



# Performance, Compensation, and Talent Management Committee Agenda Item 6a

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**December 18, 2018**

**Item Name:** Salary and Incentive Ranges for the Chief Operating Officer Position

**Program:** Administration

**Item Type:** Action

## **Recommendation**

Approve a salary and incentive range for the newly established Chief Operating Officer position.

## **Executive Summary**

Government Code section 20098 provides authority for the CalPERS Board of Administration (Board) to set the compensation for designated positions covered under the code. Effective January 1, 2019, Government Code section 20098 was amended to include Chief Operating Officer (COO) and Chief Health Director (CHD) positions. This agenda item seeks approval of a salary and incentive range for the newly established COO position.

## **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 organizational priorities and strengthen the long-term sustainability of the pension fund by generating returns to pay member benefits.

## **Background**

Under the provisions of Government Code section 20098, and as provided for in the Board's Compensation Policy for Executive and Investment Management Positions (Compensation Policy) administered by the Performance, Compensation and Talent Management Committee (Committee), the Board shall fix the compensation of the Chief Executive Officer, Chief Investment Officer, Chief Actuary, General Counsel, Chief Financial Officer, and other investment officers and portfolio managers whose positions are designated managerial.

In November 2017, the Board approved new COO and CHD positions and directed CalPERS team members to pursue an amendment to Government Code section 20098 and establish these two civil service classifications. On September 29, 2018, the Governor signed AB 2415,

amending Government Code section 20098 to include the COO and CHD positions. This new legislation will become effective on January 1, 2019, and grants authority to the Board to set the compensation for these new positions.

Based on direction from the California Department of Human Resources (CalHR), CalPERS will use the existing classification specification from the California State Teachers' Retirement System (CalSTRS) for the COO position. Once the Board approves a compensation structure for the COO position, including base salary and incentive, team members will prepare a pay letter for approval by CalHR. Upon CalHR approval, the classification specification and exam will be used to initiate a recruitment to fill the COO position.

## Analysis

The purpose of this agenda item is to provide the Committee with relevant compensation data in order to adopt a base salary range and incentive schedule for the COO position to become effective January 1, 2019.

Although the Board's Compensation Policy does not currently address a COO position, it does define a comparator group for executive management positions. This comparator group is used for salary survey purposes to determine current market pay levels and inform the Committee in setting salary and incentive ranges. The most recent survey was conducted in 2015, but because the COO position classification didn't exist, related data was not gathered. To obtain relevant salary data for the COO position in a cost-effective and prudent manner, CalPERS team members, in collaboration with the Board's primary Executive Compensation Consultant, conducted research to identify a variety of comparative compensation data points.

Attachment 1 outlines the following compensation data for the Committee's consideration:

- Comparative base salary data gathered from 2016 and 2018 surveys of public pension funds and reciprocal agencies
- Comparative base salary data for other State and local agencies the Committee has previously expressed interest
- CalPERS' current salary and incentive ranges for other executive positions which also report directly to the Chief Executive Officer and are covered under Government Code section 20098
- CalPERS' current salary and incentive ranges for the most closely comparable position, which is the Deputy Executive Officer of Operations and Technology

Based on the data collected for similar positions within the State of California, and on peer positions at CalPERS, the following base salary and incentive ranges are being recommended for consideration to set the compensation of the COO position at CalPERS:

<b>Position</b>	Chief Operating Officer
<b>Base Pay Range</b>	\$187,500 - \$312,500 (midpoint \$250,000)
<b>Incentive Award Range</b>	0-40% (target 27%)
<b>Maximum Earning Potential</b> (Max Salary + Max Incentive)	\$437,500

### *Next Steps and Look Ahead*

CalPERS team members will incorporate the new COO position into the Board's Compensation Policy, along with the annual base salary range and incentive schedule approved by the Board. The revised policy will be provided for approval at a future Committee meeting.

Since there is no existing classification specification for the CHD position, CalPERS team members are working to prepare a new classification proposal that will be submitted to CalHR and the State Personnel Board (SPB) for approval. Once CalHR and SPB approve the new classification specification, team members will bring forward compensation data and options for the Committee's approval. CalPERS team members will then prepare a pay letter for CalHR approval and initiate the recruitment process to fill the CHD position.

### **Budget and Fiscal Impacts**

CalPERS team members will identify the requisite funding for the COO position following the Board's approval of the position's compensation structure. The specific amount of funding required will depend on the base salary and incentive schedule approved by the Board.

### **Benefits and Risks**

Benefits associated with selecting base salary and incentive ranges for compensation of the newly established COO position include the following:

- Recruitment for the position can be initiated once the pay letter and examination are completed
- The establishment of the COO position will enable CalPERS to recruit and retain the necessary talent to successfully fill this role

Risks associated with not selecting base salary and incentive ranges for compensation of the COO position include the following:

- Delay in recruitment efforts and the ability to fill this critical position
- Risk of recruitment difficulties if the compensation is not commensurate with the responsibilities and experience necessary to attract highly qualified candidates

### **Attachments**

Attachment 1 – Comparative Data for Newly Established Chief Operating Officer Position

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