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, MARCH 20, 2018

1:31 P.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
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A P P E A R A N C E S

COMMITTEE MEMBERS:

Mr. Bill Slaton, Chairperson

Mr. Richard Costigan, Vice Chairperson

Mr. Richard Gillihan, represented by Mr. Danny Brown

Ms. Dana Hollinger

Mr. Henry Jones

Ms. Priya Mathur

Mr. Ramon Rubalcava

BOARD MEMBERS:

Ms. Margaret Brown

Mr. John Chiang, represented by Mr. Matthew Saha

Mr. Rob Feckner, Vice President

Mr. David Miller

Ms. Theresa Taylor

Ms. Betty Yee, represented by Ms. Lynn Paquin, Mr. Alan Lofaso

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Charles Asubonten, Chief Financial Officer

Mr. Doug Hoffner, Deputy Executive Officer

Mr. Matthew Jacobs, General Counsel

A P P E A R A N C E S   C O N T I N U E D

STAFF:

Ms. Tina Campbell, Chief, Human Resources Division

Ms. Kari Imai, Committee Secretary

ALSO PRESENT:

Mr. Eric Gonzaga, Grant Thornton, LLP

I N D E X

P R O C E E D I N G S

CHAIRPERSON SLATON: I'd like to call to order the Performance, Compensation and Talent Management Committee meeting.

First item is roll call.

COMMITTEE SECRETARY IMAI: Bill Slaton?

CHAIRPERSON SLATON: Here.

COMMITTEE SECRETARY IMAI: Richard Costigan?

VICE CHAIRPERSON COSTIGAN: Here.

COMMITTEE MEMBER IMAI: Danny Brown for Richard Gillihan?

ACTING COMMITTEE MEMBER BROWN: Here.

COMMITTEE SECRETARY IMAI: Dana Hollinger?

COMMITTEE MEMBER HOLLINGER: Here.

COMMITTEE SECRETARY IMAI: Henry Jones?

COMMITTEE MEMBER JONES: Here.

COMMITTEE SECRETARY IMAI: Priya Mathur?

COMMITTEE MEMBER MATHUR: Good afternoon.

COMMITTEE SECRETARY IMAI: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Here.

CHAIRPERSON SLATON: Okay. Thank you very much.

Now, Mr. Hoffner, Executive Report.

DEPUTY EXECUTIVE OFFICER HOFFNER: Good afternoon, members of the Performance, Comp and Talent Management Committee. Doug Hoffner, CalPERS team member.

Today, we have three items before you. The first is an action consent item bringing back recommended changes from last month's Committee meeting where you made some modifications to the Executive Compensation Policy. As we indicated at that point in time, we'd also bring back basically some revisions and streamlining amendments to that, which is in Agenda Item 3b for you approval today. After that, we've got two action items before you. One is a revision to the Committee delegation. And this reflects changes that we were directed to bring back to you related to the Chief Executive Officer and aligning the direct reports to the CEO -- okay -- aligning the direct reports to the CEO as it relates to the delegation of the Committee.

I'm happy to pause if there's a distraction.

(Laughter.)

CHAIRPERSON SLATON: Sorry.

BOARD MEMBER TAYLOR: Sorry.

DEPUTY EXECUTIVE OFFICER HOFFNER: That's okay. I just want to make sure we're --

VICE CHAIRPERSON COSTIGAN: We're all on the same page, Mr. Hoffner.

DEPUTY EXECUTIVE OFFICER HOFFNER: Are we good to go?

VICE CHAIRPERSON COSTIGAN: Are you still going?

DEPUTY EXECUTIVE OFFICER HOFFNER: Okay. And then with that, we also have today with you Eric Gonzaga with Grant Thornton, the Committee's executive compensation consultant to talk about Agenda Item 6, which is essentially looking at several changes and proposed recommendations by the -- your consultant related to the CEO, the incentive plan, and the policy related to compensation within the organization.

Depending on the -- any recommendation that you adopt today, there may be modifications to the overall compensation structure. And we've, through Eric, have identified material that has been presented to you in the past that we thought would be fruitful for any discussion you might have today, or for any future action beyond today.

With that, that will close out my executive reporter. Happy to answer questions.

CHAIRPERSON SLATON: Okay. Seeing none.

By the way, Ms. Brown is with us today, and Ms. Taylor, Mr. Feckner, Ms. Paquin, and Mr. Saha is here as well.

VICE CHAIRPERSON COSTIGAN: And Mr. Miller.

CHAIRPERSON SLATON: And Mr Miller.

We have rearranged the room slightly.

Okay. We'll move to Item number 3, our action consent items. Do I have a motion?

COMMITTEE MEMBER MATHUR: Move approval.

VICE CHAIRPERSON COSTIGAN: Wait. Wait. Call on me.

CHAIRPERSON SLATON: Pardon me? Oh. Just a second. Before we entertain that motion, Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: I'd like to separate Item 3 and Item 3b as two separate action items.

I would move action -- adoption of the 3a.

COMMITTEE MEMBER MATHUR: Second.

CHAIRPERSON SLATON: All right. Let's see. So a motion and a second from Ms. Hollinger.

VICE CHAIRPERSON COSTIGAN: No, Ms. Mathur.

COMMITTEE MEMBER HOLLINGER: Ms. Mathur.

CHAIRPERSON SLATON: Oh, Ms. Mathur. Okay. So we're going to action consent on 3a.

All those in favor say aye?

(Ayes.)

CHAIRPERSON SLATON: Opposed?

Motion carries.

VICE CHAIRPERSON COSTIGAN: And I think you have to call on CalHR now.

CHAIRPERSON SLATON: Oh, that's right.

3B, CalHR. Just a minute. Just a minute.

Okay.

ACTING COMMITTEE MEMBER BROWN: Yes. Just please show that I'm not going to participate on this item.

CHAIRPERSON SLATON: All right.

VICE CHAIRPERSON COSTIGAN: So I'll move item -- adoption of Item 3b.

CHAIRPERSON SLATON: Wait a minute.

COMMITTEE MEMBER MATHUR: Second.

CHAIRPERSON SLATON: All right. We have a motion from Mr. Costigan, second from Ms. Mathur on 3b.

All those in favor say aye?

(Ayes.)

CHAIRPERSON SLATON: Opposed?

Motion carries.

Thank you.

Thank you, Mr. Costigan, for helping me navigate through that.

All right. I've had no requests to pull items off of consent in number 4, so we'll move to Item number 5. Mr. Hoffner.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL:

Actually, I'll be taking that one.

CHAIRPERSON SLATON: Oh, you'll be. I'm sorry.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: So good afternoon.

CHAIRPERSON SLATON: All I had to do was turn the page. Ms. Campbell.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Good afternoon, Mr. Chair and members of the Committee. Tina Campbell, CalPERS team member.

Action -- Agenda Item 5 is an action item. The Committee gave direction at the February 2018 meeting for team members to review and provide potential revisions for the delegation resolution for the Performance, Compensation and Talent Management Committee. This item presents proposed revisions which align oversight of the Chief Investment Officer with other direct reports of the Chief Executive Officer.

Under the current delegation, the Committee and the CEO share responsibility for that oversight. If the Committee approves the proposed revision, the CEO will have sole authority for decisions recording the CIO as related to hiring, evaluating, and terminating.

