

CalPERS 2012-14 Business Plan

Fourth Quarter Status Update

April 1, 2013 – June 30, 2013

Summary Dashboard

Goal A | Improve long-term pension and health benefit sustainability

Objective 1 | Fund the System through an integrated view of pension assets and liabilities

Initiative Title	Due Date	Initiative #	Status	Transitioned to 2013-15 Plan
<i>Actuarial Policies Update</i>	<i>April 2013</i>	<i>1.1</i>	★	No
<i>Funding Risk Appetite/Tolerances</i>	<i>April 2013</i>	<i>1.2</i>	●	Yes
<i>Enhanced Asset Liability Framework</i>	<i>August 2013</i>	<i>1.3</i>	●	No
<i>New Asset Allocation</i>	<i>June 2014</i>	<i>1.4</i>	●	No
<i>Pension Reform Implementation</i>	<i>January 2013</i>	<i>1.5</i>	★	No

Objective 2 | Deliver target risk-adjusted investment returns

Initiative Title	Due Date	Initiative #	Status	Transitioned to 2013-15 Plan
<i>Investment Performance</i>	<i>June 2014</i>	<i>2.1</i>	●	Yes
<i>Capital Allocation</i>	<i>June 2014</i>	<i>2.2</i>	●	No
<i>Investment Risk Management</i>	<i>June 2014</i>	<i>2.3</i>	●	Yes
<i>Cost Effectiveness</i>	<i>June 2014</i>	<i>2.4</i>	●	Yes
<i>Organization, Systems, and Controls</i>	<i>June 2014</i>	<i>2.5</i>	▲	Yes
<i>Emerging Investment Manager Strategy</i>	<i>June 2013</i>	<i>2.6</i>	●	Yes
<i>Environmental, Social, Governance (ESG) Investment Strategy</i>	<i>June 2014</i>	<i>2.7</i>	●	Yes

Objective 3 | Educate employers and other stakeholders to make informed decisions about retirement security and health care

Initiative Title	Due Date	Initiative #	Status	Transitioned to 2013-15 Plan
<i>Governmental Accounting Standards Board (GASB) 67 & 68</i>	<i>June 2014</i>	<i>3.1</i>	●	Yes
<i>Sensitivity Analysis and Termination Liabilities</i>	<i>November 2012</i>	<i>3.2</i>	★	No
<i>Health Care Customer Resources</i>	<i>June 2014</i>	<i>3.3</i>	●	Yes
<i>Long-Term Care (LTC) Strategy Development</i>	<i>June 2013</i>	<i>3.4</i>	★	No
<i>Long-Term Care (LTC) Strategy Implementation</i>	<i>June 2014</i>	<i>3.5</i>	●	Yes

Status Key: ● Green – On Track ▲ Yellow – At Risk ■ Red – Needs Management Attention ★ Blue – Completed

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Summary Dashboard (Cont.)

Objective 4 | Ensure high-quality, accessible and affordable health benefits

Initiative Title	Due Date	Initiative #	Status	Transitioned to 2013-15 Plan
<i>Health Benefits Purchasing Review and Procurement Strategies</i>	<i>June 2013</i>	<i>4.1</i>	★	<i>No</i>
<i>Health Benefit Purchasing Structure</i>	<i>June 2014</i>	<i>4.2</i>	●	<i>Yes</i>

Objective 5 | Create a lifestyle of wellness among members and employers

Initiative Title	Due Date	Initiative #	Status	Transitioned to 2013-15 Plan
<i>Employer Wellness Partnerships</i>	<i>June 2013</i>	<i>5.1</i>	●	<i>Yes</i>
<i>Engaged Health & Wellness Platform</i>	<i>June 2014</i>	<i>5.2</i>	●	<i>Yes</i>

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

Objective 6 | Use a focused approach to generate, test, refine, and implement new ideas

Initiative Title	Due Date	Initiative #	Status	Transitioned to 2013-15 Plan
<i>Center for Innovation</i>	<i>June 2013</i>	<i>6.1</i>	★	<i>No</i>
<i>Enterprise Content Management</i>	<i>June 2014</i>	<i>6.2</i>	●	<i>Yes</i>
<i>Enterprise Internal Innovation</i>	<i>June 2013</i>	<i>6.3</i>	●	<i>Yes</i>

Objective 7 | Deliver superior end-to-end customer service that is adaptive to customer needs

