

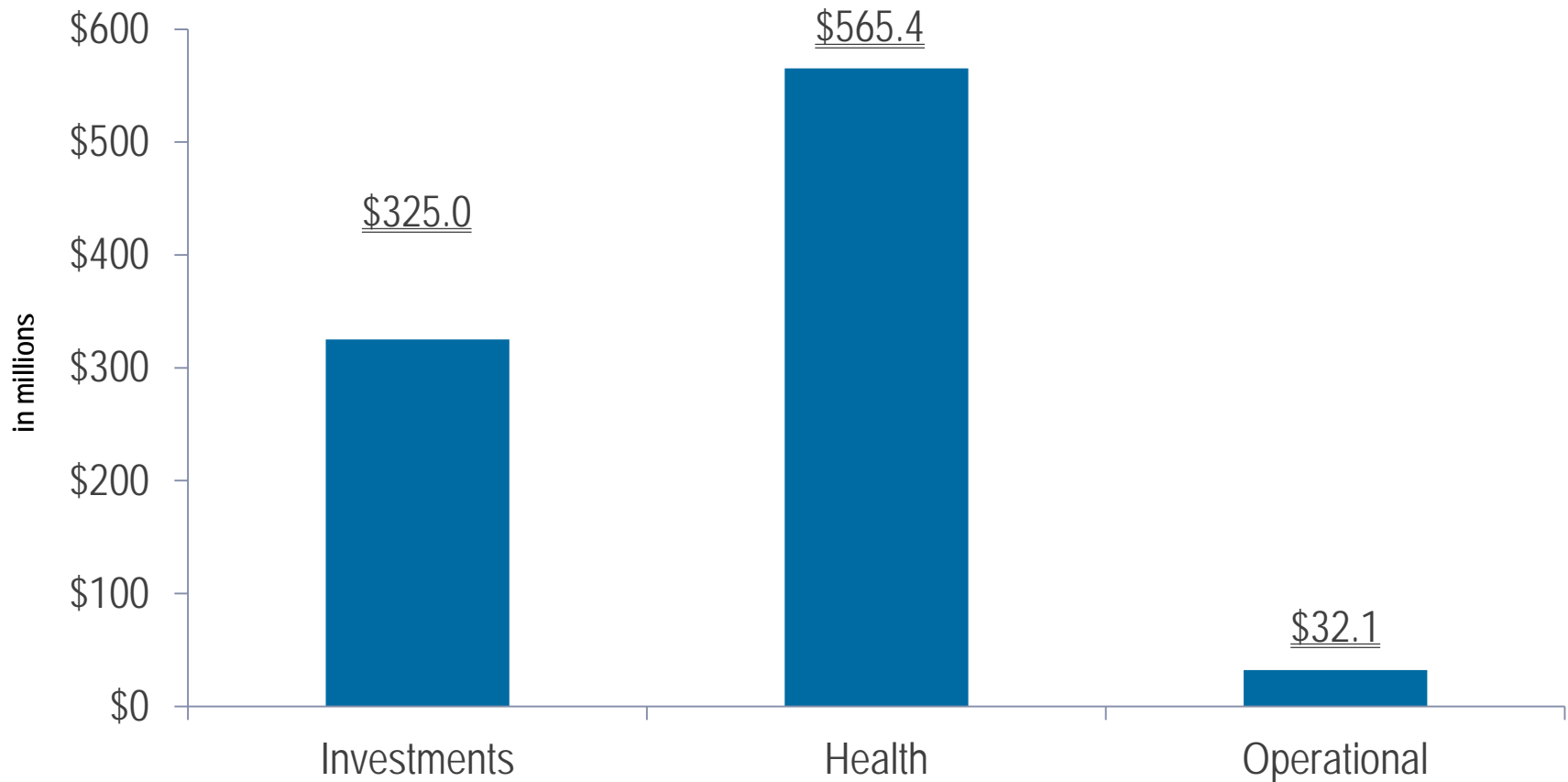
# Annual Cost Efficiency and Effectiveness Report

