



# Board of Retirement Regular Meeting

## Sacramento County Employees' Retirement System

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### Agenda Item 19

**MEETING DATE:** October 20, 2021

**SUBJECT:** Compensation Policy

**SUBMITTED FOR:** \_\_\_ Consent       X  Deliberation and Action      \_\_\_ Receive and File

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### **RECOMMENDATION**

Staff recommends the Board reaffirm SCERS' Compensation Policy, which was introduced in 2017.

### **PURPOSE**

This item supports the Strategic Management Plan goal to support a high-performance organizational structure and workforce.

### **BACKGROUND**

SCERS conducts a labor market survey periodically to determine if salary adjustments are warranted for exempt, executive management positions to keep pay and benefits competitive with similar positions in other public pension systems. The Board of Retirement considers adjustments to the compensation plan, which need to be ratified by the Board of Supervisors to take effect.

Prior ad hoc compensation studies and adjustments include the following:

- 2001 study; implemented in February 2002.
- 2004 study; implemented in January 2005 and January 2006.
- 2011 study; not implemented (denied by Board of Supervisors).
- 2016 study; implemented for CEO in June 2017 to facilitate recruitment; implemented for other executive staff in March 2019.

Following the 2016 compensation study, in August 2017, the Board President established a three-member Ad Hoc Compensation Policy Committee to develop a SCERS Compensation Policy to establish goals, methodology and parameters to serve as the basis for future compensation analyses and compensation plans. The Committee engaged a compensation consultant, Ralph Andersen & Associates, and incorporated input from the Department of Personnel Services. The Board approved the policy in October 2017.

The SCERS Compensation Policy include the following key provisions:

- Defines seven public retirement systems throughout California similar in size (in terms of members and assets) and comparable to SCERS as the set of survey agencies.
- Calls for a compensation study to be conducted every three years (no salary adjustments if market deviations are less than 5%).
- Defines the benchmark classes and internal salary relationships for SCERS unrepresented management positions.

## **DISCUSSION**

Pursuant to SCERS' practice of reviewing and refreshing policies every three years, Staff has re-evaluated the Policy and considered whether any amendments are necessary. Staff recommends the Board reaffirm the Policy, with no amendments.

Because the 2016 compensation study was not implemented until early 2019, it was appropriate to delay the next compensation study outside of the three-year cycle. Staff plans on engaging a compensation consultant in late 2021 to update the 2016 compensation study; the consultant costs were included in the Board-approved 2021-22 SCERS operational budget.

Results of the new compensation study and any potential recommendations are expected to be presented to the Board for consideration by mid-2022.

## **ATTACHMENTS**

- Board Order
- Compensation Policy

Prepared by:

/S/

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Eric Stern  
Chief Executive Officer



# Retirement Board Order

## Sacramento County Employees' Retirement System

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**Before the Board of Retirement  
October 20, 2021**

MOTION:

### **Compensation Policy**

THE BOARD OF RETIREMENT hereby accepts the recommendation of staff to reaffirm the Compensation Policy.

I HEREBY CERTIFY that the above order was passed and adopted on October 20, 2021 by the following vote of the Board of Retirement, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

ALTERNATES (Present but not voting):

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Richard B. Fowler II  
Board President

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Eric Stern  
Chief Executive Officer and  
Board Secretary



# COMPENSATION POLICY

## PURPOSE

Establish a sound compensation policy to address SCERS' personnel needs that, along with an effective job classification system and the requisite authority to establish the necessary and appropriate staff size, structure and compensation, provide the cornerstone for SCERS' ability to successfully carry out its mission.

## DEFINITIONS

Appendix A identifies the SCERS unrepresented management employees this policy applies to.

Appendix B contains the Labor Market Definition for this policy.

Appendix C lists the benchmark classes and describes the internal salary relationships for this policy.

## POLICY

SCERS compensation policy provides consistency with respect to how compensation decisions are made, and helps assure that compensation is addressed on a regular basis, and not allowed to languish such that 'marking to market' is a difficult and problematic exercise. Specific policy objectives include:

- Ensure that SCERS has the ability to recruit and retain well-qualified employees;
- Provide a defensible and rational basis for compensating employees;
- Allow flexibility for making compensation decisions based on changing market conditions;
- Recognize SCERS' responsibility as a public entity in establishing a compensation plan that is consistent with public practices; and
- Ensure that SCERS' compensation practices are competitive and consistent with those of comparable employers.