Initiative Title	Due Date	Initiative #	Status	Transitioned to 2013-15 Plan
<i>Member Self-Service</i>	<i>January 2013</i>	<i>7.1</i>	★	<i>No</i>
<i>Service Delivery Transformation</i>	<i>June 2014</i>	<i>7.2</i>	●	<i>Yes</i>
<i>my CalPERS Efficiencies</i>	<i>June 2014</i>	<i>7.3</i>	●	<i>Yes</i>
<i>my CalPERS Enhancements</i>	<i>June 2014</i>	<i>7.4</i>	●	<i>Yes</i>
<i>Backlog Reduction Strategies</i>	<i>June 2013</i>	<i>7.5</i>	★	<i>No</i>
<i>Business Intelligence</i>	<i>June 2013</i>	<i>7.6</i>	★	<i>No</i>

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Summary Dashboard (Cont.)

Objective 8 | Recruit, retain, develop and empower a broad range of talents against organizational priorities

Initiative Title	Due Date	Initiative #	Status	Transitioned to 2013-15 Plan
<i>Knowledge Transfer, Insourcing, and Consultant Reduction</i>	<i>June 2014</i>	<i>8.1</i>	●	Yes
<i>Workforce Strategic Plan</i>	<i>June 2014</i>	<i>8.2</i>	●	Yes
<i>Diversity & Inclusion (Initiative included in Workforce Strategic Plan for the 2013-15 Plan)</i>	<i>December 2013</i>	<i>8.3</i>	●	Yes
<i>Chief Financial Officer (CFO) Classification and Structure</i>	<i>June 2013</i>	<i>8.4</i>	★	No

Objective 9 | Actively manage business risks with an enterprise-wide view

Initiative Title	Due Date	Initiative #	Status	Transitioned to 2013-15 Plan
<i>Technology Security Improvements</i>	<i>June 2013</i>	<i>9.1</i>	●	Yes
<i>Personal Trading Platform</i>	<i>January 2013</i>	<i>9.2</i>	★	No
<i>Investigation Process & Tools</i>	<i>June 2013</i>	<i>9.3</i>	★	No
<i>Policy Repository and Compliance</i>	<i>June 2013</i>	<i>9.4</i>	★	No
<i>Performance Management Dashboard and Metrics</i>	<i>March 2013</i>	<i>9.5</i>	■	Yes
<i>Financial Reports</i>	<i>June 2013</i>	<i>9.6</i>	★	No
<i>Cash Management</i>	<i>June 2013</i>	<i>9.7</i>	★	No
<i>Investment Expense Reporting</i>	<i>June 2014</i>	<i>9.8</i>	▲	Yes
<i>Investment Reconciliation Process</i>	<i>June 2014</i>	<i>9.9</i>	▲	Yes
<i>One Budget Model</i>	<i>June 2014</i>	<i>9.10</i>	●	Yes

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

Objective 10 | Clarify and communicate CalPERS perspective on pension, health and financial markets

Initiative Title	Due Date	Initiative #	Status	Transitioned to 2013-15 Plan
<i>Investment Beliefs</i>	<i>July 2013</i>	<i>10.1</i>	●	Yes
<i>Market Reform Priorities</i>	<i>February 2014</i>	<i>10.2</i>	●	Yes

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Summary Dashboard (Cont.)

Objective 11 | Provide education and engagement opportunities to shape policy agenda and expand impact

Initiative Title	Due Date	Initiative #	Status	Transitioned to 2013-15 Plan
<i>Strategic Partnerships</i>	<i>June 2013</i>	<i>11.1</i>		<i>Yes</i>
<i>Retirement Research & Planning</i>	<i>June 2013</i>	<i>11.2</i>		<i>No</i>
<i>Demonstrate Industry Leadership</i>	<i>June 2014</i>	<i>11.3</i>		<i>Yes</i>
<i>Public Records Accessibility Policy</i>	<i>June 2014</i>	<i>11.4</i>		<i>No</i>
<i>Strategic Performance Measures (being combined with 2013-15 Strategic Measures)</i>	<i>September 2012</i>	<i>11.5</i>		<i>Yes</i>
<i>Strategic Plan</i>	<i>September 2012</i>	<i>11.6</i>		<i>No</i>
<i>Strategic Plan Business Plan Alignment</i>	<i>October 2012</i>	<i>11.7</i>		<i>No</i>

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Initiatives Completed, at Risk and/or Needing Management Attention

Goal A | Improve long-term pension and health benefit sustainability

Actuarial Policies Update (June 2013 – 1.1)

Status: 

Accomplishments:

- Presented first and second readings of recommended changes to actuarial amortization and smoothing policies at the Pension and Health Benefits Committee.
- Documented Board approved changes to actuarial amortization and smoothing policies for implementation.

