

# 2012-13 – 3<sup>rd</sup> QUARTER STATUS REPORT – Chief Executive Officer (A. Stausboll)

## Quantitative Performance Measures

### Total Fund Performance

Weight	Performance Measure	Incentive Schedule	3rd 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	+ 43 bps {11.96 – 11.53}

## 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>

#### 3<sup>rd</sup> Quarter Status:

#### Goal A – Improve Long-Term Pension and Health Sustainability

- **Fund the System through an integrated view of pension assets and liabilities.** Significant progress was made on the Asset Liability Management (ALM) initiative. At the January 2013 Board Offsite, staff presented a workshop consisting of the updated ALM Framework and a stakeholder panel. In February, staff presented a workshop on the history of the actuarial smoothing and amortization policies, the current policies, risk exposure, and alternatives for policy revisions. At the February Pension and Health Benefits Committee meeting, staff presented a First Reading of proposed revisions to the smoothing and amortization policies. This work represents a significant milestone in improving the long-term sustainability of the fund. During this quarter staff also began preparation for the next phase of the ALM Initiative: analysis of the asset class roles, capital market assumptions, and risk factors. Staff also began research on the sensitivity of asset classes to inflation factors. Board workshops on these issues are scheduled over the next several months. Extensive stakeholder engagement on these issues is ongoing.
- **Pension Reform Implementation.** Staff has identified four regulatory packages to be promulgated for the implementation of PEPPRA. The first of these packages was released in February for public comment, and the comment period ends April 29. The second package is scheduled for release in May. We continued to operationalize multiple aspects of PEPPRA, and implement necessary technology changes. We completed the necessary changes to our publications and continued extensive stakeholder education efforts including posting information and FAQs on the CalPERS website. Staff provided extensive input into and is monitoring SB 13, the PEPPRA clean-up legislation.
- **Bankruptcy Litigation.** (Although not specifically identified in the Business Plan, this is a major initiative and is consistent with Goal A of the Strategic Plan.) We continue to represent CalPERS' interests in the bankruptcy litigation in Stockton and San Bernardino, to protect and ensure the soundness and integrity of the Fund. Staff has briefed the Board monthly and continues to update stakeholders and interested parties, including the media and other pension funds, on this issue. Finally, staff developed proposed legislation as a risk mitigation measure for potential future bankruptcies, and will pursue this through the legislative process.
- **Deliver target risk adjust returns.** (See Chief Investment Officer's report.)

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- **Educate stakeholders on retirement and health care.**
  - Staff developed a plan for the implementation of the new GASB rules, including a plan to provide employers (on a voluntary fee for service basis) the actuarial information needed for their accounting and financial reports as required under GASB 67.
  - Staff continued to implement the stabilization of the Long Term Care (LTC) program. Over 60,000 communications were sent to policy holders regarding the scheduled premium increases and options to mitigate increases; we have also been involved in extensive communications to policy holders to ensure they are informed and educated on these changes. In February the Board approved the benefit design and pricing for the LTC 4 product offering, clearing the path for re-opening enrollment in the LTC program. In addition, the Board approved expanding eligibility to adult children and other qualified persons; staff is now working to obtain legislative approval through the passage of AB 373. Next steps include monitoring the selection outcome, selecting a vendor for the open application period, and developing the LTC 4 benefit design.
- **Ensure high-quality, accessible and affordable health benefits.** During this quarter extensive work was completed on the health care procurements. Staff completed the analysis of the PPO proposals and the Pension and Health Benefits Committee selected Anthem Blue Cross as the PPO plan. Staff also completed the HMO analysis and the proposals/analysis will be presented to the Committee in April. This work represents a significant milestone in achieving more cost-effective, quality-focused health benefit programs. Progress was also made on the Health Benefit Purchasing Structure. The Board approved the risk adjustment concept for the 2014 rate negotiations. In the next quarter a third party actuarial review of the proposed risk adjustment methodology will be conducted and presented to the PHBC. In addition, we obtained Department of Finance approval on the Options for Medicare Supplements regulations.
- **Create a Lifestyle of wellness Among Members and Employers.** CalPERS partnered with the State Controller's Office and SEIU Local 1000 on the Worksite Wellness Pilot with the Department of Health Services and the California Department of Public Health. We continue to research and develop wellness initiatives.

