



Finance and Administration Committee Agenda Item 4e

November 15, 2016

Item Name: Annual Cost Efficiency and Effectiveness Report

Program: Financial Office

Item Type: Information Consent

Executive Summary

The Annual Cost Efficiency and Effectiveness Report provides a summary of efforts made by CalPERS over the past five years to reduce costs, and improve operational efficiency and effectiveness in services provided to our members and employers. Detailed in this report are cost savings and cost avoidance efforts totaling \$922.5 million; this represents an increase of \$289.3 million, or 45.7 percent, over last year's cumulative savings of \$633.2 million. The cost savings and operational effectiveness improvements are detailed in Attachment 1.

Strategic Plan

The Annual Cost Efficiency and Effectiveness Report supports the CalPERS 2012-2017 Strategic Plan by achieving efficiencies related to Goals A – to improve long-term pension and health benefit sustainability, B – to cultivate a high-performing, risk intelligent and innovative organization, and C – to engage in State and national policy development to enhance the long-term sustainability and effectiveness of our programs.

Background

CalPERS has continued an ongoing focus on controlling and reducing costs while also accomplishing operational effectiveness within the organization. Investment area cost efficiencies include implementing programs and initiatives to improve investment performance, manage risk, reduce reliance on external managers, and improve fee structures. Innovative approaches in the Health Benefits Program have also led to cost efficiencies. Operational cost efficiency and effectiveness improvements continue enterprise-wide as programs improve and enhance business processes and leverage technology while continuing to provide customer service.

Analysis

To benefit our members, employers, and the organization, CalPERS continually strives to minimize costs through effective management of our investment, health, and pension operations. Several initiatives have been implemented that resulted in avoidance of costs and actual savings to the organization. CalPERS has identified \$922.5 million in savings as follows:

Investment Office – \$325.0 million:

Savings are primarily due to a continued reduction in reliance on external consultants, internalizing functions previously outsourced at a higher cost, re-negotiation of existing relationships with more favorable cost terms and improved economics.

Health Benefits Program – \$565.4 million:

In the face of ongoing healthcare cost increases nationwide, the Health Benefits Program continues to identify innovative methods to achieve cost containment. The following health initiatives have resulted in savings:

- ♦ Dependent Eligibility Verification Audit (\$311.8M)
- ♦ Optimization of Pharmaceutical Management (\$122.7M)
- ♦ Flex Funded Health Plans (\$64.6M)
- ♦ Hip and Knee / Reference Pricing Expansion (\$31.8M)
- ♦ Member Pays the Difference (\$22.5M)
- ♦ Consolidated Medicare Advantage Program (\$12.0M)

Operational Savings – \$32.1 million:

Savings reflected throughout the Operational areas include:

- ♦ myCalPERS State Staff versus IT Consultants (\$30.7M)
- ♦ Data Management Efficiency (\$1.0M)
- ♦ Equipment Savings (\$20K)
- ♦ Prior years Technology and Travel Savings (\$426K)

Operational Effectiveness Improvements

In addition to cost efficiencies realized, various operational effectiveness improvements have been identified throughout the organization which supports the CalPERS Strategic Plan as follows:

Strategic Goal A: Improve long-term pension and health benefit sustainability

- ♦ Funding Risk Mitigation Policy
- ♦ Online Health Statements
- ♦ Functional Optimization Project
- ♦ Operational Technology Enhancements

Strategic Goal B: Cultivate a high-performing, risk-intelligent and innovative organization

- ♦ Reduced Water Consumption
- ♦ Procurement Efficiency
- ♦ Lean Six Sigma Project
- ♦ Refund Process Improvements
- ♦ Business Intelligence
- ♦ Audit Efficiencies
- ♦ Benefit Payment Timeliness
- ♦ Reduced Outstanding Payment Amounts
- ♦ Service Credit Purchase and Election
- ♦ Disability Retirement Service Levels
- ♦ Customer Contact Center Technology Efficiencies
- ♦ Enrollment Process Automation



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

- ♦ Cost Effectiveness Measurement

Budget and Fiscal Impacts

There are no costs associated with the review of this item.

Benefits and Risks

The benefit is additional information provided to the Board on savings captured, cost avoidance measures implemented and operational improvements undertaken by the organization.

Attachments

Attachment 1 – CalPERS Annual Cost Efficiency and Effectiveness Report.

ROSE MCAULIFFE, Chief
Financial Planning, Policy and Budgeting

CHERYL EASON
Chief Financial Officer