This aligns with the CEO's current delegated authority to oversee the other direct reports covered under Government Code 20098, including the Chief Financial Officer, General Counsel, and Chief Actuary.

The proposed changes maintain veto authority for the Committee over decisions relevant to all four positions. If the Committee wishes to make other revisions to the delegation resolution, the changes will be incorporated and brought back for Board consideration and approval when all delegations come forward before the end of the fiscal year.

Thank you, Mr. Chair. This concludes my report and I'm happy to answer any questions.

CHAIRPERSON SLATON: All right. Thank you.

Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: Thank you, Mr. Chair.

The question I want to raise, Ms. Campbell and with you, Mr. Hoffner, actually relates to page two of three, (B)(2). And I would recommend that the Committee strike the language relating to the Board retaining veto authority over the CEO's decision. As we know, the Board is not the appointing authority of those employees, that the only person that serves at the pleasure of the Board is the CEO.

And I think this language is a little bit ambiguous from the standpoint that if we're vested in with our CEO the authority to hire, fire, discipline, pay raise, whatever it may be, civil servants, that the appropriate process is that the Board is -- again, is not the appointing authority for those individuals, only the CEO is. So I would put out there that we would strike that language as contained in (2), and it would just, at best, advise the CEO regarding the hiring and firing.

Although, again, I would likely strike all of (2), because we're not the hiring authority.

So I put that out there. And I don't know if a motion would be appropriate, or if other members would like to comment or...

CHAIRPERSON SLATON: Well, let's get some conversation going and then we can come back to a motion.

Ms. Mathur.

COMMITTEE MEMBER MATHUR: Well, I am -- I am comfortable with the recommend -- with the suggestion that Mr. Costigan made, and so if it's appropriate, I would move the staff's recommendation with the one change of removing the phrase on (B)(2), "...and retain veto authority over the CEO's decisions".

CHAIRPERSON SLATON: Okay. We have a motion on the floor. Do we have a second?

VICE CHAIRPERSON COSTIGAN: I guess I'll second.

CHAIRPERSON SLATON: Mr. Costigan seconded.

Further discussion?

All right. I have no requests to speak.

So all those in favor of the motion say aye?

(Ayes.)

CHAIRPERSON SLATON: Opposed?

Motion carries.

Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: So a technical question, Mr. Hoffner. As a result of that action, while we adopted 3a, that will now reflect the changes going forward. So at the time that Item 3a came up that was the current policy. And since we've now adopted a new policy, at later date we'll see it revised?

DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah. So we'll take back -- you've adopted the streamlined recommendations to the Exec Comp Policy. There was language related to the veto authority that's related to the delegation there. We'll come back to you with that revision, to remove that language as the delegation has moved forward, but go through the Governance and at the full Board. And I believe we've taken up as all of the delegations from all the policy committees in the May Board meeting. So we could reflect that change there.

VICE CHAIRPERSON COSTIGAN: Thank you, sir.

CHAIRPERSON SLATON: All right. We'll move to Item number 6. I just want to -- before we get started on this item, I just want to let the -- well, first of all, Mr. Brown, you have a comment. Let me just get that out of the way and done.

ACTING COMMITTEE MEMBER BROWN: Thank you, Mr. Chair. Yeah, just please show again that I'm not participating on this item.

CHAIRPERSON SLATON: Okay. Thank you.

So before we started, I just want to advise the Committee that this is a discussion of the CEO position. This is not a discussion of the current person who's in that position. So I want to be cautious about that in your commentary, that we keep it to the discussion of the position, and its related compensation.

So with that, are you going to continue?

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yes.

CHAIRPERSON SLATON: Okay. Very good.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Okay. Good afternoon, Mr. Chair, members of the Committee. Tina Campbell, CalPERS team member.

Agenda Item 6 is also an action item. The Committee provided direction in February for team members and the Board's executive compensation consultant, Grant Thornton, to work on options for a new incentive plan for the CEO, which differentiates the plan from that of the CEO's direct reports.

As Mr. Hoffner mentioned, we have Eric Gonzaga of Grant Thornton here to present and discuss those options with you, as well as to discuss potential compensation structure options for the CEO position, depending on the plan design the Committee chooses.

Based on the options provided, we're seeking two points of action by the Committee. The first recommendation is for the Committee to approve an incentive plan structure for the CEO to become effective for fiscal year 2018-19.

The second recommendation before the Committee today seeks approval, or further direction, on an approach for setting a revised compensation structure for the CEO position to take effect in 2018-19 fiscal year as well.

Before I turn it over to Mr. Gonzaga to discus the incentive plan options and potential compensation structures, I want to provide context which may assist you in your consideration of each of these two points of action.

First, when considering the incentive plan structure, a decision should be made with the incumbent CEO, Ms. Frost, in mind. It will become effective July 1st, 2018 for fiscal year '18-'19, and will -- '19 and will directly impact Ms. Frost. This decision is simply about the plan design and not related to a performance review in any way.

Second, when considering the compensation structure approach, the Committee may find it helpful to view it from the perspective of the CEA position, and not the current CEO. This discussion is about the compensation policy for the CEO position. Any revisions to the compensation structure will be relevant to the CEO position, regardless of the incumbent.

The compensation structure the Committee selects should reflect the Committee's desired range for the position, regardless of any current or future incumbent. The actual base pay for any incumbent will be discussed at a future meeting during the point in the process, where incumbent CEO base pay is considered by the Board in accordance with relevant policy provisions.

The decisions you make today will certainly impact the incumbent CEO, but it really is about the position itself. So as you work through the options, please keep this in mind.

Finally, just to expound slightly on a point in the agenda item, incentive is considered a bonus. And bonuses are currently considered non-reportable -- non-reportable. Therefore, depending on any decision related to compensation structure, any proportionate amount of incentive converted to base salary would likely continue to be non-reportable.

Renee Ostrander is here in case there are further questions regarding the specifics of that topic.

And I'll pause for questions and then turn it over to Mr. Gonzaga for discussion.

CHAIRPERSON SLATON: Ms. Mathur.

COMMITTEE MEMBER MATHUR: I think I just need a little clarification, and forgive me, but under the recommendations, what is the difference between approving an incentive plan structure, and approving or providing direction on an approach to set a compensation structure? Could you -- oh, one is the incentive plan and the other is the compensation --

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Correct.

COMMITTEE MEMBER MATHUR: -- is the base pay.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: That is correct.

COMMITTEE MEMBER MATHUR: Thank you.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: You're welcome.

CHAIRPERSON SLATON: Okay. Ms. Hollinger.

COMMITTEE MEMBER HOLLINGER: Yeah. Could you just clarify for me the implications of reportable versus not-reportable?

Thank you.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Renee Ostrander will come up and speak to that.

COMMITTEE MEMBER HOLLINGER: Okay. Thank you. Appreciate it.

EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF

OSTRANDER: Renee Ostrander, CalPERS team member.

So that has to do with whether or not it's reportable to us as a system as pay to be calculated in any type of final compensation when someone goes to retire. So currently right now, the bonuses that the CEAs receive at CalPERS are not reportable to our system.

COMMITTEE MEMBER HOLLINGER: Got it.

EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF OSTRANDER: And so -- and it's in the PERL that when there's a conversion of non-reportable benefits, those are also not reportable.

