



# Performance, Compensation & Talent Management Committee

## Agenda Item 6a

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**June 16, 2020**

**Item Name:** Annual Review: 2020-21 Incentive Metrics

**Program:** Administration

**Item Type:** Action

### **Recommendation**

Approve the incentive metrics and scoring thresholds for fiscal year 2020-21, as recommended by the Board's Primary Executive Compensation Consultant.

### **Executive Summary**

This item presents the five current incentive metrics for annual review and approval by the Performance, Compensation, and Talent Management Committee (Committee). The Board's Primary Executive Compensation Consultant, Grant Thornton LLP (Consultant), recommends no changes to the current incentive metrics and scoring thresholds for fiscal year 2020-21. The Consultant will present key points about the metrics and relevant topics for the Committee's consideration.

### **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 Board approved five shared organizational metrics as recommended by the Consultant. The five metrics include: Total Fund Performance, Investment Office CEM, Customer Service, Stakeholder Engagement, and Enterprise Operational Effectiveness. Some combination of these metrics have been included on the incentive plans of executive, chief level, and investment management positions since fiscal year 2016-17. As part of the implementation plan, the Consultant also recommended the metrics be reviewed annually and adjusted, if necessary, for the subsequent fiscal year.

For fiscal years 2018-19 and 2019-20, the Committee approved scoring threshold changes for the Stakeholder Engagement metric. Those changes were made to align with Key Performance Indicator (KPI) aspirations, and it was recommended the annual review continue to consider those KPI aspirations. In fiscal year 2019-20 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 Effective metric.

### **Analysis**

The Consultant has reviewed the metrics for fiscal year 2020-21 and determined no changes are necessary for any of the metrics. Attachment 1 includes all metrics and scoring thresholds. Upon approval by the Committee, these metrics will be effective for fiscal year 2020-21 incentive plans. Attachment 2 includes a memo from the consultant to provide a synopsis of the recommendation.

### **Budget and Fiscal Impacts**

CalPERS' 2020-21 Authorized Budget includes \$19.4 million for all incentive awards. This amount is an estimate based on budgeted salaries and the 2019-20 metrics. In fiscal year 2018-19, actual incentive awards paid across all incentive programs was approximately \$11.2 million. Actual incentives paid are subject to several metric variables, as well as fund performance, and cannot be quantified until the end of the fiscal year. However, because the metrics are not changing, it is reasonable to assume that budgeted funds will be sufficient to cover actual award payments.

### **Benefits and Risks**

The incentive metrics were intended to be reviewed annually for incentive compensation purposes. The Committee's annual review of these metrics ensures 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 2020-21 Incentive Metrics

Attachment 2 – Memo from Board's Primary Executive Compensation Consultant

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