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

- **Use a focused approach to generate, test, refine and implement new ideas**
  - Although we continue to face challenges in fully staffing this new office, the Center for Innovation is partly staffed and is now functional. The current focus is on developing and refining a methodology to receive health care related innovative ideas, with the goal of developing innovative health care related research projects. The Center has also undertaken a review of the potential for the Supplemental Income Program, especially in light of recent pension reform and the need for our members to accumulate additional savings.
  - We launched the initial phase (IT, HR, and Public Affairs) of a new Intranet for staff. The new Intranet is designed to improve internal communication and the first phase has been very well received.
  - Staff conducted research on best practices for public and private organizations, and in the coming quarter will be developing an action plan for an organization wide Internal Innovation Program.
- **Deliver superior end-to-end customer service that is adaptive to customer needs**
  - In January 2013, we successfully deployed the my/CalPERS Member Self-Service Release 3. This release included significant on-line self-service functionality including retirement application, as well as the ability to change health dependents and maintain payment options. Another thirteen enhancements were completed in March 2013
  - We continued to reduce customer service backlogs. In February 2013, the Retiree Payroll Adjustment backlog was eliminated. In addition, the Service Credit backlog including service credit purchase inventory as of July 2013 was eliminated; a separate backlog plan was developed to return remaining Service Credit inventory to normal service levels by July 2014.

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- In January, staff initiated a multi-phase operational efficiencies effort to ensure our resources, process and technologies are aligned to produce optimum performance. The effort began with the Customer Contact Center. CalPERS engaged KPMG consultant services to assist with conducting an assessment to identify strengths and opportunities, following a structured process to identify gaps between current and desired states, establishing a new call wait time target, and generating an action plan. During this quarter a comprehensive assessment was performed. This effort is on schedule to develop an action plan, and begin implementation, by June 30, 2013.
- Several of the initiatives in the Customer Service Delivery Transformation Roadmap have made significant progress this quarter. Most notable are Contact Center Technology Upgrade, Consolidated Marketing, Core Competency Training, Business Intelligence Analytics, and myCalPERS Member Self Service. Each of these initiatives provides better access, quality, effectiveness or services for our customers.
- Staff continued work on the Business Intelligence Initiative, and developed analytical capabilities for Workflow Analytics, Member Analytics, and Customer Contact Analytics. This work is ongoing and is designed to provide us with customer service delivery data that will enable us to improve customer service for both members and employers.
- **Recruit, retain, develop and empower a broad range of talents against organizational priorities**
  - We have exceeded our consulting and professional services contract reduction goal of five percent for the year. We have developed knowledge transfer language for all contracts and are refining a mechanism to track knowledge transfer activities.
  - To facilitate our technology insourcing, on March 2 staff conducted an IT Career Fair attended by over 700 interested individuals. The California Technology Agency has indicated that it would like to replicate this event in the future.
  - The Succession Planning effort for the CEO and CIO positions was launched with the Board at the January 2013 Offsite (see more detail below). In the next quarter, a similar effort will be launched for all executive positions.
  - We launched an informal mentoring program, conducted six kick-off sessions, and published web resources to support the program. This program, titled "Informal Mentoring: Share What You Know," was developed in response to input from our employees and has been well-received.
  - Staff made significant progress on the Investment/Financial Classification Study, which is scheduled for presentation to the Board in the next quarter. Once approved, the new classifications will be submitted to the state control agencies (SPB and CalHR) for review and approval. In addition, staff has undertaken a salary survey for investment manager positions, also scheduled for Board presentation in the next quarter.
  - To develop additional skill sets and enhance customer service, three new courses for Customer Service staff were developed and implemented – Member Lifecycle and CalPERS Overview, Business Etiquette, and Writing Notes in my/CalPERS. The INVO Smart training program was also rolled out this quarter.
  - In the area of Diversity and Inclusion, Diversity Staff were trained and certified as Diversity Practitioners. This will enable staff to take on more of a consultancy role within the organization, for example undertaking environmental scans, gap analysis and benchmarking based on surveys. This will enable them to develop targeted actions plans; this type of work has previously been outsourced. Staff also conducted brown bag sessions with guest speakers and staffed the Disability Advisory Council. Staff is now preparing for the First Annual All Staff D&I event scheduled for July 2013.
- **Actively manage business risks with an enterprise-wide view**
  - Progress on managing business risks was made on several fronts. We successfully implemented the Personal Trading Platform and achieved 100 percent compliance on "Initial Personal trading Affirmations" as required by the regulation. We also implemented an automated e-Discovery tool for managing and tracking the exchange of information for investigative purposes, and established a policy repository on the intranet to capture the existing inventory of policies and procedures and allow staff centralized access.
  - Staff continued to work on developing new more robust financial reporting tools. These include internal financial reports, cash management reports, and investment expense and reconciliation reporting. Staff is working

