



## Agenda Item 7a

March 18, 2013

**ITEM NAME:** Proposed Adoption Public Employees' Health Care Fund Policy – Initial Review

**PROGRAM:** Affiliate Investment Programs

**ITEM TYPE:** Policy & Delegation – Information

### **EXECUTIVE SUMMARY**

The Investment Office has managed the Public Employees' Health Care Fund (HCF) in accordance with the Statement of Investment Policy for Barclays Aggregate Program since its inception in 1997. Staff is proposing a unique policy for the HCF to improve transparency and alignment with the other Affiliate Funds, which have specific investment policies.

The proposed Statement of Investment Policy for the Public Employees' Health Care Fund is provided as Attachment 1. The Wilshire Associates' Opinion Letter is provided as Attachment 2. Staff is presenting this policy for initial review and will bring back the policy for approval in April.

### **STRATEGIC PLAN**

This agenda item supports the CalPERS Strategic Plan to improve long-term pension and health benefit sustainability. The HCF Policy clarifies the Trust fund's purpose, investment objectives, responsibilities, investment approach and parameters.

### **BACKGROUND**

CalPERS administers various self-funded health care plans to minimize administrative expenses while retaining all the risk of loss from allowable fee-for-service health claims. Participating public agencies and members make monthly premium payments to the plans. Assets in excess of cash reserve requirements for the plans are invested into the HCF.

Since 1997, the HCF has been actively managed in the Barclays Aggregate Program investment portfolio. Prior to 2007, the Barclays Aggregate Program policy was titled the "Self-Funded Healthcare Policy" reflecting the exclusive management of the fund. In 2007, the policy name changed to the Barclays Aggregate Program when the Supplemental Income Plans started co-investing in the same investment portfolio. The Barclays Aggregate Program policy is a fixed income asset class portfolio implementation policy; it does not specify the investment objectives and parameters for the trust funds that invest in it.

**ANALYSIS**

All CalPERS affiliate trust funds have trust level investment policies. These policies provide transparency into the purpose of the respective trusts along with their investment objectives, approaches and parameters unique to each trust, except for the HCF. Examples of these policies include the Statement of Investment Policy for the Long-Term Care Fund, the Judges' Retirement System II (JRS II) Fund, and the Supplemental Income Plans. For the day-to-day management of the underlying investment portfolios, the Affiliate Funds also are governed by asset class policies if managed internally, or have external investment manager contracts and guidelines if managed externally.

The proposed Statement of Investment Policy for the Public Employees' Health Care Fund (Attachment 1) establishes a trust level policy for the HCF.

**ATTACHMENTS**

Attachment 1 – Statement of Investment Policy for the Public Employees' Health Care Fund

Attachment 2 – Wilshire Associates Opinion Letter

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