



Performance, Compensation &
Talent Management Committee
Agenda Item 7

February 14, 2017

Item Name: Biennial Salary Survey

Program: Administration

Item Type: Action

Recommendation

Provide staff direction regarding the conducting of a comprehensive salary survey of all positions covered under the Board's Executive Compensation Policies and Procedures.

Executive Summary

The purpose of this agenda item is to present information relevant to conducting an executive salary survey for positions covered under Government Code Section 20098.

Strategic Plan

The Executive Compensation Program supports Goal B of the 2012-17 Strategic Plan in cultivating a high-performing, risk-intelligent and innovative organization. The program provides a means for recruiting and retaining highly-skilled executives to the benefit of the CalPERS organization as a whole.

Background

Since the inception of the Board of Administration's executive compensation program, the emphasis has been on pay for performance and periodic review of compensation as an essential part of a formal performance review process. The Performance, Compensation and Talent Management Committee has, over the years, continued to explore and refine the elements necessary for a sound executive compensation program and to weigh the importance of the program in recruiting and retaining highly skilled executives.

Included in this ongoing review and refinement of the program, in accordance with the Executive Compensation Policies and Procedures, is the Board's consideration of completing biennial salary surveys. The policy states in part that, "salary surveys of comparable executive positions are conducted every two years or as the Board deems necessary."

The last salary survey was completed by McLagan in September 2015. McLagan reviewed all base pay policy provisions, incentive award schedules, gathered salary data, and made recommendations for several changes for the Executive and Investment Management positions covered under Government Code Section 20098.

As a result of McLagan's survey findings, the Board adopted the following changes:

- Approved a revised annual salary range and set an incentive range for the Associate Investment Manager classification;
- Approved the use of the new peer comparator group to be used for base salary benchmarking including leading US and Canadian public funds, select California-based agencies, banks, and insurance companies; and
- Increased the maximum of the salary ranges by 5% for selected classifications, which had incumbents compensated in the fourth quartile: Chief Executive Officer, General Counsel, Chief Operating Investment Officer, Managing Investment Director, Investment Director, and Investment Manager.

Analysis

Determining the competitiveness of existing salary ranges is an essential element in recruiting and retaining highly skilled executives. In accordance with the Board's Compensation Policy, comprehensive salary surveys may be conducted every two years to ensure salary ranges are appropriate and relatively competitive with current market levels.

Should the Committee elect to conduct a salary survey, staff would work with the Committee Chair to determine next steps. Subsequently, the parameters for conducting the survey would be established, including: 1) a review of the Board's salary setting policies governing total cash compensation; 2) a review of the methodology for determining competitive base salary and incentive compensation ranges to ensure a meaningful comparison is made with current market levels; 3) identification of the quartile of market data to be used as a comparator group; and 4) confirmation of the scope of positions to be covered. Resulting survey findings, along with any other recommendations, would be presented to the Committee at a future meeting.

Another option for the Committee's consideration is not to conduct a survey this year, but to utilize data currently accessible to inform any salary range adjustment decisions. In addition to the results of McLagan's September 2015 biennial salary, CalPERS recently participated in an externally-conducted compensation study of public pension funds, and has access to the resulting data. The external survey included the Chief Investment Officer classification and positions similar to some of CalPERS' CEA deputy positions.

Attachment 1 displays, for classifications covered under the Board's compensation setting authority, the current base salary quartile ranges and the number of incumbents in each range.

Budget and Fiscal Impacts

If conducted, the approximate cost for a survey would be \$75,000, which would be funded from existing resources or through an "Other" Formal Budget Request (FBR). Any costs that may arise from the recommendations of a completed survey, such as salary range changes, would be addressed at the time of the recommendations.

Benefits and Risks

Risks associated with not conducting a salary survey could include:

- Not having current market data to ensure that existing salary ranges are competitive;
- In the event existing salary ranges are not competitive, there is a risk of potential difficulty in the hiring and retention of qualified candidates for key positions.



Risk associated with conducting a salary survey could include:

- Negative public perception for considering compensation increases in the current economic climate;
- Additional expenses incurred to cover the cost of the survey.

Attachment

Attachment 1 – Current Salaries by Quartile

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