



Regular Meeting

Item Number 4a – Open Session

Subject: Report on Labor Market Benchmarking for Statutory Positions Under the Board's Compensation Setting Authority – Revised

Presenter(s): Kristel Turko / Michael Oak, McLagan Partners

Item Type: Action

Date & Time: March 7, 2024 – 45 minutes

Attachment: Compensation Review of Executive & Investment Positions (Report)

PowerPoint: Compensation Review of Executive & Investment Positions

Item Purpose

The purpose of this item is to provide the board a report and recommendations on a labor market compensation analysis for positions under the board's compensation setting authority to assist in the board's assessment of whether changes to salary ranges are warranted.

Discussion

For this discussion, the board will be presented a labor market analysis of total cash compensation (base salary + annual incentive) from McLagan Partners based on its survey of the board approved comparator groups. McLagan Partners delivers compensation insights to the world's leading financial services companies, including asset management, banking, financial technology, insurance, professional services, and wealth management. McLagan Partners has been providing labor market data and consultation to the board for nearly two decades.

McLagan Partners was asked to assess the salary and total cash compensation and provide recommendations for the executive and investment management positions that did not have salary range adjustments in 2021. Positions that had salary range adjustments approved and implemented in 2021 are not part of this assessment.

Michael Oak, Associate Partner at McLagan Partners, will lead the board in a discussion of the report and provide recommendations for the board to consider.

The findings from the labor market analysis revealed the following:

1. Executive Positions Summary:

- Base salary midpoints for CalSTRS’ executive positions generally fall below desired pay positioning (market median) as outlined in the Administrative Procedures for the Board’s Compensation Policy:
 - The base salary midpoints for the CEO, COO, and CFO positions are more than 10 percent below market median.
 - The base salary midpoint for the General Counsel is positioned well above the market median. However, the total cash compensation falls 16 percent below the market median. The General Counsel’s pay positioning is different than other executive positions given that the role is not incentive eligible.
- CalSTRS maximum total cash compensation falls between 10 percent and 20 percent below the competitive market median for each executive position.

2. Investment Positions Summary:

- Base salary midpoints for CalSTRS’ investment positions are generally aligned with the market, except for the Portfolio Manager and Associate Portfolio Manager.
- CalSTRS maximum total cash compensation falls below the market median across all investment roles.

Recommendation

Mr. Oak will provide rationale to increase base salary ranges for the executive and investment positions to align with the competitive market and CalSTRS’ targeted pay positioning for total cash compensation. The labor market analysis supports setting new salary ranges in the highlighted positions as follows:

1. Executive Positions

Classification	Current Base Salary Range (000's)			Proposed Base Salary Range (000's)			Range Incr	Current Max Incentive (no change)
	Min	Mid	Max	Min	Mid	Max		
CEO	\$325.0	\$400.0	\$475.0	\$386.0	\$475.0	\$564.0	19%	150%
COO	\$204.0	\$250.0	\$296.0	\$245.0	\$300.0	\$355.0	20%	50%
CFO	\$204.0	\$250.0	\$296.0	\$228.0	\$280.0	\$332.0	12%	50%
General Counsel	\$325.0	\$400.0	\$475.0	\$325.0	\$400.0	\$475.0	NC%	Not Elig
System Actuary	\$212.0	\$260.0	\$308.0	\$228.0	\$280.0	\$332.0	8%	30%

Board Action:

- Staff recommends approval of the proposed increases to the salary ranges for executive positions, to be effective July 1, 2024.

