



Performance, Compensation &  
Talent Management Committee  
**Agenda Item 3b**

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March 20, 2018

**Item Name:** Executive Compensation Policy: Cleanup and Minor Revisions

**Program:** Administration

**Item Type:** Action Consent

**Recommendation**

Approve the proposed changes to the Executive Compensation Policy (Policy).

**Executive Summary**

The purpose of this agenda item is to present the Performance, Compensation and Talent Management Committee (Committee) with an updated Policy, incorporating changes to establish clarity and consistency, improve flow and readability, and provide general cleanup. The majority of proposed changes are administrative and non-substantive. Proposed changes that may be considered substantive are described in further detail below.

**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.

**Background**

Periodic reviews of the Policy are conducted to incorporate improvements and to ensure policy provisions remain aligned with CalPERS' strategic goals and Board priorities. The Policy was most recently amended in August 2016 to incorporate changes resulting from the Compensation Program Review Project by the Board's Executive Compensation Consultant, Grant Thornton LLP.

**Analysis**

Proposed Policy revisions are intended to establish clarity, create consistency, and streamline the information provided in the Policy. Changes have also been made throughout the Policy to correct grammar and punctuation, as well as create consistency in terminology and titles (e.g., the use of abbreviations or acronyms). These changes are administrative and non-substantive in nature and are not shown in redline to improve the readability of the other more meaningful redline changes.

A list of all proposed changes may be found in Attachment 1. A redline version of the Policy is included for reference in Attachment 2, as well as a clean version in Attachment 3. Below is a summary of the proposed changes that may be considered substantive:

*Discretionary Performance Adjustments (Attachment 2, pages 20-21)*

In addition to the changes approved by the Board in February 2018, this section has been reformatted to streamline information and move approval authority requirements into a table, consistent with other areas of the Policy. A minor revision to the approval authority for investment management positions has also been proposed to reflect the final approver as the Chief Executive Officer, upon recommendation of the Chief Investment Officer. This change is consistent with delegations of authority and other similar policy provisions.

*Action Upon Separation (Attachment 2, page 25)*

Existing language requires an individual to be employed by CalPERS on the “payment date” to receive an award. However, the actual payment date of an award can be interpreted several ways (e.g., date keyed to State Controller’s system, date check is printed or delivered). By requiring program participants to be employed by CalPERS “on the date the awards are approved by the Board,” the timing of award eligibility upon separation is clearly defined and actionable.

*Annual Incentive Award Determination Process (Attachment 2, page 28)*

The existing Policy provision for independent review and validation of Organizational Performance Outcomes (e.g., incentive metrics) limits the pool of accessible third-party vendors to “independent advisors for the Board or appropriate Board Committee.” Proposed revisions would expand the pool of relevant vendors capable of performing the validation of Organizational Performance Outcomes to other qualified vendors under contract with CalPERS. The proposed changes also better define the type of information requiring validation prior to award payout.

Approval of the proposed Policy changes would become effective immediately. The updated Policy will be communicated to all program participants following Board approval.

**Budget and Fiscal Impacts**

Not Applicable.

**Benefits and Risks**

The review of the Policy serves to ensure it’s 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 the Policy becoming misaligned with the overarching goals of the organization.

**Attachments**

Attachment 1 – Inventory of Proposed Policy Changes

Attachment 2 – Executive Compensation Policy – Redline Version

Attachment 3 – Executive Compensation Policy – Clean Version



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