



# Performance, Compensation & Talent Management Committee

## Agenda Item 4b

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**November 19, 2019**

**Item Name:** Revisions to Board's Compensation Policy for Executive and Investment Management Positions

**Program:** Administration

**Item Type:** Action Consent

### **Recommendation**

Approve the proposed revisions to the Board's Compensation Policy for Executive and Investment Management Positions (Policy).

### **Executive Summary**

The purpose of this agenda item is to present the Performance, Compensation and Talent Management Committee (Committee) with an updated Policy incorporating the Long-Term Incentive Program, the addition of the Deputy Chief Investment Officer position, and the revised base pay range for the General Counsel position. These items were approved by the Committee and Board of Administration in September 2019, and team members worked with the Board's Compensation Consultant to incorporate changes into the Board's Policy.

### **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**

Periodic reviews of the Policy are conducted to incorporate improvements and to ensure policy provisions remain aligned with CalPERS' strategic goals and Board priorities. The Policy was most recently amended in September 2019 to incorporate the Chief Health Director and Chief Operating Officer positions, revised base pay and incentive opportunity ranges for investment management positions, and other proposed revisions related to program administration.

## Analysis

In September 2019, the Board approved the addition of a long-term incentive for covered positions in the Investment Office. Long-term incentive awards balance performance with the long-term goals of the fund by measuring absolute total fund returns over a five-year performance period. Below are the key policy provisions related to the Long-Term Incentive Program administration (page references refer to Attachment 1):

- *Long-Term Incentive Award Determination* (page 15)
  - This section covers the basic mechanics of the Long-Term Incentive Program, including performance cycle structure, performance levels, initial LTI award value determination, and potential LTI payouts once a five-year performance cycle concludes.
  - For any payout to occur, the absolute total fund returns over a five-year period must meet or exceed the Board-approved actuarial assumed rate of return (currently seven percent).
- *Pro-Rata Awards* (page 17)
  - This section was revised to clarify requirements and considerations related to the pro-ration of annual and long-term incentives.
  - Employees appointed during the second half of the fiscal year generally do not develop annual incentive plans until the following fiscal year and therefore will not be eligible to participate in the Long-Term Incentive Program until the five-year performance period which begins the subsequent fiscal year.
- *Action Upon Unsatisfactory Performance* (pages 19-20)
  - This section was revised to include actions for situations of unsatisfactory performance and resulting impacts to long-term incentive award payout.
  - Individuals who receive an Overall Performance Rating of “Does Not Fully Meet Standards” in their annual performance appraisal will be ineligible to receive any portion of the long-term incentive award for the five-year performance period that ended the year they received the unacceptable rating. Additionally, they will not receive a long-term incentive award for the five-year performance period that begins that year, as there will be no annual incentive award upon which a long-term incentive award can be valued (under existing Policy provisions, an Overall Performance Rating of “Does Not Fully Meet Standards” are not eligible for an annual incentive award).

The Board also approved the addition of a Deputy Chief Investment Officer position (effective September 18, 2019) and a revised base pay range for the General Counsel position (effective July 1, 2019). These changes were incorporated into the Policy and are displayed in tracked changes in Attachment 1. All proposed revisions were accepted in Attachment 2.

Approval of the proposed Policy changes would become effective for the 2019-20 fiscal year, and the updated Policy will be communicated to all program participants following Board approval.

## Budget and Fiscal Impacts

Not applicable.

## **Benefits and Risks**

The review of the Policy serves to ensure it's designed to enhance the organization's ability to attract and retain highly skilled executive and investment professionals. Without a periodic and systematic review, there is a risk of the Policy becoming misaligned with the overarching goals of the organization.

## **Attachments**

Attachment 1 – Executive Compensation Policy (Tracked Changes Version)

Attachment 2 – Executive Compensation Policy (Changes Accepted)

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Paramveer Dhoot  
Assistant Division Chief, Human Resources Division