

CalPERS 2013-15 Business Plan

Second Quarter Status Update

October 1, 2013 – December 31, 2013

Update Summary

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

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

Initiative Title	Due Date	Status
<i>Funding Risk Appetite/Tolerances</i>	<i>July 2014</i>	
<i>Review of Actuarial Assumptions & Implementation of Potential New Assumptions</i>	<i>June 2015</i>	
<i>Investment Risk Management</i>	<i>June 2015</i>	

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

Initiative Title	Due Date	Status
<i>Actuarial Valuation System Redesign and Enhance</i>	<i>June 2015</i>	
<i>Health Care Customer Resources</i>	<i>June 2014</i>	
<i>Health Care Member Tools</i>	<i>June 2014</i>	
<i>Medicare Flexibility</i>	<i>June 2014</i>	
<i>Employer Health Benefits</i>	<i>June 2015</i>	
<i>Improve Health Care for Senior Members</i>	<i>December 2014</i>	
<i>LTC Strategy Implementation</i>	<i>June 2014</i>	

Strategic Objective | Deliver target risk-adjusted investment returns

Initiative Title	Due Date	Status
<i>Investment Performance</i>	<i>June 2015</i>	
<i>Cost Effectiveness</i>	<i>June 2015</i>	
<i>Organization, Systems, and Controls</i>	<i>June 2015</i>	
<i>Emerging Investment Manager Strategy</i>	<i>June 2015</i>	
<i>Environmental, Social, Governance (ESG) Investment Strategy</i>	<i>June 2015</i>	

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

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Update Summary (Cont.)

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

Initiative Title	Due Date	Status
<i>Health Benefit Purchasing Structure</i>	June 2014	●
<i>Integrated Health Models</i>	June 2015	●
<i>Population Health Management</i>	June 2015	●

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

Initiative Title	Due Date	Status
<i>Employer Wellness Partnerships</i>	June 2015	●
<i>Engaged Health and Wellness Platform</i>	June 2014	●

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

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

Initiative Title	Due Date	Status
<i>Enterprise Content Management</i>	June 2015	●
<i>Enterprise Internal Innovation</i>	June 2014	●

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

Initiative Title	Due Date	Status
<i>End-to-End Business Intelligence</i>	June 2015	●
<i>Service Delivery Transformation: Access</i>	June 2014	●
<i>Service Delivery Transformation: Quality</i>	June 2015	●
<i>Service Delivery Transformation: Effectiveness</i>	June 2015	●
<i>Service Delivery Transformation: Service</i>	June 2014	●

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

Initiative Title	Due Date	Status
<i>Knowledge Transfer, Insourcing, and Consultant Reduction</i>	June 2014	●
<i>Workforce Strategic Plan Development</i>	September 2013	★
<i>Workforce Strategic Plan Implementation</i>	June 2014	●

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Update Summary (Cont.)

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

Initiative Title	Due Date	Status
Information Security Roadmap	June 2015	
Policy Management	June 2014	
Investment Expense Reporting	June 2014	
Investment Reconciliation Process	June 2014	
One Budget Model	June 2014	
Quarterly Reporting	December 2013	
Strategic Measures	June 2014	
Strategic Risk Measures	June 2015	
Municipal Bankruptcies	June 2015	

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

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

Initiative Title	Due Date	Status
Investment Beliefs	December 2013	
Pension Beliefs	June 2014	

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

Initiative Title	Due Date	Status
Strategic Partnerships	June 2015	
Thought Leadership	June 2015	
Demonstrate Industry Leadership	June 2015	

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Initiatives Completed, at Risk and/or Needing Management Attention

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

Quarterly Reporting (December 2013)

Status: ★

Accomplishments:

- Produced a financial management one page quarterly summary report comparing current quarter to prior year quarter. This new report was presented to the Finance and Administration Committee in December 2013. This new reporting structure will provide a more comprehensive overview of the financial status of CalPERS. In the past this information was presented once a year to the Board through the Comprehensive Annual Financial Report (CAFR) and now will be presented on a quarterly basis.

Next Steps:

- Initiative completed.

Risks / Issues:

- Initiative completed.

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

Investment Beliefs (December 2013)

Status: ★

Accomplishments:

- Investment Beliefs that provide clear direction and a philosophy for investment decisions were adopted by the Board in October 2013.

Next Steps:

- With the adoption completed, integration and incorporation of the Investment Beliefs into the culture of the Investment Office will be an on-going effort.

Risks / Issues:

- Initiative completed.

