



Regular Meeting

Item Number 10 – Open Session

Subject: Report and Recommendations for Long-Term Incentive Plan

Presenter(s): Melissa Norcia/Peter Landers, Global Governance Advisors

Item Type: Action

Date & Time: January 28, 2022 – 30 minutes

Attachment(s): None

PowerPoint(s): Long-Term Incentive Plan Eligibility

PURPOSE

The purpose of this item is to present recommendations for long-term incentive plan eligibility criteria to assist the board in its compensation program assessment and the development of a long-term incentive plan.

BACKGROUND

Education Code Section 22212.5 gives the board the authority to determine the compensation of 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, Investment Directors, Portfolio Managers, and Associate Portfolio Managers. The establishment of two new positions of Senior Investment Director and Senior Portfolio Manager is currently underway.

In 2017, the Compensation Committee was presented with a Total Rewards (base salary + annual incentives + long-term incentives + health benefits + retirement benefits) labor market analysis from consultants at McLagan Partners and AON Hewitt. The study compared CalSTRS total rewards (base salary + annual incentive + retirement and health benefits) to the competitive market (base salary + annual incentive + long-term incentives + retirement and health benefits).

In summary, the review revealed the following:

- CalSTRS benefit value represents a small portion of its total rewards (base salary + annual incentive + retirement and health benefits).

- The CalSTRS benefit value doesn't influence its positioning in the competitive market in a meaningful way.
- Long-term incentives within the peer group are a key driver for CalSTRS positioning below market (median).

The findings supported the discussion involving a comprehensive review of CalSTRS incentive plan structure.

Based on feedback and direction from the board, recommendations for design components of a proposed long-term incentive plan (LTIP) will be presented to the board for action in phases, so that board members can thoroughly discuss and assess each proposed design element. A summary of the recent work the board has conducted is as follows:

At its [March 2021 meeting](#), the board received a [presentation](#) on a proposed LTIP framework to assist the board in its approach to a comprehensive compensation program assessment. The facilitated discussion provided board member insights and feedback on next steps in the development of changes to the compensation program.

At its June 2021 meeting, the board reviewed a total compensation [labor market analysis](#), conducted by McLagan Partners, of the board approved comparator groups with findings that showed CalSTRS total compensation (base salary + annual incentive + long-term incentive) lags the competitive market with long-term incentives as the key driver of CalSTRS positioning below market. Also at the June meeting, the board was presented with a proposal for an overall [LTIP design](#) from Global Governance Advisors (GGA).

At its [September 2021 meeting](#), the board received a [presentation](#) from GGA and Meketa Investment group on proposed LTIP features with emphasis on a performance measurement period, participant eligibility and an initial measure of cost savings.

- The board discussed and took action to approve a rolling 5-year performance measurement period, contingent upon subsequent board approval of a LTIP.
- For informational discussion, Meketa Investment Group facilitated board discussion and obtained board feedback on proposed components for measuring cost savings from the Collaborative Model and its use as a performance measure to determine LTIP payouts.
- For informational discussion, GGA facilitated board discussion and obtained board feedback for LTIP eligibility criteria that included rationale on the appropriate classifications to be included as plan participants.

DISCUSSION

Based on the feedback and direction from the board at its September meeting, Peter Landers, Senior Partner at GGA, will present recommendations for participant eligibility criteria for the proposed LTIP. The presentation will include LTIP eligibility trends in the peer group and the broader market and will provide rationale on the need to attract, retain, and incentivize roles critical

to the success of the Collaborative Model. It is GGA's recommendation that LTIP participant eligibility be comprised of the Chief Executive Officer and Investment staff under the board's compensation setting authority.

RECOMMENDATION

Human Resources recommends the board approve GGA's recommendations for LTIP participant eligibility to be comprised of the Chief Executive Officer and Investment staff under the board's compensation setting authority, contingent upon subsequent board approval of a LTIP.

NEXT STEPS

Based on today's discussion, feedback, and direction from the board, additional recommendations for LTIP design features will be brought to the board at a future meeting.