

# 2012-13 – 2<sup>nd</sup> QUARTER STATUS REPORT – Chief Executive Officer (A. Stausboll)

## Quantitative Performance Measures

### Total Fund Performance

Weight	Performance Measure	Incentive Schedule	2 <sup>nd</sup> Quarter Status
5%	Excess return in basis points relative to: Total Fund Performance Benchmark {SJ1CA1 – CPERST02}	0 basis points = 0 +20 basis points = 1.0 +30 basis points = 1.5	+13 bps (11.22-11.09)

## Qualitative Performance Measures *(All performance measures utilize standard Qualitative incentive schedule unless otherwise noted)*

### Business Plan / Enterprise Objectives

Weight	Performance Measure
55%	By June 30, 2013, implement the objectives set forth for 2012-13 in the Board approved 2012-14 Business Plan to achieve the strategic goals in the areas of: <ul style="list-style-type: none"> <li>• Improve long-term pension and health benefit sustainability</li> <li>• Cultivate a high-performing, risk-intelligent and innovative organization</li> <li>• Engage in State and national policy development to enhance the long-term sustainability and effectiveness of our programs</li> </ul>

#### 2<sup>nd</sup> Quarter Status:

(Note, this Fall the 2012-14 Business Plan was realigned to the new Five Year Strategic Plan. This report is also realigned accordingly, and summarizes highlights from the Second Quarter for each Objective.)

#### Goal A – Improve long-term pension and health sustainability.

- **Enhanced Asset Liability Management.** Staff continued our work with the new Asset Liability Management Framework and designed presentations on risk and asset allocation for the January 2013 Offsite. Staff also used the model to evaluate current actuarial policies and develop a presentation planned for February 2013.
- **Target Risk Adjusted Returns.** (See Chief Investment Officer's Report.)  
Two items in particular required extensive cross-organizational collaboration.
  - We finalized the Five Year Plan for Emerging Manager Participation, and briefed key legislators. We also developed and conducted the Emerging and Diverse Manager Forum at the Sacramento Convention Center in December. Originally planned as a workshop, the event was attended by over 400 individuals.
  - The Financial Office/Investment Office joint initiative resulted in the first ever monthly reports on the Investment Expense budget.
- **Educate Stakeholders to Make Informed Decisions on Retirement and Health Care.**
  - The Actuarial Office completed development of the Sensitivity Analysis and Termination Liability sections that were successfully included in all of this year's valuations and posted on line. We are very proud of this new feature, which provides new insights and information for our employers and the public.
  - The Actuarial Office also developed an implementation plan for the new GASB rules; this plan will be presented to the Board this coming quarter.
  - In October, the Board approved rate increases to stabilize the Long Term Care program and also approved programmatic changes that provide additional options for policyholders to avoid the rate increase if they so desire. The Board approved the open application period contingent upon new product design and pricing, to be taken up in February. We have conducted extensive stakeholder communication on these issues and are developing a robust communication strategy to ensure policy holders are well informed of their choices and the consequences of those choices.
- **Ensure High Quality, Accessible and Affordable Health Benefits**
  - The PPO draft proposals were reviewed, discussed with the Board, and confidential discussions were held with respondents. Final bids are due January 3, 2013. HMO draft proposals were received in mid-December, review is complete, and discussions are scheduled with the Board in mid-January 2013. These procurements are a significant step in achieving more cost-effective, quality-focused health benefit programs.
  - Staff completed the Options for Medicare Supplement regulations and submitted them to the Office of Administrative Law.
  - Work also continued on the Dependent Eligibility Verification Review and the contractor was selected. We continue to work with the Department of Finance to address their concerns regarding funding. A robust communication strategy has been developed.

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(The following items are not part of the Business Plan but are requiring substantial resources.)

- **Pension Reform Implementation (PEPRA).** This quarter, staff completed the analysis of the pension reform legislation; identified and developed strategies to resolve issues of interpretation; developed and tested the necessary technology changes; and worked with stakeholders, including the legislature, on clarifying legislation. We provided extensive outreach and information to external stakeholders, including three comprehensive circular letters, sessions at the Annual Education Forum, a new Pension Reform Impacts section on our website, and several teleconferences for employers with over 1500 employer representatives participating. Staff has also attended meet and confer sessions as requested by CalHR, and numerous other stakeholder meetings. We also reviewed all CalPERS publications and updated fifteen member print and online publications.
- **Bankruptcy.** We continued to represent CalPERS' interests in the bankruptcy proceedings in Stockton and San Bernardino, to protect and ensure the integrity and soundness of the Fund. We have briefed the Board regularly on the litigation and held stakeholder sessions.