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collaboratively across the organization to continue to further refine the reports. The One Budget Model was presented to the Board in March 2013 and is on track for roll-out in the 2014-15 Fiscal Year.

### Goal C – State and National Policy Development

- **Clarify and communicate CalPERS perspective on pension, health and financial markets**
  - The organization continued to make progress in developing a set of Investment Beliefs that will serve as an anchor for the investment portfolio and guide public policy engagement by the system. A Board Workshop was presented at the January 2013 Board Offsite, and a Workshop including a stakeholder panel was conducted in March 2013. A session is planned for the July 2013 Board Offsite and this project is scheduled for completion in the first quarter of the 2013-14 year.
  - In connection with the Investment Beliefs work, there has been significant focus on the impact of sustainability factors on the portfolio. In partnership with UC, Davis, we have issued a call for academic papers on this issue; the results of this work will be published in June 2013.
  - In addition, the Corporate Governance Working Group has developed capital market stability priorities. Staff has met with pertinent Congressional staff to communicate these priorities. CalPERS has also been appointed to the standards council of a newly established non-profit organization - the Sustainability Accounting Standards Board (SASB) to engage in the development and dissemination of industry specific sustainability accounting standards.
- **Provide education and engagement opportunities to shape policy agenda and expand impact.**
  - During the quarter, staff conducted a Quarterly Employers Roundtable at CalPERS on February 5, 2013.
  - The staff and Board participated in numerous events – as speakers, panelists, and participants - on a broad range of topics including the implementation of pension reform, asset liability management, investments, emerging manager programs, health care, and risk management.
  - Staff also planned and prepared for several events scheduled for the next quarter. These are:
    - Examining the Affordable Care Act, an educational event we are co-sponsoring in partnership with the League of California Cities and the California State Association of Counties, scheduled for April 2, 2013.
    - Financial Advisors roundtable to discuss infrastructure investment opportunities, scheduled for April 22, 2013.
    - The second annual California Business Leaders Roundtable, scheduled for May 21, 2013.
    - The academic symposium on sustainability, scheduled for June 2013, in partnership with the UC, Davis.
  - Staff is also preparing for the CalPERS Educational Employer Forum in October 2013.
- **Strategic Performance Measures.** During this quarter, we assembled the Strategic Measures Project Team, identified subject matter experts, and developed a project plan with a phased in approach. Proposed measures for Phase 1 (areas where we have existing quantifiable data) will be presented for input to the pertinent Board Committees in May and June 2013, and a session is planned for the July 2013 Board Offsite.

