

**AGENDA ITEM DETAILS**

**Subject:** Consideration of Annual Review of ERS Incentive Compensation Plan

---

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 approved the current ICP on August 24, 2022. At the May Board meeting, staff traditionally lays out any proposed changes for Board members to review and consider. Final approval of the FY24 ICP will be considered at the August 2023 Board meeting.

**PROPOSED ICP CHANGES FOR FISCAL YEAR 2024:**

**Proposed Policy Change**

Section 6.3 of the ICP currently defers award payments when Trust performance is not positive for the fiscal year. Payments are forfeited if they are deferred because of negative trust fund performance for three years in a row. Staff is recommending eliminating the provision in section 6.3 of the Plan document that requires forfeiture of payments.

An internal review of incentive plans at peer funds indicate that ERS is unique in requiring this forfeiture provision and therefore it may have an impact on staff retention.

**Non-Material Changes**

In addition to the policy change proposed above, staff is proposing some non-material changes to the Plan document for clarification and to reflect current processes and practices.

Exhibit A, included with this agenda item, details all of the staff proposed changes for the next fiscal year.

This agenda item is presented for discussion and informational purposes only. No action is necessary at this time.

**ERS INCENTIVE COMPENSATION PLAN BACKGROUND:**

The ICP communicates strategic performance priorities to participating employees. It is designed to incent sustained 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 compensates qualifying employees 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. Both total Trust and individual portfolio performance are considered. Participating employees earn incentive compensation if performance beats agreed upon benchmarks. Benchmarks are set for the total Trust and individual asset classes and 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 investment employees.

If an employee earns incentive compensation, it is generally paid to them over a three-year period. The payout is 50% in the first year and 25% for the following two years, as long as the employee remains employed in good standing for three years from the date he or she earned the incentive compensation award. This serves as an effective retention tool.

Employees can *earn* incentive compensation when the overall Trust performance is negative, but the compensation cannot be *paid* 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 executive management and other key stakeholders, annually reviews 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.

Final Plan approval will be on the agenda of the August Board meeting.

#### ATTACHMENTS:

1. Exhibit A – Proposed PY24 ICP Document Draft
2. Slides - Annual Review of the ERS Incentive Compensation Plan