gain feedback on proposed performance metrics.

In May 2016, the Committee received a Compensation Project update from Grant Thornton on a phased-in implementation strategy and a timeline of activities to occur during the remainder of the project, including presentation of recommended Fiscal Year 2016-17 performance metrics for action in June.

In June 2016, the Committee approved, as a first reading, several performance metric concepts and the performance plan framework for the Chief Executive Officer (CEO) and Chief Investment Officer (CIO) positions for fiscal year 2016-17. The Committee directed staff to bring back additional information and further detail in August for the second and final reading of the performance metrics, performance plan frameworks, as well as proposed Executive Compensation Policy amendments.

Analysis

Today's Compensation Review Project recommendations for implementation include Executive performance plan metrics and policy amendments, which will be presented by Bill Gentry and Eric Gonzaga of Grant Thornton LLP.

Budget and Fiscal Impacts

The total value of this five-year contract of the primary compensation consultant to the Board is \$600,000.

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
- Attachment 2 – Executive Compensation Policy – Proposed Changes
- Attachment 3 – Executive Compensation Policy – Clean Version
- Attachment 4 – Wilshire Consulting Opinion Letter
- Attachment 5 – Pension Consulting Alliance Opinion Letter

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