Performance, Compensation & Talent Management Committee

Agenda Item 5c

June 18, 2025

Item Name: Compensation Review and Recommendations for Statutory Positions

Program: Administration

Item Type: Action

Recommendation

Approve or provide direction on compensation recommendations presented by Global Governance Advisors (GGA), the Board's Primary Compensation Consultant for Executive and Investment Management Positions.

Executive Summary

Based on the market compensation data provided to the Committee in April 2025 by McLagan, GGA will present compensation recommendations for positions 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.

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

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.

In April 2025, McLagan presented compensation survey data based on the Board's policy-defined comparator groups 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. GGA reviewed the survey data and presented their key findings from the compensation review related to the competitiveness of compensation at CalPERS compared to market compensation levels, highlighting gaps between current compensation levels for covered positions and current market pay levels within the policy-defined comparator group.

Analysis

This item presents GGA's compensation review and recommendations on potential adjustments to compensation levels for executive and investment management positions covered under the Board's statutory compensation setting authority (Attachment 1). All recommendations are based on the compensation review and analysis completed by McLagan and presented to the Committee in April 2025 in alignment with Policy.

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 (CHD) position was not originally 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. As in prior years, 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.

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 also incorporate any approved changes to base salary ranges, incentive schedules, and any other plan design options into Policy. 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. There are no current incumbents whose base pay falls below the salary ranges proposed in this agenda item. 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 Policy.

Budget and Fiscal Impacts

If approved, CalPERS estimates that salaries will increase $0.45 million in 2025-26. Additionally, annual incentives will increase by approximately $0.74 million.

The fiscal impact of new increases to long-term incentive plans presented in this item will not be realized until fiscal year 2029-30. Determining a reliable estimate is difficult because of changing variables over the next five years including vacancies, classification levels, salary increases within compensation ranges, length of employment, fund performance, and individual performance and metrics. However, under the same assumptions used to develop the 2025-26 Budget, the recommended adjustments to the long-term incentive plans may add $2.7 million. Payouts would only occur if fund performance meets or exceeds the Board-approved expected rate of return (currently 6.8%); if fund performance is below the expected rate of return, long-term incentive payouts will not occur.

Investment Office salaries and incentives are nearly all paid from the Public Employees Retirement Fund (PERF), with a small percentage charged to certain affiliate funds. In contrast, Executive Office salaries and incentives are cost allocated to the PERF and all affiliate funds. To the extent Executive Office salaries and incentives increase, there will be added pressure to the three funds controlled by the Legislature: the Health Care Fund (HCF), the Public Employees Contingency Reserve Fund (CRF), and the Old Age Survivor's Insurance Fund (OASI). Additionally, Executive Office compensation is categorized as a pension administration expense reported to CEM Benchmarking (CEM) and included in the CEM cost per member calculation.

Any board-approved changes effective on July 1, 2025 will be reflected in the Mid-Year Budget Revision presented to the board in November 2025.

Of the nearly 160 current employees covered by the compensation program, only a small subset, approximately 7%, are classic members with no cap on their pensionable earning potential. The remaining participants are subject to Internal Revenue Code and Public Employees' Pension Reform Act (PEPRA) caps on their compensation that can be considered as pensionable. Annual and/or long-term incentive compensation, as paid at CalPERS, is never pensionable. It is important to understand the impacts to compensation that can be reported vary considerably, depending on individual factors such as membership start date or past service. Although it's anticipated the group subject to caps will continue to grow, the actual number covered by caps can increase or decrease as employees may come to CalPERS from other agencies or leave CalPERS for other opportunities.

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.

Attachment

Attachment 1 – Global Governance Advisors Compensation Review and Recommendations

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