### I. COMPENSATION STUDIES

A central component of this policy is the use of properly constructed compensation studies conducted by qualified compensation professionals to assess SCERS' competitiveness with market practices. Study 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 compensation study will provide:

- Market data that allows SCERS to be deliberate in making compensation-related decisions by reducing guesses or reliance on indices that may not reflect compensation practices.
- Detailed data that allows SCERS to anticipate changing market conditions and understand what peer employers are doing with respect to compensation and benefits.
- Transparency for employees and other stakeholders of the compensation data used in developing SCERS' compensation plan.

## A. Study Objectives

A properly constructed compensation study will achieve the following objectives:

1. Collect and analyze salary and benefits data from employers similar to SCERS.
2. Document comparisons with the SCERS compensation plan and identify any issues with the data, comparable jobs, or comparable employers.
3. Conduct an internal relationship analysis and develop internal relationship guidelines.
4. Present specific salary recommendations for a competitive compensation plan based on the results of the market survey and internal relationship analysis.

The compensation study and subsequent analysis provides a 'picture' of wage practices in the labor market for comparable jobs, and documents how SCERS' compensation for benchmark job classifications compares to similar employers. The results of the compensation study, therefore, provide a basis for compensating employees in a consistent, equitable, defensible, and competitive manner.

## B. Study Elements

### 1. Labor Market Definition

One of the most important components of this policy is the definition of the employers or data sources that are used to measure the labor market within which SCERS must compete and for purposes of developing and maintaining SCERS' compensation plan. There are typically five important criteria used in identifying the employers that comprise an employer's labor market:

- a. **Historical Practices** — Over time, an employer will develop some level of continuity regarding labor market comparable employers for the purpose of conducting compensation studies. SCERS has a long history of surveying a specific set of employers and these historic practices are an important

consideration if for no other reason than deviating from the long-term historical practice typically requires a strong, defensible rationale.

- b. **Nature of Services Provided** — In order to ensure comparable jobs are found when conducting a compensation study, it is important to use employers that provide similar services to SCERS. Employers who provide similar services are most likely to compete with one another for employees and will have similar organizational and operational characteristics. For that reason, SCERS uses public retirement systems as the primary source of employers used to measure the labor market.

SCERS may wish to consider comparisons to employers conducting a similar line of business in other segments of the marketplace, such as corporate pension plans, or endowments and foundations. While such employers, and their specific sub-market, may not be as comparable as other public retirement systems, they do compete for employees with the same skills as those at SCERS, and at a minimum, can provide context and another point of reference for assessing the compensation paid to SCERS' employees.

- c. **Geographic Proximity** – Geographic proximity of potential employers is one of the most important factors in identifying an organization's labor market. This factor is particularly useful because it identifies those employers that directly compete with SCERS to recruit and retain personnel. If a sufficient number of comparable agencies exist within close proximity to SCERS, the defined geographic area may be the local region. If comparably sized or similar services do not exist within close proximity, a wider geographic region may be necessary. SCERS' uses a statewide market to identify public retirement systems that have similar functions, services and jobs as the primary source of comparable employers.
- d. **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 levels 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. SCERS' includes a balance of larger and smaller employers and makes appropriate adjustments when size impacts job comparability.
- e. **Economic Similarity** — While there are a number of economic factors that can be compared among employers, the most important factor related to compensation is cost of living. 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 employers are used beyond the local market, or if there are significant differences in the cost of living. Given that SCERS uses a statewide labor market that includes both higher and lower cost of living areas when

compared to SCERS' location, no adjustments are made to reflect differences in cost of living.

## 2. Labor Market Position

The relative position an organization maintains in the market to ensure its recruitment and retention needs are met within available financial resources. If the list of labor market employers is comparable overall, most public employers will adopt a market position at the middle of the market. Statistically, the middle of the market is the 50<sup>th</sup> percentile (median) with half the agencies above this point and half below. While this remains SCERS' typical practice under this policy, there may be circumstances where flexibility is warranted. For example, if SCERS experiences significant recruitment and retention challenges, SCERS may establish salary ranges above market median for select positions.