### Goal B – Cultivate a High-Performing, Risk Intelligent, and Innovative Organization

- **Use a Focused Approach to Generate, Test, Refine and Implement New Ideas.**
  - The Center for Innovation (CFI) Chief has been hired and is in the process of staffing the office. Progress has been slower than hoped, due to challenges in finding staff with the requisite skills and experience, but overall is proceeding well. The CFI has developed criteria to evaluate potential projects, and is developing a research agenda and establishing relationships with academic researchers.
  - Staff put in place a governance structure for development of a new Intranet. Based on feedback from usability testing, staff completed the design and layout and began migrating content from three pilot divisions (IT, HR, and Public Affairs), with launch targeted for February 2013.
- **Deliver Superior End to End Customer Service.**
  - In October, we successfully launched Member Self-Serve (MSS) Release 2, with several new enhancements. MSS Release 3 remains on schedule for January 2013.
  - Staff finalized the Service Delivery Transformation Roadmap and presented it to the Board in October. A communication plan to roll out the plan both internally and externally was developed.
  - To obtain efficiencies consistent with my/CalPERS, annual member statements are now available on line. The 2011-12 statements included a flier enabling members to continue to receive a hard copy if desired. A similar project is underway relating to the mailing of direct deposit hard copy statements to members, and this will be presented to the Board in the next quarter.
  - The "ready to review" Death Benefits backlog was eliminated in October. We continue to closely monitor efforts to eliminate the two remaining backlogs (SCO and Retiree Payroll Adjustments).
- **Recruit, Retain, Develop and Empower a Broad Range of Talents Against Organizational Priorities.**
  - Staff developed an informal mentoring program to be launched in the next quarter. Succession Planning was launched for the CEO and CIO positions; and tools and timelines were developed for the executive level (process to be launched in the next quarter). A training program for the Contact Center staff was developed and will be piloted in the next quarter, and the Investment Office finalized program training modules for the INVO SMART Certificate Program.
  - The Diversity Outreach Program conducted training for the Regional Office and CSOD managers. We hosted a successful first ever Veteran's Day event. The new mentoring initiative also supports diversity and inclusion.
  - Information Technology Services and Human Resources continue to work to fill newly approved positions to assist with knowledge transfer and consultant reduction. A substantial job fair is planned for March 2013.
  - Staff initiated project work to implement the Information Security Roadmap, including top priorities such as enhancing data loss prevention, and improving mobile device management.
  - The Personal Trading Regulation was approved by the Office of Administrative Law and filed with the Secretary of State with an effective date of December 1, 2012. The trading platform was successfully launched on December 1, and training was provided for all covered persons.
  - Staff continued making progress on a number of improved financial processes, including cash management, investment expense reporting, and improved investment reconciliation processes.

### Goal C – State and National Policy Development.

- **Clarify and Communicate CalPERS Perspective on Pension, Health and Financial Markets.**
  - A Board/Staff working group was established to oversee development of Investment Beliefs. A consultant was selected and interviews are underway to gain an understanding of views on investment beliefs. A session is scheduled for the January 2013 Offsite.

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- **Provide Education and Engagement Opportunities to Shape Policy Agenda/Expand Impact.**
  - We continue to expand our outreach and focus in our public forums. Sessions at the 2012 Annual Education Forum included the “CalPERS Leadership Spotlight – Women Leaders in Public Service,” as well as “Getting Down to Business – Working with your Local Business Community.” The CalPERS hosted Emerging and Diverse Managers Forum was attended by over 400 investment professionals interested in working with CalPERS.
  - The Retirement Research and Planning Division is almost fully staffed and has developed a research agenda for the year.

## Leadership

Weight	Performance Measure
30%	<p>By June 30, 2013</p> <ul style="list-style-type: none"> <li>• Continue to develop and implement communication and advocacy programs, and increase the visibility of the Executive Team in the media and within the industry, to educate stakeholders and influence pension, health, and financial market policies.</li> <li>• Obtain approval of a new five-year Strategic Plan, develop performance metrics to measure implementation and progress, and develop and implement a communication plan to foster an understanding among stakeholders and staff of the Plan.</li> <li>• Continue to lead and develop internal cultural communication and initiatives, including administering an organizational health survey, that support core values and foster a diverse and inclusive workforce.</li> <li>• Continue to work with the Board President to enable the Board to make informed and strategic decisions by enhancing the Board and Committee agenda planning process and content, and ensuring the effective and efficient flow of pertinent information.</li> <li>• Meet the Leadership Expectations in the CalPERS Executive Leadership Expectations Guide.</li> </ul>

### 2<sup>nd</sup> Quarter Status:

#### Stakeholder Relations.

This quarter we hosted two significant conferences. In October, we hosted the Annual Employer Education Forum, which featured a plenary session on the new pension reform legislation; this presentation was subsequently produced as a webcast and saved on our website with a variety of other pension reform resources. In December, we sponsored the Emerging and Diverse Manager Forum.

