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An individual who vacates a covered position within six months of appointment shall not receive an annual or long-term incentive award for that fiscal year.

An individual who is promoted from the CalPERS Investment Officer classification series to a covered position during the fiscal year would be eligible to receive incentive awards based on the incentive plans and annual base salaries of both positions (as pro-rated to reflect the mid-year appointment), subject to the applicable policy provisions and calculation processes outlined in the respective Investment Officer and Executive and Investment Management Positions policies. Partial year awards shall not be granted to an individual who has served fewer than a combined six months in both positions during the fiscal year.

#### **Authority to Defer, Reduce, or Eliminate Incentive Awards<sup>4</sup>**

Payment of incentive awards shall be subject to and conditioned upon all of the following (among other conditions described herein):

In the event that Total Fund for a performance period is negative, and such negative return exceeds the benchmark for the period, then the Board will have the discretion to reduce, defer or eliminate all or a portion of an incentive award that would otherwise have been made. In the event the Board elects to defer payment of an award to a future date (a “Deferred Payment Date”), the deferred incentive award shall remain subject to forfeiture until the Deferred Payment Date and shall be conditioned upon the employee continuing to perform services for CalPERS up to the Deferred Payment Date, as described below. Where in the event that the Board elects to defer payment of an award to a subsequent fiscal year, payment of the award may be deferred up to 115 days beyond the end of the first subsequent fiscal year in which the one-year absolute return on the Total Fund exceeds zero percent (0%). To the extent payment is deferred for more than 120 days after the end of the fiscal year for which the incentive award is payable, the incentive award shall be credited with earnings that approximate the absolute return of the Total Fund for the deferral period as determined by the Board, but not in excess of 15% annually. The Board shall not be obligated to treat all employees eligible to an incentive award alike in determining whether to defer, reduce or eliminate an incentive award, how large a portion to defer or reduce, and when to pay the deferred or reduced incentive award.

- a) An employee will be eligible to receive an incentive award for any period only if the employee has complied with all CalPERS policies applicable to the employee, and regulatory requirements throughout the period, as determined by the Board in good

<sup>4</sup> The terms “disabled,” “disability,” “retired,” “retires” and “retirement” throughout the policy are used as defined in California Public Employees’ Retirement Law sections 20026, 20027 and 20060.



incentive award, plus interest at the annual rate of 6% interest for the period from payment to repayment, within 365 days after the Board's determination following the Investigation.

- d) If at any time the Board determines the criteria used to determine an employee's incentive award were, with hindsight, improperly designed or otherwise mistaken, the Board may correct those criteria in any way, even if correction reduces or eliminates the incentive award the employee would otherwise receive.
- e) Notwithstanding anything else, an employee shall not be entitled to an incentive award to the extent the Board determines that payment of the incentive award would violate applicable law.

### **Action Upon Unsatisfactory Performance**

Individuals must achieve a minimum Overall Performance Rating (see *Year-End Performance Appraisal Process*, page 24) of "Inconsistently Meets Expectations" and have complied with all CalPERS risk management and ethics-related principles, policies, and procedures to be eligible for incentive award payout.

Individuals who receive an Overall Performance Rating of "Does Not Meet Expectations" in their annual performance appraisal will be ineligible to receive any portion of the annual incentive award at any time for the year in which the unacceptable rating was received.

Individuals who receive an Overall Performance Rating of "Does Not Meet Expectations" 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.

In addition, individuals who receive an unacceptable rating and participate in the long-term incentive program will be subject to an initial long-term incentive award value of zero for the performance period that begins the year the unacceptable rating was received.

### **Continued Employment Requirement; Board Discretion Under Special Circumstances**

Subject to the exceptions described below, an employee shall have no right to an incentive award for a fiscal year if their employment with CalPERS terminates for any reason other than the special situations outlined within the section below or is terminated for cause prior to the date on which incentive awards for such year are presented to and/or approved by the Board (generally in September following the performance period), whether or not such employee's individual incentive award is actually presented to or approved by the Board (the "Approval Date"), or, in the case of a deferred incentive award, prior to the Deferred Payment Date. For purposes of this Policy, an employee will be deemed to have terminated employment with CalPERS if they have had a separation from service within the meaning of Treasury Regulation section 1.409A-1(h).















