



# Performance, Compensation & Talent Management Committee

## Agenda Item 5a

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**April 15, 2024**

**Item Name:** Annual Review: 2024-25 Incentive Metrics

**Program:** Administration

**Item Type:** Information

### **Executive Summary**

This item presents information on fiscal year 2024-25 incentive metrics for executive and investment management positions, including Fund Performance, Enterprise Operational Effectiveness, Investment Office CEM, Customer Service, and Stakeholder Engagement. Incentive metrics are reviewed annually 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 assessment and initial recommendations for the Committee's consideration before returning in June 2024 with final recommendations. Final Board-approved incentive metrics will be included in some combination on incentive plans for eligible executive and investment management positions.

### **Strategic Plan**

This agenda item supports CalPERS' Strategic Goal to promote a high-performing and diverse workforce in the 2022-27 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**

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. Also, for fiscal year 2019-20, the Committee 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.

For fiscal year 2020-21, the Committee approved retaining the metrics from fiscal year 2019-20 with no changes, and for fiscal year 2021-22, they approved slight scoring threshold changes to the Customer Service and Stakeholder Engagement metrics. At that time, GGA suggested the Committee consider potential future changes to the fund performance hurdle rates to address payout levels for performance below the relative benchmark.

For fiscal year 2022-23, the Committee adjusted the performance hurdles for Total Fund Performance to provide a narrower range between threshold and maximum performance. The Committee also directed annual lump sum retirement payments to be excluded from the calculation of overhead costs when measuring Enterprise Operational Effectiveness performance and aligned to the CalPERS Strategic Plan.

For fiscal year 2023-24, the Committee approved retaining the metrics from fiscal year 2022-23 with no changes.

## **Analysis**

Today's item is provided as information for the Committee to discuss and provide input before GGA returns in June 2024 with final recommendations. GGA will present their analysis and recommendations, along with specific points for consideration, for fiscal year 2024-25 incentive metrics for executive and investment management positions. The recommendations and items for consideration are discussed in their Opinion Letter in Attachment 1 and cover the following metrics: Fund Performance, Enterprise Operational Effectiveness, Investment Office CEM, Customer Service, and Stakeholder Engagement.

For reference, fiscal year 2023-24 metrics as approved by the Board in June 2023 are included in Attachment 2.

## **Budget and Fiscal Impacts**

CalPERS' 2024-25 proposed budget includes \$37.1 million for annual incentive awards and \$10.4 million for long-term incentive awards. This amount is an estimate based on budgeted salaries and the 2022-23 metric outcomes. In fiscal year 2022-23, actual annual incentive awards paid across all incentive programs was approximately \$19 million. Fiscal year 2023-24 will be the first year for potential long-term incentive payouts for covered positions. 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 – Incentive Metrics Review for FY 2024-25 by Global Governance Advisors

Attachment 2 – Fiscal Year 2023-24 Metrics

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Michelle Tucker, Chief  
Human Resources Division