COMMITTEE MEMBER HOLLINGER: Now, I seem to remember at the time we were doing a CEO search, that if -- that there was a limit as to what was PERSable regardless of what the compensation was to our CEO.

EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF OSTRANDER: Correct. So in the current situation that we're in now, our current CEO is a PEPRA member. And that limit is significantly lower than if there were a classic member in there, depending on the date the classic member was brought into membership. There's -- so there's essentially three tiers to how much is reportable.

COMMITTEE MEMBER HOLLINGER: So -- so for our purposes, just so I'm understanding if we're speaking into the future, since there's a limit here because of PEPRA, a classic member could get the benefit of the full base compensation?

EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF OSTRANDER: Not necessarily. So that -- that was the point that Tina was making is that when you have a benefit that is not reportable, when you go to convert that benefit into base pay, that is also not reportable.

So the likelihood is, is that still would not be reportable. So at least at this time.

COMMITTEE MEMBER HOLLINGER: So is there a benchmark as to the max something can be reportable, the maximum compensation amount or not necessarily?

EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF OSTRANDER: So there is -- so there are maximums that are put in place by the IRS. And so for PEPRA members, it's right around 120 to 122 thousand. It's right in that range. For classic members that were brought into membership after 7/1 of '96, that amount is $275,000. So in both of those cases, the conversion likely wouldn't matter.

COMMITTEE MEMBER HOLLINGER: Right, right. Okay.

EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF OSTRANDER: But if you have somebody who's in membership prior to 7/1 of '96, there is no limit.

COMMITTEE MEMBER HOLLINGER: Got it. Okay.

Thank you.

EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF OSTRANDER: You're welcome.

CHAIRPERSON SLATON: So before I call on Mr. Costigan, just to follow up on that question, so I can make sure and understand. So if someone has base compensation of $100, and they have a bonus structure that's $50, and you convert it going forward to $150 of base pay, only the $100 is pensionable, is that correct?

EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF OSTRANDER: If the bonus was originally non-reportable.

CHAIRPERSON SLATON: Non-reportable. Okay.

EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF OSTRANDER: So in this case for the State of California, they have chosen, which in -- so there's a lot of context to this, but the State of California has the authority over excluded to choose whether items are reportable or non-reportable. And so the bonuses have been deemed as non-reportable, and so that would be a conversion of non-reportable benefits.

CHAIRPERSON SLATON: Okay. So but -- but here's my question. So to follow on, you have 150 was non-reportable, and so you convert it to base. It's 150, 50 of it is non-reportable.

EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF

OSTRANDER: Correct.

CHAIRPERSON SLATON: Now, you go to do an increase to 175, is that now 125 of reportable?

EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF OSTRANDER: If you have converted the 50 of non-reportable to base pay, yes, then it would only be 125.

CHAIRPERSON SLATON: Great. Okay. Now, I understand the ball game. All right. Thank you.

Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: And again, it's the apples and oranges. You're talking about a classic employee and a PEPRA employee, and someone in the future. And so to a degree, an increase in compensation for someone that's not yet been hired by the system, and who's not worked in the system is not going to be impacted, because they're going to be a new PEPRA employee, and the limits are different.

If you hire me as a classic employee, and I got a base pay from the time I was in the Governor's office, it, in fact, would capture that at the highest times the years of service. I mean, because I'm a classic employees.

EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF OSTRANDER: As ong as it's all classic, right? Because we do not -- we also do not cross salaries between PEPRA and classic.

VICE CHAIRPERSON COSTIGAN: Correct. And so -- I mean -- but that's only because -- and this is one of the reasons I think Mr. Brown and CalHR is not in the room is that first of all they'd be classic employees and they would be covered coming back into the system, if there's a change in compensation.

That said, I would say I would be supportive of increasing the -- doing away with the incentive comp for the CEO. I've said before I think paying people what they're entitled to be paid, what they're worth. The incentive comps -- and I know incentive compensation there will be some discussion and disagreement on it. I'm not as concerned about raising someone's salary, because there's a potential pension impact to it. What I'm more concerned about is attracting quality people to work in the system and paying them the compensation that they're entitled to.

The other thing I think Mr. Hoffner we have talked to, and I don't know if this is the appropriate time when we -- when are we going to talk about potential other issues related to compensation such as the 457(f) that we have been talking about. Is this an appropriate time to discuss that?

DEPUTY EXECUTIVE OFFICER HOFFNER: Well, I don't know if you want to have your consultant go through the proposal first. You mentioned the 457(f), it's something we're looking into. We have reached out to CalHR, and we're working with our legal team to do some further research on that item.

We are going to have items in May, as your agenda outlines, to talk about incentive metrics and recommendations, as well as an overall executive comp pay design and philosophy discussion. That could be a broader conversation that's not before you today.

VICE CHAIRPERSON COSTIGAN: So it -- but just one issue like on the 457(f), as -- if you were to move the base pay an to attach a 457(f) to it, that contribution would not be PERSable.

EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF OSTRANDER: Correct.

VICE CHAIRPERSON COSTIGAN: Okay. Because that is -- okay. So all right.

CHAIRPERSON SLATON: All right?

Okay. Thank you.

Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Mr. Chairman.

Yeah. My question is for Grant Thornton, and I heard Doug say something about him walking through his --

CHAIRPERSON SLATON: Yeah, we're going to get a presentation when we -- as soon as we can.

COMMITTEE MEMBER JONES: Okay. Okay. Okay.

CHAIRPERSON SLATON: All right. Ms. Paquin.

ACTING BOARD MEMBER PAQUIN: Thank you. I think you just answered my question. I just had a question for the consultant. I'll wait though.

CHAIRPERSON SLATON: Okay. All right. Why don't we hear from our consultant.

MR. GONZAGA: All right. Well, thanks for the opportunity to be here again. You know, as we started thinking about, you know, the opportunities here in terms of modification of the CEO's pay structure for, you know, various reasons, we wanted to keep it as simple as possible. And, you know, we identified a couple of, you know, different alternatives, obviously with the goal of, you know, having a different sort of plan for the CEO specifically.

And, you know, the first one is relatively self-explanatory, and that's simply that we go with a straight salary, you know, market positioning for the CEO. And, you know, essentially all that is is, you know, you increase salary to the appropriate amount based on, you know, the appropriate balance between existing incentive compensation, adding that to existing base salary, to come up with a right amount, obviously based on some market considerations.

He has the advantage of being quite simple. You still have that pay for performance element of it, because you go through the full performance evaluation every year, consider all of those qualitative factors in terms of adjusting salary, you know, for the appropriate amount based on performance for the year. And you can still consider some of the criteria.

As part of that performance evaluation that I suppose are already contemplated as part of the current incentive plan, but it's a more holistic evaluation of performance, so...

Now, the primary downside, of course, is that we're just talking about a significant modification in terms of fixed pay. Very difficult to take away salary to the extent that -- to the extent that it's already provided, unlike an incentive plan where, you know, there's variability up or down.

And there's some protection, and as well as kind of alignment a risk reward standpoint aligning that individual with the rest of the executive team. So there certainly are cons.

But you know -- so we came up with a second alternative as well, which would be alternative B, which is something like alternative A. It's just that we would increase, you know, fixed pay a modest amount, reduce the level of potential incentive payout. But rather than, you know, having significant, you know, outcomes, you know, as part of, you know, that balanced scorecard that we have for the rest of the executive team, there would still be variable incentive there, whether it's 10 or 15 percent, something lower than the existing amount today.

