



CalPERS Stakeholder Engagement Report

2012-17 Strategic Plan Development

▶ CalPERS | Enterprise Strategy and Performance ▶ 8/2/2012

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Executive Summary

In January 2012, CalPERS initiated its 2012-17 Strategic Planning process. As a key part of the Strategic Plan development, the Enterprise Strategy and Performance Division (ESPD), in collaboration with External Affairs Branch and Booz Allen Hamilton (BAH) consultants, has conducted a Stakeholder Communications and Engagement Plan. This plan was designed to inform and seek input from key stakeholders, including CalPERS leadership, CalPERS staff, members, employers, member and employer organizations, State and federal legislative and administrative representatives, and .

Overall, stakeholder groups are aligned with the direction expressed in the draft 2012-17 CalPERS Strategic Plan. There was general consensus for CalPERS to take an advocacy and leadership position that is consistent with the plan's vision, mission and goals. Some stakeholders raised concerns about pension sustainability. In addition, although employers and member groups mentioned customer service concerns, they viewed this as a temporary issue. Stakeholder groups agreed that CalPERS reputation remains strong.

Our stakeholders count on CalPERS delivering promised benefits, and believe that in order to do so, a position of advocacy, leadership, and education is necessary.

Stakeholders Reached

As of July 20, 2012, CalPERS staff, and in some cases, BAH representatives, have met with the following:

- **Board of Administration and Executive Staff:** One-on-one interviews and workshop sessions.
- **CalPERS Staff:** Presentations on the strategic planning process have been made to management so they can inform and engage staff. Input from staff is in process. Information received to date is included in this report.
- **Employers:** Employer Focus Group, consisting of a number of diverse employers, School Employers Advisory Committee, the League of California Cities, California State Association of Counties, and the California Special Districts Association.
- **Member/Retiree Associations:** One-on-one meetings with leadership representatives from several active and retiree member organizations, RPEA Board Meeting, Customer Representative Group.
- **Federal Stakeholders:** National retirement and health groups, legislative and regulatory offices, and national labor groups.
- **State Legislature:** One-on-one or small group meetings with representatives from the Democratic and Republican Caucuses (Senate and Assembly), Senate Public Employment and Retirement Committee staff, and Assembly Public Employees, Retirement, and Social Security Committee staff.

Key Themes by Stakeholder Group

The following data is grouped into categories by commonality of subject matter. These were the major points that arose during the meetings with stakeholders. The fact that an item is listed below does not necessarily mean there was consensus around it.

Board of Administration and Executive Staff

Pension Policy and Benefits:

- Desire to defend defined benefit plans for our members
- Prepare to administer hybrid plans
- Eager to be active and add value in the public debate
- CalPERS should define its stance for a variety of important issues. Note, however, that there is not a consensus around what these issues should be. Suggestions ranged from the value of defined benefit plans, to benefit adequacy, to policy issues that could impact sustainability
- Educate stakeholders around pension reform, and the value of retirement security for both the public and private sectors

Health Care Payment and Delivery:

- Support and drive service delivery reform through the plan contracts to lower costs
- Continue to lead innovation in pursuit of driving health care system changes
- Explore partnerships with the federal and state government, employers and others to impact health market goals
- Leverage plan procurement process to accommodate current and future member needs
- Make health and wellness of our members a priority in order to address the issue of rising health care costs

Investment

- Continued innovation is necessary to balance risk and returns
- Risk of significant drawdown could impact funding level permanently
- Consideration of environmental, social, and governance factors in investing is very important
- Economic uncertainty is a continuing issue
- Should make effort to bring down investment operating costs

Chief Financial Officer / Risk and Compliance

- Integrated Asset Liability Management is critical – desire to formalize and fully institutionalize this approach
- Strong progress on building upon risk, compliance, and internal controls, but recognized as an area for continued improvement
- Need to strengthen financial accounting and reporting

Customer Expectations and Needs

- Has a history of strong customer service, and is committed to recapturing this reputation
- Customer demographics and requirements are changing and vary by customer and employer type
- Desire to understand and measure improvement
- Necessary to provide members new tools and channels to interact with CalPERS
- As a result of my|CalPERS, there is now significant business intelligence capacity to better understand CalPERS membership

Collaboration

- Often acts alone and does not partner or reach well to outside
- Sense that CalPERS could make an even greater impact with partners
- Need to formalize outreach strategies while maintaining independence

Public Trust

- Public trust has been degraded in the past but is currently on an upward trajectory
- New governance policies are in place and hold promise, but require ongoing vigilance and completed implementation
- Media often does not provide balanced view

