



Performance, Compensation & Talent Management Committee

Agenda Item 5c

April 14, 2025

Item Name: Compensation Review and Recommendations for Statutory Positions

Program: Administration

Item Type: Information

Executive Summary

This item presents market compensation data for classifications covered by the Board's compensation setting authority under Government Code section 20098 and in alignment with the Board's Compensation Policy for Executive and Investment Management Positions, including the Chief Executive Officer, Chief Actuary, Chief Financial Officer, Chief Operating Officer, General Counsel, Chief Investment Officer, and all investment management classifications.

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 and investment professionals 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) requires a compensation survey of all comparable executive and investment management positions be conducted every two years, or as the Board deems necessary. The purpose is to ensure compensation levels are competitive with the Board-approved market comparator group as defined in the Policy.

In November 2022, the Committee conducted a workshop to discuss several key compensation topics, including comparator groups for executive and investment management positions. The Board approved the addition of weights to the comparator group, creating a blend of private and public-sector data for compensation setting purposes. Later in June 2023, the Board further refined the Policy comparator group by adding selection criteria for US and Canadian public funds and adding program principles to guide the management of the compensation program.

It should be noted that any approved increases to the existing base salary ranges will not result in automatic pay increases to incumbents unless an employee's current base salary is less than the minimum of newly approved base pay range. Pay increases for incumbents will continue to be considered at the end of each fiscal year as part of the annual performance appraisal process, consistent with the Board's Policy.

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 (GGA), has reviewed the survey data and will provide their initial recommendations for adjustments to compensation levels to remain market competitive (Attachment 2).

GGA has determined that while CalPERS' base salary levels remain generally competitive for most roles, there are some gaps when comparing compensation levels to the policy-defined combined peer group. To better align CalPERS' compensation with market standards, GGA has recommended targeted adjustments, primarily to salary midpoints for certain roles where gaps were identified. Additionally, adjustments to incentive opportunity levels have been proposed for two key positions – the Chief Executive Officer and the Chief Operating Investment Officer – to better align with the peer group median. GGA's recommended adjustments reflect a strategic approach to gradually aligning compensation levels every couple of years to ensure CalPERS remains competitive while maintaining a balanced and measured approach to compensation adjustments.

The Chief Health Director position was not included in the McLagan data, as they do not survey similar positions and it's uncommon to find a health function in CalPERS' comparator group organizations. CalPERS team members worked with GGA to identify comparable compensation data for the Committee's consideration, including a number of California-based health organizations and districts. Factors considered included identifying organizations CalPERS could potentially lose talent to or gain talent from, as well identifying roles with key functions that included oversight of health benefits programs, policy, research, plan contracting, plan administration, rate management, account management, or long-term care. Based on alignment of essential functions with the Covered California Chief Deputy Executive, Program (Plans, Sales, and Service) position and consideration of required duties and expertise, it still presents as the closest comparable for the CalPERS Chief Health Director role.

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 will return in June 2025, with refined recommendations on compensation ranges for covered positions.

Any changes adopted by the Board to salary or incentive ranges will become effective July 1, 2025, or phased in as directed by the Board. CalPERS team members will incorporate any approved changes to base salary ranges, incentive schedules, and any other plan design options into the Board's Policy.

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 final recommendations in June 2025.

Benefits and Risks

The conducting of a regular compensation survey demonstrates good governance and risk management practices. The benefit of revising compensation levels based on the policy-defined comparator group is to align with the Board's compensation philosophy, as well as aiding in CalPERS' ability to continually recruit and retain of highly skilled executives and investment managers to ensure the ongoing and long-term sustainability of the fund.

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 compensation is not competitive, there is a risk of difficulty in hiring and retention of highly qualified candidates for key positions. This may result in a negative impact to the fund, as well.

Attachments

Attachment 1 – McLagan's Compensation Review Presentation

Attachment 2 – Global Governance Advisors' Recommendations

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