



# Compensation Committee Meeting

July 11, 2014

**TEACHER RETIREMENT SYSTEM OF TEXAS MEETING  
BOARD OF TRUSTEES  
AND  
COMPENSATION COMMITTEE**

*(Ms. Sissney, Chair; Mr. Colonna; Mr. Kelly; Ms. Palmer; & Ms. Ramirez, Committee Members)*

**AGENDA**

**July 11, 2014 – 8:00 a.m.  
TRS East Building, 5<sup>th</sup> Floor, Boardroom**

1. Consider the approval of the proposed minutes of the June 5, 2014 committee meeting – Nanette Sissney.
  
2. Discuss and provide direction to staff regarding TRS compensation matters, including compensation for individual positions and related duties of the Executive Director – Brian Guthrie; Janet Bray; and Keith Robinson, Focus Consulting.

NOTE: The Board of Trustees (Board) of the Teacher Retirement System of Texas will not consider or act upon any item before the Compensation Committee (Committee) at this meeting of the Committee. This meeting is not a regular meeting of the Board. However, because a quorum of the Board may attend the Committee meeting, the meeting of the Committee is also being posted as a meeting of the Board out of an abundance of caution.



## Teacher Retirement System of Texas

### Minutes of the Compensation Committee

June 5, 2014

The Compensation Committee of the Board of Trustees of the Teacher Retirement System of Texas (TRS) met on June 5, 2014 in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas. The following committee members were present:

**The following members of the committee were present:**

Nanette Sissney, Chair  
Joe Colonna  
David Kelly  
Anita Palmer

**Other TRS Board members present:**

Todd Barth  
Christopher Moss  
Karen Charleston  
David Corpus

**Others present:**

Brian Guthrie, TRS	Christine Bailey, TRS
Ken Welch, TRS	Dan Junell, TRS
Carolina de Onís, TRS	Lynn Lau, TRS
Howard Goldman, TRS	Hugh Ohn, TRS
Britt Harris, TRS	Dale West, TRS
Amy Barrett, TRS	James Nield, TRS
Janet Bray, TRS	Sharon Toalson, TRS
Jerry Albright, TRS	Cindy Yarbrough, TRS
Don Green, TRS	Jim Pinkard, TRS
Betsey Jones, TRS	Susan Wade, TRS
Amy Morgan, TRS	Dr. Keith Brown, Investment Advisor
Marianne Woods Wiley, TRS	Brady O'Connell, Hewitt EnnisKnupp
Christine Bailey, TRS	Steve Voss, Hewitt EnnisKnupp
Deanna Buck, TRS	Steve Huff, Reinhart Boerner Van Deuren
Sylvia Bell, TRS	Philip Mullins, Texas State Employees Union
Mary Chang, TRS	Ann Fickel, Texas Classroom Teachers Association
Mike Debbs, TRS	Bill Barnes, Texas Retired Teachers Association
Janie Duarte, TRS	Ted Melina Raab, Texas American Federation of Teachers
Ronnie Bounds, TRS	Josh Sanderson, Austin Texas Professional Educators
Chi Chai, TRS	Jody Wright, Legislative Budget Board
Jamie Michels, TRS	Lori Pethick, Whitesboro ISD
Beckie Smith, TRS	Cecelia Meinholdt, Whitesboro ISD
Kristi Vorce, TRS	Rebecca Slezak, Community Health Clinic
Denise Lopez, TRS	Roberto Enriquez, Health Matters
Shayne McGuire, TRS	Tom Rogers, Austin Retired Teachers Association
Dennis Gold, TRS	Alan Bowser, Bridgewater
Eric Lang, TRS	Bob Prince, Bridgewater
Allen McDonald, TRS	Melinda Maczko, HP
Shaun Powell, TRS	

Ms. Sissney called the meeting to order at 10:42 a.m. with a quorum of committee members present.

**1. Consider the approval of the proposed minutes of the September 12, 2013 committee meeting – Committee Chair.**

On a motion by Ms. Palmer, seconded by Mr. Kelly, the committee unanimously approved the proposed minutes of the September 12, 2013 committee meeting, as presented.

