

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Bill Number: AB 1317 (Mullin)

SUMMARY

This bill adds executive officers and general counsel to those existing positions for which the Teachers' Retirement Board already has authority to fix compensation. The existing positions are chief executive officer, system actuary, chief investment officer, and other investment officers and portfolio managers positions the Government Code designates as managerial.

PURPOSE OF THE BILL

The purpose of AB 1317 is to attract, hire and retain well-qualified executives and general counsel by granting authority to the Board to fix the salaries for these positions at a competitive level. Competitive salaries commensurate with the knowledge and experience that their work demands will enlarge the pool of candidates from which CalSTRS may hire and will enable CalSTRS to retain well-qualified staff in these positions.

In essence, this bill merely adds two position categories to those for which the Board already has authority to fix compensation.

BOARD POSITION

Co-Sponsor.

LEGISLATIVE HISTORY

Chapter 856, Statutes of 2003 (SB 269—Soto) allows the Boards of CalSTRS and CalPERS to set salary levels and performance standards for the positions of Chief Executive Officer, System Actuary, Chief Investment Officer and investment managers, consistent with the authority established in Proposition 162. SB 269 also restricts for two years after leaving CalSTRS employment those individuals who were employed for less than five years in these positions from being paid to influence the actions of the CalSTRS or decisions of the Board.

The California Pension Protection Act of 1992 – Proposition 162 of 1992 grants public retirement system boards plenary authority over investment decisions and the administration of each retirement system in a manner to assure prompt delivery of benefits and related services to members and their beneficiaries.

PROGRAM BACKGROUND

The Board believes that in order to secure the financial future and sustain the trust of California's educators it must have the ability to recruit and retain top talent. The current civil service salary structure hampers the ability to attract seasoned executive officers and general counsel who are competent to manage a retirement system the size of CalSTRS. Currently, only the Department of Personnel Administration has authority to set compensation for these positions. The Government Code limits compensation to a level that is significantly lower than what qualified

candidates can obtain from other public and private employers. These factors limit the candidate pool to state employees and otherwise make CalSTRS less attractive to highly qualified candidates and thereby limit the pool from which CalSTRS can hire. Additionally, the higher salaries make the private employment market much more attractive to the highly-qualified employees who currently occupy these positions thereby increasing the likelihood that CalSTRS will lose these employees to private industry along with their extensive experience, skill, and knowledge of CalSTRS. For example, in 2006 CalSTRS lost its general counsel to the San Diego retirement system that offered a significantly increased salary.

Since the enactment of SB 269 in 2003 granting authority to the Board to fix compensation for other positions, the Board has demonstrated that it has responsibly and ethically exercised the authority it seeks with AB 1317, and as a result it has retained its staff in those positions.

ANALYSIS

Specifically, Assembly Bill 1317 adds executive officers and general counsel to those positions for which the Board already has authority to fix compensation. If passed, the authority to fix compensation for executive officers and general counsel would be under the following existing authority and restrictions already established for hiring the chief executive officer, system actuary, chief investment officer, and other investment officers and portfolio managers position:

- The level of compensation could be guided by the principles contained in existing civil service laws, to compensate employees at levels competitive with the compensation paid to employees in other retirement and financial service entities;
- When these positions are filled through a general civil service appointment, candidates will be selected from an eligible list based on an open examination;
- Allows the Board to take action to remove these employees according to state civil service discipline standards, for failure to meet specified performance objectives and other causes related to the Board's fiduciary responsibility to its members;
- Restricts individuals employed in these positions for less than five years from being paid to influence the actions of the retirement system, or the decisions of its governing board for two years following the end of their employment with the retirement system.

Being the second largest public pension fund in the United States, it is essential for the financial security of CalSTRS that the Board be able to hire highly qualified executives and general counsel. With the authority to fix compensation levels and performance standards for these additional positions, the Board will have the opportunity to attract highly-qualified candidates into a large, national pool and to retain its current executives and general counsel.

FISCAL IMPACT

Benefit Program Cost – None

Administrative Costs/Savings – The current minimum and maximum annual salary for the General Counsel and Executive Officers is \$71,640 - \$155,292. Under the bill, the salary range could increase, plus an incentive compensation package may exceed the current limit of 15%. An actual fiscal impact cannot be determined until a compensation package is developed and approved.

SUPPORT

None known.

OPPOSITION

None known.

ARGUMENTS**Pro:**

- As the second largest public pension fund in the nation, CalSTRS needs well-qualified executives and general counsel who can administer the System in a way that will secure the financial future of California's teachers.
- Competitive compensation rates will increase the pool of well-qualified applicants from which to hire executive officers and general counsel, and will increase CalSTRS' ability to retain experienced employees in these positions.
- This bill merely adds two position categories to those for which the Board already has authority to fix compensation and for which it has done so ethically and successfully since 2003.

Con:

- Recent events have heightened public sensitivity toward raising the compensation of public officials.