



Performance, Compensation &
Talent Management Committee
Agenda Item 6

June 19, 2018

Item Name: Revised Salary Ranges for Chief Investment Officer and Chief Financial Officer; and 2018-19 Incentive Design for the Chief Executive Officer

Program: Administration

Item Type: Action

Recommendations

1. Retain or modify the base salary ranges and/or incentive ranges for the Chief Investment Officer (CIO) and Chief Financial Officer (CFO) positions.
2. Review and select an option to differentiate the incentive plan of the Chief Executive Officer (CEO) for implementation in fiscal year 2018-19.

Executive Summary

This item presents compensation data for the CIO and CFO positions for the Performance, Compensation and Talent Management Committee's (Committee's) consideration. Competitive compensation levels are an essential factor for the recruitment and retention of highly qualified individuals for these key positions. The Board's Executive Compensation Consultant, Grant Thornton LLP (Consultant), will also present options to differentiate the CEO's incentive plan from other program participants. This would provide flexibility for the CEO to engage with the Committee regarding development and implementation of successful compensation strategies for other positions covered under the Board's Compensation Policy for Executive and Investment Management Positions (Policy).

Strategic Plan

This agenda item supports CalPERS' Strategic Goal to promote a high-performing and diverse workforce in the 2017-22 Strategic Plan. The Executive Compensation Program provides a means for recruiting, retaining, and empowering highly-skilled executives to meet our organizational priorities.

Background

A comprehensive salary survey was conducted in 2015, and over the following months, the Board's Consultant and team members provided various compensation related presentations and options for review and consideration by the Committee. Conducting periodic reviews provides an opportunity for the Committee to address the most pressing compensation related issues, as well as maintain compensation structures and strategies to aid in the recruitment and retention of highly qualified professionals.

In May 2018, the pending departure of the CIO was announced. As a result, the Committee requested the Consultant and team members return with information and options for a revised compensation structure for the CIO position so changes could be implemented in time for recruitment of a new CIO. Additionally, the CFO position recently became vacant; therefore, salary and incentive data has been prepared so the Committee can determine if changes are necessary. Finally, over the last few months, the Committee has discussed potential revised approaches for the CEO position compensation and incentive to allow flexibility for the CEO to fully participate in compensation strategy development for other positions covered under the Policy.

Analysis

The goals of today's meeting, which will be presented in detail by Eric Gonzaga of Grant Thornton LLP, are as follows:

1. Review the comparator pay data for the CIO and CFO positions and retain or modify the base salary ranges and/or incentive ranges.
2. Review options to address the Committee's desire to differentiate the CEO's incentive plan from other program participants, allowing the CEO to more freely engage in compensation and incentive discussions for other positions covered under the Board's compensation policy. The alternatives being presented are:
 - a. Establish an incentive plan with no shared organizational objectives (maintains current compensation levels)
 - b. Create a purely discretionary incentive award structure (maintains current compensation; but with no actual incentive plan. Instead the Board would have full discretion to grant an award of up to 40% based on the annual performance appraisal each fiscal year)

Any changes to the existing salary ranges and incentive schedules for the CIO and CFO will be effective July 1, 2018, to ensure the selected candidate for each of the recruitments will be subject to the revised ranges upon their appointment date. Any changes to the CEO incentive plan will also be effective for the 2018-19 fiscal year.

CalPERS team members will incorporate any approved changes to base salary ranges, incentive schedules, and CEO incentive plan design into the Board's Compensation Policy for Executive and Investment Management Positions Policy and will bring back the updated policy at a future meeting.

Budget and Fiscal Impacts

Any costs that arise from the recommendations in this agenda item, such as salary range changes, would be requested through the formal budget process.

Benefits and Risks

The regular review of competitive salary levels demonstrates good governance and risk management practices, as well as aids in the refining of strategies for the recruitment and retention of highly skilled executives and investment managers.

Risks associated with adopting revised salary and/or incentive levels 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 highly qualified candidates for key positions.

Attachments

Attachment 1 – Presentation Slides

Tina Campbell, Chief
Human Resources Division