



Performance, Compensation &  
Talent Management Committee  
**Agenda Item 6**

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June 20, 2017

**Item Name:** Biennial Salary Survey

**Program:** Administration

**Item Type:** Action

**Recommendation**

The item presents the results of compensation research conducted for the Committee's consideration.

**Executive Summary**

The purpose of this agenda item is to present for consideration, compensation data and options for revising salary ranges of Executive and Investment Management classifications covered under Government Code 20098.

**Strategic Plan**

The Executive Compensation Program supports the 2017-22 Strategic Plan's goal to promote a high-performing and diverse workforce, by recruiting and empowering a broad range of talents to meet organization priorities. The compensation 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. As stated in the policy's purpose statement the compensation structure is based upon "...the strategic decision that pay must be high enough to encourage individuals to accept and remain in positions, but not so high as to attract candidates solely for the compensation." The Performance, Compensation and Talent Management Committee has, over the years, continued to explore and refine the elements necessary to maintain 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 comprehensive 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. At the time of the 2015 survey, the resulting data confirmed that CalPERS' salary ranges were positioned at the 25<sup>th</sup> percentile at the minimum of the ranges, and at the 75<sup>th</sup> percentile at the maximum of the ranges. In addition, CalPERS' total compensation (salary and incentive compensation) was positioned at or below the 25<sup>th</sup> percentile of market data.

As a result of McLagan's 2015 survey findings, the Board approved the use of a revised peer comparator group for base salary benchmarking including leading US and Canadian public funds, select California-based agencies, banks, and insurance companies; established a salary range for the new Associate Investment Manager classification; 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.

In February of this year, the Committee approved moving forward with a 2017 salary survey to gather additional information to provide context for and inform considerations of the current salary range quartile positioning in relation to comparator group data; the number of incumbents at or near the maximum of current salary ranges; and compensation data for positions frequently discussed which are outside of the Board's compensation-setting authority.

### **Analysis**

In follow-up to the Committee's direction in February, rather than conducting a new compensation study, existing data sets were utilized to inform any salary range adjustment decisions. These data sets include the data gathered and presented by McLagan in September 2015; results of an externally-conducted compensation study of public pension funds in which CalPERS and 58 other state entities participated; and additional public sector salary data collected internally for positions at reciprocal agencies which have positions similar to those under the Board's compensation-setting authority.

The entities researched and represented in the internally-collected data set include 27 reciprocal city and county agencies, in addition to other public sector entities known to share talent pools with CalPERS (CalSTRS, SCIF, SMUD and Covered California). This collection also includes compensation data for positions similar to some of CalPERS' Career Executive Assignment (CEA) deputy-level positions. Attachment 1 displays the findings which resulted from analysis of the three above-mentioned data sets.

Options proposed for the Committee's consideration are:

**Option 1:** For classifications that have one or more incumbents at the maximum of the salary range, raise the maximum of the corresponding salary ranges by 4%. Committee approval of this option would impact 4 incumbents, and would allow them the opportunity to receive the maximum-allowable base salary increase, if earned, of 4%. These incumbents will otherwise not be able to receive any base pay increase on July 1, 2017.

**Option 2:** For classifications which have one or more incumbents in the 4<sup>th</sup> quartile of the salary range, raise the maximum of the range by 5%. Committee approval of this option would impact up to 13 incumbents, and provide an opportunity for those who are near the maximum of the range to receive the full base pay increase earned.

Both of the options above align closely with proposed July 2017 general base salary increases for statewide supervisory and managerial classifications, which positions covered under the Board's compensation setting authority are excluded from receiving.

The current base salary ranges and the number of incumbents in each quartile, for classifications covered under the Board's compensation setting authority, are displayed in Attachment 2. A refreshed analysis of staff turnover and tenure for covered positions is also included as Attachment 3.

The Board's Executive Compensation Consultant, Grant Thornton, has reviewed the collected data and additional market data, and provided an opinion letter in regard to the proposed options. The letter is included as Attachment 4.

### **Budget and Fiscal Impacts**

Any costs that arise from the recommendations of the completed survey, such as salary range changes, would be requested through the formal budget process.

### **Benefits and Risks**

The periodic review of market compensation data demonstrates good governance and risk management practices, and aids in the refining of strategies for the recruitment and retention of highly skilled executives and investment managers.

Risks associated with adopting a revised compensation structure could include a negative public perception for considering compensation increases. However, 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.

### **Attachments**

Attachment 1 – Compensation Analysis Findings

Attachment 2 – Current Salaries and Incumbents by Quartile

Attachment 3 – Executive and Investment Management Tenure and Turnover Analysis

Attachment 4 – Opinion letter from Grant Thornton

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