



# Performance, Compensation & Talent Management Committee

## Agenda Item 5c

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**November 18, 2020**

**Item Name:** 2019-20 Fiscal Year-End Compensation Outcomes for Statutory Positions

**Program:** Administration

**Item Type:** Information Consent

### **Executive Summary**

This item presents the fiscal year 2019-20 incentive awards and the fiscal year 2020-21 annual base pay rates for all executive and investment management positions covered by Government Code section 20098 who were eligible to participate in the fiscal year 2019-20 performance appraisal process.

### **Strategic Plan**

This agenda item supports CalPERS' Strategic Goal to promote a high-performing and diverse workforce in the 2017-22 Strategic Plan. The Board's Compensation Program for Executive and Investment Management Positions (Compensation Program) provides a means to recruit and retain highly skilled executives and investment management professionals to meet organizational priorities.

### **Background**

Positions covered under Government Code section 20098 are eligible to participate in the Board's Compensation Program. The Board's Compensation Policy for Executive and Investment Management Positions (Policy) is the basis by which incentive plans are designed and award payments and base pay rates are determined.

The Policy requires that each eligible participant develop an annual incentive plan which includes Organizational Performance Outcomes (e.g., incentive metrics, investment performance) and Individual Key Business Objectives (e.g., business goals, leadership). Participants are required to provide semiannual status reports on their Individual Key Business Objectives, as well as a year-end summary of accomplishments.

At the end of the performance cycle, ratings for Organizational Performance Outcomes are determined by pre-defined benchmarks and thresholds, and Individual Key Business Objectives are rated using the Policy-defined rating scale. Awards are then calculated using individual measure weights, ratings, and targets.

Each participant is also assigned an Overall Performance Rating as part of the performance review process, which may be used to determine any applicable base pay increase for the subsequent fiscal year.

As of June 2020, approximately 78 percent of the entire fund is managed in-house by investment staff with the remaining allocated to external managers. Last year, CalPERS terminated relationships with about 30 external managers, redeploying \$64 billion in capital and saving \$115 million in fees on an annual, go-forward basis.

## **Analysis**

Attachment 1 displays fiscal year 2019-20 incentive awards and fiscal year 2020-21 base salaries for all covered positions who were eligible to participate in the annual appraisal process (except the Chief Executive Officer position, which was approved under a separate agenda item in September 2020). The fiscal year 2020-21 base salaries in Attachment 1 reflect unadjusted, gross salary rates and do not reflect the current 9.23 percent statewide salary reduction that applies to these positions.

Many factors can cause variances in the outcomes of incentive awards and base pay increases. For example, incentive targets vary by classification and base pay rates vary by individual. Differences in incentive plan construction, incentive ranges, investment performance, Organizational Performance Outcomes (e.g., incentive metrics, investment performance), and individual performance may create variances in the outcomes of incentive awards and base pay increases.

## **Budget and Fiscal Impacts**

The total cost of annual incentive awards for statutory positions associated with this agenda item for fiscal year 2019-20 was \$10,600,652.80. For comparison purposes, the total cost of annual incentive awards for statutory positions for fiscal year 2018-19 was \$9,928,973. The \$10.6 million paid in incentives represents 0.0025% of total PERF assets as of June 30, 2020.

Fiscal year 2020-21 base pay increases were reduced from \$1,375,760 to \$577,853 in consideration of the current fiscal environment. The average of all base pay increases granted was 2.2 percent.

Incentive awards are not considered creditable compensation for defined benefit pension calculations.

## **Benefits and Risks**

The establishment of competitive compensation levels for these statutory positions is critical to the recruitment and retention of highly skilled executive and investment management professionals, and to the overall success of the organization. Incentive awards are intended to further the mission of CalPERS by providing “at-risk” pay for a portion of pay consistent with the CalPERS total compensation philosophy. The intent of this “at-risk” program is to promote an integrated focus on achievement or progress towards organization-wide, long-term strategies.

## **Attachments**

Attachment 1 – Summary of Fiscal Year 2019-20 Incentive Awards and Fiscal Year 2020-21  
Base Pay Rates

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