



Performance, Compensation & Talent Management Committee

Agenda Item 6a

June 16, 2021

Item Name: Annual Review: 2021-22 Incentive Metrics

Program: Administration

Item Type: Action

Recommendation

Approve or provide direction on incentive metrics and scoring thresholds for fiscal year 2021-22, as proposed by the board's compensation consultant, Global Governance Advisors.

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 and Investment Compensation Consultant, Global Governance Advisors (GGA), will present their recommendations 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 and Investment Compensation Program provides a means for recruiting, retaining, and empowering highly skilled executive and investment management professionals to meet the Board's organizational priorities.

Background

In August 2016, the Board approved five shared organizational metrics, including: Total Fund Performance, Investment Office CEM, Customer Service, Stakeholder Engagement, and Enterprise Operational Effectiveness. Some combination of these metrics has been included on the incentive plans of covered executive and investment management positions, as well as other senior leadership positions, since fiscal year 2016-17. As part of the initial implementation plan, it was 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 adjustments for the Stakeholder Engagement metric to align with Key Performance Indicator (KPI) aspirations. In fiscal year 2019-20, the Committee also approved a change to extract Board and

Third-Party Administrator Costs from the data used to calculate the outcome for the Enterprise Operational Effective metric.

In April 2021, the Board's compensation consultant, GGA presented several recommendations related to the review of the metrics and general incentive plan design and components. The Committee asked GGA to return in June.

Analysis

GGA will present and discuss their recommendations (Attachment 1) for fiscal year 2021-22 incentive metrics for executive and investment management positions. The current fiscal year 2020-21 incentive metrics are included in Attachment 2 for reference purposes.

Today, GGA will focus specifically on the metrics and scoring thresholds for fiscal year 2021-22. Then throughout the coming year, they'll provide education, information, and other recommendations on the general incentive plan design and components. This incremental approach will ensure the Committee has adequate time and information to consider and make decisions on other potential incentive program adjustments. Further, it will provide the ability to align incentive compensation strategies with the new five-year strategic plan for 2022-27.

Budget and Fiscal Impacts

CalPERS' 2021-22 Authorized Budget includes \$20.6 million for all incentive awards. This amount is an estimate based on budgeted salaries and the 2020-21 metric outcomes. In fiscal year 2019-20, actual incentive awards paid across all incentive programs was approximately \$11.9 million. Actual incentive payouts are subject to several factors (e.g., metric outcomes, fund performance, and individual performance) and cannot be quantified until after the end of the fiscal year.

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 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 – Global Governance Advisors Incentive Metrics Review for Fiscal Year 2021-2022

Attachment 2 – Fiscal Year 2020-21 Incentive Metrics

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