SCERS
SACRAMENTO COUNTY
EMPLOYEES' RETIREMENT SYSTEM

ITEM 15

Executive Staff

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Chief Executive Officer

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General Counsel

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Chief Benefits Officer

For Agenda of:
April 19, 2017

April 14, 2017

TO: President and Members
Board of Retirement

FROM: Richard Stensrud
Chief Executive Officer

SUBJECT: Compensation Range for CEO Position

Recommendation:

That the Board consider the information presented in the revised compensation study report from Ralph Andersen & Associates and this memorandum and adopt a salary range for the Chief Executive Officer position that will allow SCERS to attract and retain an individual with the knowledge, skills and experience SCERS wants in the CEO position.

At the Special Board Meeting on April 6th, the Board was presented with a compensation study for the Chief Executive Officer (CEO) position performed by Ralph Andersen & Associates. That study utilized data derived from twenty public employee retirement systems in California. The Board also received information on retirement system CEO compensation from Hudepohl & Associates, the firm selected to lead the CEO recruitment effort. That information was derived from various national studies on public pension fund CEO compensation. This latter data was relevant because SCERS anticipates that the recruitment for the next CEO will be national in scope.

The information from the two sources provided a consistent and clear message: The current salary range for the CEO position is considerably below the market for that position (e.g., the Andersen analysis showed that that SCERS' CEO compensation falls between the 14th and 16th percentile of the market, meaning that 84% to 86% of the comparable employers pay a more competitive salary than SCERS).

The ramifications of the results were equally clear: The compensation would need to be adjusted in order for SCERS to attract the knowledge, skills and experience SCERS wants in the CEO position.

The Board had a wide ranging and thoughtful discussion regarding what the appropriate salary range for the CEO position should be. The discussion included consideration of: (1) The median market salary for the CEO position; (2) The appropriate salary range for the position; (3) The possible need to set the maximum of the salary range above the market median in order to be competitive for the desired knowledge, skills and experience; (4) The impact of compensation elements beyond salary, in particular retirement benefits, on the competitiveness of the total compensation package; and (5) The substantial adjustment in compensation that would be required in order to bring SCERS into a competitive position given that it has been more than ten years since the CEO compensation was 'marked to market.'

While that discussion made substantial headway toward a final decision, it was determined that it would be beneficial to have some more time to assess the information, and to have some additional information and specific alternatives for the Board to consider upon returning to the discussion.

This memorandum and the attached revised report from Ralph Andersen & Associates are intended to address these latter objectives. Doug Johnson of Ralph Andersen & Associates will present his firm's report and answer any questions you might have.

<u>Discussion:</u>

The report from Ralph Andersen & Associates contains all the information in the original report plus the following adjustment and additions:

- Annual salary numbers are presented rather than monthly salary numbers.

- A section has been added comparing the benefit practices at SCERS and the other employers considered in the study. The conclusion is that SCERS' benefits are consistent with the other comparable employers with one important exception – the value of the retirement benefit at SCERS is lower than at most of the other employers. There are two primary reasons for this:

    - A new CEO that <u>is not</u> currently a member of a California public retirement system will have the same pension benefit irrespective of which system he/she goes to work for (i.e., the PEPRA benefit). However, at SCERS a new CEO that currently <u>is</u> a member of another California public retirement system, and joined that system before PEPRA, will go into a tier with a lower pension benefit than at most of the other comparable employers because he/she will go into the last tier that was open at SCERS prior to the effective date of PEPRA, and that tier has a benefit formula nearly as low as the PEPRA tier.

- In addition, the portion of the cost paid by the employee under the last legacy tier open at SCERS prior to PEPRA is typically higher than the portion of the cost paid by an employee at the other comparable retirement systems.

- The Andersen report notes that to neutralize for these factors from a competitive total compensation perspective, SCERS would need to pay a salary as much as 20% higher than at the other retirement system.

- A section has been added to the Andersen report presenting several salary range alternatives for consideration by the Board. The alternatives are presented utilizing the three comparable employer constructs featured in the version of the Andersen report provided to the Board on April 6th. Those constructs are: (1) Based on data from all twenty comparable retirement systems considered in the compensation study; (2) Based on data from a thirteen system comparative group optimized by system size; and (3) Based on data from a seven system comparative group further narrowed to more closely align by size.