**2. Discuss and provide direction to staff regarding TRS compensation matters, including compensation for individual positions and related duties of the Executive Director – Christine Bailey; Janet Bray; and Adam Barnett, McLagan.**

Mr. Guthrie advised that there were two primary components to the following presentation, one focusing on the Investment Management Division (IMD) and the other on the organization as a whole. Ms. Bray opened the presentation by stating that one way to know whether TRS is attracting and retaining highly competent staff is by measuring employee engagement. She shared that there was an 81% employee response rate to the Survey of Employee Engagement and that TRS' overall score (396) was above the average range (325-375) of other agency responses. She also relayed that that TRS's two lowest Survey scores related to internal communications (374) and pay (289). She stated that the Survey's internal communications construct measures the flow of communication throughout the organization and noted that this score has been trending upward. On the other hand, the pay construct has been trending downward for the last three survey cycles. According the University of Texas staff administering the survey, any score below 325 is an indicator for significant concern. Ms. Bray also noted that a comprehensive compensation review was long overdue for both Red River and IMD staff. The last comprehensive review for IMD was in 2007 and it has been more than a decade for Red River staff. Ms. Bray discussed the benefits of an established compensation plan and philosophy. She said that compensation philosophies are designed to attract and retain staff and also serve to demonstrate and employer's commitment to its staff. She stated that the goal of the compensation philosophy proposed for the Red River staff was to target base pay at the midpoint of market. Determining midpoint would take into consideration both the private and public sectors. This approach is similar to the methodology used by the State Auditor's Office.

Ms. Bailey explained how salary ranges are used in employee compensation and the factors that might be considered in setting individual salary rates. She stated that the HR staff are in the process of reviewing job classifications and positions based on a variety of factors to ensure that the compensation of employees is appropriately and equitably set within each of the agency's divisions. Ms. Bailey stated that the Finance Division was the first division reviewed and some restructuring of positions had occurred along with changes made to job classifications. She also stated that changes to titles and salary ranges had expedited the filling of several hard-to-fill positions within that division.

Ms. Sissney inquired about how many positions had been difficult to fill and were affected by salary changes. Ms. Bray stated that there have been eight such positions since April 2013. Ms. Bailey explained that as part of the classification review each employee position within the Finance Division was reviewed and was compared to market salary levels. Ms. Bailey stated that based upon the review, some employees within the Finance Division were performing work at a higher level than their current job classification and were being compensated below the minimum of the salary range that should apply to them. Ms. Bailey elaborated on the costs that would be involved in appropriately adjusting the compensation levels of Finance Division employees to address classification and market issues. Ms. Bailey stated that the Finance Division findings form a baseline concerning similar trends that are being found throughout the entire organization. She estimates that stated that a little over 60 positions need to be moved up to at least the minimum of a new pay range and that an additional 20 percent of all agency positions are at the bottom of their associated pay range. Ms. Bailey advised that full implementation of a compensation plan that moved all agency employees, other than IMD employees, to target salary levels would cost about \$2.2 million.

On a motion by Mr. Kelly, seconded by Mr. Colonna, the committee unanimously voted to recess the meeting. After the recess, Ms. Sissney called the meeting back to order.

Mr. Guthrie stated that a recommended budget package that addresses how compensation levels of agency employees, other than IMD employees, should be dealt with would be vetted over the course of the next year or so with the goal of action being taken regarding such a package as part of the fiscal years 2016 and 2017 budgets. Mr. Guthrie advised that a much more pressing issue is the fact that the McLagan study has revealed that the compensation levels of IMD employees are not keeping up with the compensation plan that the agency established for those employees about six years ago. Ms. Bailey stated that the McLagan study shows that TRS has not been paying IMD employees at the top quartile levels of public pension funds and that few to none of those employees are being paid within the high performance tier of the applicable salary range. She advised that a \$2.2 million increase in base salaries would be needed in order to get IMD employees back on track with the IMD compensation philosophy.

Mr. Kelly asked about employee retention issues within IMD. Mr. Harris stated that 14 strong investment performers have left the organization within the last two years, but not because they were unhappy working for TRS. Mr. Harris stated that of the 14 who have left, 12 of them had substantial increases in compensation when hired by other organizations. Mr. Kelly asked whether that rate of departure is faster than the expected rate of attrition. Mr. Harris responded in the affirmative and explained that it is because many pension funds across the nation are interested in the kind of talented investors that TRS employs. Mr. Colonna asked how TRS' compensation philosophy for IMD compares to other state funds. Mr. Barnett advised that a wide range of practices exist and that some in the public fund peer group look exclusively at other pension funds, while others may look exclusively at the private sector when determining how to set compensation levels. Mr. Barnett stated that the targeted metrics for IMD employee compensation are reasonable, but have not been adhered to. Ms. Sissney and Mr. Colonna stated that the metrics had not been adhered to because the market had changed.