Finance and Administration Committee

Financial Office

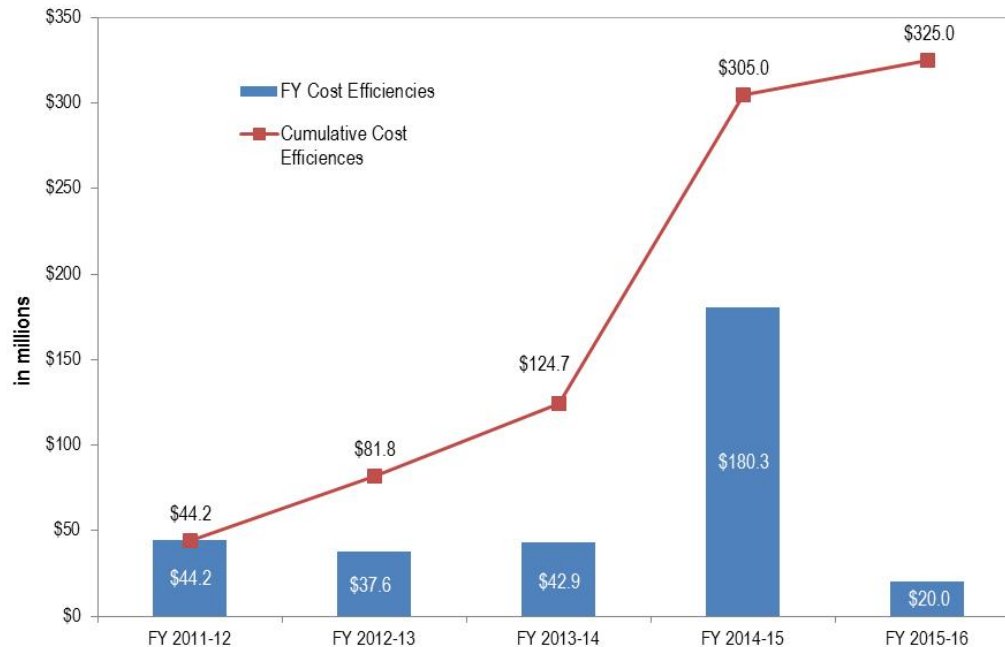
November 16, 2016

# Cost Efficiencies by Program – Total \$922.5 million



Cumulative Savings Over the Past 5 Years

# Investment Office Cost Efficiencies – \$325.0 million



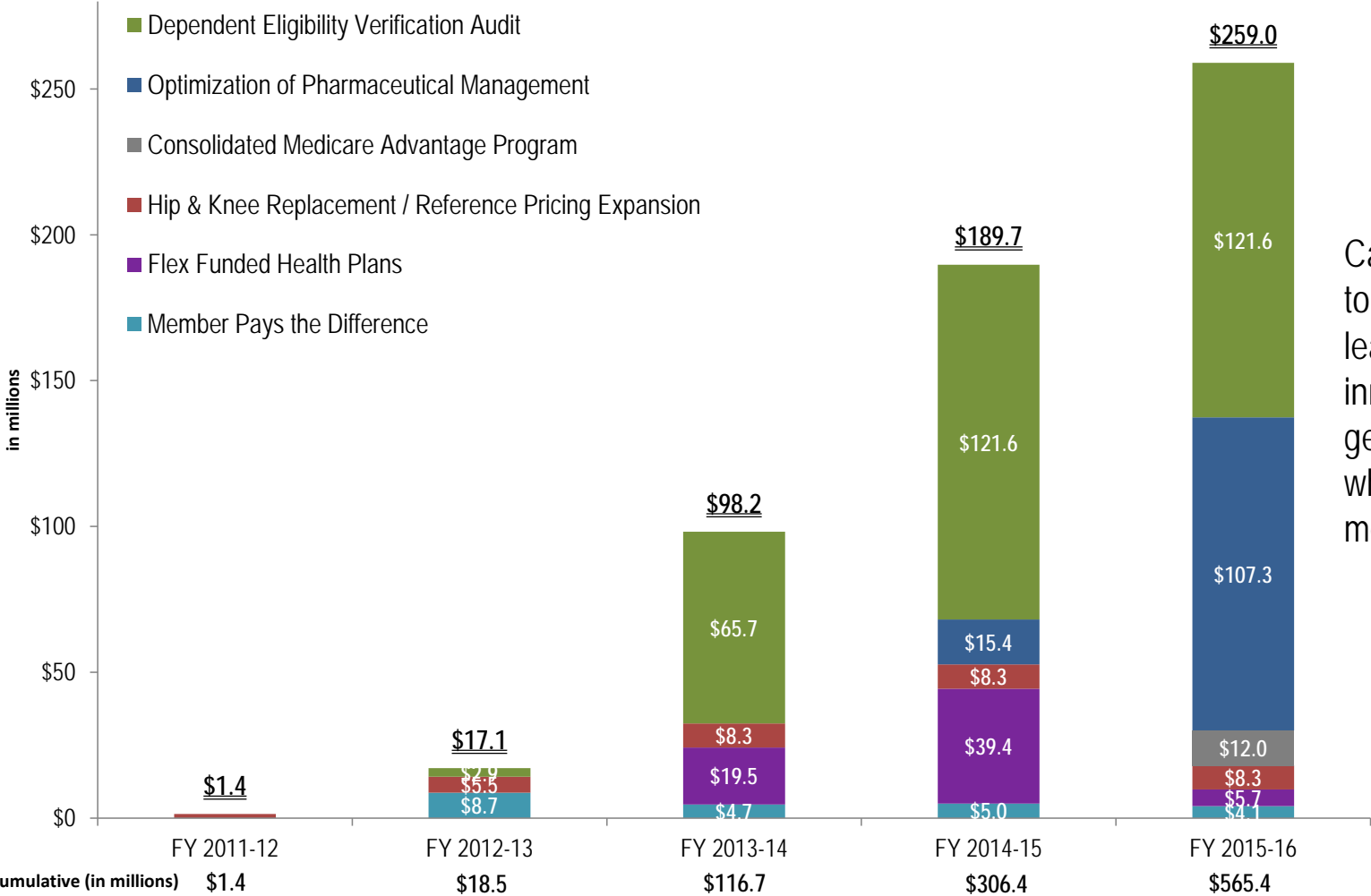
Savings primarily due to:

- Reduced reliance on external consultants
- Internalized functions previously outsourced at a higher cost
- Re-negotiation of existing relationships with more favorable cost terms and improved economics

in millions	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	Cumulative Total
Total Consulting & Management Fee Decrease*	\$ 47.3	\$ 47.8	\$ 57.6	\$ 196.0	\$ 36.1	\$ 384.8
Total Personnel Cost Increase	\$ (3.1)	\$ (10.2)	\$ (14.7)	\$ (15.7)	\$ (16.1)	\$ (59.8)
Estimated FY Cost Efficiencies	\$ 44.2	\$ 37.6	\$ 42.9	\$ 180.3	\$ 20.0	\$ 325.0
Cumulative Cost Efficiencies	\$ 44.2	\$ 81.8	\$ 124.7	\$ 305.0	\$ 325.0	

\* This number does not include one-time cost savings in each fiscal year

# Health Benefits Cost Efficiencies - \$565.4 million



CalPERS continues to be an industry leader in developing innovative methods to generate cost savings while still providing members quality care.



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# Health Benefits Cost Efficiencies – \$565.4 million

## **Dependent Eligibility Verification Audit – \$311.8M**

- Savings achieved through removal of ineligible dependents from individual employee health plans

## **Optimization of Pharmaceutical Management – \$122.7M**

- Innovative methods used to achieve pharmaceutical cost containment

## **Flex Funded Health Plans – \$64.6M**

- Administrative fee reductions achieved with the implementation of these new plans in FY 2013-14