With the passage of pension reform, the pending health benefits procurement process, and pending bankruptcy litigation, this was a critical quarter for stakeholder relations. We conducted numerous stakeholder meetings and briefings with legislators and representatives of the administration, member and retiree groups, media and employer groups. Following passage of the measure, a prominent opinion piece by the Board President and CEO was placed in the Sacramento Bee and received praise for positioning CalPERS in a new light in this era of pension reform. We also hosted two briefings to review retirement policies and developments in the areas of bankruptcy, contract amendments, benefit levels and the Terminated Agency Pool. In addition, we began a series of editorial board meetings on the bankruptcy issue.

#### Strategic Plan.

After adoption of the Strategic Plan in August, staff realigned the existing 2012-14 Business Plan with the new Strategic Plan. This work was presented to the Board in October. A new business planning cycle is now underway, to develop a 2013-15 Business Plan.

We have distributed the Strategic Plan both internally and externally; a discussion guide was developed to facilitate internal staff discussions of the plan and how it relates to our work. Work to develop strategic performance metrics is underway. A joint Board/staff working group has been established to oversee this effort. This project is taking longer than originally anticipated; this is due in part to staff turnover, but is mainly because the work has turned out to be more challenging and complex than originally anticipated. Staff has done substantial research on development of metrics and is finalizing a plan and timeline for this work.

In connection with the new Strategic Plan, we developed a new positioning statement for CalPERS as well as a new “look and feel” for publications.

#### Internal Culture and Communications.

This quarter we held several successful staff events. These included the Chili Cook-Off held in connection with the California State Employees’ Charitable Campaign, the “Dress the Chief in Pink” event to support our Jammin’ for the Cure team, a recognition event for enterprise staff involved in developing and implementing the Personal Trading Program, and a Winter All Staff gathering. I continue to attend and speak

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regularly at staff events such as New Employee Orientation, Leadership Training, and other staff meetings and forums. We also continue to publish several internal staff publications and communications. We are preparing to launch an informal mentoring program in the next quarter, and have developed several new training programs for staff. We are also completing plans for an organizational health survey to be conducted this spring. Additionally, we are finalizing a Code of Service, which embodies the various policies that govern staff conduct.

## Board Governance and Meetings

The Executive Liaisons have worked with Committee Chairs to plan the committee calendars for the 2013 calendar year. In October, Committee Chair training was provided for the Board, and in December, Fiduciary training was provided. A series of educational workshops on key strategic issues are planned for the Board during 2013.

## Succession Planning

Weight	Performance Measure
5%	By June 30, 2013, in coordination with the Board, conduct ongoing succession planning for the Chief Executive Officer and Chief Investment Officer positions: <ul style="list-style-type: none"> <li>• Identify leadership gaps and ensure existing development plans are adequate to meet the organization's future needs</li> <li>• Identify and conduct professional development opportunities for CalPERS Executive leadership team that foster accountability, creativity, and professional growth</li> <li>• Develop transition and recruitment plans as necessary</li> </ul>

### 2<sup>nd</sup> Quarter Status:

In conjunction with the Board, I have initiated a succession planning process for the CEO and CIO positions. Assessment tools and a timeline were developed and presented to the Board in November. The CEO and CIO have met with their direct reports to evaluate interest. A full discussion is planned for the January 2013 Offsite.

## Chief Financial Officer On-Boarding

Weight	Performance Measure
5%	By June 30, 2013, retain and on-board the Chief Financial Officer: <ul style="list-style-type: none"> <li>• Ensure successful transition with Board, Executives, Staff and external stakeholders</li> <li>• Identify needs for additional infrastructure for the Financial Office ( both Fiscal and Risk, Compliance &amp; Ethics), develop roadmap for implementation, and begin implementation</li> <li>• Establish and implement CFO's role in Asset Liability Management</li> <li>• Develop enhanced reporting to Board on enterprise financial issues</li> </ul>

### 2<sup>nd</sup> Quarter Status:

The new Chief Financial officer began with CalPERS in mid-November. She has met with all Executive Staff, as well as numerous other key management staff, and her own staff in a focused on-boarding effort. She has conducted a preliminary assessment of the staffing needs for her office, and she and I are working with the Human Resources Office to determine what classifications are appropriate and to develop an implementation plan. She has been working extensively with the Chief Actuary, the Chief Investment Officer, and the Chief Operating Investment Officer on issues of integrated asset liability management.