Mr. Moss asked what needs to be done to make sure that market changes are monitored in the future so that big adjustments do not have to be made. Mr. Guthrie responded that market changes

can be monitored by reviewing McLagan data on a more routine basis and by having experts within HR watch for changes. Ms. Bailey stated that more active monitoring has now been embedded into HR's work plan on this issue. Mr. Guthrie stated that options available to address all of these concerns could be discussed in the upcoming Budget Committee meeting. Ms. Palmer asked for an explanation of the benefits that are offered to TRS employees. Mr. Guthrie elaborated on the health insurance benefits that are available to TRS employees as employees of the state. Ms. Bailey stated that third party surveys were used by HR staff to compare the benefits that IMD employees receive with benefits received by employees in their peer groups. She advised that no substantive differences were found. Ms. Bailey and Ms. Bray stated that in some cases employees in those peer groups are offered additional benefits that cannot be legally offered by TRS. Mr. Harris and Mr. Barnett stated that other benefits offered to employees in those peer groups include deferred compensation, cash bonuses, and stock grants.

Ms. Sissney stated that the committee should direct staff to get back on the compensation plan that was established for IMD employees in 2007. She stated that the July meeting may be a good time to receive additional information regarding the ongoing study and how it addresses compensation issues with regard to non-IMD employees. Ms. Bailey stated that HR staff would be proactive in reclassifying positions and changing job descriptions for employees whose job duties have changed. Ms. Bray added that there should be an annual review that evaluates whether employees' job descriptions are aligned with their actual job duties. Mr. Moss advised that some structure should be put in place that allows for that review and reclassification when it is warranted. Mr. Guthrie agreed and advised that staff could come back in July and offer a more formal recommendation regarding compensation issues that need to be addressed in fiscal years 2016 and 2017 and propose a short term solution for those employees who need to be reclassified. Mr. Kelly stated that Mr. Guthrie has the authority to make the necessary adjustments and that the expectation is that such adjustments should be done soon.

The meeting adjourned at 11:50 a.m.

APPROVED BY THE **COMPENSATION COMMITTEE** OF THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM OF TEXAS ON THE 11TH DAY OF JULY, 2014.

ATTESTED BY:

\_\_\_\_\_  
Dan Junell  
Secretary to the TRS Board of Trustees

\_\_\_\_\_  
Date



# TRS Compensation Update

July 11, 2014



# Overview

## Board Delegations Regarding Compensation

- TRS Board Bylaws (4.1.2) delegates to the Executive Director administrative authority over employee compensation decisions
- Compensation decisions made by the Executive Director will affect the budget, which is approved by the Board on an annual basis

## June Board Meeting Update

- Any Red River employees identified as needing minimal pay adjustments (in the red zone) will be corrected as reviews are completed in FY 2014 and FY 2015
- Equity adjustments for IMD staff will be effective Aug. 1, 2014

## July Board Meeting

- Brief the Board on the development of a TRS Compensation Philosophy
- Discuss plans to resolve compensation issues among legal staff
- Seek additional funding for one-time adjustments for critical positions (as necessary)



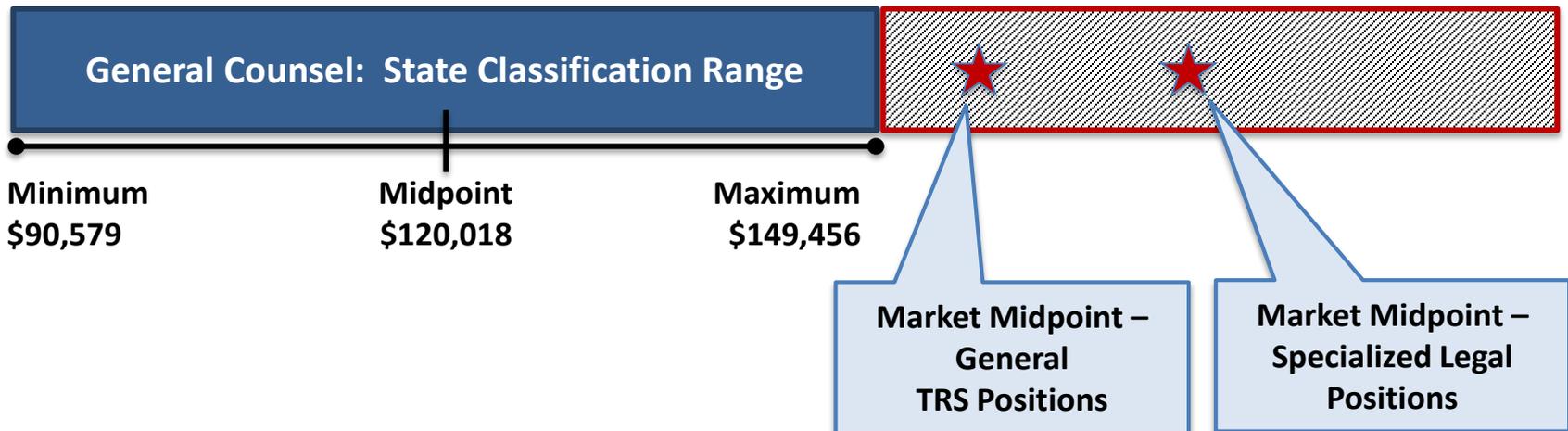
# TRS Legal Staffing Challenges

- **TRS is currently facing several obstacles to continually attract and retain qualified legal staff, these include:**
  - Loss of knowledgeable staff due to turnover
  - Legal division currently has seven vacant attorney positions that all require specialized skills
  - Competition in attracting candidates that have the knowledge, skills, and abilities to perform at expected service levels
  - Difficulty in filling critical positions due to salary rates that are not competitive for comparable positions with specialized skill sets