## **Hip and Knee / Reference Pricing Expansion – \$31.8M**

- Cost reductions realized by standardizing pricing among providers

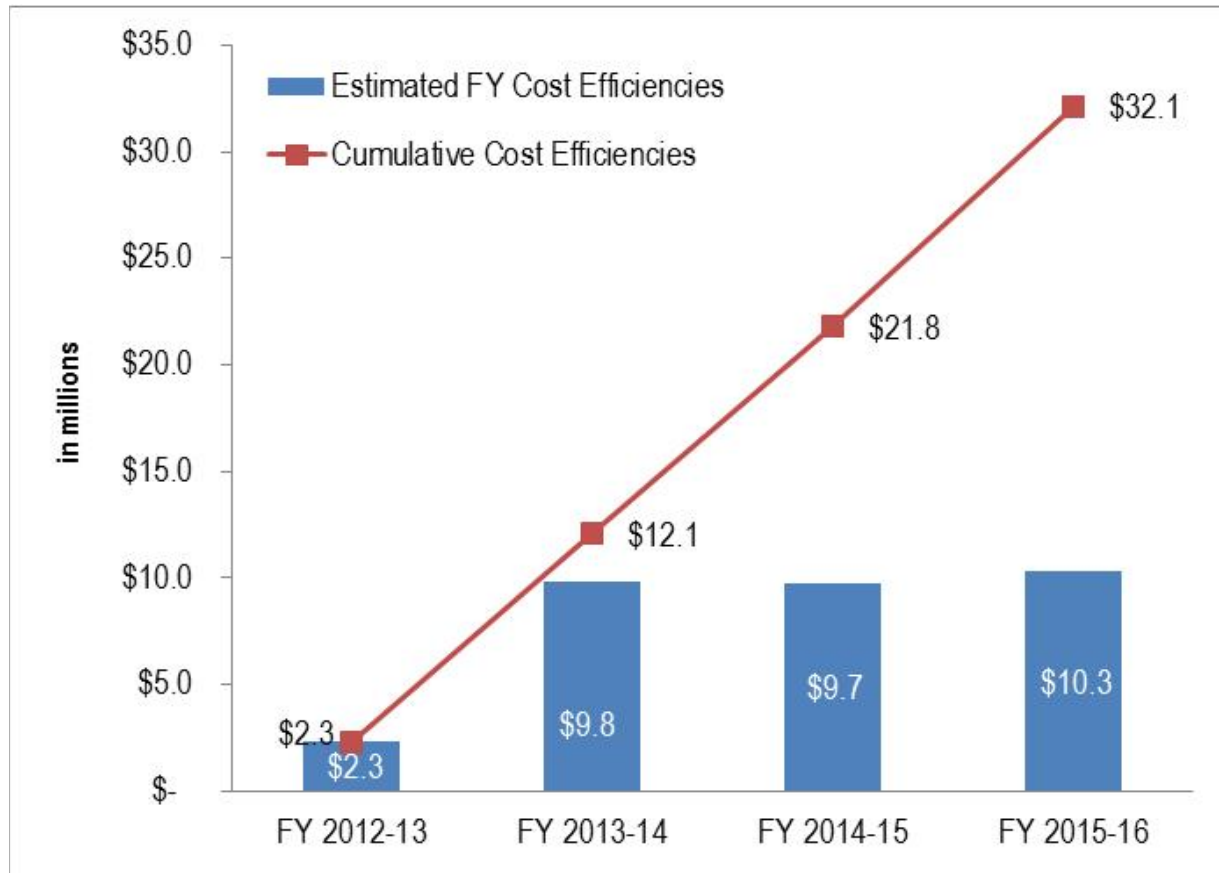
## **Member Pays the Difference – \$22.5M**

- Members must pay cost difference between brand name and equivalent generic drugs

## **Consolidated Medicare Advantage Program – \$12.0M**

- Savings resulted from consolidating multiple Medicare payers to a single Medicare payer

# Operational Cost Efficiencies – \$32.1 million



The organization continues to focus on cost efficiencies, ongoing annual cost savings are primarily due to hiring State staff instead of IT consultants

# Operational Cost Efficiencies - \$32.1 million

## my|CalPERS State Staff vs IT Consultants – \$30.7M

- Annual cost savings of \$9.3 million ongoing due to hiring State staff instead of relying on consultants

## Data Management Efficiency – \$1.0M

- Cost avoidance by replacing a more expensive commercial-off-the-shelf (COTS) product with a custom in-house solution to handle business rules. Organization will make use of tools already on hand to save on the upgrade conversion required with the COTS system, in addition to fees and support costs for that product