But the pay-for-performance element would be still a meaningful amount, and there would still be that ability, albeit on a qualitative basis, through the performance review process, through certain leadership expectations, some qualitative subjective criteria, where again you can evaluate the CEO for performance in its entirety based on organization and individual performance. There's still that ability to kind of recognize good outstanding performance, as well as to say that, you know what, we didn't quite have the year that we head, and therefore we're going to provide a modest, if any, incentive at all.

So those are really the two alternatives that we came up with, again recognizing we wanted to keep two distinct plans, you know, one for the executive team and the other participants versus one for the CEO.

Relatively straightforward. I think all -- the primary challenge is simply that we are talking about fixed increases in pay. And the other issue is you always worry a little bit about alignment, if we have two different plans, but if it's more qualitative, in a review of overall performance.

Certainly, there's that ability to ensure alignment, if it's kind of an overall performance review, as opposed to something that has distinct goals and objectives that are separate fro the executive incentive plan.

You always worry about conflict, if we have separate outcomes for the CEO. So something a little bit more subjective. My preference actually, if we go down this route, would be for the secondary option to at least have some latitude in terms of recognition of pay-for-performance, just not as much as historically.

CHAIRPERSON SLATON: Okay. Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Mr. Chairman. Yes you kind of touched on the question I had, because I was looking at your recommendation for alternative B, but then you go down and describe to some degree some challenges. And you mentioned a couple of them, and you indicate that in addition to challenges in the administration, that it would be -- the evaluation process would be -- I'm reading from this, taken from this, it would be more challenging. And so could you comment on how that creates the problem?

MR. GONZAGA: Absolutely. So the challenge is Simply that, you know, as a -- for example, as you go through the current executive incentive plan, it's pretty to tell did we reach goal, did we not reach goal? Did we achieve maximum outstanding performance because it's a specific outcome?

The difference if we start talking about alternative B is if we're going to provide an award for something that's more qualitative, something that's a little bit more subjective, we're not talking about clear outcomes, the challenge is really that the Committee has to be quite comfortable with exercising that discretion, that overall qualitative review. Because ultimately, that's the primary way you're going to evaluate what level of award the CEO should determine.

It's not as easy as just taking a look at the outcomes and saying yes, under this plan, the individual should receive a threshold target or maximum bonus. To the contrary, you'd probably have to come up with a rating scale, which is much more subjective, overall review of performance not directly tied to an absolute outcome.

COMMITTEE MEMBER JONES: And so this rating scale, is that something that is used throughout the industry, the kind that you're referring to that perhaps maybe used here --

MR. GONZAGA: It is.

COMMITTEE MEMBER JONES: -- or would it be unique to CalPERS?

MR. GONZAGA: It is. No, it would be something that is used throughout industries, to the extent that there is a portion that is qualitative in the overall incentive review.

And I do think you can do it. And I think especially with the discussions that are had, you know, you can certainly manage a qualitative and subjective related incentive plan. It's just going to take some -- a little bit of diligence getting used to it, in terms of, okay, we have these six performance categories. Is this acceptable, is it target, is it outstanding performance based on an overall review as opposed to a specific number of achievement? It just takes some time to get used to.

I will say, and we've said this before, that qualitative review discretion, that's something that, you know, particularly in this environment, even for-profit companies are including discretion as part of their review of incentives.

I guess the difference here is that this would be primarily related to qualitative criteria as opposed to just being part of the overall valuation.

They're complexities more because oftentimes when it comes to incentives, folks want more specificity as opposed to reviewing things qualitatively.

COMMITTEE MEMBER JONES: Okay.

CHAIRPERSON SLATON: Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: Thank you. Just a few questions. First, when we look at CalSTRS, is there something different in their statutory scheme or Board authority that allows them to pay a higher salary? Is there something that we're lacking? We have the exact same authority.

DEPUTY EXECUTIVE OFFICER HOFFNER: You have broad authority for these positions. They have a different pay philosophy for their plan, and different targets within that in their current incentive structure. We've highlighted some of that in table 2 I believe here, which is page 86 of your iPad. This is material and data that we provided to you via McLagan, another consultant you brought in in 2015 to provide sort of an overview of the CEO comparator groups that existed at that time that are in your current policy. You can see on the top of that page really the breakout under the current plans that are in place today for both organizations.

VICE CHAIRPERSON COSTIGAN: You're referencing page four of five.

DEPUTY EXECUTIVE OFFICER HOFFNER: Oh, I'm sorry. I'm looking at the total, Table 2.

VICE CHAIRPERSON COSTIGAN: No, that's fine. Yeah, Table 2, with a low-end base of 224 and then 325. We're on the same page, right?

DEPUTY EXECUTIVE OFFICER HOFFNER: Correct.

VICE CHAIRPERSON COSTIGAN: When you talk the philosophy of CalSTRS, what is CalSTRS philosophy that would start the base at 325?

DEPUTY EXECUTIVE OFFICER HOFFNER: I don't know if it's a philosophy. That's the comparator group that they've selected, and that's the salary range identified for that position. But when we talk about philosophy, we're going to talk about where do they start -- typically start folks maybe mid-range of the overall compensation structure, not necessarily near the bottom. And you can see they have no targets, at least in that one plan, and then the incentive opportunity is quite dramatically different in their policy.

VICE CHAIRPERSON COSTIGAN: All right. And I know I've raised this before. I often struggle with incentives for State employees. It is my understanding, Mr. Hoffner, and correct me, there are only four boards I think that use incentive comp: High-Speed Rail, Covered California, State Fund, and CalSTRS and CalPERS?

DEPUTY EXECUTIVE OFFICER HOFFNER: You might have Regenerative Medicine in there as well. Some of the ones created by initiative or by --

VICE CHAIRPERSON COSTIGAN: Stem Cell.

DEPUTY EXECUTIVE OFFICER HOFFNER: Some of those I think have some higher compensation. Whether incentive is included I don't recall, but they tend to have a different or higher base.

VICE CHAIRPERSON COSTIGAN: So one is higher compensation. But boards such as CARB, CEC, PUC, Parole Board, others that have board members and staff, don't do incentive comp?

DEPUTY EXECUTIVE OFFICER HOFFNER: Not that I'm aware of.

VICE CHAIRPERSON COSTIGAN: Okay. And so what I'm just getting at is from a comparison, I know we often talk about the private sector on this, but when we look at our sister agencies, really you're either looking at -- the one thing I would point out on both High-Speed Rail, Covered California, State Fund, and CalSTRS is they all -- each one of those when you do a comparison of executive staff to executive staff, their compensation base is already higher to begin with than ours. I mean, particularly -- I mean you look at Covered California, and what their staff is making. And I recently read what the

Director of High-Speed Rail is making, which is still higher than the base salary, I think, of our executive staff, if that's correct?

DEPUTY EXECUTIVE OFFICER HOFFNER: That is correct.

VICE CHAIRPERSON COSTIGAN: Okay. Thank you. That's it for right now.

CHAIRPERSON SLATON: Ms. Taylor.

BOARD MEMBER TAYLOR: Yes, thank you.

