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CalPERS wants to curb soaring executive pay

By Gilbert Chan -- Bee Staff Writer

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The nation's biggest public pension fund vowed Monday to wage an all-out campaign to rein in multimillion-dollar pay packages and golden parachutes for executives.

Trustees of the California Public Employees' Retirement System will recruit federal regulators, stock exchanges, major investors, compensation consultants and corporate executives to support its six-point strategy over the next three years.

Investment activists have spent two decades fighting steadily rising executive pay with only minimal results, said Paul Hodgson, a senior researcher for the Corporate Library, a shareholders' rights group.

During that period, the average chief executive's salary has risen to more than 280 times the average wage for rank-and-file workers from 42 times more than the average employee's pay, according to a survey by the Institute for Policy Studies.

Last spring, CalPERS launched a broad campaign that ended with the \$168 billion fund casting no votes for 90 percent of the companies in which it owned stock. That included a vote for the ouster of Warren Buffett, considered one of the leading voices for improving shareholder value.

This time around, CalPERS will target specific companies when pushing for change. Experts say the nation's largest public pension fund faces an enormous task.

"It's not going to happen overnight. There are a lot of (corporate) directors that have different opinions on what's excessive," Hodgson said. "We're talking at least a decade for any real serious change."

Last year, the median CEO pay package, including stock options and bonuses, for the largest 500 companies was \$7.3 million, slightly less than in 2002, according to a study by Equilar, a San Mateo executive compensation research firm. Of that amount, the total cash compensation climbed 17.4 percent, to \$2 million.

In recent months, two high-profile CalPERS trustees, state Controller Steve Westly and state Treasurer Phil Angelides, have spearheaded efforts to put executive pay at the top of the fund's corporate governance agenda for 2005.

Westly questioned the effectiveness of the spring proxy voting strategy.

"We need to execute ... in a targeted way, which we haven't been doing in the past. For the first time we have standards to go after the bad guys," Westly said Monday.

"We're going to be effective in this if we lead a national effort with other investors," Angelides said. "If we shine a spotlight on some of these practices, I think you'll start seeing executives and boards begin to change."

Under a six-point plan approved by trustees Monday, Cal PERS will:

- Introduce a proposal next year to the Securities and Exchange Commission calling for companies to give the public more information about executive pay.
- Work with stock exchanges to develop guidelines on the role of compensation committees or greater disclosure of pay policies.
- Forge ties with the compensation consulting industry to promote CalPERS' campaign.
- Focus on abusive pay practices at major companies in 10 business categories, ranging from health care to telecommunications. CalPERS would wage a highly publicized shareholder fight against companies that don't follow the fund's pay guidelines.
- Evaluate the performance of corporate compensation committees and campaign for the ouster of directors who have approved excessive pay packages.
- Publicize companies with the best pay-for-performance practices.

The California State Teachers' Retirement System, the nation's third-largest public pension fund, is crafting a similar strategy promoted by Westly and Angelides, who also are trustees of that plan.

Experts say the campaigns' effectiveness will hinge on how CalPERS and CalSTRS carry out their fight. Executive recruiter Chuck Pappalardo said CalPERS' best role would be as a whistle-blower willing to work with corporate boards.

"If their role is to be activist to just suppress executive compensation, they'll run into a wall ... that will make them ineffective," said Pappalardo, managing director Trilogy Venture Search in Burlingame.

In other action Monday, Cal PERS trustees voted unanimously to double the pension fund's investment in the loosely regulated hedge fund industry, which uses arbitrage, derivatives and other aggressive strategies not available to mutual funds.

Trustees acknowledged they need to be cautious investing what will be \$2 billion. But they point to a 5.6 percent return in the fund's hedge fund portfolio since 2000, when CalPERS started investing in hedge funds. That is better than the 1.6 percent annual gain of the Wilshire 2500 public stock index, which serves as the benchmark.

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