## Equipment Savings – \$20K

- Decommission of 47 desktop printers resulting in cost avoidance from upkeep, maintenance, and toner

## Prior Technology and Travel Savings – \$426K

- Technology (\$235K), Education Forum (\$154K) and Consultant Travel Savings (\$37K)

# Operational Effectiveness Improvements

## Strategic Goal A:

### Improve long-term pension and health benefit sustainability

**Funding Risk Mitigation Policy** – Developed the Funding Risk Mitigation Policy aimed to reduce risk and volatility in the system

**Online Health Statements** – Transitioned 1.4 million health members to access their open enrollment information online via member self-service

**Functional Optimization Project** – Consolidated Medicare Advantage Program going from five Medicare Advantage Plans to two Medicare Advantage Plans to reduce premiums to members and employers



# Operational Effectiveness Improvements

## Strategic Goal A:

### Improve long-term pension and health benefit sustainability

**Operational Technology Enhancements** – Reduced operational risk and increased efficiencies and capacity by using technology to improve business processes by:

- Automation of the Daily Margin Call and Derivative Exposure Reconciliation process between CalPERS and counterparties
- Deployment of the Private Equity Accounting and Reporting System (PEARS), which automates workflow for transactions, such as capital calls
- Deployment of Allocation, Rebalance and Trade Execution Management Information System (ARTEMIS) which automates the order management process for the Affiliate Investment programs

# Operational Effectiveness Improvements

## Strategic Goal B:

Cultivate a high-performing, risk-intelligent and innovative organization

**Reduced Water Consumption** – Reduced Headquarters water consumption by 32 percent, approximately eight million gallons in comparison to the 2010 water usage baseline established by the Governor's Executive Order

**Procurement Efficiency** – Converted all Letter of Engagements for the Investment Office into the eProcurement requisition system to align with the enterprise

**Lean Six Sigma Project** – Reduced risk related to contract compliance and reengineered compliance requirements and processes

**Refund Process Improvements** – Improved 30 day refund process from 78 percent to 99 percent last fiscal year

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# Operational Effectiveness Improvements

## Strategic Goal B:

### Cultivate a high-performing, risk-intelligent and innovative organization

**Business Intelligence** – The Business Intelligence Team collaborated with the Office of Audit Services (OFAS) to increase public agency reviews audit efficiencies through a collaborated data analysis effort resulting in the ability to conduct an additional 115 public agency reviews without incurring additional staffing costs

**Audit Efficiencies** – Public agency review process improved by narrowing the compliance audit scope by covering one compliance area rather than multiple during an audit. This increased coverage by auditing more agencies for each scope of work. Also utilized Business Intelligence data to identify employers at risk for compliance audits, and streamlined audit reports to reduce the time needed to complete audit cycles

**Benefit Payment Timeliness** – FY 2015-16 marked the third year in a row benefit payment timeliness achieved over 90 percent

**Reduced Outstanding Payment Amounts** – Reduced outstanding payment amounts by 28 percent

# Operational Effectiveness Improvements

## Strategic Goal B:

Cultivate a high-performing, risk-intelligent and innovative organization

**Service Credit Purchase and Election** – Reduced costing arrears workload by 74 percent

**Disability Retirement Service Levels** – Successfully met and exceeded a new service level for disability retirement determinations by completing 83 percent of determinations in four months

**Customer Contact Center Technology Efficiencies** – Measureable improvements in the areas of the Contact Center's average wait times and customer satisfaction with the investment of an Interactive Voice Response (IVR) system that provides skill-based routing, reporting, and real time tools

**Enrollment Process Automation** – Automated the Medicare enrollment process for CalPERS health program members turning 65, which has improved the customer experience

# Operational Effectiveness Improvements

## Strategic Goal C:

Engage in State and national policy development to enhance the long-term sustainability and effectiveness of our programs

**Cost Effectiveness Measurement** – Improvements in Cost Effectiveness Measurement (CEM) include:

- Services and costs improvement relative to the CEM peer group
- Increased service scores over the last three years
- Service scores are expected to improve slightly in the future due to the use of quality indicators with more satisfaction surveys, increased system functionality and options, and improved timeliness with transactions