No initiatives classified as At Risk or Needs Management Attention

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

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Key Accomplishments - by Strategic Objective

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

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

- **Funding Risk Appetite/Tolerances**
 - Staff conducted analysis of flexible de-risking options (Options for reducing funding risk in years when CalPERS has good investment returns), and the November 2013 Asset Liability Management Workshop.
- **Review of Actuarial Assumptions & Implementation of Potential New Assumptions**
 - Staff conducted a Board Workshop on Projecting Mortality Improvement in October 2013 and presented the Review of Actuarial Assumptions information item to the CalPERS Board in December 2013.
 - Staff completed the Draft Experience Study Report: 1997 – 2011 and a review of economic and demographic assumptions.
- **Investment Risk Management**
 - A Senior Investment Officer was appointed to head the Asset Allocation and Investment Risk functions.
 - Staff established a Derivatives Committee required to oversee derivatives trading and monitor counterparty risks, and defined a comprehensive framework (plan) for clarifying the scope of and improving the effectiveness of the risk management function.

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

- **Actuarial Valuation System Redesign and Enhance**
 - Staff completed an assessment of current Actuarial Office operational and technical state, and began visioning sessions for Actuarial Office future state.
 - Staff began requirements gathering sessions for operational, technical and general Actuarial Valuation System requirements, and completed the preliminary design of Governmental Accounting Standards Board (GASB) 68 Billing and Tracking screens in my|CalPERS.
- **Health Care Member Tools**
 - Staff met with Anthem Blue Cross and Castlight Health to cover all items related to the platform configuration and data integration, and developed a detailed project schedule.

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Key Accomplishments - by Strategic Objective (cont.)

- **Medicare Flexibility**
 - Staff met with Mercer to prepare for the February 2014 Board Agenda item, and to discuss the marketplace (e.g. vendors) and identify potential complications or issues with the exchange approach.
- **Employer Health Benefits**
 - Staff collected input from the employers groups at the 2013 CalPERS Educational Forum.
 - Staff received Executive approval of the Public Agency (PA) Flexibility scope, charter, and work plan.
- **Improve Health Care for Senior Members**
 - Staff completed project requirements for Transitional Care Pilot Program (TCP) participants, identified TCP Program location, completed a draft of TCP project charter, and the Open Application materials and marketing plan.
- **LTC Strategy Implementation**
 - Staff finalized the Open Application materials, launched Long-Term Care (LTC) Open Application for the new LTC 4 product (“pre-packaged” product offerings and the ability for prospective applicant to customize plan), and enhanced functionality on the LTC program website to facilitate and support LTC Open Application.
 - Staff completed the EOC (Evidence of Coverage) review project for the new LTC product including Independent Provider program and the underwriting manual review project to develop exemplary Underwriting standards and processes.
 - Assembly Bill 373 was signed by the Governor and amends Government Code section 21661 of the CalPERS Long-Term Care Act by expanding enrollment eligibility to include adult children of public employees and retirees.

Strategic Objective | Deliver target risk-adjusted investment returns

- **Investment Performance**
 - The total fund achieved a net return for the fiscal year ending June 30, 2013 of 12.54 percent, outperforming the benchmark by 1.5 percentage points. Restructuring investments in Real Estate, Private Equity, Global Equity, Fixed Income and Absolute Return Strategies continues.
- **Cost Effectiveness**
 - Achieved cost reductions for consultants, external managers/partners and trading commissions to self-fund cost of Investment Office (INVO) Roadmap initiatives, and staff partnered with Financial Planning and Policy Division to develop expense management and reporting capabilities.

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Key Accomplishments - by Strategic Objective (cont.)

- **Emerging Investment Manager Strategy**
 - New investments have been made in the Emerging Manager Program for Private Equity and Real Estate with significant commitments made to women or minority owned firms.
 - Staff released a five-year plan for emerging and diverse managers in our investment program including a kick-off for the first forum at the Sacramento Convention Center.
- **Environmental, Social, Governance (ESG) Investment Strategy**
 - Staff led the Sustainable Investment Research Initiative in partnership with UC Davis and Columbia University to commission research and conduct a global academic Sustainability and Finance Symposium.

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

- **Integrated Health Models**
 - Staff developed standard performance measures for 2014 health contracts related to Integrated Health Models (IHM), including systems and data reporting, provider network access, and medical management.
 - Staff introduced 2014 contract language that will provide greater transparency for provider contracts and shared savings arrangements between health plans and providers.
 - Staff completed contract negotiations for Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) health plans, and standardized the IHM contract language into all health plan contracts for 2014-2018.
- **Population Health Management**
 - Staff completed contract negotiations for HMO and PPO health plans for 2014-2018, and developed standard contract provisions for 2014 in the areas of medical management, health and disease management and pharmacy medical management (specialty drugs).
 - Staff initiated pharmacy review to improve Specialty Pharmacy Programs under medical management that will coordinate benefits between the health plans and Pharmacy Benefit Manager with a focus on evidence-based practice.

