



Regular Meeting

Item Number 8b – Open Session

Subject: Policy Amendment to the Limitation Provision of Annual Salary Adjustments for the General Counsel

Presenter(s): Kristel Turko

Item Type: Action

Date & Time: May 2, 2024 – 10 minutes

Attachment: None

PowerPoint: None

Item Purpose

The purpose of this item is to refresh the board's March 2024 discussion to amend the policy provision within the Teachers' Retirement Board's Compensation Policy's Administrative Procedures (Administrative Procedures) that limits annual base salary adjustments for the General Counsel to 5 percent.

Recommendation

Staff recommends the board amend the Administrative Procedures to eliminate the provision that limits annual base salary adjustments for the General Counsel to 5 percent. This amendment will provide the Chief Executive Officer (CEO) with the ability to consider the same base pay increase factors and considerations for the General Counsel consistent with all other positions under the CEO's delegated authority to adjust salaries.

Discussion

At its March 2024 meeting, the board was presented an information item regarding the proposed policy amendment. The board directed this item return at the May 2024 meeting as an action item.

Base pay increases for the General Counsel are currently limited to 5 percent annually. The Base Salary Adjustment section of the Administrative Procedures states, in part, the following:

“Base salary adjustments may range generally 0-10 percent^{1,2} up to the midpoint of the salary range. The CEO has the discretion to grant an adjustment exceeding 10 percent. In determining the amount of a salary increase, if any, the CEO and CIO may consider a number of factors, including, but not limited to: each incumbent’s current salary, position in range and overall performance (as evaluated through CalSTRS performance appraisal process); internal equity relationships; retention issues; recruiting experience; and State environment. The CEO may also grant a base salary adjustment above the midpoint of the range for factors including, but not limited to: overall performance, internal equity relationships, retention issues, recruiting experience, and higher level duties.”

Within the above paragraph are footnotes that state the following:

¹ In compliance with AB 736, amending Education Code Section 22212.5, the annual percentage base pay increase that may be paid to a person who has served as COO or CFO on January 1, 2016, and who does not separate from service prior to the date on which the increase is applied, shall not exceed either: (1) Ten percent for the 2017-18 fiscal year or (2) Five percent for any fiscal year subsequent to 2017-18.

² In compliance with the Compensation Committee’s action on April 6, 2017, the annual percentage base pay increase that may be paid to a person who has served as General Counsel on April 6, 2017, shall not exceed either (1) Ten percent for the 2017-18 fiscal year or (2) Five percent for any fiscal year subsequent to 2017-18.

Both AB 736 and the policy provision regarding the Chief Operating Officer (COO) and the Chief Financial Officer (CFO) were specific to the incumbents who were in these roles on January 1, 2016. AB 736 and the policy provision are no longer relevant and are not applicable to the current COO and CFO incumbents, nor subsequent COO and CFO incumbents.

The policy provision limiting annual base salary increases to 5 percent is specific to the current General Counsel incumbent and has remained in effect to this day. This limitation hinders the CEO’s ability and discretion to apply consideration for performance, internal equity, or any other aforementioned factors, including board approved market adjustments to the base salary range, to award base pay increases that move the incumbent appropriately through the base salary range.

The current salary range for the General Counsel was previously approved by the board at its June 2021 meeting. Upon the board’s assessment of a labor market compensation analysis of positions under its compensation setting authority, which includes the General Counsel position, the board took action to approve a 4 percent increase to the General Counsel salary range. The 2021 labor market compensation analysis was conducted by McLagan Partners, one of the board’s compensation consultants, based on its survey of the board approved compensation comparator groups.

The midpoint of a salary range is the median market rate for a job and is also the target rate for an experienced and seasoned incumbent who is performing well. The higher end of the range is

targeted for high performing and highly seasoned and experienced incumbents. The General Counsel incumbent’s current pay positioning is 7.13 percent below the salary range midpoint and is not eligible for an incentive.

General Counsel Salary Range

	Incumbent’s Current Salary	Salary Range Min	Salary Range Mid	Salary Range Max
Current	\$371,472	\$325,000	\$400,000	\$475,000

Background and History

[Education Code Section 22212.5](#) gives the board the authority to 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.

When this section of the Education Code was amended effective January 1, 2017, to add the COO and CFO to the board’s compensation setting authority, the Legislature included a provision that limited annual salary increases for two specific incumbents in the two classifications. The statute states, in part:

“The annual percentage increase in salary that may be paid pursuant to this section to a person who served as chief financial officer or as chief operating officer on January 1, 2016, and who does not separate from service in that position prior to the date on which the increase is applied, shall not exceed either of the following:

- (1) Ten percent for the 2017–18 fiscal year.
- (2) Five percent for any fiscal year subsequent to 2017–18.”

At the April 2017 Compensation Committee Meeting, the committee took action to incorporate the section of the Education Code, specific to the COO and CFO, into the Administrative Procedures. At that time, the committee also took action to incorporate its own provision, not required by statute, that held the General Counsel to the equivalent salary increase limitations.

Also approved at the April 2017 meeting was a significant increase to the General Counsel salary range which took into consideration market total cash compensation (base salary + annual incentive). Previously, the committee only assessed base salary during its periodic reviews of labor market benchmarks for the General Counsel since the role was not participating in the incentive plan. Although the salary range for the General Counsel has increased over time, the incumbent’s salary increases remain restricted under current policy provisions. Below is a history of the salary range movement.

History of General Counsel Salary Range Movement

Range Effective Date	Salary Range Min	Salary Range Mid	Salary Range Max	Range Increase
7/1/2008	\$170,000	\$205,000	\$252,000	Established
7/1/2017	\$277,000	\$345,000	\$409,000	68%
7/1/2019	\$308,000	\$384,000	\$455,000	11%
7/1/2021 (Current)	\$325,000	\$400,000	\$475,000	4%

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