

# Incentive Metrics: Fiscal Year 2018-19

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**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 <sup>1</sup>
+35	1.50
+30	1.41
+20	1.25
+5	1.00
0	0.76
-15	0.05
< -15	0.00

<sup>1</sup> Interpolation determines payout ratio for intermediate results

## INVO CEM

Score	Payout Ratio <sup>1</sup>
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 <u>or</u> Outperforms US Benchmark on Returns	0.50
Underperforms US Benchmark on Returns <u>and</u> Cost	0.00

# 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 <i>Based on past performance</i>	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



# 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 <i>Based on past performance</i>	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)<sup>1</sup> as a % of Total Operating Costs (OOC/P)

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

<sup>1</sup> 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 OOCF: current year variance against 3-year average
- *Exclude* Board and Third-Party Administrator Costs

Achievement	PROPOSED SCORE <i>Retains prior scoring of variance against 3-year average</i>	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 <i>Percentage of Board approved budget spent</i>	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	X
MID	X	X			
ID	X <sup>1</sup>	X			
IM	X <sup>1</sup>	X			
AIM	X <sup>1</sup>	X			
Deputies		X	X	X	X

<sup>1</sup> 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.)