Next Steps:

- Not applicable – initiative completed.

Risks / Issues:

- Not applicable – initiative completed.

Organization, Systems, and Controls (June 2014 – 2.5)

Status: 

Accomplishments:

- Pricing and Valuation: Completed redesign of the Automated Real Estate Investment System (AREIS) and loaded real estate appraisal data into AREIS; completed and socialized draft Valuation Policy for CalPERS Private Assets.
- Accounting, Custody, and Record Keeping: Implemented a new Global Equity (GE) position/cash reconciliation model, negotiated and established 17 new service level agreements and integrated the GE Investment Book of Record service into the existing State Street governance structure.
- Compliance: Established formal operational risk framework which was presented and approved by the Investment Office (INVO) Operating Committee.

Next Steps:

- Derivative Central Clearing and Processing: Complete project work needed to support Over-the-Counter trading as originally envisioned, and assure that organizational capabilities and plans are in place to effectively manage derivatives trading.
- Performance Measurement and Attribution: Launch work to improve Board reporting in collaboration with Asset Allocation and Investment Risk.
- Compliance: Create process maps and identify gaps for high-risk processes as identified in Investment Compliance and Operational Risk's best practices testing.

Risks / Issues:

- Private Equity Portfolio Management, Accounting and Data Services: Lack of resources to support level of effort for the duration of the project. Although close to finalizing the Private Equity Contract, delays could result during contract negotiations for the integrated services delivered by two new service providers.
- Public Markets Portfolio Management: Integration/interface with State Street, Charles River and Barra, scope changes, and user testing could affect the ability to meet deliverables.

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LTC Strategy Development (June 2013 – 3.4) Completed in the Third Quarter

Status: ★

Accomplishments:

- Board approved new benefit design and pricing for LTC 4 (“pre-packaged” product offerings to simplify choice and ability for perspective applicant to customize plan).
- Board approved expansion of eligibility to adult children and other qualified persons by amending the Long-Term Care Act. Subject to Legislative process approval (AB 373) toward the end of 2013.

Next Steps:

- Not applicable – initiative completed.

Risks / Issues:

- Not applicable – initiative completed.
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Goal B | Cultivate a high-performing, risk-intelligent, and innovative organization

Health Benefits Purchasing Review and Procurement Strategies (June 2013 – 4.1)

Status: ★

Accomplishments:

- The Health Policy Research Division (HPRD) participated with the Health Plan Administration Division (HPAD) in the Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) procurements to select one PPO and four HMO health plans with coverage in northern and southern California, and two regional HMO health plans in southern California.

Next Steps:

- Not applicable – initiative completed.

Risks / Issues:

- Not applicable – initiative completed.

Center for Innovation (June 2013 – 6.1)

Status: ★

Accomplishments:

- The quality and economic evaluation of the value based purchasing design for hip and knee replacement was the subject of a New York Times and Los Angeles Times article on controlling health care costs.
- Produced an internal summary report based on key informant interviews with national health care experts, which resulted in identifying actionable health care research priorities and projects.
- Hired two research scientists with PhD's on the Center for Innovation team.
- Developed a systematic process to obtain feedback from internal and external stakeholders.
- Received and reviewed a Castlight Health proposal to provide CalPERS healthcare user interface for its PPO and HMO health plan members and their families.

Next Steps:

- Not applicable – initiative completed.

Risks / Issues:

- Not applicable – initiative completed.

Backlog Reduction Strategies (June 2013 – 7.5)

Status: ★

Accomplishments:

- The project team provided direction and support to enable program areas to successfully eliminate backlogs of retirement allowance adjustment, payroll items within Benefit Services Division, Death Benefit 'Ready to Review' case load, and the July 2012 Service Credit Purchase backlog.
- The project team provided the program areas within CSS achievable backlog strategies and implementation plans throughout fiscal year 2012-13.

Next Steps:

- Not applicable – initiative completed.

Risks / Issues:

- Not applicable – initiative completed.

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Business Intelligence (June 2013 – 7.6)

Status: 

Accomplishments:

- A series of report requirements enhancement sessions were held with the various business stakeholders to identify the needs and then incorporate them into the previously developed reports.
- A strategic dashboard was developed to provide Executive and management insight into the levels and quality of service being provided to different member populations, as well as insight into the workload trends and spikes for specific customer inquiries throughout the year.
- Enhanced tactical reports and the ability to access them using the Oracle Business Intelligence tool were delivered to select stakeholders and management.

