



Agenda Item 5a

September 16, 2014

ITEM NAME: CalPERS 2013-15 Business Plan – Fourth Quarter Update and Closeout

PROGRAM: Enterprise

ITEM TYPE: Information

EXECUTIVE SUMMARY

Over the past fiscal year, a great deal of progress was made on the CalPERS 2013-15 Business Plan. We enhanced our customer service, our processes and procedures, as well as our pension, investment, and health functions, resulting in our ability to continually support organizational success.

STRATEGIC PLAN

The CalPERS 2013-15 Business Plan reflects the various activities required to achieve the Strategic Goals and Objectives in the CalPERS 2012-17 Strategic Plan.

BACKGROUND

The CalPERS 2013-15 Business Plan focuses on three Strategic Goals:

- Goal A: Improve long-term pension and health benefit sustainability
- Goal B: Cultivate a high-performing, risk-intelligent and innovative organization
- Goal C: Engage in State and national policy development to enhance the long-term sustainability and effectiveness of our programs

The CalPERS 2013-15 Business Plan, Fourth Quarter Status Update (Attachment 1) identifies the current status of all initiatives, and provides information on initiatives that were completed, at risk, or needing management attention.

A detailed report of the initiative accomplishments for the CalPERS 2013-15 Business Plan can be found in the CalPERS 2012-17 Strategic Plan Annual Report, July 2014 (Attachment 2). This Annual Report was provided to the Board of Administration in August 2014.

ANALYSIS

The CalPERS 2013-15 Business Plan (Attachment 3) contained a total of 44 initiatives. Of those 44 initiatives, 17 were successfully completed over the past fiscal year.

The following four initiatives were completed and their accomplishments reported on in previous quarterly agenda items.

- Workforce Strategic Plan Development, completed in the first quarter
- Quarterly Reporting, completed in the second quarter
- Investment Beliefs, completed in the second quarter
- Funding Risk Appetite/Tolerances, completed in the third quarter

The following are the accomplishments for the remaining 13 initiatives that were successfully completed in the fourth quarter.

Strategic Goal A

- Review of Actuarial Assumptions and Implementation of Potential New Assumptions: Staff developed new actuarial assumptions and obtained Board of Administration approval on changes made to the Economic and Demographic assumptions for the Public Employees' Retirement Fund (PERF) and the Judges and Legislators' Retirement System (JLRS). New actuarial assumptions for the PERF, JLRS member benefit, and service credit purchase calculations were implemented. New actuarial assumptions were implemented into the 2013 actuarial valuations for State, Schools, and Public Agencies.
- Health Care Customer Resources:
- Health Care Member Tools:
The joint efforts of these two initiatives yielded the following results. Staff met with Castlight Health and Anthem Blue Cross to discuss the logistics of the CalPERS|Compare online tool, powered by Castlight Health, and strategized communication methods of the tool. Staff presented the tool to the Pension and Health Benefits Committee (PHBC) in February 2014, and CalPERS launched the tool for our members in July 2014. The tool helps our members research costs, quality, and satisfaction of health care treatments.
- Medicare Flexibility:
- Health Benefit Purchasing Structure:
The joint efforts of these two initiatives yielded the following results. Staff researched the feasibility of developing a Medicare-only health care exchange for out-of-state CalPERS Medicare members. As a possible option to address this initiative, staff investigated Medicare Exchanges (MEs), which included meeting with ME providers Extend Health ("OneExchange") and Mercer ("myCustomHealth"). As a result of this research, staff identified potential complications or issues with developing this type of exchange. In June 2014, staff provided an information item to update the PHBC on their initial findings related to MEs. Staff concluded that a more thorough analysis of the benefits and challenges of MEs is needed in order to fully assess the impact to

members. Staff will review this issue for consideration again in 2016 and will keep the Board updated on their progress.