  Within two of the constructs (the thirteen employer and seven employer versions), three salary range options are presented based on different market position decisions (i.e., where the Board believes the salary range should be with respect to the market). The market positions utilized are the 65th, 70th, and 75th percentile, respectively. Those market positions were selected based on comments by the Board indicating a desire to have a salary range above the median in order to be competitive, particularly given the lower value of the retirement benefit at SCERS.

  For all salary range options, a fairly wide salary range was established in order to give the Board flexibility to align the CEO's compensation with the relative level of knowledge, skills and experience he/she possesses. This too was based on comments by the Board indicating that this flexibility was desirable.

Selecting the proper salary range for the CEO position is a policy determination that rests with the SCERS Board. To assist the Board in making that determination, the Board has been provided with the results of a properly constructed compensation study conducted by a qualified compensation professional. The use of compensation studies is a 'best practice' for assessing an employer's competitiveness with market practices, and compensation studies are used by both public and private sector employers. The compensation study conducted by Ralph Andersen & Associates: (1) Is consistent with SCERS' historic practices regarding comparable labor market employers; (2) Utilizes employers that provide similar services to SCERS and have similar organizational and operational characteristics, specifically, public retirement systems; (3) Includes a balance of larger and smaller public retirement systems and makes appropriate adjustments when size impacts job comparability; and (4) Includes adjustments to reflect cost of living differences between employers in different geographic regions.

In sum, the information presented in the Andersen report provides both the necessary and sufficient basis for the Board to determine the appropriate salary range for the CEO position.

Finally, in making your decision, the Board should keep in mind the following goals:

- Ensure that SCERS has the ability to attract and retain a well-qualified CEO;
- Provide a defensible and rational basis for the compensation for the CEO ;
- Allow flexibility for making compensation decisions based on the qualifications of the CEO;
- Recognize SCERS' responsibility as a public entity in establishing a salary range consistent with public practices; and
- Ensure that SCERS' compensation practices are competitive and consistent with those of comparable employers.

I hope this information is helpful. I will be happy to answer any questions you might have.

Respectfully,

Richard Stensrud
Chief Executive Officer

Attachment

April 13, 2017

TO: Richard Stensrud, Chief Executive Officer
SCERS

FROM: Doug Johnson, Vice President
Ralph Andersen & Associates

SUBJECT: Compensation Analysis of CEO

Ralph Andersen & Associates was retained by SCERS to conduct a compensation review of the organization's management jobs. This memorandum report provides the analysis of the Chief Executive Officer job to assist the agency in their upcoming search for a new CEO. The scope of the analysis included:

- A thorough review of market practices using retirement agencies in California
- Analysis of comparability factors including organization size as well as economic and cost of living differences
- A review of benefits practice to determine any significant differences with market practices.

Since SCERS does not have an established compensation philosophy, the analyses contained in this report include several options that document the organization's relationship to market compensation. This report also includes specific salary range recommendations.

Labor Market Selection

Compensation surveys are an effective tool for compensation professionals to utilize in assessing an employer's competitiveness with the labor market. Survey data is necessary because labor markets are constantly changing in response to the availability of skill sets and fluctuations in economic conditions. These changes can vary among regions and across industries and employer types. Thus, an effective survey will provide data that closely reflects market conditions that the employer is competing against.

In order to conduct a market survey, a set of survey agencies needs to be established that aligns with the organization's policy objectives. Since SCERS does not have an established policy, a larger set of agencies was used to provide flexibility in analyzing subsets of data that align with different policy options. There are typically five important criteria utilized in identifying those employers that comprise an agency's labor market. They are:

- **Historical Practices** — Over time, an employer will develop some level of continuity regarding labor market comparables for the purposes of conducting compensation surveys. There may be a strong history of surveying a specific set of employers either by agreement or by practice. In some instances, survey agencies can be more formally defined by policy documents or memorandums of understanding. Historical practices are an important consideration if for no other reason than deviating from a long term historical practice typically requires a strong, defensible rationale.

