

AGENDA ITEM DETAILS

Subject: Review and Discussion of the Incentive Compensation Plan

ERS INCENTIVE COMPENSATION PLAN BACKGROUND:

The Board of Trustees (Board) originally approved the ERS Incentive Compensation Plan (Plan or ICP) on December 13, 2006. The Board reviews and approves the Plan annually in a public meeting before the start of each plan year and updates the plan periodically to conform to the labor market and compensation plan standards. The Board last approved the ICP on August 19, 2020.

The ICP communicates strategic performance priorities to participating employees. It is designed to sustain levels of high investment performance prudently achieved without undue risk, promote teamwork among employees, support ERS' strategic and operational goals, and attract and retain key employees.

As an incentive for participating employees to work toward ERS' success, the Plan provides them with the opportunity to earn incentive compensation based on ERS' overall Trust fund performance, their assigned asset class performance, and their own individual performance.

ERS measures performance based on one, three and five-year performance periods within risk parameters set by the Board. Performance is based on both total trust and individual portfolio performance. Participating employees earn incentive compensation if performance beats agreed upon benchmarks. Benchmarks are set for the total trust and individual asset classes and are documented in the investment policy unless otherwise stated in the ICP.

ERS evaluates participating employees on both quantitative and qualitative metrics. Qualitative metrics include areas such as leadership, teamwork, communication, and innovation. The senior leadership of the investments team have developed a rating methodology to determine qualitative ranking scores for employees.

ERS pays awarded incentive compensation over a three-year period, in most instances, (50% in the first year and 25% each year following). An employee must remain employed and be in good standing for three years from the date he or she earned the incentive compensation award in order to be paid the full amount. This serves as an effective retention tool. Incentive compensation can be earned, but is not paid in any year when the total fund does not have positive performance. Incentive compensation bonuses are calculated based on a weighted average annual salary.

All payments are subject to claw back under certain circumstances, meaning that an employee paid in error will have to reimburse ERS the amount of the payment, even if he or she is no longer working for ERS. Similarly, if an award was incorrectly calculated and a participant was underpaid, the Executive Director may approve a supplemental payment to make up the difference between the earned amount and the previously paid amount. These two Plan provisions help ensure the goal of 100% accuracy in payment of awards.

Human Resources (HR), in conjunction with key stakeholders, annually review the Plan and related processes to make recommendations to the Board. ERS staff presents a draft Plan document to the Board each year at the May Board meeting for review and discussion, included here as Exhibit A. Staff incorporates Board comments and changes into a proposed Plan document finalized each year at the August Board meeting.

Executive management and other key stakeholders review the Plan document each year to recommend updates to the Board.

PROPOSED ICP DOCUMENT REVISIONS FOR FISCAL YEAR 2022:

Based on a recent market compensation study conducted in-house by HR, staff recommends adjusting the Maximum Incentive Award Percentages for certain Plan Groups, including Supervising Portfolio Manager, Portfolio Manager IV, V & VI, and Investment Analyst V. The changes to the max percentages align the plan more closely to a peer universe of public pension systems, selected based on their similarity to ERS in investment operations. Increasing the potential incentive award brings these positions close to the median of the peer universe for staff members in each group. These changes are reflected in Exhibit A.

Staff is not recommending any further changes to the Plan document for Fiscal Year 2022.

This item is for informational purposes only and is not an action item.

ATTACHMENTS:

1. Exhibit A - Proposed PY2022 Draft ICP Document
2. Slides – Incentive Compensation Plan