Next Steps:

- Not applicable – initiative completed.

Risks / Issues:

- Not applicable – initiative completed.

Chief Financial Officer (CFO) Classification and Structure (June 2013 – 8.4)

Status: 

Accomplishments:

- Hired the first CFO at CalPERS to strengthen financial and risk management operations.
- Completed the CFO's 100 Day Report which details major areas of focus, including an overall analysis of the current issues, observations and recommendations for building a robust finance and risk function. Presented the report to the Board of Administration and the Executive Leadership team.
- Developed a proposed Financial Office organizational structure to provide added accounting, financial reporting and investment resources to further develop these functional areas.
- Developed an approach and obtained resources for the Financial Office Roadmap which will guide the Financial Office to establish a single point of accountability for robust financial and risk management functions while aligning and supporting the CalPERS mission, vision and goals.

Next Steps:

- Not applicable – initiative completed.

Risks / Issues:

- Not applicable – initiative completed.

Investigation Process and Tools (June 2013 – 9.3)

Status: 

Accomplishments:

- The Investigative tool(s) solution for my|CalPERS monitoring is operational.
- The Investigative tool(s) for workstation forensics and data collection from a central location is operational.
- Selected pilot tool for e-Discovery solution, to increase CalPERS ability to effectively respond to

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public record or legal requests for documents.

- Established stakeholders' needs and documented "as-is" processes for incident management and reporting.
- Researched and identified potential vendors for an automated solution that will fulfill the tracking and reporting requirements for CalPERS incident management.

Next Steps:

Initiative is complete. The following additional activities are underway as part of the 2013-15 Business Plan Information Security Roadmap Initiative:

- Select and implement an automated solution for an enterprise incident management system.
- Roll-out and conduct training on selected incident management system to program areas that manage and report incidents or events.
- Launch Incident Management System for enterprise-wide usage.
- Implement a viable solution for eDiscovery as part of the Information Security Roadmap, Phase 2.

Risks / Issues:

- The solution for eDiscovery has been selected but contractual risks identified by LEGO have stopped the acquisition of the software licenses. If this issue cannot be overcome, new business requirements will need to be developed and a new solution selected as part of the Information Security Roadmap, Phase 2.

Policy Repository and Compliance (June 2013 – 9.4)

Status: 

Accomplishments:

- Implemented and configured the Archer EMC/RSA Policy module as the central repository for all CalPERS policies.
- Created policy statements for approximately 225 existing policies and input the policies into the repository for compliance monitoring.
- Created the Draft CalPERS Meta-Policy to define the processes by which CalPERS policies are created, reviewed, revised, retired, approved, implemented, and enforced.
- Developed Draft Meta-Policy Implementation and Communication Plans.

Next Steps:

Initiative is complete. The following additional activities are underway as part of the 2013-15 Business Plan Policy Management Initiative:

- Obtain approval for Draft Meta Policy to manage policies from creation to retirement.
- Implement plan to maintain enterprise policies in automated repository.
- Implement Draft Meta Policy Communication and Training Plans to increase awareness.

Risks / Issues:

- Not applicable – initiative completed.

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Performance Management Dashboard and Metrics (March 2013 – 9.5)

Status: 

Accomplishments:

- Performed an environmental scan and analysis to develop draft dashboard templates to display draft strategic measures in development for Strategic Measures Initiative. This report is will be part of the Strategic Measures deliverable for the CalPERS 2013-15 Business Plan Initiative.

Next Steps:

- Develop and formalize a dashboard style report as part of the Strategic Measures Project in the CalPERS 2013-15 Business Plan.

Risks / Issues:

- Initiative is being incorporated into the Strategic Measures Project (initiative 11.5) as a deliverable. Further work and development is needed on the measures and tools before this initiative can be delivered.

Financial Reports (June 2013 – 9.6)

Status: 

Accomplishments:

- Accrual policy approved by the Chief Financial Officer to ensure a consistent methodology is followed to prepare more accurate and relevant financial statements.
- Basic financial statements (balance sheet and income statements) and trend analysis by trust have been provided monthly to Fiscal Services management team. This will aide management to detect any unusual transactions by identifying and analyzing variances and any abnormal balances, as well as providing information for qualitative data analysis to help with management decisions.
- Using data and analysis from the Monthly Reporting, an approach document including system and accounting processes challenges has been developed and communicated to management for continual improvement and assist in the development of quarterly reporting.