- **Nature of Services Provided** — In order to ensure comparable jobs are found when conducting a market survey, it is important to utilize employers that provide similar services to the Sacramento County Employees' Retirement System. Employers who provide similar services are more likely to compete with one another for employees and may have similar organizational and operational characteristics.
- **Geographic Proximity** Geographic proximity of potential employers is a factor utilized in identifying an organization's labor market, however, for executive level jobs, proximity is less important since recruitment and retention impacts are regional or national in nature.
- **Employer Size** — The more similar employers are in size and complexity, the greater the likelihood that comparable positions exist within both organizations. This factor is less important for jobs where employer size makes little difference in the nature of duties and more important where employee or other resources are a defining characteristic of the job. For those jobs where size differences appear to influence wages, these differences can be factored into the data analysis (e.g., larger and smaller agencies can be removed from the sample).
- **Economic Similarity** — While there are a number of economic factors that can be compared among agencies, the most important factors related to compensation are cost of living and relative wage differences. In some regions, living costs can vary significantly and have an important impact on how potential candidates evaluate compensation. This factor can be important if labor market agencies are used beyond the local market, or there are significant differences in the cost of living. Ralph Andersen & Associates uses indexes published by the Economic Research Institute (ERI) for analyzing both cost of living and relative wage differences. The cost of living index (COL) provides an understanding of purchasing power and living standards for an employee and the wage index (Wage) provides a means to adjust a salary from one market to another.

While SCERS competes nationally for its Chief Executive Officer position, California agencies generally compete well nationally since salary levels are higher than the national average. A sample of cost of living and relative wage indexes for California and major cities nationally is shown below. Each percentage is a relative comparison to Sacramento (which is 100%).

Sample Differences in Cost of Living and Relative Wages

City	ERI COL	ERI Wage	City	ERI COL	ERI Wage
New York-Manhattan, New York	236.7%	109.8%	Minneapolis, Minnesota	112.6%	96.5%
San Francisco, California	202.4%	116.5%	Atlanta, Georgia	104.5%	88.5%
Boston, Massachusetts	161.8%	107.0%	Dallas, Texas	101.0%	90.7%
Washington, District of Columbia	159.9%	105.2%	Kansas City, Missouri	92.5%	87.6%
San Jose, California	151.2%	112.4%	Phoenix, Arizona	85.5%	90.8%
Los Angeles, California	147.3%	103.1%	Las Vegas, Nevada	84.6%	92.4%
Chicago, Illinois	137.2%	99.3%	Columbus, Ohio	84.1%	89.2%
Seattle, Washington	132.8%	107.4%	United States Average	82.4%	88.3%
Baltimore, Maryland	117.9%	94.3%	Oklahoma City, Oklahoma	81.3%	80.1%
Denver, Colorado	113.5%	95.3%	Memphis, Tennessee	77.3%	84.8%

As shown in the table, New York-Manhattan has the highest relative cost of living with composite living costs that are 236.7% of those in Sacramento. While living costs are high, relative ages are only 9.8% higher than Sacramento. This reflects the large labor market that exists as well as the fact that many workers will commute and live in cheaper communities. While 13 of the 19 cities compared have a higher cost of living compared to Sacramento, only seven agencies have higher relative wages. Compared to the United States National Average, Sacramento has both a cost of living and relative wage that is almost 20% higher.

Survey Agencies

Using the market selection factors, and in consultation with the Sacramento County Employees' Retirement System, the following agencies have been used in the compensation survey.

Survey Agencies

Agency	Assets	Membership	ERI COL [1]	ERI Wage [2]
SCERS	$7.8 Bil	**25,299**	**100.0**	**100.0**
Alameda County ERA	$6.6 Bil	22,202	139.3	110.2
Contra Costa County ERA	$7.1 Bil	18,471	106.8	110.0
Fresno County ERA	$4.0 Bil	17,020	84.1	95.6
Kern County ERA	$3.6 Bil	16,904	90.9	99.0
City of Los Angeles ERS	$14.1 Bil	48,334	127.8	103.6
Los Angeles Fire & Police Pension System	$18.7 Bil	25,773	147.3	103.8
Los Angeles Water & Power ERP	$10.1 Bil	19,576	147.3	103.8
Los Angeles County ERA	$48.8 Bil	156,224	147.3	103.8
Marin County ERA	$2.0 Bil	6,201	134.6	114.2
Orange County ERS	$11.9 Bil	41,417	120.9	102.6
PERS	$279.5 Bil	1,815,699	100.0	100.0
San Bernardino County ERA	$8.0 Bil	34,471	89.2	98.4
City of San Diego ERS	$6.8 Bil	20,000	137.4	100.4
San Diego County ERA	$10.3 Bil	40,116	137.4	100.4
City & County of San Francisco ERS	$20.4 Bil	65,416	202.4	115.0
San Joaquin County ERA	$2.5 Bil	12,391	93.2	98.4
San Mateo County ERA	$3.5 Bil	11,117	154.8	114.7
Sonoma County ERA	$2.3 Bil	9,403	117.9	103.3
State Teachers' Retirement System	$192.0 Bil	895,956	100.0	100.0
Tulare County ERA	$1.2 Bil	9,000	89.6	95.2
Ventura County ERA	$4.4 Bil	17,078	118.8	101.6
Median	**$7.1 Bil**	**20,000**	**120.9**	**102.6**

