

Public Agenda Item #4

Review and Discussion of the Incentive Compensation Plan for Fiscal Year 2022

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DeeDee Sterns, Director of Human Resources

Jamey Pauley, ICP Program Specialist

Incentive Compensation Plan (ICP)

ICP Document



- The Board of Trustees reviews the ICP on an annual basis.
- During the May Board meeting:
 - HR provides an overview of the plan that may or may not include any recommended plan changes, and
 - A draft plan document is submitted to the Board for the upcoming fiscal year.
- During the August Board meeting:
 - HR presents the final proposed plan document for consideration.
 - The plan must be adopted before the new fiscal year that begins September 1.

Incentive Compensation Plan



Objectives

- Communicate strategic performance priorities.
- Encourage sustained levels of high investment performance, without undue risk.
- Promote teamwork among employees.
- Support ERS' strategic and operational goals.
- Attract and retain key employees in a cost-effective manner.

Incentive Compensation Plan



Overview

- Eligibility for the ICP requires compliance with ERS policies/procedures and ERS Investment Policy Statement.
 - All participants must be in good standing.
 - New hires must successfully complete their six-month probationary period.
- Performance measures are based on one-, three-, and five-year performance periods.
- Participants have individual and total trust performance benchmarks.
- Participants must exceed their benchmarks to receive an incentive award.
- Benchmarks are set in the Investment Policy Statement unless otherwise stated in the ICP document or the CIO Goals Memo.

Incentive Compensation Plan



Overview

- Participants are evaluated on both quantitative and qualitative metrics.
 - 75% quantitative with minimum 25% total trust performance
 - 25% maximum qualitative
- Investments uses a discretionary matrix tool to evaluate participants' qualitative performance.
 - Qualitative metrics include areas above and beyond performance; leadership, teamwork, communication and innovation.
- Payout of incentive award is done over a three-year period: 50/25/25
 - The awardee must be an active and eligible ERS employee on each payment date to receive the full amount.

Incentive Compensation Plan



Overview

- Incentive compensation can be earned, but the Trust Fund as measured by the one-year Global Composite Performance must be positive to pay awards.
- Award payments shall be deferred during non-positive years.
- Unpaid incentive awards shall be forfeited after three years of deferrals.
- Metrics and calculations are tied to the Risk Budget approved by the Board.
- ICP awards are calculated based on a weighted average salary.
- If an award is paid in error, over/under-payment provisions to correct errors and help ensure 100% accuracy.

Incentive Compensation Plan



Overview

- Administrative oversight of the plan is managed by Human Resources.
- Finance performs the award calculations.
- Independent review is performed by a third-party entity.
- Internal and external audits help ensure payments are in accordance to plan.

Incentive Compensation Plan

Fiscal Year 2022



- HR annually reviews the Plan and related processes to make recommendations to the Board.
- Based on a recent market compensation study conducted in-house by HR, staff recommends adjusting the Maximum Incentive Award Percentages for certain Plan Groups in Fiscal Year 2022.
- 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.
- Staff is not recommending any further changes for Fiscal Year 2022.

Incentive Compensation Plan



Fiscal Year 2022 – recommended changes to Appendix A

APPENDIX A

ELIGIBLE EMPLOYEE POSITIONS WITH
MAXIMUM INCENTIVE AWARD PERCENTAGES AND PAYMENT SCHEDULES

Plan Groups	Maximum Incentive Award Percentages	Payment Schedules (Year 1/2/3, see Section 6.2)
Executive Director	100%	50/25/25
Chief Investment Officer	100%	50/25/25
Deputy Chief Investment Officer <small>(Performance Goal weightings based on Public Equity under Ex.B)</small>	100%	50/25/25
Asset Class Director	100%	50/25/25
Director of Risk Management & Applied Research	100%	50/25/25
Director of Investment Services <small>(Performance Goal weightings based on Inv Ops under Ex.B)</small>	90%	50/25/25
Supervising Portfolio Manager	80%	50/25/25
Portfolio Manager I, II, III, IV, V & VI	70%	50/25/25
Chief Trader I & II	70%	50/25/25
Trader I, II & III	65%	50/25/25
Investment Analyst III, IV & V	58%	50/25/25
Investment Operations Manager	50%	50/25/25
Investment Analyst I & II	35%	50/25/25
Financial Analyst I, II, III & IV (Investment Operations Specialist and Operational Due Diligence Specialist)	25%	50/50
Investment Administrative Support	5%	100
General Counsel <small>(Performance Goal weightings based on Legal Services under Ex. B)</small>	65%	50/25/25
Investments and Securities, Attorney <small>(Performance Goal weightings based on Legal Services under Ex. B)</small>	65%	50/25/25
Investments and Securities, Paralegal <small>(Performance Goal weightings based on Legal Services under Ex. B)</small>	35%	50/25/25

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Chief Investment Officer	100%	50/25/25
Deputy Chief Investment Officer <small>(Performance Goal weightings based on Public Equity under Ex.B)</small>	100%	50/25/25
Asset Class Director	100%	50/25/25
Director of Risk Management & Applied Research	100%	50/25/25
Director of Investment Services <small>(Performance Goal weightings based on Inv Ops under Ex.B)</small>	90%	50/25/25
Supervising Portfolio Manager	80% 90%	50/25/25
Portfolio Manager IV, V & VI	80%	50/25/25
Portfolio Manager I, II, & III, IV, V & VI	70%	50/25/25
Chief Trader I & II	70%	50/25/25
Investment Analyst V	70%	50/25/25
Trader I, II & III	65%	50/25/25
Investment Analyst III, & IV & V	58%	50/25/25
Investment Operations Manager	50%	50/25/25

Questions?