# TRS Legal Positions

## With regard to attorney positions:

- Market midpoint for a general position is, on average, 27% higher than the midpoint of the State Classification range and is above the maximum of the Plan
- Some specializations critical to TRS business needs such as investments and tax are paid considerably higher than the market midpoint and well beyond the maximum of the current Plan





# Solution: New Investment Attorney Series

## Current Plan:

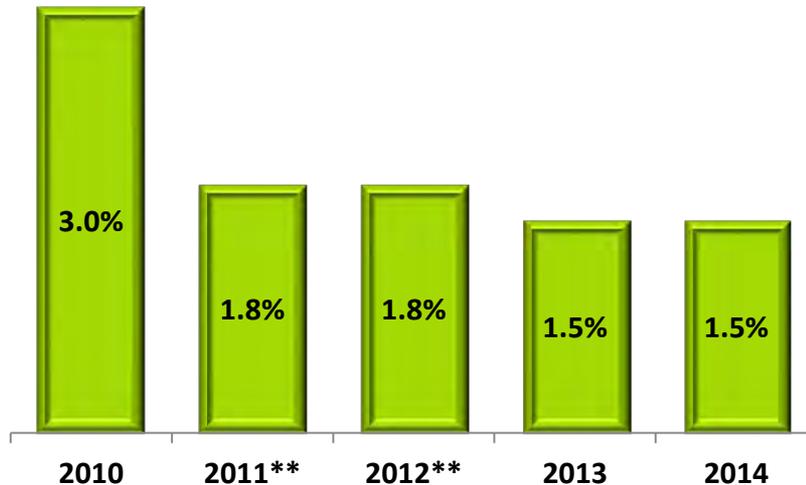
- TRS is exempt by statute from the State Classification Plan (Plan), but voluntarily follows the Plan (Texas Government Code, Section 654.011 )
- The Plan serves as a foundation to provide consistency in pay for state agency employees
- The State Auditor's Office reviews and updates the Plan each biennium

## TRS will:

- Use the existing Plan as a foundation for establishing salary
- Create salary ranges as appropriate for specialized legal positions

# Salary Actions for Staff

## TRS Budget History (for salary actions)



\*\* In FY 2011-2012, TRS allocated 3.5% across the biennium for salary actions. That allocation is split between the two years for the purposes of this chart.

## Salary Actions

- On average, organizations budget 3% of payroll for salary actions
- Budgets for salary actions are typically separate from other variable pay programs but may include promotions
- Individual performance awards range from 2.7% to 4.1%

- Sources: Incentive Pay Practices Survey, WorldatWork and Vivient Consulting; WorldatWork Salary Budget Survey; Aon Hewitt Employer Spending on Variable Pay; WorldatWork Bonus Programs and Practices

# Next Steps

Component	TRS will:
<b>Compensation Philosophy</b>	Begin working on a formal compensation philosophy for all staff at TRS and a long-term strategy for implementing the philosophy to ensure that TRS can attract and retain a highly competent and engaged workforce
<b>FY 2014-2015</b>	<ul style="list-style-type: none"> <li>• Allocate \$2.2 million for base pay adjustments for IMD staff, effective 8/1/2014</li> <li>• Create positions off the Plan and address compensation for specialized attorney positions, and implement base pay adjustments to recruit and retain staff (\$500,000)</li> <li>• Adjust salaries of Red River employees identified as being in the red zone as reviews are completed in FY 2014 and FY 2015 (\$101,000)</li> </ul>
<b>FY 2016-2017</b>	<ul style="list-style-type: none"> <li>• Continue to monitor market data to ensure the competitiveness of specialized positions (e.g. Investment Management, Investment Attorneys)</li> <li>• Request as part of the legislative appropriations process, an additional amount equal to               <ul style="list-style-type: none"> <li>• 5% of IMD base salary for a merit pool and to ensure continued market equity</li> <li>• 3% of non-IMD payroll for merit pool and one-time adjustments for critical positions (as necessary)</li> </ul> </li> <li>• Incorporate \$2.8 million into the budget to sustain salary actions granted in FY 2015 for IMD staff, legal positions, and employees identified as being in the red zone</li> </ul>