Talent and Capacity Management

- Staff are highly dedicated to the mission
- Can be challenging to recruit and retain key positions
- Need to allocate resources appropriately, quickly adapting based on changing environment
- Must stay focused on the priority programs and filter new projects based on established priorities
- As a result of my|CalPERS, required skill-set and workforce are changing--needs are moving from transactional to analytical

Capturing the Benefits of my|CalPERS and the New Reorganization Structure

- my|CalPERS and the new organizational structure hold promise for organization efficiency, service, and knowledge
- Need diligent focus for full implementation of the my|CalPERS functionality
- Additional process improvement and change management may be required to capture my|CalPERS and the new organizational structure benefits

Vision and Mission:

- To ensure that we are trusted, and are a policy and market leader, effective, efficient and ethical enterprise-wide management and governance is key
- Our job is to deliver retirement and health security to members
- It is ultimately our members that inspire us

- We aspire to be considered an authoritative leader and expert source of information on public employees' retirement and health benefits design and policy setting. This also includes being a trusted and reliable source for policymakers, media, and the public

CalPERS Staff

Sustainability:

- Investment returns/money availability is the main driver for sustainability; market volatility creates challenges to providing long term pension benefits
- Early retirement coupled with longer life expectancy adds costs to both pension and health benefits
- State and national policy debates on both pension and health reform may effect market volatility, retirement age, and state and local budgets that CalPERS will need to consider and monitor closely

Organization and Culture:

- One of the greatest challenges to creating a high-performing and risk-intelligent culture is overcoming old habits and learning new ways to work. This includes being more open and collaborative, and finding ways to identify and escalate issues
- Some staff feel that problems with recruitment and retention are a challenge to the enterprise
- Succession planning and knowledge transfer are important in key positions

Identity and Public Policy:

- Clear role for CalPERS to protect the defined benefit plan by educating the public and correcting media misinformation
- Be proactive and have defined messages we can communicate quickly
- The political climate has a lot to do with the misperceptions and negative portrayal of pension benefits

Employers

Benefits: Need more flexibility, systems, tools, and choices for employers to promote CalPERS to their employees and recruit quality staff

Customer Service: Desire "single point of contact," expert help from CalPERS, better tools, consistent answers from Call Center, and shorter wait times for service

- Provide more training for employers and new employees
- Reach out to city, county, and school employer groups to discuss how to reach new employees and how to address system problems

Advocacy: Some employers feel CalPERS should be an advocate for policy change, defined benefit, and quality health care at low rates, not just an administrator of benefits

Retirees

Benefits:

- Address Long Term Care rates
- Limit health care choices to improve quality of care
- Streamline Medicare reimbursement process
- Attempt to influence health care market and stabilize rates

Customer Service: Desire more frequent communication via mail and telephone, less reliance on computer technology, and faster response times

- Send requested documents and publications within 10 days
- Prioritize backlogs to process benefit checks more quickly

Advocacy: CalPERS should take a leadership role in the national health care and retirement policy debate

- Define your message and policy positions to allow for quick media response
- Utilize retiree coalitions and leverage retiree experiences for policy-making

Employer Associations

Benefits: Need to ensure independent and small employers can implement pension reform by deadline, if necessary

- Ensure employers are informed of potential changes in pension and health care benefits
- Continue to provide opportunities to hear from CalPERS, e.g., Employer Roundtable
- Provide more flexibility when determining health and pension benefits for employees and retirees
- Want to be able to negotiate employee share of pension contribution at bargaining table
- Wellness opportunities are currently pursued by individual staff rather than by the employer setting standards and guiding principles for additional wellness opportunities
- There are areas for CalPERS to advocate, but positions should reflect employer interests, in addition to member interests

Customer Service: Desire to partner with CalPERS via webinars and conferences to educate members

Member/Retiree Associations

Sustainability:

- Ensure compliance with new governance and ethics reforms
- Ensure that Board members are appropriately trained in campaign law
- Ensure that CalPERS remains independent and not aligned to the "Big Banks"
- Focus on administration of system, solid investment returns, improving customer services, reputation management, and be a more collaborative partner

- Defer to the skills, experience and talents of professional trade organizations to engage the policy debate
- Focus on sustainability – Actions from the past have been addressed

Benefits:

- Address Long Term Care rates
- Continue to require employer retiree health care
- Quality is more important than cost for health plans
- Attempt to influence health care market

Customer Service: Most complaints received are about call wait times, for both retirees and active members

Advocacy: Though there were some differences of opinion, the general view was that CalPERS should be proactive, take leadership role to educate the media, public, and Legislature

- Define your message and policy positions to allow quick media response
- Create coalitions and leverage key stakeholders for positive media reports
- Educate youth on retirement and health care
- Be an arbiter of reliable data, and provide trust to stakeholders

Other:

