



Performance, Compensation & Talent Management Committee

Agenda Item 9a

February 14, 2022

Item Name: Compensation Review for Statutory Positions

Program: Administration

Item Type: Information

Executive Summary

This item presents compensation survey data for positions covered by the Board's Compensation Policy for Executive and Investment Management Positions, including the Chief Executive Officer, Chief Actuary, Chief Financial Officer, Chief Health Director, Chief Operating Officer, General Counsel, Chief Investment Officer, and other investment management positions.

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

The Board's Compensation Policy for Executive and Investment Management Positions (Policy), recommends a compensation survey of all comparable executive and investment management positions be conducted every two years. The purpose is to ensure compensation levels are appropriate and relatively competitive with the Board-approved market comparator group as defined in the Policy.

In 2018, the Board reviewed the peer comparator groups for executive and investment management positions and modified the investment management comparator group to include university endowments. Over the next two years, the Board adopted revised salary ranges for the following positions: Chief Executive Officer (CEO), Chief Investment Officer, Chief Financial Officer, Chief Operating Officer (new), Chief Health Director (new), General Counsel, Deputy Chief Investment Officer (new), and other investment management positions. The Board also adopted a long-term incentive program for investment management positions within the Investment Office and the CEO position.

In June 2021, the Committee directed staff to conduct a review of total compensation for covered positions. McLagan was engaged to conduct the survey based on the Board's defined comparator groups for executive and investment management positions (see Policy, page 6). Please note that although the Policy defines private sector asset management organization of comparable size to be between \$15B to \$350B assets under management, the analysis conducted by McLagan uses a range of \$100 billion to \$500 billion to better compare to the current size of CalPERS' assets, which reached the \$500 billion mark in December 2021.

There are currently four executive team members at or near the maximum of their ranges: Chief Actuary, Chief Health Director, Chief Financial Officer, and General Counsel. For the approximately 120 covered investment management positions (including Associate Investment Managers, Investment Managers, Investment Directors, Managing Investment Directors, and Deputy Chief Investment Officer), 22% are in the first quartile, 34% are in the second quartile, 40% are in the third quartile, and 4% are in the fourth quartile.

Analysis

The item presents McLagan's compensation review and analysis for executive and investment management positions covered under the Board's compensation setting authority (Attachment 1). The Board's primary executive and investment compensation consultant, Global Governance Advisors, has reviewed the survey data and will provide their analysis and observations (Attachment 2) to aid the Committee in determining any next steps.

Chief Health Director Compensation Analysis

The Chief Health Director (CHD) position is not included in the McLagan data, as they do not survey this type of position and it's uncommon to find a health function in CalPERS' comparator group organizations. CalPERS team members will continue to work with Global Governance Advisors to conduct additional research and identify potentially comparable compensation data which will be brought back to the Committee at the April 2022 meeting.

The goal of today's meeting is to review the data and discuss gaps in compensation, where applicable. Based on the Committee's direction, GGA could return in April 2022, with relevant recommendations.

Budget and Fiscal Impacts

The cost of the compensation survey was \$70,000, which was funded from existing resources. Any costs that arise from the recommendations of the completed survey, such as salary range changes, will be addressed at the time of the recommendations.

Benefits and Risks

The conducting of a regular salary survey demonstrates good governance and risk management practices, as well as aids in the refining of strategies for the recruitment and retention of highly skilled executives and investment managers.

Risks associated with adopting revised salary and/or incentive levels could include a negative public perception for considering compensation increases. However, in the event existing salary ranges are not competitive, there is a risk of difficulty in hiring and retention of highly qualified candidates for key positions.

Attachment

Attachment 1 – McLagan's Compensation Review Presentation

Attachment 2 – Global Governance Advisors Compensation Review Key Findings

Attachment 3 – Compensation Policy for Executive and Investment Management Positions

Michelle Tucker, Chief
Human Resources Division