Next Steps:

- Not applicable – initiative completed.

Risks / Issues:

- Not applicable – initiative completed.

Cash Management (June 2013 – 9.7)

Status: 

Accomplishments:

- Continued to refine Annual Cash Forecasts based on customer feedback and additional financial data.
- Developed and completed procedures manual for Cash Management Unit. This provides a standard and consistent methodology in developing cash forecasts and performing cash activities, such as detailing monthly cash activity by asset class, performing monthly cash reconciliations between State Street Bank and PeopleSoft Financials System, and performing daily cash reconciliations which moves money between State Street Bank and the State Treasurer's Office.

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Next Steps:

- Not applicable – initiative completed.

Risks / Issues:

- Not applicable – initiative completed.

Investment Expense Reporting (June 2014 – 9.8)**Status:** Accomplishments:

- Expense categories have been identified and business rules have been defined.
- Documented processes and procedures for capturing information and reporting cost data.
- All Automated Real Estate Investment System (AREIS) enhancements required to integrate data to PeopleSoft have been completed.
- Completed solution architecture meetings for the Alternative Investment Accounting Book of Records (ABOR) and Investment Book of Records (IBOR).
- The monthly investment expense report has been produced monthly with continual refinements and feedback from INVO incorporated.

Next Steps:

- Complete gap analysis on business requirements for proposed solutions for the Private Equity ABOR and IBOR.
- Review data files received for Absolute Return Strategies (ARS) and Corporate Governance (CG) and determine if this data can be reconciled back to the general ledgers.
- Determine how we can obtain the data files for ARS and CG on a consistent basis going forward.

Risks / Issues:

- Competing priorities for the Financial Office and resource availability may delay meeting the timeline for developing data mapping of information from all of the IBOR and Fund ABOR to general ledger and financial/management reports specific to ARS and CG public market assets. The project team is developing a mitigation strategy to complete this Initiative on time.

Investment Reconciliation Process (June 2014 – 9.9)**Status:** Accomplishments:

- Automated journal entries for monthly and quarterly financial data were implemented and put into production in AREIS.
- Completed solution architecture meetings for the Alternative Investment ABOR and IBOR.
- Met with INVO to identify Investment and Accounting Book of Record for ARS and Corporate Governance financial data.

Next Steps:

- Review data files received for ARS and CG and determine if this data can be reconciled back to the general ledgers.
- Determine how data files for ARS and CG can be obtained on a consistent basis going forward.
- Complete a gap analysis on business requirements for proposed solutions for the Private Equity ABOR and IBOR.

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- Document roles, responsibilities, and reconciliation process for ARS and CG public market asset classes.

Risks / Issues:

- Competing priorities for the Financial Office and resource availability may delay meeting the timeline for developing data mapping of information from all of the IBOR and Fund ABOR to general ledger and financial/management reports specific to ARS and CG public market assets. The project team is developing a mitigation strategy to complete this Initiative on time.
 - Unable to document roles, responsibilities and reconciliation process for ARS and CG public market asset classes until data mapping is completed.
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Goal C | Engage in State and national policy development to enhance the long-term sustainability and effectiveness of our programs

Retirement Research and Planning (June 2013 – 11.2)

Status: 

Accomplishments:

- Created the Retirement Research and Planning Division's (RRPD) organizational structure and filled all newly established positions.
- Developed all key processes to support RRPD work products and created and implemented a RRPD training program.
- Developed a research agenda to focus RRPD's efforts.

Next Steps:

- Not applicable – initiative completed.

Risks / Issues:

- Not applicable – initiative completed.

Strategic Performance Measures (September 2012 – 11.5)

Status: 

Accomplishments:

- Collected, assessed, and analyzed operational data for strategic measures and report development.
- Consulted with cross-functional staff on development of draft measures for Executive and Board review.
- Presented draft strategic measures in May 2013 to the Board.
- Created a workshop for the July 2013 Board Offsite in order to affirm the first set of measures.
- Created July Board Offsite session materials (Session Agenda, Presentation, and Facilitator Guide).

Next Steps:

- Present and engage discussion on Phase One measures at the July Board Offsite.
- Refine Phase One measures based on feedback from the July Board Offsite.
- Begin Phase Two of measures development.

Risks / Issues:

- Delays in completing the development of Phase One measures may impact the kickoff of Phase Two measures development.