2. Investment Positions

Classification	Current Base Salary Range (000's)			Proposed Base Salary Range (000's)			Range Incr	Current Max Incentive (no change)
	Min	Mid	Max	Min	Mid	Max		
CIO	\$408.0	\$510.0	\$612.0	\$416.0	\$520.0	\$624.0	2%	200%
Deputy CIO	\$300.0	\$370.0	\$440.0	\$300.0	\$370.0	\$440.0	NC	175%
Sr Investment Dir	\$290.0	\$360.0	\$430.0	\$290.0	\$360.0	\$430.0	NC	150%
Investment Dir	\$262.0	\$327.0	\$392.0	\$284.00	\$355.00	\$425.00	9%	125%
Sr Portfolio Mgr	\$220.0	\$280.0	\$340.0	\$220.0	\$280.0	\$340.0	NC	125%
Portfolio Mgr	\$172.0	\$215.0	\$258.0	\$192.0	\$240.0	\$288.0	12%	125%
Assoc Portfolio Mgr	\$120.0	\$150.0	\$180.0	\$140.0	\$175.0	\$210.0	17%	50%

While the salary range adjustments result in base salary compression between the DCIO, Senior Investment Director and Investment Director, when the incentive compensation is considered there is a 13 percent variance in the total cash compensation between each of these levels.

Board Action:

- Staff recommends approval of the proposed increases to the salary ranges for investment positions, to be effective July 1, 2024.

Background

[Education Code Section 22212.5](#) gives the board the authority to determine the compensation for CalSTRS Executive Management and Investment staff, specifically: the Chief Executive Officer (CEO), Chief Operating Officer (COO), Chief Financial Officer (CFO), General Counsel, System Actuary, Chief Investment Officer (CIO), Deputy Chief Investment Officer (DCIO), Senior Investment Directors, Investment Directors, Senior Portfolio Managers, Portfolio Managers, and Associate Portfolio Managers.

Per the Administrative Procedures for the Teachers' Retirement Board's Compensation Policy, the Compensation Committee will assess relevant competitive market compensation survey data from reputable third-party sources every two years or as otherwise determined by the committee. Maintaining a prudent two-year schedule affords the ability to address any variances to the market while they may be narrower rather than having to address wide variances that may occur between assessments of longer intervals.

As of January 2021, the full board has subsumed the responsibilities of the Compensation Committee.

2021 Labor Market Analysis:

The board last assessed labor market data at its June 2021 meeting. At that time, the findings from the 2021 analysis revealed that CalSTRS total cash compensation opportunities were generally aligned with the competitive market except for the CEO, General Counsel, and the DCIO. The board approved a 4 percent increase for the General Counsel. However, for the CEO and DCIO, the board was presented with two alternatives to address the gap in the competitive pay positioning. The first alternative would have required a 6.3 percent salary range increase for the CEO and a 17.6 percent salary range increase for the DCIO to align the total cash compensation to CalSTRS' targeted pay positioning. The second and subsequently approved alternative considered the potential implementation of a long-term incentive component which would not require any base salary range increase for the CEO and a smaller increase of 8.8% to the base salary range for the DCIO. However, the board paused further discussion of a long-term incentive plan at its March 2022 meeting.

The board took the following actions effective July 1, 2021.

- Increased the base salary range for the General Counsel by 4 percent.
- Increased the base salary range for the DCIO by 8.8 percent.

- Established the compensation structure for the new classifications of Senior Investment Director and Senior Portfolio Manager

It should be noted that there has not been any base salary range movement for most classifications for several years, including three classifications with salary ranges that have not moved in over 10 years. The last incentive opportunity increases were approved in June 2019.

Classification	Last Base Salary Range Change Date
CEO	7/1/2013
COO ¹	7/1/2017
CFO ¹	7/1/2017
General Counsel	7/1/2021
System Actuary	7/1/2016
CIO	7/1/2013
DCIO	7/1/2021
Sr Investment Dir ¹	7/1/2021
Investment Dir	7/1/2013
Sr Portfolio Mgr ¹	7/1/2021
Portfolio Mgr	7/1/2017
Assoc Portfolio Mgr	7/1/2019

Next Steps

Human Resources will incorporate approved changes into the Administrative Procedures for the Teachers' Retirement Board effective July 1, 2024.

Strategic Plan Linkage: Goal 1: Ensure a well-governed, financially sound trust fund.

Board Policy Linkage: The Teachers' Retirement Board's Governance Manual, [Section 6, Compensation Policy](#) for Designated Executive Management and Investment Staff and its [Administrative Procedures](#).

Optional Reference Material: None

¹ Date of last base salary range change aligns with the establishment of the new classification.