

## Section 6 Compensation Policy Designated Executive Management and Investment Staff

### A. Purpose

Education Code section 22212.5 provides that the Teachers' Retirement Board (board) shall determine the compensation of CalSTRS chief executive officer (CEO), chief operating officer (COO), chief financial officer (CFO), system actuary, general counsel, chief investment officer (CIO), and other investment officers and portfolio managers designated as managerial. Guided by the Compensation Committee's Charter, the purpose of this policy is to set forth, in a transparent way, the board's general compensation philosophy that directs the content contained within Administrative Procedures for the board's Compensation Policy ([Administrative Procedures](#)) and implementation of the compensation plan. It also guides the Compensation Committee's activities in making decisions and recommendations on specific compensation matters. CalSTRS compensation program is administered under the board's full and rigorous oversight and with supporting review provided by internal and independent/third party auditors. The Charter, the Policy and the Administrative Procedures are meant to be read together in harmony and are not intended to be in conflict with each other.

### B. Executive Summary

The Compensation Committee has the responsibility to ensure the compensation program is properly designed to support organizational objectives and develop for board adoption administrative procedures that document the compensation plan and administrative procedures based on the board's compensation philosophy.

The board has developed a compensation policy 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.

## C. Compensation Program Objectives

As adopted by the board, CalSTRS compensation program for executive management and investment staff is designed to be:

- **Internally Equitable:** That is, comparable pay opportunities should be provided to employees in positions requiring similar levels of skill, responsibility, and impact on investment performance.
- **Externally Competitive:** In particular, cash compensation opportunities should be competitive with those offered by the board-approved compensation comparator group.
- **Incentive-Based:** Specifically, incentive opportunities should represent a major portion of cash compensation and should attract and retain high caliber investment staff, motivate and enhance individual and team effort, and reward superior investment performance.

## D. Market Position Philosophy

CalSTRS has high-quality executive management and investment staff. These personnel are critical to the system's ability to generate investment returns that exceed CalSTRS benchmarks without taking unnecessary risk and serve its members and 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.

The board will define in the administrative procedures, the compensation comparator group to be used in comparing its pay levels to the competitive market. Pay comparisons will be targeted towards other employers with which CalSTRS competes for talented professionals with similar skills. The board will also define the percentile level of targeted market pay. The competitive market for both base pay and incentive purposes is the same. Relevant market compensation data will be secured from reputable, third party sources, every two years or as otherwise determined by the board's Compensation Committee. The compensation comparator group will be reassessed and may be modified by the board, in consultation with its compensation consultant, prior to assessing competitive market data.

## E. Compensation Program Elements

The Compensation Program consists of the following elements:

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

## 1. Base Pay Overview

The board has approved the practice of setting salary ranges, rather than a single rate of pay, for executive management and investment staff. The board will continue this practice for these and any future positions covered under the Education Code section 22212.5

Base salary ranges, with specified minimums and maximums, will be established for executive management and investment staff using market data from the board approved compensation comparator group(s). Base salary ranges for executive management and investment staff are typically reviewed every two years (i.e., through a comprehensive market pay analysis using data from third party sources). In intervening years, special market reviews and/or analysis may be conducted to validate existing salary ranges and/or to establish a new recruiting range when a position becomes vacant. As approved by the board, the administrative procedures will specify the administrative details and program mechanics including, but not limited to, the following:

- Base salary ranges
- Salary adjustment criteria, including annual maximum salary movement
- Individual performance criteria
- Targeted salary levels
- Timing and effective dates
- Approval authority

## 2. Incentive Plan Overview

As approved and adopted by the board, CalSTRS incentive plan is intended to:

- Reinforce the system's investment, governance and compensation philosophies and objectives.
- Help CalSTRS attract, motivate, and retain top-performing executives and investment staff.
- Align incentive payouts with overall system, functional area, and individual performance.
- Focus staff on key investment objectives/benchmarks that are measured on a long-term basis.

The board approves the positions that may be eligible to participate in the incentive plan. Actual incentive plan participation is determined based on each incumbent's employment status and the Compensation Committee's assessment of the position's impact on CalSTRS overall investment and business performance. Incentive opportunities will vary by position based on differing levels of accountability, responsibility, competitive pay requirements and staff tenure. Incentive opportunities reflect competitive cash compensation levels and the Compensation Committee's assessment of the optimal mix of base salary and incentive opportunity. As approved

by the board, the administrative procedures will specify the administrative details, criteria, and incentive plan mechanics including, but not limited to, the following:

- Participation eligibility
- Incentive opportunity levels
- Quantitative performance components, including Total Fund and Asset Class performance benchmarks, and weightings
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- Performance measurement periods
- Individual personal performance criteria and performance expectations
- Pro-rata awards
- Timing of payment
- Payment at separation
- Board's discretion in the event of qualifying triggers (investment performance, ethics violation, and/or reputational risk)

### 3. Educational Incentive Overview

The board has approved the practice of providing an educational incentive for successful completion of certain professional certifications and reimbursement for related expenses associated with participating in these certification programs. As approved by the board, the administrative procedures will specify the administrative details and criteria including, but not limited to:

- Position eligibility
- Eligible certification programs
- Amount of pay differential
- Expense reimbursement

### 4. Recruitment Pay Overview

In order to attract highly skilled executives and investment staff, the board has approved the practice of providing a recruitment differential for external hires. As approved by the board, the administrative procedures will specify the administrative details and criteria including, but not limited to:

- Position eligibility
- Amount guidelines and maximum
- Payback provisions in the event of separation
- Authorized approvers

### 5. Relocation Overview

It is the board's intent that individuals from outside State of California service who are newly appointed to positions covered under this policy, and who are required by CalSTRS to change their place of residence to accept employment be fairly compensated for relocation expenses. As approved by the board, the administrative

procedures will specify the administrative details and criteria including, but not limited to:

- Position eligibility
- Eligible expenses
- Amount guidelines and maximum
- Payback provisions in the event of separation
- Authorized approvers

## **F. Modification, Suspension and Termination**

The board will regularly review the compensation program and will make changes as necessary to ensure the primary purpose of the compensation program is met.

Subject to the provisions of Education Code section 22212.5 (and all related amendments), the board reserves the right to modify, terminate, and/or rescind any and/or all of the compensation schedules, provisions, policies, and procedures contained in this and all supporting documents at any time. This document describes a policy and does not provide a contract, guarantee of payment, or guarantee of employment between the board, CalSTRS, and the employees described in this document.

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