- Some indicated the Strategic Plan is important work, and CalPERS needs to look at the long-term horizon, while others thought we should focus on short-term horizon
- Interest expressed in performance metrics: what level they will go to, and how and when they will be reported
- Increased retirement age for safety personnel could lead to increased industrial disability retirements

State Legislature

Investment Opportunities:

- Work together on refining the process for emerging money managers submitting ideas to CalPERS
- Create a process for legislators to present investment ideas to CalPERS for consideration, while recognizing the fiduciary responsibility and independence to invest funds
- Share CalPERS information on investment opportunities and ideas with smaller county systems

Publicizing Investment Efforts:

- Provide information to Legislators on retirees and investment projects and dollars in their district
- Show what CalPERS has done to invest in California
- Believes CalPERS has done a good job branding and highlighting corporate governance work

Pension Reform:

- Would like to hear CalPERS input on pension reform proposals. Help the legislature identify and frame the challenges. If pension reform is enacted, CalPERS should take the lead to educate members on the outcomes and operation of proposed plan structures
- Build relationships with workshops and in-person meetings with the legislature. This will be increasingly important with 12-year terms
- Solely focusing on reform for new employees does not address the real issues
- Problems mainly come from public agencies and safety classifications
- Be an honest broker of information.
- Provide the data the legislature needs for thorough policy analysis

Health:

- Other Post-Employment Benefits (OPEB) will be the next big issue after pension reform
- There may not be a big fix for OPEB, just chipping away at the problem over time
- Values CalPERS responsiveness to expedited information and data requests and policy expertise
- Consider partnerships with other major purchasers and the relationship with the exchange
- Interested in CalPERS opinion on legislation as a large purchaser
- Improve accessibility of research, reports, and data
- Leadership in health care is doing innovative things that make a difference, sharing what is learned, both successes and failures, and creating models for others to follow
- Not much data available on long-term outcomes for wellness programs industry-wide

Other:

- Members who have seen the complexity, size, and scale of CalPERS operations have been impressed
- CalPERS has gotten away from its mission as an administrator by being too political
- Legislature wants to collaborate with CalPERS, and can help push positive messages
- Team up with researchers, academic institutions, non-profits, endowments
- Expose the costs and fees associated with 401(k) plans
- CalPERS has a generally good reputation
- Go after pension abuses and get headlines highlighting successes
- CalPERS needs to advocate for retirement security for private sector as well

State Administration

Identity and Public Policy:

- Focus on being an effective administrator rather than an advocate
- Interested in issue-specific technical assistance and individual consultation
- Cautious approach to pension reform given long-term implications

- Would be helpful to have set of “beliefs,” even if Board is not in agreement; could have a “split decision” – This would spur dialogue/thinking
- Legislative positions – Appreciates that we take positions, even when neutral
- Provide more context, including, pros, cons, and dissenting opinions positions on legislation in order to assist in making policy decisions
- Employers need more information to inform the bargaining process. It needs to be timely. Can costing estimates for this purpose be mechanized?

Retirement Security:

- Seek new ways to educate members about their options for managing their money and their retirement
- Assure members that CalPERS investments are prudent. Continue to build public confidence in the system
- Continue to seek opportunities to invest in California, and ensure that news is shared
- Must focus on identifying the right assumptions, recognizing that sudden drastic changes will have harsh impact
- Local elected officials and employers need additional education on pension issues and long-term effects

Health Care:

- Health Care reform is a driving policy issue for the State in the years to come
- CalPERS can bring expertise to health care reform in the context of larger public systems like Medi-Cal and vehicles such as the health purchasing exchange
- Keep benefit costs down through innovative programs (e.g. cost competition, self-funded HMO, purchasing coalitions, and robust wellness programs)
- Other Post-Employment Benefit (OPEB) liabilities are a concern
- Can influence implementation of health reform through contracts and innovation
- Wellness should be defined and clear on its intent
- Wellness programs, such as the recent pilot programs, have great potential and should be pursued. The challenge is finding the right incentives
- Participate with CalHR on quarterly benefits meetings

Organization and Culture:

- CalPERS has done a lot to clean up post corruption scandal. Should educate people on all we have done
- Communicate on the positive things we are doing; e.g., investing in infrastructure. Important for the state to inspire consumer confidence. CalPERS is seen by most as “part of the state”
- Still suffering from impact of SB 400. Need to improve credibility as neutral and objective
- Appreciate responsiveness to expedited and sensitive information requests

Customer Service:

- my|CalPERS – Customer service is critical. Thinks new system will have positive impact to member information and ability to make retirement decisions

Federal Stakeholders

The general perception of CalPERS is very favorable

Identity and Public Policy:

