

Incentive Metrics: Fiscal Year 2018-19

August 2018

Discussion

- Background
- Incentive Metrics Review
 - Total Fund
 - Investment Office CEM
 - Customer Service
 - Stakeholder Engagement
 - Enterprise Operational Effectiveness
- Impacted Covered Positions



Background

When

Established 2016

(part of comprehensive compensation review)

What

Four "Shared" Metrics + Total Fund

Why

Drive performance priorities collaboratively across CalPERS

Who

Select covered positions; varies by metric and position (see slide 14)



Total Fund and INVO CEM

Worked as intended; maintain as is

Total Fund

Variance (bps) from Benchmark	Payout Ratio ¹	
+35	1.50	
+30	1.41	
+20	1.25	
+5	1.00	
0	0.76	
-15	0.05	
< -15	0.00	

INVO CEM

Score	Payout Ratio ¹
Outperforms US Benchmark on Net Value Added (Returns) <u>and</u> Cost by 0.2% and 5 bps, respectively	1.50
Outperforms US Benchmark on Returns <u>and</u> Cost by .001% and 1 bps, respectively	1.00
Outperforms US Benchmark on Cost or Outperforms US Benchmark on Returns	0.50
Underperforms US Benchmark on Returns and Cost	0.00



¹ Interpolation determines payout ratio for intermediate results

Customer Service

Two strategic measures and KPIs

- Benefit Payment Timeliness
 (% of payments made within established service levels)
- Customer Satisfaction
 (% reporting satisfaction with identified business processes)

Methodology

- Data points weighted to determine measure averages
- Combined average = score
- Score = payout achievement
- Past performance averages dictate achievement scores

Recommendation

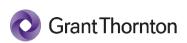
 Maintain and consider at subsequent review whether score ranges should be adjusted based on future performance



Customer Service, cont'd

Metric Achievement and Score Overview

Achievement	SCORE	Payout Ratio
Maximum	≥ 95%	1.50
One Up From Goal	94% to < 95%	1.25
Goal (Target)	92% to < 94%	1.00
One Down From Goal	90% to < 92%	0.75
Two Down From Goal	88% to < 90%	0.50
Below Threshold	< 88%	0.00



Stakeholder Engagement

Three questions from CalPERS Annual Engagement Survey

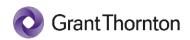
- Is CalPERS sensitive to the needs of Stakeholders?
- Does CalPERS do a good job keeping its Stakeholders informed? (this combines member, stakeholder, and employer responses)
- On a scale of one to ten, how would you rate CalPERS being effective in engaging and communicating with Stakeholders?

Methodology

- Both binary questions: % who respond "yes" to each
- Scale question: average response converts to %
- Combined average = score
- Score = payout achievement
- Past performance averages dictate achievement scores

Metric Options

- Option A (slide 8): align scores with KPI average
- Option B (slide 10): replace questions with KPI measure questions (slide 9) and align scores with KPI average



Stakeholder Engagement, cont'd

OPTION A

- Rationale: align goal achievement with similar KPI aspirations
- Retain existing metric questions
- Align scores (rounded) with KPI average aspirations
- Scores adjust with future KPI aspiration increases

PREVIOUS SCORE Based on past performance	Achievement	PROPOSED SCORE	Payout Ratio
> 75%	Maximum	> 82%	1.50
> 73% to 75%	One Up From Goal	> 80% to 82%	1.25
> 71% to 73%	Goal (Target)	> 78% to 80%	1.00
> 69% to 71%	One Down From Goal	> 76% to 78%	0.75
> 67% to 69%	> 67% to 69% Two Down From Goal		0.50
≤ 67%	Below Threshold	≤ 74%	0.00



Stakeholder Engagement, cont'd

OPTION B (as shown on slide 10)

Four questions from CalPERS' Annual Stakeholder Engagement Survey which are also KPIs

Does CalPERS do a good job keeping its members informed?

Does CalPERS do a good job keeping its Stakeholders informed?

Does CalPERS do a good job keeping its employers informed?

My overall perception of CalPERS is positive.



Stakeholder Engagement, cont'd

OPTION B

- Rationale: base metric on existing KPI
- Replace questions with KPI questions (slide 9)
- Convert scale question average to a %, and align scores (rounded) with KPI average aspirations
- Scores adjust with future KPI aspirations increases

PREVIOUS SCORE Based on past performance	Achievement	PROPOSED SCORE	Payout Ratio
> 75%	Maximum	> 82%	1.50
> 73% to 75%	One Up From Goal	> 80% to 82%	1.25
> 71% to 73%	Goal (Target)	> 78% to 80%	1.00
> 69% to 71%	One Down From Goal	> 76% to 78%	0.75
> 67% to 69%	Two Down From Goal	> 74% to 76%	0.50
≤ 67%	Below Threshold	≤ 74%	0.00



Operational Effectiveness

Total Overhead Operating Costs (OOC)¹ as a % of Total Operating Costs (OOCP)

OOC = administrative costs not mapped to Product Service and Delivery costs or other costs (e.g. INVO, building, incentive awards)

1 Includes Board and Third-party Administrator costs

Methodology

Score aligns to payout ratio based on current year variance against three-year average

Metric Options

- Option A (slide 12): maintain metric, but exclude Board and Third-party Administrator costs
- Option B (slide 13): measure % spent of Board approved budget for Discretionary Operating Costs



Operational Effectiveness, cont'd

OPTION A

- OOC as a percentage of OOCP: current year variance against 3-year average
- Exclude Board and Third-Party Administrator Costs

Achievement	PROPOSED SCORE Retains prior scoring of variance against 3-year average	Payout Ratio
Two Up From Goal	< -1.1%	1.50
One Up From Goal	-1.1% to < -0.6%	1.25
Goal (Target)	-0.6% to 0.0%	1.00
One Down From Goal	> 0.0% to 1.0%	0.75
Two Down From Goal	> 1.0% to 1.5%	0.50
Threshold	> 1.5%	0.00



Operational Effectiveness, cont'd

OPTION B

- Discretionary Operating Costs (DOC): % spent of Board approved budget
- DOC includes Operating Expenses & Equipment, Temporary Help, and Overtime

Achievement	PROPOSED SCORE Percentage of Board approved budget spent	Payout Ratio
Two Up From Goal	< 95%	1.50
One Up From Goal	95% to < 98%	1.25
Goal (Target)	98% to 98.5%	1.00
One Down From Goal	> 98.5% to < 99%	0.75
Two Down From Goal	99% to 100%	0.50
Threshold	> 100%	0.00



Impacted Covered Positions

Metrics are included in incentive plans as listed on this table

Covered Position	Total Fund	INVO CEM	Customer Service	Stakeholder Engagement	Operational Effectiveness
CIO	X	X		X	X
COIO		X		X	Χ
MID	X	X			
ID	χ 1	Χ			
IM	X 1	X			
AIM	χ 1	Χ			
Deputies		X	X	X	X

¹ Except for the COIO and other positions that have primary responsibility for risk management; and those in investment support/operations (e.g. compliance, investment servicing, etc.)

