



Regular Meeting

Item Number 18 – Open Session

Subject: Compensation Committee Charter – First Reading

Presenter: Kristel Turko

Item Type: Information

Date & Time: May 2, 2024 – 10 minutes

Attachments: Attachment 1 – Compensation Committee Charter - Red-lined
Attachment 2 – Compensation Committee Charter - Clean
Attachment 3 – Compensation Policy
Attachment 4 – Compensation Program Fact Sheet

PowerPoint: None

Item Purpose

The purpose of this item is to evaluate the charter of the Compensation Committee. Since January 2021, the full board has subsumed the responsibilities of the Compensation Committee. Effective for fiscal year 2024-25, the Compensation Committee will be reestablished pursuant to board direction.

Recommendation

Staff recommends the board review and provide feedback on proposed revisions to the Compensation Committee Charter.

Discussion

For this discussion Kristel Turko, Director of Human Resources, will review the current Compensation Committee charter and discuss proposed updates. The current mandate of the committee is to provide oversight to the System's compensation policies and plan that support the successful recruitment, development and retention of talent to meet the business objectives of CalSTRS.

There are no recommendations for changes to the Authority, Composition or Meeting sections of the charter.

The board may desire to amend the Responsibilities section of the charter to maintain oversight of succession planning and the performance criteria and measures that determine incentives at the full board level to ensure broad visibility and discussion. The proposed amendments are delineated in Attachment 1.

Background and History

The board has established a Compensation Committee to provide oversight to the System's compensation policies and plan that support the successful recruitment, development and retention of talent to meet the business objectives of CalSTRS.

The committee conducts periodic assessments of the compensation program to assess its competitiveness and makes recommendations to the board for any adjustments. The committee develops written compensation policies for board adoption. Guided by the committee's charter, the board has established a Compensation Policy for Designated Executive Management and Investment Staff. The policy in its entirety is included in Attachment 3. A summary of key points in the policy is below.

Purpose

[Education Code Section 22212.5](#) provides that the Teachers Retirement Board (board) shall determine the compensation for specific CalSTRS Executive Management and Investment staff. The board has compensation setting authority for the following positions: Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, General Counsel, System Actuary, Chief Investment Officer, Deputy Chief Investment Officer, Senior Investment Directors, Investment Directors, Senior Portfolio Managers, Portfolio Managers, and Associate Portfolio Managers.

The compensation policy sets forth, in a transparent way, the board's general compensation philosophy and guides the Compensation Committee's activities in making decisions and recommendations on compensation matters. The policy directs the content in the Compensation Policy's [Administrative Procedures](#) and implementation of the compensation plan.

Executive Summary

The board has developed a compensation philosophy that reflects careful consideration of the following:

- To achieve its business and investment objectives, CalSTRS must be able to hire, motivate, and retain high-quality executive management and investment staff. A reasonable and competitive pay program is critical to achieving these objectives.

- While CalSTRS is a public organization, private sector firms are a key labor market for CalSTRS executive management and investment professionals.
- For executive management and investment professionals, private sector pay levels are generally higher than public sector pay levels, with much of the difference attributable to relatively higher private sector cash incentives/bonuses.

Compensation Program Objectives

The compensation program is designed to be:

- Internally equitable
- Externally competitive
- Incentive-based

Market Position Philosophy

- CalSTRS has high-quality executive management and investment staff critical to the system's ability to generate investment returns that exceed CalSTRS benchmarks without taking unnecessary risk and serve its members and their beneficiaries.
- Given the high-quality of the system's staff, the board desires to position staff compensation to stay in-line with the competitive market.
- Pay comparisons will be targeted towards other employers (comparator group) with which CalSTRS competes for talented professionals with similar skills.
- Relevant market compensation data will be secured from reputable, third party sources.
- The program is administered under the board's full and rigorous oversight and with supporting review provided by internal and independent/third party auditors.

Compensation Program Elements

- Base pay
- Incentive Pay
- Recruitment Pay Differential
- Educational Incentive
- Relocation

For the board's reference is Attachment 4, the Compensation Committee fact sheet used for the onboarding of new board members and their delegates.

Next Steps

This item is an information item. However, the board may decide to take action to approve the proposed changes. Approved changes will be incorporated into the Board's Governance Manual.

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