I think Mr. Costigan asked a lot of these questions. But I'm just trying to figure out, and I still don't think I'm quite clear on, the philosophy of CalSTRS. So they -- you want to go through that again. I just didn't quite understand what you were talking about.

DEPUTY EXECUTIVE OFFICER HOFFNER: So I don't have it in front of me. It is a public document. But where they've decided to, one, establish their peer competitive group is different than our peer competitive group for this one position, as well as probably others in their organization. And that you can see that reflected in the overall compensation structure, where starts higher than -- it's almost -- the base is almost higher than our max.

The overall incentive target they've identified is dramatically higher, 0 to 80 with no target, which is quite different our 0 to 40 with a target of 27 percent. And then where they would tend to typically pay people within that structure of the range it's more of starting at a mid-point range. You're not starting at square one --

BOARD MEMBER TAYLOR: They don't start at the beginning.

DEPUTY EXECUTIVE OFFICER HOFFNER: Well, I think it also depends on where -- you know, you bring people into the organization, where do they come from, what are their compensation at the other organizations, are they internal, are they external, are they -- you know, you don't know what the compensation structure is for these positions typically when you've -- you're bringing people in that have been recruited. I can't say public sector, private sector, other State institutions, you know, they might have a very different pay structure.

And you have a very flexible policy that allows you at the Board the authority to identify and articulate what these pay ranges incentive, if you choose to have them, should be in the organization.

This has not been modified for some time. I think the most recent peer comparator group that was done was back in 2015. We had McLagan come in. I think that was the first time since 2010 that we looked at any of the noninvestment-related positions in the organization, and at that point established sort of a comparator group, which included state agencies, as Mr. Costigan has outlined, as well as insurance companies, other public systems, other Canadian large pension systems, et cetera to be our comparator.

And the data here that we've identified on that Table 2, lower in the page, starts articulating what those ranges look like, and they're quite dramatic in some respects. And then that includes incentive or other things. So I didn't --

BOARD MEMBER TAYLOR: So does that include the --

DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah.

BOARD MEMBER TAYLOR: So, for example, you're saying they set their range based on a different set. As I recall, when I was on this Committee last year, we had set it on - and the year before - we had set it on a -- like a bottom quartile of these, rather than like a mid-quartile. So we have the ability to change that, we just had a philosophical difference on whether or not we should do that, is what I understand.

So we put --

DEPUTY EXECUTIVE OFFICER HOFFNER: You have the flexibility to change it. It's up to that philosophy of how you want to compensate I think is the discussion that you're looking to have. This is one example. This doesn't include others in the organization. That's where that May item would be a broader discussion about what that could mean to other parts of this organization, where you, as the Committee and the Board, have the authority, through the law, to establish both the compensation and incentive if you chose to have it.

In this case, there are different philosophies though with different peer comparator groups. So you're -- it's an apples and oranges comparison, but I think we could bring back material that would helpful to highlight the differences for al of you, in terms of what that looks like. But at the end of the day, there are -- they're looking at sort of two different lenses, I would say, in terms of compensation.

And I don't recall how --

BOARD MEMBER TAYLOR: Well, I will --

DEPUTY EXECUTIVE OFFICER HOFFNER: -- recently they may have updated their policies, when ours hasn't been really refined since 2015.

BOARD MEMBER TAYLOR: I will say that it looks like that we're paying a woman less than we're paying a man, so I have a problem with that. Not we're paying. That CalSTRS is paying a man for the same position, substantially more than we're paying a woman. And we've had a woman for two different terms.

Secondarily, I'm not sure that everybody on the Board -- and so this is up to the -- the Board Chair, if everybody on the Committee has that experience of seeing those quartiles. And maybe you might want to have that brought back in for them to look at it.

CHAIRPERSON SLATON: Well, I think the -- if I may, I think the discussion today is around the CEO compensation and not going beyond that.

BOARD MEMBER TAYLOR: That's what I'm talking about.

CHAIRPERSON SLATON: So when you're taking about quartiles --

BOARD MEMBER TAYLOR: We're compare -- it's what it's compared to.

CHAIRPERSON SLATON: Oh, in terms of these others.

BOARD MEMBER TAYLOR: Yeah, yeah, yeah.

CHAIRPERSON SLATON: Yeah, the study.

Well, I think there's two components to this. First is what's the design that we're going to do first, and then setting it is the second step, based on the design that we decide on.

BOARD MEMBER TAYLOR: The A or the B, the --

CHAIRPERSON SLATON: Right.

BOARD MEMBER TAYLOR: -- whether or not we're going to include bonuses --

CHAIRPERSON SLATON: Either leave it as it is, or A, or B. That's the three alternatives. And one of the things that kind of brings this to us is also taking into account the ability to have our CEO provide advice and counsel to us on others. And that has to do with plan design for the CEO.

BOARD MEMBER TAYLOR: Which leads to my next question, which was we may not always have -- or statement. We may not always have a CEO that we're comfortable with delegating that authority with.

CHAIRPERSON SLATON: Well, I --

BOARD MEMBER TAYLOR: So -- and that's just my only statement to that. I agree that maybe our -- the we're paying structure right now can be changed. And I'm not on the Committee. I'm just saying that bear in mind their -- right now, we're asking for her advice in how we look at our other 20098 positions. Maybe we won't be doing that.

CHAIRPERSON SLATON: Yeah. Again, I think we need to deal with this as the CEO position. And as we have -- in any CEO relationship between this Board and the CEO, we're going to make decisions both on compensation and on the relationship and -- but we're trying to set a standard that would apply to both the current CEO and any future CEO, so it would inform us as we make a future hiring decision.

So we're trying to get a structure that essentially stays in place. And then we would hire according to that structure. So it's structure first and then, you know, who would actually fill a position, in my view. But does that satisfy the conversation?

BOARD MEMBER TAYLOR: Yes.

CHAIRPERSON SLATON: Okay. Ms. Paquin.

ACTING BOARD MEMBER PAQUIN: Thank you, Mr. Chair.

I just had a question for Mr. Gonzaga. On your memo that you wrote to the Committee under recommendations, you stated the your primary preference is for CalPERS to continue the plan as is. Can you give us a little bit of information about why that was your recommendation?

MR. GONZAGA: Absolutely. And it's more driven by my notion of, you know, best practice, ultimately is just to have the entire executive team under the same plan. You know, it encourages collaboration. There's no distinction in terms of differing levels of payout or differ -- no competing goals or objectives. Everybody is on the same page from an outcome standpoint, because everybody is measured the same based on the same outcomes.

And so that's just my preference just to keep it nice, easy and simple. You know, and it helps kind of manage that risk reward fixed pay versus variable pay. Everybody is kind of in it together really. And so there's not a lot of opportunity for misalignment of incentives.

So that's my primary preference. And it's -- it's simplicity of administration. It's general alignment amongst the executive team, and it's consistency in terms of application across the house.

Now, that being said, if the issue comes down to, you know, do I want the CEO's advice on what the appropriate goals are for the organization as part of the incentive plan versus having the CEO participate in the plan and not be allowed to comment, I would always want my CEO -- I would always want a CEO in the room driving what those goals and objectives should be.

So -- and if that's not the case, then I would say, you know what, let's think about alternative A or B.

ACTING BOARD MEMBER PAQUIN: Okay. And one other question. When you look at other public pension funds, what do they typically do as far a incentive versus salary only compensation for the CEO?

