



Performance, Compensation & Talent Management Committee

Agenda Item 6b

August 14, 2018

Item Name: 2018-19 Incentive Plan for the Chief Executive Officer

Program: Administration

Item Type: Action

Recommendation

Approve an incentive plan for the Chief Executive Officer (CEO) for the fiscal year 2018-19.

Executive Summary

This agenda item presents options for the CEO's 2018-19 incentive plan, as presented by the Board's Primary Compensation Consultant, Grant Thornton LLP (Consultant). Approving an incentive plan for the CEO aligns with standard practice and satisfies the related approval provision in the Board's Compensation Policy (Policy) for Investment and Executive Management Positions.

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

The Board of Administration's Executive Compensation Policy requires the annual approval of incentive plans. Over the last several meetings, the Committee has discussed potential revised approaches to the compensation structure of the CEO position, including options for eliminating incentive pay, creating a unique plan with no shared measures, shifting to a completely discretionary bonus, or maintaining the current plan structure. Through these prior discussions, the Committee would like to reconsider two of the alternatives.

Analysis

The goal of today's meeting is to get approval on a fiscal year 2018-19 incentive plan for the CEO in accordance with the regular annual process. The Consultant will review incentive plan

options for the CEO position so the Board can determine if having a plan different from the position's direct reports is an appropriate approach. The alternatives being presented are as follows:

- Option A: Keep existing plan structure, including the five Board-approved incentive metrics (Total Fund Performance, Stakeholder Engagement, Investment Office CEM, Customer Service, and Enterprise Operational Effectiveness) and high-level organizational leadership priorities (see Attachment 1).
- Option B: Fully qualitative plan consisting of the existing six organizational leadership priorities and no incentive metrics (see Attachment 2).

Consistent with the Consultant's recommendations throughout this process and industry best practices, the primary advantage of Option A is that it optimizes behavioral alignment between the CEO and the executive team through shared metrics and desired outcomes. The benefit of Option B, moving the CEO to a fully qualitative plan, is that it aligns directly with the current performance culture and allows the Committee to evaluate the CEO on existing qualitative factors. These six qualitative factors, the Organizational Leadership Priorities are included in both options; the difference being that they account for 25 percent of the plan in Option A, and in Option B they make up the complete plan.

If Option B is selected by the Committee today, CalPERS team members will update related Policy provisions accordingly.

Budget and Fiscal Impacts

The cost of the incentive awards that arise from the recommendations in this item will be funded from existing resources.

Benefits and Risks

If the CEO's 2018-19 incentive plan is not approved, the associated risk would be non-compliance with the policy-required development and approval of annual plans.

Attachments

Attachment 1 – CEO's incentive plan based on existing structure (Option A)

Attachment 2 – CEO's incentive plan based on fully qualitative structure (Option B)

Tina Campbell
Chief, Human Resources Division