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## 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>

### 3<sup>rd</sup> Quarter Status:

**Stakeholder /Industry Relations.** With the implementation of pension reform, health care procurements, the proposed changes to the actuarial smoothing and amortization policies, and the bankruptcy litigation, this has been a quarter with heavy emphasis on stakeholder engagement. We have conducted numerous stakeholder meetings and briefings with legislators and representatives of the administration, member and retiree groups, media, and employer groups. I met personally with the chairs and members of the Senate and Assembly committees on retirement, and gave an overview at a legislative hearing in January. In the next quarter we are conducting our stakeholder relations survey and look forward to presenting the results to the Board at the July Offsite. We are seeking ways to become more effective and streamlined in these communications. Also during this quarter, staff and the Board were involved in numerous speaking engagements at industry events and association/stakeholder meetings.

**Strategic Plan.** Staff presented to the Board a first reading in March 2013 of the 2013-15 Business Plan; the second reading is scheduled for April. We have now institutionalized a two year business planning cycle, which enables more effective and longer term resource and initiative planning. This quarter, we formalized a working group for the development of Strategic Performance Measures to enable us to monitor our progress on our new five-year Strategic Plan. We also developed a phased in methodology and a timeline that was presented to the Board in March. The first phase consists of the development of measures in areas where we have existing quantifiable data. Proposed measures will be introduced to the Board at the May and June Committee meetings, with a fuller discussion at the July Board Offsite.

**Internal Culture and Communications.** This quarter we formalized a Division Chief Council, which will develop leadership and empower decision making at the division chief level. We also conducted a Winter Leadership Forum for all our managers and supervisors. We also rolled out the Informal Mentoring: Share What You Know program, and launched new training programs including INVO Smart and new classes for Customer Service staff. I continue to speak regularly at staff events such as New Employee Orientation, Leadership Training, and other staff meetings, forums, and appreciation events. We continue to publish numerous staff communications and publications, and this quarter we launched Phase 1 of the new Intranet. In the next quarter, we will be launching the organizational Code of Service. We will also be conducting the Organizational Health Index Survey which will enable us to gauge the health of the workplace. I will also be conducting my annual coffee sessions, available to all staff.

**Board Governance and Meetings.** The Executive Liaisons continue to work with the Committee Chairs to make the meetings more effective. I believe we have made positive strides in this regard, and that Committee time is now focused more regularly on strategic issues. Educational workshops, connected to the strategic issues, are being conducted during most if not all Board weeks.

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### Succession Planning

Weight	Performance Measure
5%	<p>By June 30, 2013, in coordination with the Board, conduct ongoing succession planning for the Chief Executive Officer and Chief Investment Officer positions:</p> <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>
<p><b>3<sup>rd</sup> Quarter Status:</b></p> <p>At the January 2013 Board Offsite, the Human Resources Chief, the CEO, and the CIO presented to the Board a discussion of succession planning for the CEO and CIO positions. This included discussion of the assessment tool, internal potential candidates, development plans, and next steps. Following the Offsite, the CEO and CIO met with all interested direct reports to develop Leadership Development Plans, which are scheduled for submission to the Board in April. The Leadership Development Plans will be monitored and the Board will be updated in January 2014, or earlier as appropriate.</p>	

### Chief Financial Officer On-Boarding

Weight	Performance Measure
5%	<p>By June 30, 2013, retain and on-board the Chief Financial Officer:</p> <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>
<p><b>3<sup>rd</sup> Quarter Status:</b></p> <p>During this quarter, the CFO continued her on-boarding activities and presented her 100 Day Report to the Board in March 2013. A reorganization of key functional areas within her office is necessary to streamline work, and ensure proper controls and consistency of process. We are in the process of implementing these classification and structural changes, developing the new and revised duty statements for submission to SPB and CalHR as appropriate, and conducting the related recruitments. Next steps including developing a full Roadmap for the Financial Office and fully integrating the CFO role and responsibilities within the organization.</p>	