



# Grant Thornton

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To: CalPERS Performance, Compensation and Talent Management Committee

From: Eric Gonzaga and Rob Storrick, Grant Thornton LLP

Date: March 2019

Re: Proposed Compensation Review for the Chief Health Director

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Dear Committee,

## Background

The Performance, Compensation and Talent Management Committee (“PCTMC”) engaged Grant Thornton (“us”, “we”, or “Firm”) to review the proposed salary and incentive range for CalPERS’ Chief Health Director.

The Chief Health Director (“CHD”) position was approved by the CalPERS Board and signed into law in late 2018, and became fully effective beginning January 1, 2019. The CHD will become a member of the Executive Team, will report directly to the CEO, and will direct three CalPERS divisions: Health Plan Administration, Health Policy Research, and Health Account Management. Primary responsibilities for the CHD role include, but are not limited to, the following:

- Oversee health plan rate negotiations, plan design/development, and contract management and operations
- Develop and implement goals, objectives, and policies for the CalPERS health benefits and long-term care insurance programs
- Exercise administrative control over the long-term care insurance program, including contracting, rate development, and long-term financial stability
- Engage in state and national health care policy development on cost containment, quality improvement, and population health

To create a market appropriate salary and incentive range for the CHD role, CalPERS management researched comparable positions in public California agencies that had a similar breadth and depth of responsibilities. While very few roles, if any, have the full range of responsibilities as the CHD role and cover as many members as CalPERS has, management was able to identify one outside role to begin the benchmarking process:

- Deputy Executive Director, Programs (Plans, Sales, and Service) at Covered California (California’s health benefits exchange)
- The Deputy Executive Director role has a salary range from \$248,760 to \$295,968 (midpoint of \$272,364)

Given that the CHD will be a member of the Executive Team, it is also important to consider the salary and incentive ranges of other direct reports to the CEO for internal positioning/slotting purposes. The table below details the compensation ranges for other executive team members:

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 the market data from the Deputy Executive Director, Programs at Covered California and the current compensation levels for other Executive Team members, CalPERS is recommending the following compensation range for the 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

### Analysis and Conclusions

Grant Thornton has reviewed the proposed compensation ranges and the supporting detail, and we believe that the proposal is reasonable and within competitive market practices. Our conclusions are based on the following:

- The proposed salary midpoint is nearly identical to Deputy Executive Director, Programs at Covered California. CalPERS' proposed salary range has "wider" minimum and maximum bounds, which will appropriately give CalPERS the flexibility to adjust the CHD's compensation based on the experience and qualifications of a potential candidate

- The proposed salary ranges and target annual incentive opportunity is well aligned with other executive team members governed by Government Code section 20098. The CHD's comparable salary range and identical target annual incentive relative to the broader Executive Team is consistent with the internal slotting and positioning that Grant Thornton observes in the broader healthcare sector, and will create a strong alignment throughout the Team

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We hope this information is helpful to you, and please feel free to reach out to us with any questions.

### **CAVEATS**

This memorandum address certain U.S. Federal income tax issues only and does not address state, local or other foreign tax issues. Our discussion is based on the Internal Revenue Code of 1986, as amended, the Treasury Regulations promulgated thereunder, and other relevant authorities. These authorities are all subject to change, and such change could have retroactive effect. Any such changes could thus have effect on the validity of our conclusions. Unless specifically requested, we will not update this Memorandum for subsequent changes or modifications to these authorities. Further, this memorandum is based on interpretation of these authorities; another knowledgeable party (such as the IRS or court hearing the same facts) might reach different conclusions.

The advice expressed in the Memorandum is not an opinion as to the tax consequences of the transaction. We would need to perform a more thorough review and analysis before we could render an opinion. Our conclusions are limited to the issues addressed in this Memorandum, and are based on facts, assumptions, documents and representations we have received from you, and on any assumptions stated herein. We have neither independently investigated nor verified these facts, representations or assumptions, although we have considered their reasonableness. If any of the facts, representations or assumptions reflected in the Memorandum are not accurate, our conclusions are not applicable.

### **DISCLOSURE PURSUANT TO IRS CIRCULAR 230**

The information contained in this document is not a tax opinion. This document was not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on any taxpayer.