

# Grant Thornton Pay Design Strategies

(endorsed by the Board in April 2016)

STRATEGIES: Categorized by Cost Impact and Covered Group		STATUS
<b>Cost Neutral Strategies – CEO and Other 20098 Executives</b>		
1	Reallocate short-term variable pay to fixed pay, maintaining "take home" pay	Pending subsequent meetings and further Committee discussion
2	Modify incentive metrics to reflect value adding results (Cost Effective Management of CEM, stakeholder satisfaction, and for leaders other than the CEAs, an individual goal)	Active strategy; slightly modified and effective FY 2016-17
3	Include board relations on CEO's "scorecard"	Active strategy; effective FY 2016-17
4	Add bonus modifier for Total Fund performance, aligning interests (adding modifier to IO bonuses for CEM and Stakeholder Satisfaction)	Added to CEO plan effective FY 2016-17
<b>Additive Pay Strategies – CEO and Other 20098 Executives</b>		
5	Structural base salary and bonus adjustments for all roles (excluding CIO), recognizing the size and complexities of CalPERS and the skills it requires to manage the organization's four primary segments (staff, customer service, insurance and pension) at satisfactory levels	Pending subsequent meeting and further Committee discussion
6	Each year authorize CEO to approve discretionary bonus adjustments (assume cost neutral, as positive adjustments funded by negative adjustments) and retention bonuses to right size pay and to increase ability to respond to business and talent needs without adding to fixed costs – enhance and enforce discipline and attainment of objectives with controls and periodic reporting to PCTM Committee	Active strategy (discretionary modifiers); effective FY 2016-17; not integrated as cost neutral (can increase or decrease award, as appropriate)
7	Add long-term incentive program - initial and settlement (payout) values are functions of actual bonus and of multi-year Total Fund results, respectively	Pending subsequent meeting and further Committee discussion

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Cost Neutral Strategies – Investment Management Positions		
8	Reallocate short-term variable pay to fixed pay, maintaining "take home" pay	Pending subsequent meeting and further Committee discussion
9	Move from formulaic base salary adjustment methodology based on Merit Matrix to an annual salary adjustment budget of [2.5-3%] of salaries that the CIO uses to make discretionary adjustments to base salaries to enhance pay differentiation	Pending subsequent meeting and further Committee discussion
10	Modify definition of investment performance for incentive purposes to provide greater balance (total fund, cross fund, individual fund), reflecting how business is managed and to reduce any perceptions of excessive risk taking – and include modifier for CEM and stakeholder satisfaction	Pending subsequent meeting and further Committee discussion
Additive Pay Strategies – Investment Management Positions		
11	Annually authorize CIO to make discretionary bonus adjustments and retention bonus payments subject to CEO approval – enhance and enforce discipline and attainment of objectives with controls and periodic reporting to PCTM Committee	Active strategy (discretionary modifiers); effective FY 2016-17
12	Add long-term incentive program – same as for CEO & 20098s	Pending subsequent meeting and further Committee discussion