



Performance, Compensation & Talent Management Committee

Agenda Item 8a

June 18, 2019

Item Name: Annual Review: 2019-20 Incentive Metrics (First Reading)

Program: Administration

Item Type: Information

Executive Summary

This item presents an overview and first reading of the five current incentive metrics for annual review by the Performance, Compensation, and Talent Management Committee (Committee). The item includes a recommendation by Board's Primary Executive Compensation Consultant, Eric Gonzaga with Grant Thornton LLP (Consultant) to make a change to one of the five metrics. Updated scoring range changes are being recommended for the Stakeholder Engagement metric, in accordance with the August 2018 agenda item when the annual review of the incentive metrics was conducted for fiscal year 2018-19 with the Consultant. At that time, the Consultant's recommendation was approved by the Committee to adjust scoring ranges for this metric to align with Key Performance Indicator (KPI) aspirations.

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

In August 2016, the Consultant presented performance metrics for Board approval. The purpose of these metrics was to establish shared organizational goals across the senior and executive leadership team. The Board approved five metrics, including: Total Fund Performance, Investment Office CEM, Customer Service, Stakeholder Engagement, and Enterprise Operational Effectiveness. Some combination of these metrics was included in the 2016-17 and 2017-18 fiscal year incentive plans of the CEO, Deputy-level, and investment management positions. In fiscal year 2018-19, the non-investment metrics were added to Chief level incentive plans.

As part of the implementation plan, the Consultant recommended the metrics be reviewed annually and necessary adjustments made to the metrics and/or scoring ranges for each

subsequent fiscal year. In August of 2018, for fiscal year 2018-19, the Committee approved the Consultant's recommendation to adjust two of the five metrics. Scoring range changes were made to the Stakeholder Engagement metric to align with relevant KPI aspirations. The Consultant had also included a recommendation that future scoring range adjustments should be considered to continue alignment with those KPI aspirations. The Committee also approved the Consultant's recommendation to extract Board and Third-Party Administrator Costs from the data utilized to calculate the outcome for the Enterprise Operational Effectiveness metric.

Analysis

Team members worked with the Consultant to review the metrics and determine whether adjustments may be necessary for fiscal year 2019-20. The Consultant determined four of the five metrics should continue as currently designed, including Total Fund Performance, Investment Office CEM, Customer Service, and Enterprise Operational Effectiveness. For the Stakeholder Engagement metric, a recommendation to adjust the scoring ranges is proposed to align with the annual increase in the related KPIs and the recommendation that was approved during the review in August 2018. This adjustment would increase each scoring range in the Stakeholder Engagement metric by one percent. This adjustment establishes levels slightly more challenging to achieve, similar to the increasing KPIs. Attachment 1 displays all metrics and indicates the current and proposed scoring range changes for the Stakeholder Engagement metric. Any changes approved by the Committee will be effective for fiscal year 2019-20 incentive plans.

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

The incentive metrics were intended to be reviewed annually for incentive compensation purposes. The Committee's annual review of these metrics and other policy provisions serves to ensure incentive goals are aligned with the Board's organizational priorities for executive, senior, and investment management teams. Without a periodic and systematic review, there is a risk of misalignment with the overarching goals of the organization.

Attachments

Attachment 1 – Proposed 2019-20 Incentive Metrics

Tina Campbell, Chief
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