[1] Source: Economic Research Institute Relocation Assessor

[2] Source: Economic Research Institute Geographic Assessor

These agencies represent retirement systems throughout California that meet the market selection criteria including a mix of larger, smaller, and similar sized retirement systems. Given the fact that SCERS resides in Sacramento, it is important to consider all local retirement organizations, including PERS and STRS which, while larger, have a significant impact on local market conditions. Further analysis of the data will ensure that skewing impacts of an unrepresentative sample of agencies do not occur. In particular, it is important to account for the impacts of significant size differences. This is explained later in this report.

Cost of living (ERI COL) and wage differential (ERI Wage) indexes are provided as a reference and are from the Economic Research Institute. Because the SCERS market is statewide, there will be significant differences in cost of living among some of the survey employers. As shown in the table, the median indicators of size and ERI Wage are within 5% of SCERS. While the ERI COL (cost of living) differences are more significant, this is less critical since market wages (labor costs) do not necessarily correspond to more significant differences in cost of living. While our analysis of market trends includes all agencies, we have also analyzed a more optimized subset of agencies. We have also taken into consideration size differences when analyzing the usefulness of the market data for salary setting purposes.

Los Angeles Water & Power ERP declined to participate in the survey.

Labor Market Position

Most public and private employers will position their compensation plans somewhere between the 50th and 75th percentile of the market, depending on how competitive they need to be. Establishing a labor market position is a policy decision that often considers the following:

- Recruitment and retention (turnover) issues, and the need to attract top talent
- The affordability of the desired market position (revenues and expenditures)
- The priority of compensation versus other expenditures
- Comparability of the survey agencies (size, cost of living, and operational differences)
- The mix of salary and benefits in providing a total compensation package for employees.

While our analysis begins with comparisons of the market median (50th percentile), higher market positions are also provided as options based on the organization's specific recruitment and retention objectives. Base salary comparisons are based on actual or range maximum salaries, depending on the salary administration practices within each survey organization. While some organizations use flat/contract rates, most utilize a pay range that offers progression to the range maximum.

Compensation Survey Findings

In order to provide SCERS with several policy based options for establishing a competitive compensation level for the Chief Executive Officer, our analysis provides several different arrays of data, several market position comparisons, and geographic adjustments of the market data.

As a starting point, the table on the following page provides the results of the survey for all agencies. The table includes the following information:

- The survey agency
- The salary range maximum salary (or actual/contract amount if no range exists)
- The Economic Research Institute Wage Index (ERI Wage) which is used as an adjustment factor to create Sacramento based salaries
- The adjusted range maximum using the ERI Wage Index (salary figures for agencies in a higher wage market are adjusted lower while figures in lower wage markets are adjusted higher)
- The dollar assets for each retirement agency including the calculation of the median asset size for the sample shown and the correlation of assets to salary
- The number of members for each retirement agency including the calculation of the median member size for the sample shown and the correlation of member size to salary
- Statistical summary including median (50th percentile); 40th, 60th, and 75th percentiles; mean (average); and the percentile relationship of SCERS' salary compared to the market.

The array is sorted high to low by the maximum annual salary (unadjusted).