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

- **Employer Wellness Partnerships**
 - Staff attended a presentation by Kaiser Permanente on the overall status of the Worksite Wellness Pilot Project, and attended Worksite Wellness Pilot Project Steering Committee meetings in November and December. The Steering Committee is comprised of members from the State Controller's Office, Treasurer's Office, California Department of Human Resources (CalHR), Service Employees International Union (SEIU) 1000, and CalPERS.

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Key Accomplishments - by Strategic Objective (cont.)

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

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

- **Enterprise Content Management**
 - Staff drafted SharePoint 2013 Infrastructure Architecture Design.
 - Staff prioritized Enterprise Content Management Road Map initiatives with the Program Steering Committee, completed a draft training plan to support content migration phases, and expanded infrastructure with new hardware environments.
- **Enterprise Internal Innovation**
 - Staff finalized Employee-Driven Innovation (EDI) strategy development with Organizational Health Index Innovation Team and submitted the strategies and tactics for Executive review.
 - Staff developed an initial set of EDI Program Design Requirements based on best practices research.

Strategic Objective | Deliver superior end-to-end customer services that is adaptive to customer needs

- **Service Delivery Transformation: Access**
 - Staff organized webinars and webcasts on a variety of topics of interest to our employers and members throughout the past quarter.
- **Service Delivery Transformation: Quality**
 - Staff created and implemented a business process survey collecting user feedback on three Member Self-Service transactions, which allows CalPERS to gauge customer satisfaction and adapt our service delivery based on the input received.
 - Staff gathered feedback from Member Focus Groups and used the data to create the structure for a prototype website and conduct further usability testing. One-on-one testing was successfully performed at the Employer forum and Retirement Planning Fairs.

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Key Accomplishments - by Strategic Objective (cont.)

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

- **Workforce Strategic Plan Implementation**
 - Staff developed and distributed a Toolkit for Managers and Supervisors to use to incorporate Informal Mentoring into their everyday activities and facilitated Informal Mentoring icebreaker activities at Financial Office (FINO) and Human Resources Services Division (HRSD) all-staff meetings.
 - The PeopleSoft Time & Labor project (automated time sheets) has been deployed enterprise-wide.
 - The revised Portfolio Manager (PM) / Senior Portfolio Manager (SPM) / Senior Investment Officer (SIO) classification specification package, documented hierarchical structure for the revised PM/SPM/SIO classification, the proposed bridging supervisory class specification (Associate Investment Manager), the salary range, and supporting documents are all pending CalHR approval for the Investment Office (INVO)/FINO Classification & Organization Redesign.

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

- **Information Security Roadmap**
 - Staff implemented new security measures to strengthen data loss prevention, initiated Network Access Control testing to ensure an appropriate level of security, and performed information security risk assessment and identified opportunities to further enhance information security during Phase 3 of the Roadmap.
 - Staff selected eDiscovery IT solution to improve efficiency and reduce time required to perform requests for eDiscovery and respond to public records act requests.
- **Policy Management**
 - Staff introduced the updated Policy Management policy, templates, and process maps to the Division Chief Council, and implemented the Policy Development Training and Awareness Program and Toolkit.
 - Staff developed an enterprise compliance maturity plan and finalized compliance training program to build capacity.
- **One Budget Model**
 - CalPERS Board approved the 2013-14 Fiscal Year Mid-Year Adjustment with the One Budget Model in December 2013.
- **Strategic Risk Measures**
 - Staff coordinated with Enterprise Strategy and Performance Division on the development of key performance indicators for the strategic goals.

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

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Key Accomplishments - by Strategic Objective (cont.)

- **Municipal Bankruptcies**

- Staff has provided ongoing legal representation of the system in the San Bernardino and Stockton bankruptcies, and participated in first two days of San Bernardino mediation.
- A team of internal CalPERS stakeholders has assembled weekly to ensure an informed, focused and integrated approach is taken with the municipal bankruptcies. Staff provided monthly updates to the Board of Administration in litigation closed session meetings.

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

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

- **Pension Beliefs**

- Staff conducted the October 2013 Board workshop to gain input on Pension Belief Statement key considerations.
- Staff secured speakers for the Pension Belief Statement panel discussion, and developed draft Pension Belief Statements for Board input at the January Board Offsite.

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

- **Thought Leadership**

- Staff developed a draft marketing plan for Retirement Research and Planning Division's (RRPD) research efforts and authored the Economic Impact on California white paper.

- **Demonstrate Industry Leadership**

- Staff conducted focus meetings related to CalPERS Asset Liability Management Program with leadership of our five primary stakeholder groups for inclusion of decision-making and feedback for the Board of Administration.

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