## 3. Benefits Assessment

SCERS' compensation includes both base salary and employer-paid benefits. In order to understand how SCERS' benefits compare to the market, compensation studies will include an assessment of benefits. The results of a market benefit study can either be used to adjust salaries using a total compensation model, or the data can be used to adjust specific benefits. The major benefit categories a compensation study might include are:

- a. **Cash Equivalent Benefits** – These are benefits that are usually treated as cash and have a direct impact on how competitive the organization is relative to other employers. Examples of cash benefits include longevity pay, deferred compensation, and cafeteria plan allowances.
- b. **Insurance Benefits** – These benefits can be surveyed to determine trends for insurance costs, but this data should not be used for setting salary ranges since the fixed dollar amounts will have different impacts on jobs depending on whether they are high or low wage jobs.
- c. **Leave Benefits** – Accrual and cash-out benefits do not change frequently so they may only need to be surveyed when a specific issue or concern is identified. They are not used to compute total compensation.
- d. **Retirement Benefits** – Employer paid retirement costs are not typically included in total compensation surveys since rates typically don't reflect benefit levels. Rates can be influenced by workforce/retiree demographics, investment performance, benefit tiers, rate buy downs, and other factors. Social Security costs can be included, but it needs to be recognized that this benefit has a cost to the employer and the employee.

- e. **Other Benefits** – There are other benefits such as car/technology allowances, shift pay, furloughs, assignment pays, etc. which SCERS may want to analyze on an ad-hoc basis.

#### 4. Benchmark Classes and Internal Salary Relationships

The methods used to maintain internal equity across jobs and minimize salary compaction. SCERS Compensation plan is developed with a primary emphasis on market data, and secondary emphasis on internal salary relationships and job worth. A market-based compensation study identifies wage differences for “benchmark” classes; positions that are easily compared with other agencies. Where a benchmark class has several levels that are interrelated, one class may be benchmarked to market and the compensation for the other classes in the ‘series” may be set relative to this benchmark using salary differentials. For non-benchmark classes, compensation levels are established using internal relationship guidelines among related jobs.

### **C. Study Frequency and Application to Compensation Plan**

For purposes of maintaining competitive salary ranges, compensation study data should be collected every three years. While study data provides a precise measure of market trends for specific jobs and skill sets, significant market changes do not typically occur between jobs from year to year.

For non-compensation study years, cost-of-living adjustments as provided by the County to unrepresented management employees, consistent with historical practice, will apply to SCERS exempt positions.

Market comparisons use a +/- threshold whereby no salary adjustments are made if market deviations are less than five percent (5%). Thresholds above this amount may introduce salary inequities and are not recommended.

The objective of the market study is to anticipate and understand market trends, with salary adjustments being a deliberate change to maintain market position. If a job is significantly above the market, salary range adjustments should be frozen until the job drifts back to the desired labor market position.



## **APPLICATION**

This policy applies to SCERS unrepresented management employees as identified in Appendix A.

Results of compensation studies conducted and proposed compensation plans prepared pursuant to this policy will be submitted to the Board as part of SCERS administrative budget process to ensure triennial compensation studies are conducted and compensation plans developed pursuant to this policy.

## **BACKGROUND**

Currently, SCERS' staff falls into two categories with respect to how compensation is addressed:

County Civil Service - The majority of SCERS' staff positions are within the County Civil Service structure, and the compensation for those positions is determined either through collective bargaining, a County directed equity adjustment or a County-conducted salary study. The compensation is then implemented through a salary resolution adopted by the Board of Supervisors.

Exempt - SCERS' unrepresented management employees are outside the County Civil Service structure. The position, job duties and compensation are established by the SCERS Board. However, the compensation for the exempt executive positions is implemented through a salary resolution adopted by the Board of Supervisors.

## **RESPONSIBILITIES**

Executive Owner: Chief Executive Officer

## **POLICY HISTORY**

<b>Date</b>	<b>Description</b>
10-20-2021	Updated to new policy format
08-01-2018	Renumbered from 064
11-30-2017	Board revised Appendix C
10-18-2017	Board approved new policy