Chief Executive Officer				Median / Corr w/Max $	
			Median	$7.1 Bil	22,202
			Corr w/Max $	0.73	0.64
Agency	**Annual Maximum**	**ERI Wage**	**Adj. Max**	**$ Assets**	**# Members**
State Teachers' Retirement System	$475,000	100.0	$475,000	$192.0 Bil	895,956
PERS	$352,800	100.0	$352,800	$279.5 Bil	1,815,699
City & County of San Francisco ERS	$292,890	115.0	$254,687	$20.4 Bil	65,416
City of San Diego ERS	$292,596	100.4	$291,372	$6.8 Bil	20,000
San Bernardino County ERA	$281,959	98.4	$286,660	$8.0 Bil	34,471
City of Los Angeles ERS	$275,449	103.6	$265,980	$14.1 Bil	48,334
Los Angeles Fire & Police Pension System	$275,449	103.8	$265,467	$18.7 Bil	25,773
Alameda County ERA	$270,588	110.2	$245,454	$6.6 Bil	22,202
San Diego County ERA	$259,834	100.4	$258,747	$10.3 Bil	40,116
Orange County ERS	$253,817	102.6	$247,289	$11.9 Bil	41,417
San Mateo County ERA	$241,692	114.7	$210,680	$3.5 Bil	11,117
Marin County ERA	$240,261	114.2	$210,386	$2.0 Bil	6,201
Los Angeles County ERA	$236,316	103.8	$227,753	$48.8 Bil	156,224
Contra Costa County ERA	$230,400	110.0	$209,531	$7.1 Bil	18,471
Ventura County ERA	$224,340	101.6	$220,851	$4.4 Bil	17,078
Sonoma County ERA	$217,776	103.3	$210,819	$2.3 Bil	9,403
Kern County ERA	$200,952	99.0	$203,064	$3.6 Bil	16,904
SCERS	***$199,236***	***100.0***	***$199,236***	***$7.8 Bil***	***25,299***
Tulare County ERA	$192,348	95.2	$202,089	$1.2 Bil	9,000
San Joaquin County ERA	$185,765	98.4	$188,862	$2.5 Bil	12,391
Fresno County ERA	$150,000	95.6	$156,937	$4.0 Bil	17,020
Los Angeles Water & Power ERP					

	Market Value	**% Above/ Below Market**	**Adjusted Market Value**	**% Above/ Below Adj. Market**
Labor Market Median	$247,755	-24.35%	$236,603	-18.76%
60th Percentile	$264,135	-32.57%	$250,248	-25.60%
75th Percentile	$277,077	-39.07%	$265,596	-33.31%
Labor Market Mean	$257,512	-29.25%	$249,221	-25.09%
SCERS SALARY PERCENTILE		**15th Pctile**		**9th Pctile**

As shown in the table, the salary range maximum for SCERS is lower than all but three survey agencies when unadjusted base salaries are compared (15th percentile rank). When salaries are adjusted for relative wage differences, only two agencies are paid lower than the SCERS' CEO. Using the market median (50th percentile) as the desired market position, the CEO salary would need to be increased by 24.35% for unadjusted data and 18.76% for wage adjusted data. Higher market positions would require a 25.60% to 32.57% adjustment to reach the 60th percentile and a 33.31% to 39.07% adjustment to equal the 75th percentile depending on whether unadjusted or wage adjusted data is used.

Since the market data includes agencies that vary in size, a correlational analysis was conducted to determine how much the size of the agency correlated with that agency's CEO salary. As shown in the table, the correlation of salary and size is 0.73 when comparing asset size and 0.64 when comparing member size. These are significant correlations.

In recognition of the significant size differences and variability among the 20 survey agencies, a size optimized sample of data was analyzed as shown in the following table.