MR. GONZAGA: It's -- I mean, it's -- it is all over the board. I mean, some -- there's certainly a number of, you know, pension funds that do not provide incentives at all. And there certainly are -- and there's some samples that Ms. Campbell has -- can specifically reference in terms of organizations that maybe the CEO is precluded, but there is an incentive plan for other participants.

What I will say on that, and because we're always looking for best practice, you know, these may be the best performing pension funds or the worst performing pension funds that don't allow their CEO to participate in the incentive plan, and have incentives for others, I don't think that, you know, there's necessarily causation between who uses -- whether or not a CEO is offered incentives in the performance of, you know -- or the alignment of the incentives between, you know, a CEO not participating and other executives participating.

What we're proposing -- I do think it can work. It just comes down to, you know, good due diligence in terms of making sure it works, good performance review, good subjective overall review of the CEO, to the extent that the CEO is excluded.

ACTING BOARD MEMBER PAQUIN: Thank you.

CHAIRPERSON SLATON: Ms. Mathur.

COMMITTEE MEMBER MATHUR: Thank you.

Well, I do think, to your point Mr. Gonzaga, that having the CEO who is responsible for managing all of the executive team, and through the executive team down through the organization, having her be able to weigh-in on what is an appropriate compensation structure and incentive structure for -- and goals and objectives for our -- for the rest of the team, for those who have an incentive performance component, I think that is essential. And I think it sort of hamstrings us if we can't get the weigh-in of our CEO.

So I think we have to change the structure in order to allow for that. So that brings us to what is the right structure? I -- you know, I find the base pay -- just paying straight compensation, I find that appealing in a particular way, particularly given that the CEO is the only at-will exempt employee that we have here at CalPERS, in that it is the Board's job to ensure that the person we have in place is somebody that we have full confidence in.

That being said, I do think there is something useful in having an incentive component, where we can -- that we can use, and maybe it wouldn't be as sig -- you know, maybe we'd think about what the -- how big -- what component -- what the size of that should be, but where we can use that to indicate our -- just how happy we are in a given year with how the organization has performed overall.

And, you know, particularly looking at the -- in stepping back, looking at the CalSTRS example, where that is just -- I mean, that is a different organization. They just deal with the pension benefits and the investments. They don't have the other components that this organization has around the health program, and the Long-Term Care Program. And certainly I think this -- this CEO's role is a more complex role, not to belittle the one -- the CalSTRS CEO's responsibilities, but I think this is an even more complex role.

And so I do think sort of coming to the second question of what the level should be, I do think we should raise the base pay, and I think we should ensure that the total maximum allowable compensation between base pay and incentive is much more significant than it is today.

So I -- that's not an explicit recommendation or a motion at this time, but just wanted to get my views on the table. Thank you.

CHAIRPERSON SLATON: All right. Ms. Hollinger.

COMMITTEE MEMBER HOLLINGER: Yes, I agree with Ms. Mathur. I would like the benefit of collaborating with our CEO as to getting their input regarding the other employees of CalPERS. And I think that that's responsible, and they are an at-will employee.

I had asked you guys, because I also agree with Ms. Taylor, when you did this, to break it down by gender, because there is a gross disparity. And even when you compare us to CalSTRS, as Ms. Mathur pointed out, you know, we have the health care component. I believe in STRS the CIO reports to the board. Here, they're reporting to our CEO. And also, I believe they outsource their actuarial team. And so it's significantly more complex.

And I think the optics of us paying a CEO significantly less, even on the base is extraordinary -- or don't look great. But I also agree with Ms. Mathur, it would be nice to have -- I'm not sure what that portion is, like to give a discretionary bonus. But I would be in favor of significantly raising the base compensation. And I wanted to know is there a limit as to how high I can do that?

Because we're starting so -- it's like we're not starting in parity with the bench that even we're comparing her with, and we're more -- we're a larger organization and have more complexity, and she has more responsibility.

MR. GONZAGA: Yeah. And so my reaction to that -- and this is more just dealing with, you know, phase-ins over time, because optics obviously are always going to be important.

COMMITTEE MEMBER HOLLINGER: Right. Right.

MR. GONZAGA: Now, my thought is that you raised one issue, which is, you know, the gender equity issue. So, you know, that's one issue.

But the second issue is that if we take away, you know, incentives -- I mean, the CEO's averaged, I think, somewhere around 33 percent or 35 percent payout over the last three, four, five years. So if you're taking away that much incentive, you know, certainly there's a justification for moving up to historically average bonus amounts.

Now, the third thing though is, you know, at some point, you will have to make progress on getting to where you target from a competitiveness standpoint. And Ms. Taylor raised the issue before, and so when I take a look at these Cal -- at CalSTRS numbers, I don't know what their general philosophy is. But, to me, it looks like it's probably somewhere around the 50th percentile, because there's some flexibility in and around that.

You've been starting from -- and we noticed this when we -- back in 2016, where your executive pay for your senior executives, I mean, it tends to average somewhere around the 25th percentile. And you're a highly complex organization, and you want to -- and you need your fair share of talent. You don't have to pay what industry pays, but I do think that some balance towards and movement towards that 50th percentile of a blended peer group that isn't just industry, it includes other government entities, is necessary.

And so you can phase it in over time. I just -- I just wouldn't phase it in in more than a couple of years. Otherwise, it will never happen, so...

COMMITTEE MEMBER HOLLINGER: Okay. And is there a point where if we have a small portion, that's a bonus, or discretionary, is there a threshold that we have to watch where then she couldn't, or whoever was in that position, we couldn't use them as -- as to collaborate with us regarding the compensation on the rest of the executive team?

Like, do you know what I'm saying?

MR. GONZAGA: Yeah. I'm guessing that that standard is probably not known. But what I would say is that if you just think about what should be a meaningful opportunity level, maybe 10 to 15 percent.

COMMITTEE MEMBER HOLLINGER: Do you know, Mr. Costigan?

CHAIRPERSON SLATON: I'm sorry. Mr. Hoffner.

DEPUTY EXECUTIVE OFFICER HOFFNER: So I was going to go back to the question that was raised earlier about total compensation. So looking at Government Code 20098, it says that basically that the Board shall fix the compensation. It doesn't say at what level. It talks to recruit, retain high qualified and effective employees for the positions that you have authority for.

Your policy, which I just pulled up, though we have the red-line version right now, on salary surveys it basically talks about -- and this is tied directly to current base pay ranges for these covered positions, in this case just the CEO.

It basically talks about ensuring base pay ranges are appropriate and relatively competitive with defined market comparator group, which you have in your policy today. Either a comprehensive salary survey of a comparator executive group or executive and investment management positions may be conducted every two years or as the Board deems necessary, or you can validate these existing ranges or establish new recruiting ranges for these positions should a position become vacant or there's a new position established.

And it then talks about some of the organizations you can gather this data from, if you don't want to do an exact salary survey. There's a lot of material out there about these types of positions.

So you have the flexibility. I think the second question related to the incentive piece. I think the challenge there would be to the degree the incentive is similar in nature to the incentive structure that are -- is held within the plans of the direct reports, that creates a challenge to the degree that you're seeking feedback there.

