



Performance, Compensation & Talent Management Committee

Agenda Item 6b

September 17, 2019

Item Name: Request for Proposal for the Board's Primary Compensation Consultant

Program: Administration

Item Type: Action

Recommendation

Approve the development, service categories, and selection process for a Primary Executive Compensation Consultant Request for Proposal.

Executive Summary

CalPERS team members from the Human Resources Division seek formal approval to initiate the development of a Request for Proposal (RFP) to conduct a competitive selection process to engage a consultant to be the Board's Primary Executive Compensation Consultant.

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 1995, the Board engaged with its first compensation consultant, Watson Wyatt Worldwide (now Willis Towers Watson). The firm was successfully engaged through consecutive competitive selection processes through 2010.

In 2010, the Performance and Compensation Committee approved the awarding of contracts to four finalist firms in the Executive Compensation Consultant RFP. Those contracts were effective between 2011 and 2015.

In 2015, based on discussion and feedback with the Board, it was determined it would be beneficial to engage with a single primary executive compensation consultant. The intent was for the Board to have access to a consultant who could provide ongoing support relevant to the Board's Executive and Investment Compensation Program. Desired services included

attendance at and involvement in certain committee and board meetings; analysis and recommendations to improve and streamline the compensation program; and ongoing advice and regarding administration of the program. An RFP was released, and a subcommittee of the Performance, Compensation and Talent Management Committee conducted a competitive process and selected Grant Thornton, LLP, as the Board's Primary Executive Compensation Consultant. A five-year contract was executed which is scheduled to expire in November 2020.

Analysis

CalPERS team members propose the release of an RFP to initiate a competitive selection process for a new five-year contract to engage with a primary executive compensation consultant for the Board. Services to be provided will align with and expand upon those outlined in the current contract. The following are initial, proposed service categories:

- Compensation structure consultation
- Compensation policy consultation
- Compensation research, analysis, and recommendations
- Compensation program administration analysis and recommendations

Following the RFP final filing date, a subcommittee of the Performance, Compensation and Talent Management Committee will review, evaluate, and score the RFP responses which pass the preliminary Minimum Qualifications review. The subcommittee will then interview the finalist firms in a noticed open session and make a contract recommendation to the full Committee in open session at the subsequent regularly scheduled Committee meeting.

If the Committee approves the development, service categories, and selection process for a Primary Executive Compensation Consultant RFP, Human Resources team members will return to the next scheduled PCTMC meeting with a detailed scope of services based on the service categories, estimated schedule of events, and other key RFP components for the Committee's approval. Following approval, any additional details will be developed with the Committee Chair and the RFP will be issued.

Budget and Fiscal Impacts

Costs associated with a new contract are unknown and will be determined based on the fees proposed in the selected consultant's proposal. These costs will then need to be funded through the annual budgeting process.

Benefits and Risks

A competitive compensation program which aligns with industry practice is critical for the attraction of and retention of high quality executive and investment management professionals. Contracting for executive and investment compensation consultant services will enable the Board to maintain a competitive program which meets the needs of the system and is based on sound compensation principles and best practices.

Without a primary compensation consultant to provide ongoing, independent expertise, CalPERS is at risk of having an executive and investment compensation program which is out of alignment with organizational priorities and industry best practice. Potential misalignment with

relevant market compensation could result in difficulty hiring and retaining highly qualified candidates for executive and investment management positions.

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