Chief Executive Officer - Size Optimized - 13

			Median	$5.5 Bil	17,775
			Corr w/Max $	0.49	0.41
Agency	**Annual Maximum**	**ERI Wage**	**Adj. Max**	**$ Assets**	**# Members**
City of San Diego ERS	$292,596	100.4	$291,372	$6.8 Bil	20,000
San Bernardino County ERA	$281,959	98.4	$286,660	$8.0 Bil	34,471
Alameda County ERA	$270,588	110.2	$245,454	$6.6 Bil	22,202
San Diego County ERA	$259,834	100.4	$258,747	$10.3 Bil	40,116
Orange County ERS	$253,817	102.6	$247,289	$11.9 Bil	41,417
San Mateo County ERA	$241,692	114.7	$210,680	$3.5 Bil	11,117
Marin County ERA	$240,261	114.2	$210,386	$2.0 Bil	6,201
Contra Costa County ERA	$230,400	110.0	$209,531	$7.1 Bil	18,471
Ventura County ERA	$224,340	101.6	$220,851	$4.4 Bil	17,078
Sonoma County ERA	$217,776	103.3	$210,819	$2.3 Bil	9,43
Kern County ERA	$200,952	99.0	$203,064	$3.6 Bil	16,904
SCERS	***$199,236***	***100.0***	***$199,236***	***$7.8 Bil***	***25,299***
San Joaquin County ERA	$185,765	98.4	$188,862	$2.5 Bil	12,391
Fresno County ERA	$150,000	95.6	$156,937	$4.0 Bil	17,020

	Market Value	**% Above/ Below Market**	**Adjusted Market Value**	**% Above/ Below Adj. Market**
Labor Market Median	$240,261	-20.59%	$210,819	-5.81%
60th Percentile	$244,117	-22.53%	$225,771	-13.32%
75th Percentile	$259,834	-30.41%	$247,289	-24.12%
Labor Market Mean	$234,614	-17.76%	$226,204	-13.54%
SCERS SALARY PERCENTILE		**16th Pctile**		**14th Pctile**

As shown in the table, eliminating seven of the 20 survey agencies creates a sample of 13 agencies that are more balanced in terms of size. When size indicators are analyzed, SCERS is larger than the market median for both asset and member size. Correlations between size indicators and salary also drop below .50, a significant reduction compared to the 20 agency sample.

The percentile rank of SCERS compared to market increases slightly as does the market relationship to the median. The impact of the reduced sample size on 60^{th} to 75^{th} percentiles is more significant, as is the impact on the market mean, due to the elimination of outlier salaries from the larger agencies. When adjusted for relative wage differences, the market relationships improve with a 5.81% deviation to market median up to a 24.12% deviation to the market 75^{th} percentile.

Finally, an optimized market sample of seven agencies was analyzed to determine the impact of using agencies more closely aligned with size. This sample has a much narrower range of agencies when asset and member size are considered. While CEO salary levels correlate with size in the seven agency sample more so than the 13 agency sample, the variability and differences in size are not as significant.

			Median	$6.7 Bil	19,236
Chief Executive Officer - Size Optimized - 7			Corr w/Max $	0.60	0.49

Agency	Annual Maximum	ERI Wage	Adj. Max	$ Assets	# Members
City of San Diego ERS	$292,596	100.4	$291,372	$6.8 Bil	20,000
San Bernardino County ERA	$281,959	98.4	$286,660	$8.0 Bil	34,471
Alameda County ERA	$270,588	110.2	$245,454	$6.6 Bil	22,202
Contra Costa County ERA	$230,400	110.0	$209,531	$7.1 Bil	18,471
Ventura County ERA	$224,340	101.6	$220,851	$4.4 Bil	17,078
Kern County ERA	$200,952	99.0	$203,064	$3.6 Bil	16,904
SCERS	***$199,236***	***100.0***	***$199,236***	***$7.8 Bil***	***25,299***
Fresno County ERA	$150,000	95.6	$156,937	$4.0 Bil	17,020

	Market Value	% Above/ Below Market	Adjusted Market Value	% Above/ Below Adj. Market
Labor Market Median	$230,400	-15.64%	$220,851	-10.85%
60th Percentile	$254,513	-27.74%	$235,612	-18.26%
75th Percentile	$276,274	-38.67%	$266,057	-33.54%
Labor Market Mean	$235,834	-18.37%	$230,553	-15.72%
SCERS SALARY PERCENTILE		**16th Pctile**		**15th Pctile**

The results of comparing SCERS to the seven agency sample show a similar percentile ranking with SCERS at the 16th and 15th percentiles for unadjusted and wage adjusted data, respectively. When compared to the market median, SCERS is 15.64% below the unadjusted market median and 10.85% below median when adjusted data is compared. Finally, the relationship for higher percentiles is 18.26% to 27.74% for 60th percentile and 33.54% to 38.67% for 75th percentile.