So if it's designed, I, guess somewhat differently, that would be different. But I think you also have in the base compensation structure, this annual/semiannual plan review, the opportunity to engage with the CEO. At the end of the fiscal year, you'd have the opportunity, as you do now, to sit down and discuss the overall performance. You would expect that there would be some discussion about base salary compensation at that point.

That again, you have the authority and flexibility to decide what that would be, again within the parameters of your policy. So I think there are opportunities for you to engage in multiple levels and points in time throughout any one fiscal year as it relates to compensation within the organization, and still get the -- the benefit I think you're looking for was engaging with your sole higher in terms of running an effective organization that meets the needs of the system, so...

CHAIRPERSON SLATON: Okay. Mr. Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Chair.

I had a -- just trying to understand the memo. One of the differences in the approaches is this term of target and range. Can you explain what the target and the range, how this works? Because one goes from 0 to 40, one goes from 0 to 80, and one has a target, and there's a target. I mean, it's -- can somebody explain what that means to me, please? I'm sorry.

MR. GONZAGA: So, you know, I think with respect to incentive opportunities, and we'll just use 0 to 40 percent as an example, 0 percent is the minimum payout, 40 percent is the maximum payout, and typically the target is somewhere in between, so 20 percent of salary.

COMMITTEE MEMBER RUBALCAVA: I mean is the targets -- is the target an average of the past history? Is the target set by some criteria, or --

MR. GONZAGA: The way incentive plans are designed is that the expected payout for good performance is at that target incentive opportunity. And it tends to be somewhere between that maximum figure and the lower figure. It's -- and it's one of the ways in which you evaluate the competitiveness of total compensation or incentive compensation is what is the target incentive opportunity, what is the maximum, what is the threshold incentive opportunity?

COMMITTEE MEMBER RUBALCAVA: So why would one system or approach not have a target? Does that mean you can -- it just has more flexibility or --

MR. GONZAGA: There's more flexibility. Now, the typical approach is to target pay right at the 50th percentile. Nine out of 10 organizations target -- you know, and they call it 100 percent of market. It's just a statistical figure right in the middle of the market. Where that's the target, that's where somebody has been on the job for four or five, six years. With admirable performance, that's where they tend to be positioned is right at that mid-point, which oftentimes is set at the 50th percentile.

There's a whole array though. It's okay to pay certain individuals at the 75th percentile, other individuals at the 25th percentile. It just depends on experience and performance.

COMMITTEE MEMBER RUBALCAVA: Thank you.

CHAIRPERSON SLATON: Mr. Miller.

BOARD MEMBER MILLER: I'm fundamentally of -- a couple points. Fundamentally, I think when we look at the CEO position, we're hiring someone to be an effective executive to apply their talents, their knowledge, skills, ability, whatever competencies we feel they need to be an effective executive. And fundamentally, I'm the odd duck out. I appreciate causation and correlation are not the same thing.

Best practice is often just common practice. It's not necessarily the best practice. And if an executive is hired with expectations to apply that, whether they're getting a bonus at the end of the year retroactively, or whether they're getting X amount more per month, how does that change their performance on a day-to-day basis on decision making, on being effective.

And if they're not being effective, do we deal with it at the end of the year at bonus time or do we deal with ongoing communication, feedback, oversight, and action?

And so I'm fundamentally not sold both based on long-time looking at these issues, and just trying to say how does that work? How does a bonus or the potential for a bonus make me smarter, make me work better with other people, make the system work? It's a sacred cow, especially in some industries more than others. But over time, it doesn't really hold up. And I would say what we should be doing is saying what is equitable and appropriate pay to attract the kind of talent we want to attract and retain, and deal with any issues of performance on an ongoing basis as a Board with oversight for those executives?

And I would say even for executives beyond the CEO, we should really look at how does that actually work? How does that really? How do we see that impacting how people do their jobs versus paying them appropriately right from the get-go and right on through their career, and in this case, raising that bar substantially versus the base pay or even the total comp package that we've put on the table for our CEO position and perhaps others.

MR. GONZAGA: Yeah. And, Mr. Miller, I -- you know, my reaction to your statement is, you know, you make a lot of good points. There is no absolute -- there's -- incentive plans will never make anybody a great performer just unto their own.

And the other component that's true is you just have to pay what you have to pay relative to the market.

Now, the fundamentals around incentive compensation are not to say that it makes somebody a better performer. The fundamentals are that it focuses, and it creates -- it's a management system, and it's a communication system. And it forces everybody to get on the same page in terms of collaborating what the right organizational goals are for the year, and so in addition to emphasizing what needs to be achieved for the year.

So it's identifying -- you know, it's taking the strategic plan and refining the focus to say that, okay, this is what we need to accomplish for the year. It's -- and there is ask -- there's -- nobody is going to say that it makes bad performers good, or good performers great. It literally is -- at this point in time, it's a matter of saying we have to pay what the market bears anyway. So let's just use a little bit of that to force communications and force focus on what we need to accomplish for the year.

BOARD MEMBER MILLER: Yeah, I would just -- I understand that role that it can play, but I also would suggest that good performance management systems are not necessarily predicated on at-risk pay, in terms of priorities of evaluation factors, expectations, thresholds for action, et cetera.

CHAIRPERSON SLATON: Okay. Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Mr. Chairman.

I'd like to back up a minute on that -- I think, Mr. Slaton, you made reference to it is that we should be focusing first on the structure, because I don't believe we should create structure based on personalities. I think we should be focused on what's the needs of the organization.

And if we could accomplish that goal, and then we can move to what -- how much we need to pay to attract the type of person we want to serve in that role that we've created in terms of this structure. And I agree that I don't think our CEO is being paid enough. But then I don't necessarily go down the gender path either, because we had a male CEO and he was making less than CalSTRS also.

So I think we've been underpaying our CEO in CalPERS for a long time. If you stop and look at the diverse products that we offer versus maybe one product that CalSTRS offers, I don't think we're paying our CEO enough.

So I would like to focus on what is the right compensation for a CEO of CalPERS in terms of our structure, first. Then we can move to when we go out to recruit. And I think we've been fortunate the last couple times to be able to acquire CEOs at the pay that we're offering. So I would support raising that salary. What that should be I think is a fair discussion.

The incentive I think that -- in your item your recommended optional, alternative B, provides for both. It's an increase in the base, and there's also some ability to pay an incentive when it's warranted. And I think that's where I am. I could go with that recommendation.

But I fundamentally believe that we need to raise the pay of the CEO, whether it's man or woman. And we need to -- because if the person was a woman at CalSTRS, would we not be saying that it's okay with that imbalance? We would not. So we need to focus on the position that's here to serve this institution. And then we could talk about finding the right person like we've done in the past.

CHAIRPERSON SLATON: Appreciate the comment. Great set up for a comment that I'd like to make about this to follow on with your comment.

You know, this Committee focuses on the -- probably the most important thing at this institution, which is our people. This is all about performance of people to be able to accomplish our objectives. We cannot do this with an empty room. We cannot do this without excellent people, and that starts with the CEO position.

And I haven't been on this Committee for the other years that I've been on the CalPERS Board, but I've attended the meetings and observed the wrestling at the evaluation stage. And my observation is that it -- at the end of the day, no matter what decision the Committee makes as a recommendation to the full Board, and then voted on by the Board, it's made no difference, particularly at the CEO level.

