



# Performance, Compensation & Talent Management Committee

## Agenda Item 4e

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**February 17, 2026**

**Item Name:** Revisions to the Board's Compensation Policy for Executive and Investment Management Positions, pursuant to Assembly Bill 692 (Kalra, Chapter 703, Statutes of 2025)

**Program:** Administration

**Item Type:** Action Consent

### **Recommendation**

Approve revisions to the Board's Compensation Policy for Executive and Investment Management Positions (Compensation Policy) to comply with Assembly Bill 692 (Kalra, Chapter 703, Statutes of 2025), including updated repayment requirements for recruitment differential payments.

### **Executive Summary**

This item presents updates to the Compensation Policy recruitment differential repayment terms to ensure compliance with Assembly Bill 692 (Kalra, Chapter 703, Statutes of 2025), effective January 1, 2026.

### **Strategic Plan**

This agenda item supports CalPERS' Strategic Goal to cultivate a risk-intelligent and innovative culture through our team and processes in the 2022-27 Strategic Plan. The Executive and Investment Compensation Program provides a means for recruiting, retaining, and empowering highly skilled executive and investment management professionals to meet the Board's organizational priorities.

### **Background**

The Committee reviews the Compensation Policy regularly, whenever a change is needed or if new laws that are applicable can affect the Policy. Assembly Bill 692 (Kalra, Chapter 703, Statutes of 2025) was signed into law effective January 1, 2026, adding section 16608 of the Business and Professions Code and Section 926 to the Labor Code, prohibiting certain "stay-or-pay" provisions in employment contracts.

## **Analysis**

Assembly Bill 692 (Kalra, Chapter 703, Statutes of 2025) introduces restrictions on the types of repayment obligations that can be included in employment contracts and related agreements, particularly those that require employees to reimburse their employer for certain costs if their employment ends before a specified period, with specific requirements for exceptions in some situations if the employee leaves voluntarily or is terminated for misconduct.

The Compensation Policy for statutory positions includes a recruitment differential to attract and retain highly skilled executives and investment management professionals, which may be provided as a one-time, front-end payment upon appointment and is designated as an incentive to accept a position. The recruitment differential currently includes a payback provision requiring 100% payback if employed less than 12 full months, and 50% payback if employed between 12 and 24 months. Assembly Bill 692 (Kalra, Chapter 703, Statutes of 2025) allows for repayment requirements on certain types of payments, such as recruitment differentials, provided the agreement meets all statutory conditions.

CalPERS team members have reviewed the impact of the new law on the recruitment differential repayment terms, and proposed updates to the Compensation Policy to align with the new law. Proposed changes to the Compensation Policy to ensure compliance are included in Attachment 1 with tracked changes and Attachment 2 with changes accepted. A summary of the changes applicable to the recruitment differential are as follows:

- Repayment terms must be set forth in a separate agreement.
- An employee must be notified of their right to consult with an attorney and given at least five business days to do so.
- Any repayment obligation must be interest-free and prorated over a retention period not exceeding two years.
- An employee must be allowed the option to defer receipt of the payment until the end of the retention period without any repayment obligation.
- Repayment is only required if the employee voluntarily separates or is terminated for misconduct.

Approval of the proposed amendments to the Compensation Policy would be effective immediately, and the updated Policy will be communicated to all program participants following Board approval.

## **Budget and Fiscal Impacts**

Not applicable.

## **Benefits and Risks**

Regular review of the Policy is a good governance practice, serving to ensure the Policy clearly communicates critical elements of the compensation program policy and administration. A clear and transparent policy is imperative for program participants, administrators, and stakeholders. Without a periodic and systematic review, and revision process there is a risk of the Policy becoming misaligned with the overarching goals of the organization.

**Attachments**

Attachment 1 – Compensation Policy for Executive and Investment Management Positions  
(Tracked Changes)

Attachment 2 – Compensation Policy for Executive and Investment Management Positions  
(Changes Accepted)

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Michelle Tucker, Chief  
Human Resources Division