Benefits Analysis

In addition to base salary, the consultants also analyzed benefit practices for the CEO comparables. The focus of the analysis was to identify any SCERS benefit practices that significantly altered the market position of the CEO job. In summary, our analysis found:

- SCERS has cash benefits that are generally consistent with the labor market
  - Most of the survey agencies have a deferred compensation benefit with benefit levels that range from 1% to 8% of salary with a median of 4.5%. SCERS provides a deferred compensation contribution of 1%
  - SCERS provides a 3.35% management differential which is a supplement to base salary
  - All agencies provide a car allowance or vehicle with the median car allowance equal to $520 per month compared to the SCERS allowance of $450 per month.
- SCERS has insurance benefits that are consistent with the labor market (health, dental vision, life insurance, and long term disability).
- SCERS has a significantly lower retirement benefit
  - The classic retirement tier available for eligible new SCERS employees (the tier in effect December 2012 prior to PEPRA) is a lower benefit formula than most of the market agencies which has a significant impact on retirement benefits (SCERS would

need to pay a salary as much as 20% higher to equal the retirement benefits of most survey agencies)

- The employer contribution cost for SCERS is significantly lower than the survey agencies with a market median of 25.2% compared to a SCERS contribution of 9.3%.

While it is not possible to change the SCERS retirement benefit for incoming employees, market differences may require additional consideration in base salary, a higher deferred compensation benefit, or a supplemental retirement plan.

Recommendations

Based on our analysis of the market data and preliminary discussions with the SCERS Retirement Board, we have developed salary range recommendations for consideration by the Retirement Board and SCERS executive management staff. Our recommendations are based on the market data and provide policy alternatives.

Salary Range Recommendations - Chief Executive Officer

Options/Alternative	Range Min	Range Max	% Change	Description/Rationale
7 Agency Size Optimized Market 75th Percentile	$190,041	$266,057	33.5%	Market data includes agencies closest in size to SCERS; cost of living differences are factored into the analysis; 75th percentile market position recognizes SCERS relative size (2nd largest agency in the sample).
7 Agency Size Optimized Market 70th Percentile	$181,211	$253,695	27.3%	Alternative market position option.
7 Agency Size Optimized Market 65th Percentile	$173,567	$242,993	22.0%	Alternative market position option.
13 Agency Size Optimized Market 75th Percentile	$190,222	$247,289	24.1%	Market data excludes significantly larger and smaller agencies; cost of living adjustments are factored into analysis since most agencies are in a higher cost of living location; 75th percentile market position recognizes that SCERS is the 4th largest in the sample.
13 Agency Size Optimized Market 70th Percentile	$189,375	$246,188	23.6%	Alternative market position option.
13 Agency Size Optimized Market 65th Percentile	$185,025	$240,533	20.7%	Alternative market position option.
All Survey Agencies 50th Percentile	$189,282	$236,603	18.8%	Uses all survey agencies and adjusts for cost of living differences; the use of the 50th percentile reduces the impact of significantly larger and smaller agencies and places the SCERS salary to a relative position considering size.

Salary range recommendations do not take into consideration significant differences in retirement benefits when comparing SCERS to the survey agencies

Range minimum is 40% below range maximum for the 7 Agency option, 30% below range maximum for the 13 Agency option, and 25% below for the All Agencies option to reflect market practices and provide a broader range for higher market salary placements

Salary Maintenance and Administration

Once the above salary range adjustments are implemented, SCERS should continue to conduct market surveys every third year to maintain equity with market practices. In the interim years, SCERS can use a Cost of Living Adjustment (COLA) or other market estimate during the budget process to maintain overall equity with annual changes in the market.

The CEO salary range recommendations presented in this report are large simply because SCERS has not implemented any market-based salary adjustments for its management jobs in over ten years, despite the fact that retirement agencies continue to be competitive in the labor market. It should also be noted that labor market conditions and salary changes may be different for retirement agencies compared to county governments. Thus, salary adjustments based on county practices may not allow SCERS to maintain a competitive market position among its peer retirement agencies.

Summary

While SCERS does not have a defined policy for comparison agencies and labor market position, it is clear that the current salary lags the market significantly with all comparisons showing the CEO salary no higher than the 16th percentile of the market. This means that 83% of the survey agencies pay a more competitive salary for their CEO positions. In order to better compete with other retirement systems/associations, SCERS should adopt a salary level more aligned to the market.