
Bill Number: AB 754 (Assembly Public Employees, Retirement, and Social Security Committee) – Investment Officer Compensation

SUMMARY

AB 754, an urgency bill, approves a side letter to the memorandum of understanding (MOU) between the State and the state bargaining units. This side letter includes several provisions adjusting the CalSTRS Investment Officer series pay structure.

PURPOSE OF THE BILL

To achieve its investment objectives, CalSTRS must be able to hire, motivate, and retain high-quality investment staff. A reasonable and competitive pay program is critical to achieving these objectives. The adjustments to the CalSTRS Investment Officer series pay structure are necessary to keep CalSTRS as competitive as possible with the private sector in attracting and retaining such staff.

Existing law requires the Legislature to approve any addenda to the memorandum of understanding between the state and bargaining units that present substantial additions, as determined by the Joint Legislative Budget Committee.

BOARD POSITION

Support.

LEGISLATIVE HISTORY

Chapter 499, Statutes of 2005 (SB 621—Speier), requires the Department of Personnel Administration to provide to the Joint Legislative Budget Committee (JLBC) any side letter, appendix or other addendum to each ratified MOU between the State and bargaining units that requires \$250,000 or more in expenditures not currently included in the Budget Act. If the JLBC determines that the change constitutes a substantial addition to the original MOU, the Legislature must ratify it.

PROGRAM BACKGROUND

The side letter authorized by AB 754 is the culmination of work that originally began two years ago to align the Investment Officer series between CalSTRS and CalPERS. Since achieving this alignment, the two pension plans have united to recognize the important contributions made by staff in the Investment Officer series to the successful management of the investment portfolio as indicated by the adjustments within the side letter referenced in AB 754.

CalSTRS currently offers an incentive award program to the top three levels of the Investment staff - the Chief Investment Officer, Directors and Portfolio Managers - and has done so for several years. Investment Officer III performance awards would be calculated using the same process. The incentive program is an annual, lump-sum award, ranging up to 15 percent of the employee's base salary at the time of the award. The awards are tied to performance during the

fiscal year and are based on both quantitative and qualitative performance components. Award amounts may vary from year to year, and from employee to employee. Unlike merit salary adjustments, the awards do not become part of the employee's base pay, and are not part of the calculation of final compensation for retirement. Furthermore, the incentive program is in addition to, and does not replace, other performance appraisal systems that apply to Investment Officer IIIs. These other systems include annual performance appraisals, report of probationary performance and performance certifications for merit salary adjustments.

Currently there are no pay differentials being offered for holding investment-related certifications; a process will have to be established to identify staff who are eligible for the Chartered Financial Analyst pay differential.

ANALYSIS

The side letter authorized by AB 754 includes three main provisions affecting CalSTRS:

- 1) It expands both the top and bottom of the salary range for the Investment Officer III classification by five percent, with the intent to provide a potential similar salary adjustment for the Investment Officer I and II classifications within a year.
- 2) It grants the authority for the State and the SEIU to meet and confer to establish an incentive award program for the Investment Officer III classification.
- 3) It provides a five percent pay differential to full time employees within the Investment Officer I, II, III classification who achieve certification as a Chartered Financial Analyst.

The skill, effort and expert judgment of investment staff at this level play a key role in reaching and exceeding portfolio management objectives. Therefore, it is appropriate that these employees be eligible for an award, in addition to base pay, that aligns their pay with the success within their portfolio area, in order to keep CalSTRS compensation as competitive as possible with that offered in the private sector. An incentive award program will help CalSTRS recruit and retain the experienced and productive Investment Officer III staff it needs to foster continued investment success and to provide a viable internal candidate pool for higher investment management positions.

Under AB 754, the provisions in the side letter will only take effect if funds are available within an existing appropriation or if the Legislature appropriates funds for this purpose.

FISCAL IMPACT

Benefit Program Cost – No impact on CalSTRS benefit programs.

Administrative Costs/Savings – The maximum estimated annual costs associated with the implementation of the provisions contained within the side letter are:

- \$60,000 - Five percent increase at top of Investment Officer (IO) III range across twelve positions.

- \$188,500 – Fifteen percent award for twelve positions at maximum Investment Officer III range.
- \$20,000 – Five percent pay differential for four positions (2-IO IIs & 2-IO IIIs) currently holding the CFA designation calculated at the maximum salary range.

SUPPORT

Department of Personnel Administration (Sponsor)
American Federation of State, County, and Municipal Employees
CalPERS
Service Employees International Union

OPPOSITION

None

ARGUMENTS

Pro: This bill would help ensure CalSTRS is able to recruit and retain high-quality investment staff by offering a reasonable and competitive pay program to its Investment Officer classifications.

Con: Some represented CalSTRS employees would receive a higher increase in compensation than would others.

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