I haven't seen it impact performance. I haven't seen it impact the relationship. We wrestle a long while. We spend a lot of time talking about it, but I don't think it makes a difference. And although, I'm a person who's very oriented toward variable compensation. My whole career was based on variable compensation.

But in this particular case at this level of a CEO, my objective -- I think we're best served by having that CEO work as closely with us as possible in order to implement the objectives that we have set for this institution. And I think, although we could come up with a smaller variable, no question about it, we can figure that out, but I tell you we're going to wrestle pretty hard to figure that out in a way that can still have her be at the table with us as we talk about this institution.

Because we have not only quantitative measurements for the other members of the executive team, we have qualitative. And I think this Committee has, over the years, done a great job at figuring out all those qualitative measures. In fact, I suspect you couldn't find another qualitative measure that's not included in the senior executive compensation plans.

So, to me, it makes sense to pay a base pay. And we do have examples of institutions in the public sector that follow that model, and pay an appropriate compensation. And I also believe the pay is not appropriate, given the -- given the breadth and complexity of this institution versus others, even right here in the State of California. So that's my feelings about the subject.

Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: Thank you, Mr. Slaton. Just a couple of items and then I think I'm going to make a motion. First of all, it is my understanding that as long as you have incentive compensation, there is at least a legal question about whether or not the CEO can participate in discussions regarding the performance of other employees, because of that incentive compensation. Would that be an accurate statement?

DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah. I think the challenge is, again as alluded to earlier, the fact that you may have similar measures within a plan, and therefore weighing in on them would perceive to have a, you know, impact to yourself.

VICE CHAIRPERSON COSTIGAN: And setting a fixed compensation or a compensation that's based upon a fixed model would resolve that issue and actually not even open the door to a legal concern about discussion of other employees, would that be correct?

DEPUTY EXECUTIVE OFFICER HOFFNER: Correct.

CHAIRPERSON SLATON: Again, I already know the answers to the questions I'm asking, so thank you for playing along.

(Laughter.)

VICE CHAIRPERSON COSTIGAN: I know. I told my son that again last night.

The last one is, if we're able to actually establish a 457(f), which could be viewed as a way to compensate staff for good behavior -- or sorry, good performance. The kids get behavior.

(Laughter.)

VICE CHAIRPERSON COSTIGAN: The staff is good performance. That's an 18 to 24 thousand, those are 401. But that's not considered incentive compensation, because that's a discretionary award by the employer, is that correct?

DEPUTY EXECUTIVE OFFICER HOFFNER: I don't know the answer to that question.

VICE CHAIRPERSON COSTIGAN: The answer to that one is also yes, because it's not up to the -- because they -- you know, in all seriousness what we're trying to get to is, as Ms. Mathur raised, you still want to reward people, if you have the ability to do it. And I think the hybrid, and the difficulty that Grant Thornton has in this is, they're -- we are constrained and you may not know all the rules as it relates to remote interest, economic -- you know, an economic impact or a decision resulting in an economic incentive to you.

So I do believe that the fixed compensation resolves that and would allow our CEO -- and again, at the end of the day, the appointing authority for the organization is the CEO with HR, not with the Board. And by adopting a fixed compensation model, we'd actually align with best practice, and also with what the State of California's practices are. So we'd remove any legal questions related to incentive compensation. And we would take and remove the veto authority of the Board for the other incentive employees. And what really by incentivizing -- or by fixed compensation, we, in fact, align all of these interests and allow the CEO to participate.

So with that, I would actually make a motion that this Committee direct staff to come back with a action item in May I think is the next time we meet, with a comp pay fixed compensation model, and also other types of compensation that could be included, such as the 457(f).

COMMITTEE MEMBER MATHUR: Second.

CHAIRPERSON SLATON: All right. We have a motion on the floor, second.

COMMITTEE MEMBER HOLLINGER: Second.

CHAIRPERSON SLATON: Second by Ms. Hollinger.

Further discussion?

I see nobody clicking their button.

All right. So with the motion on the floor, all those in favor say aye?

(Ayes.)

CHAIRPERSON SLATON: Opposed?

Motion carries.

Thank you very much for the conversation. And thanks for your hard work, Mr. Gonzaga.

Okay. I think that completes item number 6, so we move to Item number 7, Mr. Hoffner.

Summary of Committee Direction.

Oh, wait a minute. I'm sorry. That's right Item 8. Pardon me. He was reminding me about Item 8. Didn't want to forget it.

DEPUTY EXECUTIVE OFFICER HOFFNER: Oh. Thank you. Summary of Committee Direction. So you just made the motion on the fixed compensation level be brought back in May, which includes other thing like the 457(f). That's, I think, the only thing I captured.

Oh, and then we'll bring back, I'm sorry, the modification to the delegation. The veto language will be --

CHAIRPERSON SLATON: Yes.

DEPUTY EXECUTIVE OFFICER HOFFNER: -- reflected in the future amendments --

CHAIRPERSON SLATON: Correct.

DEPUTY EXECUTIVE OFFICER HOFFNER: -- to the policy. That will be coming in May or June, whatever.

Yeah, so we'll reflect those changes as well.

CHAIRPERSON SLATON: Is May or June?

DEPUTY EXECUTIVE OFFICER HOFFNER: How about May.

(Laughter.)

CHAIRPERSON SLATON: Okay.

DEPUTY EXECUTIVE OFFICER HOFFNER: It will be May, then it will go through the other policy committees to Governance --

CHAIRPERSON SLATON: Right. Exactly.

DEPUTY EXECUTIVE OFFICER HOFFNER: -- to the full Board for complete adoption, yeah.

CHAIRPERSON SLATON: Good.

DEPUTY EXECUTIVE OFFICER HOFFNER: We'll do it in May.

CHAIRPERSON SLATON: Okay.

DEPUTY EXECUTIVE OFFICER HOFFNER: Other than that, I just wanted to highlight two things. It's on the May agenda, which I mentioned earlier was this incentive discussion about design and philosophy, broader discussion. And then looking at incentive metrics and recommendations for the '18-'19 year.

CHAIRPERSON SLATON: Correct.

DEPUTY EXECUTIVE OFFICER HOFFNER: So we'd have a discussion. I don't know that it would have to adopted in that time, but before the July 1 date, so we can have those in place.

CHAIRPERSON SLATON: Correct. Good.

DEPUTY EXECUTIVE OFFICER HOFFNER: So those are just a heads up for the May meeting.

CHAIRPERSON SLATON: All right. I think everybody is in synch.

So we'll move to public comment. Neal Johnson. Mr. Johnson.

MR. JOHNSON: Neal Johnson, SEIU 1000.

Take a moment of personal privilege to -- I guess in light of the previous discussion, not to thank a particular individual, but our representative of the State Personnel Board, Mr. Costigan, who yesterday during the discussion on proxy voting in the various committees brought up the issue of are there people who are not supervisors, managers on the Committee? And the answer was yes. But I think he tried to really stress that you need to develop talent below the -- those decision-making levels, and bring the workers into the process of really advising and doing their job. And I thank you for that comment.

CHAIRPERSON SLATON: All right. Thank you for your comment. And having completed the agenda, seeing no further business, this meeting is adjourned.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Performance, Compensation, & Talent Management Committee meeting adjourned at 2:39 p.m.)

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 27th day of March, 2018.

James F. Peters

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