



# 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 Health Director Position

**Program:** Administration

**Item Type:** Action

## **Recommendation**

Approve a salary and incentive range for the newly established Chief Health Director 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. The Board approved salary and incentive ranges for the COO position in December 2018. This agenda item seeks approval of salary and incentive ranges for the newly established CHD position. Utilization of salary and incentive ranges approved today is contingent upon final approval and establishment of the position by the California Department of Human Resources (CalHR) and the State Personnel Board (hearing is currently anticipated for April 2019).

## **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**

In November 2017, the Board directed CalPERS team members to pursue an amendment to Government Code section 20098 and establish two new civil service classifications: a chief operating officer and a chief health director. On September 29, 2018, the Governor signed AB 2415, amending Government Code section 20098 to include the COO and CHD positions. This new legislation became effective January 1, 2019, and grants authority to the Board to "fix the compensation of an executive officer, a general counsel, a chief actuary, a chief investment

officer, a chief financial officer, a chief operating officer, a chief health director, and other investment officers and portfolio managers whose positions are designated managerial.” Today’s item recommends the Board adopt a salary and incentive range for the CHD position.

The CHD is a key member of the executive team and is responsible for the administration and overall management of all aspects of the health benefits and long-term care insurance programs. In the past CalPERS has used a Career Executive Assignment (CEA) position, which is not covered by the Board’s compensation setting authority. In recent years, the leadership requirements for this position have expanded to include more extensive focus on cost containment, quality improvement, alignment with Medi-Cal and Covered California, and external policy. Some of the essential functions of the new position include:

- Oversees health plan rate negotiations, health plan design and development, and contract management and operations to enhance long-term responsiveness to CalPERS members and stakeholders.
- Exercises administrative control over the long-term care insurance program, including contracting, rate development, and long-term financial stability of the program.
- Advises the Chief Executive Officer and Board on complex and sensitive operational, fiscal, and personnel issues related to health benefits and long-term care.
- Represents the organization on health and long-term care benefit-related issues before the board, the Legislature, media, employee and employer groups and organizations, benefit carriers, and other public groups.
- Engages in State and national health care policy development on cost containment, quality improvement, population health, and other factors critically relevant to the members and employers served by CalPERS.

## **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 CHD position.

Although the Board’s Compensation Policy does not specifically address a CHD 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 by McLagan in 2015, but because the CHD position classification did not exist, related data was not gathered. To obtain relevant salary data for the CHD position in a cost-effective and prudent manner, CalPERS team members conducted research to identify potentially comparable positions and relevant compensation data points.

After reviewing several position descriptions for health program management positions in public institutions within the State, team members identified the Chief Deputy Executive Director, Program at Covered California to be the most closely aligned based on breadth of responsibility, influence, and essential duties. The position at Covered California is responsible for oversight of plan management, outreach and sales, marketing, service center, and policy areas, which aligns closely with the CHD position at CalPERS. When Covered California initially set the salary range for the Chief Deputy Executive Director, Program in 2016, they engaged with a consultant to conduct a compensation survey of comparable public and private positions.

Based on alignment of essential functions and a salary range supported by comparable industry data, the salary range being recommended for the CalPERS CHD position is based on the midpoint of Covered California position salary range.

CalPERS team members also reviewed current salary and incentive ranges for other deputy-level executive positions covered under Government Code section 20098 who also report directly to the Chief Executive Officer.

**CalPERS Deputy-Level Executive Positions Covered Under Government Code section 20098**

CalPERS Position Title	Salary Range	Annual Incentive Opportunity	Max Earning Potential
Chief Actuary	\$206,000 – \$310,000 (midpoint \$258,000)	0-40% (target 27%)	\$434,000
Chief Financial Officer	\$217,500 – \$362,500 (midpoint \$290,000)	0-40% (target 27%)	\$507,500
Chief Operating Officer	\$187,500 – \$312,500 (midpoint \$250,000)	0-40% (target 27%)	\$437,500
General Counsel	\$214,000 – \$351,624 (midpoint \$282,812)	0-40% (target 27%)	\$492,274
Chief Compliance Officer (Investment Director position)	\$188,000 – \$307,944 (midpoint \$247,972)	0-40% (target 27%)	\$431,122

Based on alignment of essential functions with the Covered California Chief Deputy Executive position (with a salary range supported by comparable industry data), consideration of required duties and expertise, and review of CalPERS’ internal peer positions, the following base salary and incentive ranges are being recommended for consideration to set the compensation of the CHD position at CalPERS:

<b>Position</b>	Chief Health Director
<b>Base Pay Range</b>	\$204,750 - \$341,250 (midpoint \$273,000)
<b>Incentive Award Range</b>	0-40% (target 27%)
<b>Maximum Earning Potential</b> (Max Salary + Max Incentive)	\$477,750

The Board’s Primary Executive Compensation Consultant, Grant Thornton, LLP, has provided an opinion letter on the compensation recommendations, included in Attachment 1.

*Next Steps and Look Ahead*

Since there was no existing classification specification for the CHD position, CalPERS team members prepared a new classification proposal and submitted it to CalHR for review and approval. Once approved by CalHR, the proposal will be presented to the State Personnel Board for action.

CalPERS team members will incorporate the new CHD 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 at a future Committee meeting.

### **Budget and Fiscal Impacts**

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

### **Benefits and Risks**

Historically, CalPERS has faced challenges recruiting and retaining for the CHD position due to the specialized knowledge, skills, and experience needed to be successful in the position, as well as the lower salary range compared to other public employers and private sector companies. Ensuring CalPERS is able to compete for talent with other public employer, pension systems, non-profit employers, and private industry for candidates to fill this key position is essential to CalPERS' ability to fulfill its fiduciary duties.

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

- Recruitment for the position can be initiated once the examination is complete
- The establishment of the CHD 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 CHD 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 – Opinion Letter from the Board's Primary Executive Compensation Consultant, Grant Thornton, LLP

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Human Resources Division