- National leaders and industry advocates look to CalPERS for innovation and trend-setting policy development, and support CalPERS leadership to be a proactive voice in the national dialogue (this pertains to health care, retirement security, and investments/corporate governance)
- Several interviewees suggested that CalPERS should consistently articulate its investment and corporate governance activity in the context of the System’s fundamental goal of preserving the long-term retirement security of its members and beneficiaries
- Even with organizations/individuals who may not share CalPERS overarching philosophy, CalPERS expertise and experience is valuable in the development of investment-related public policy

Retirement Security:

- As the nation’s largest public pension system, CalPERS must be a leading voice for retirement security in the public sector. One interviewee said, “CalPERS should express a 50-year view of retirement security!”
- Given its resources and depth of experience, CalPERS should be a major thought leader in retirement policy, plan design, services, and programs in the public sector and should actively share that knowledge with industry leaders, peers, and Federal policy makers
- CalPERS should aggressively support a media strategy – both in California and nationwide – that effectively delivers a message that all workers deserve retirement security, and which articulates the risks associated with failure to deliver retirement security
- CalPERS should encourage industry trade associations take a meaningful leadership role in the defense of public sector defined benefit retirement programs and should work with other public plans to support such an agenda in organizations such as National Association of State Retirement Administrators (NASRA) and National Council on Teacher Retirement (NCTR)

Health Care:

- CalPERS can lead in health care by implementing the Affordable Care Act successfully and by broadly sharing its experience; this success will ultimately produce public/consumer support.
- CalPERS should serve as a laboratory for pilot programs and innovative system delivery models in order to serve as a model for the nation

- CalPERS must be a visible and vocal leader in the ongoing national health care reform debate and is uniquely positioned to be an advocate for reforms that increase both the quality and value of care
- CalPERS should utilize its experience and expertise to help identify options for budget reductions that would be either acceptable to the purchaser community or would serve to advance its policy agenda or both. In addition, CalPERS should actively oppose any federal efforts to simply shift costs to State government and to private purchasers

Consensus and Differences of Opinion

Stakeholders largely agreed that we need to provide advocacy, leadership, and education in order to offer sustainable pension and health benefits. There was general agreement that CalPERS is doing a good job and is seen as a leader in the industry. Many expressed the idea that CalPERS needs to increase its efforts in the areas of collaboration, outreach, and education, with the purpose of influencing public opinion. There is acknowledgment that in this troubled economic environment, CalPERS needs to function more as a knowledgeable leader and educator with the goal of impacting policy decisions.

Specific suggestions were made about the areas described below.

Planning

- Stakeholders largely agreed with the direction in the Strategic Plan and were supportive of a long term planning horizon
- Some suggested that due to the urgency of the policy environment, CalPERS should be working on immediate actions, while others believed CalPERS should look at a horizon of 50 years

Reputation

- CalPERS image has been negatively impacted by the acts of a few and by political climate
- The organization has taken significant steps to address the issues behind past failures, and has come a long way in restoring confidence
- Going forward, CalPERS should ensure it fully implements the changes currently under development, such as the new travel policy, Board Governance, and form 700 filing policy

Advocacy

- Member groups generally supported an advocacy role for CalPERS, particularly on defined benefits. However, there was a lack of consensus on what positions to advocate, and to what extent
- All stakeholders agreed that CalPERS should act as an honest broker of information, providing accurate pension data to policy makers
- Many strongly supported CalPERS using its experience and size to weigh in on important policy issues
- Several stakeholders encouraged CalPERS to be active, collaborating and joining coalitions to educate members and the public on the effects of various types of pension reform

- Increased education is necessary to reach the media, public, taxpayers and the Legislature
- Within the member groups, some representatives expressed disagreement with an advocacy position, urging we maintain an administrative role in pension and health reform
- Some people stated CalPERS has gotten away from its mission as an administrator by being too political

Investing

- While acknowledging CalPERS fiduciary responsibility, State government representatives strongly supported a focus on CA infrastructure investing
- Of particular concern was highlighting in the media and to legislative members positive stories about CalPERS impact on the state economy
- A view, not held by all, was to encourage taking an activist position on things like private equity investment, ESG, human rights, and job creation

Benefits

- Member groups generally wanted higher quality health care, even at higher costs, while other stakeholder groups focused more on lower premiums
- Employers desired separation of active and retiree health benefits to provide flexibility in managing budget. However, member groups favored keeping retiree health benefits unchanged
- Funding for Other Post-Employment Benefits (OPEB) was seen as the next major policy issue

Customer Service

- Stakeholders noted some problems with customer service but considered it a temporary issue
- Stakeholders expressed a desire for closer communication with CalPERS staff on customer service issues
- Additional education on retirement issues should be provided to new employees

Next Steps

After the Strategic Plan is rolled out in August 2012, CalPERS will continue to reach out to our stakeholders to allow for ongoing feedback and dialogue as the Plan is executed.