- *Integrated Health Models:*
Staff standardized all Health Maintenance Organization and Preferred Provider Organization health plan contract language for the 2014 Integrated Health Models (IHM) which also included IHM performance metrics. Staff identified current and future levels of IHM integration, electronic health records, and transition care programs. In addition, staff developed an IHM roadmap and structural framework that would support a population health model.
- *Long-term Care (LTC) Strategy Implementation:*
Staff finalized the Mainstreamed Inflation Project for LTC participants electing to convert lifetime coverage with automatic built-in inflation protection policies to fixed-term coverage plans. In coordination with the Office of Public Affairs, staff finalized a communication plan for the LTC strategy. Staff mailed over 13,000 LTC open application kits, received 820 completed applications, approved 47 percent for coverage, and developed enhanced reporting metrics for the new fourth generation LTC product.
- *Engaged Health and Wellness Platform:*
Staff distributed a survey containing questions designed to gauge employer interest in wellness programs, and focus groups were conducted on seven occasions to solicit feedback from employers on ways to implement a statewide wellness platform. Staff presented an agenda item to the PHBC in June 2014 which detailed the progress of the wellness platform based on the survey, focus group summaries, and research on best practices for wellness programs.

Strategic Goal B

- *Policy Management:*
Staff implemented and aligned a communication plan for the Enterprise Content Management (SharePoint) rollout. A plan to update existing policies for divisions that have migrated to SharePoint was developed.

The Board of Administration approved the 2014-15 Annual Compliance Plan based on the results of the risk-based compliance assessment.

- *Investment Expense Reporting:*
Staff developed a monthly investment expense report that incorporated refinements and improvements. Gaps were identified in the Absolute Return Strategies (ARS) and Corporate Governance (CG) expense reporting and necessary changes to address those gaps were implemented. All future Investment Expense Reporting will include ARS and CG expenses.

- Investment Reconciliation Process:
Staff documented various accounting books of record for CalPERS financial data and identified the resources required to implement the accounting approach for reconciliation of ARS and CG financial data. Staff finalized the timeline for reconciliation implementation, informed stakeholders of the timeline, and communicated necessary process changes. Reconciliation procedures were developed and the new reconciliation process became effective July 2014.
- One Budget Model:
Staff developed the One Budget model that consolidated five operating budgets and provided a holistic view of the budget process, which increases transparency of the full costs to operate and administer CalPERS pension and health systems. Staff worked with the Office of Public Affairs to communicate the One Budget model to the public through various communication venues such as Facts at a Glance.

Strategic Goal C

- Pension Beliefs:
Staff conducted a workshop with the Board of Administration to gain input on pension belief statement key considerations. Incorporating feedback from the workshop, draft Pension Beliefs were presented to the Board of Administration at the January 2014 Board Offsite. The finalized Pension Beliefs that articulate CalPERS' view on public pension design, funding, and administration, were presented to the Board of Administration and were adopted in May 2014.

The following are the 27 initiatives from the CalPERS 2013-15 Business Plan that have transitioned to the CalPERS 2014-16 Business Plan:

Strategic Goal A

- Investment Risk Management
- Actuarial Valuation System Redesign and Enhance
- Employer Health Benefits
- Improve Health Care for Senior Members
- Investment Performance
- Cost Effectiveness
- Organizations, Systems, and Controls
- Emerging Investment Manager Strategy (The title for this initiative has been changed to, "Emerging Manager Programs" for the CalPERS 2014-16 Business Plan.)
- Environmental, Social, Governance (ESG) Investment Strategy
- Population Health Management
- Employer Wellness Partnerships

Strategic Goal B

- Enterprise Content Management
- Enterprise Internal Innovation
- End-to-End Business Intelligence
- Service Delivery Transformation – Access
- Service Delivery Transformation – Service
- Service Delivery Transformation – Quality
- Service Delivery Transformation – Effectiveness (These four initiatives have been combined into one initiative entitled, “Service Delivery Transformation” for the CalPERS 2014-16 Business Plan.)
- Knowledge Transfer, Insourcing, and Consultant Reduction (The title for this initiative has been changed to, “Workforce Investment, Knowledge Transfer, and Consultant Reductions” for the CalPERS 2014-16 Business Plan.)
- Workforce Strategic Plan Implementation
- Information Security Roadmap
- Strategic Risk Measures
- Municipal Bankruptcies (The title for this initiative has been changed to, “Participating Employer Financial Hardship/Insolvency” for the CalPERS 2014-16 Business Plan.)
- Strategic Measures

Strategic Goal C

- Strategic Partnerships
- Thought Leadership
- Demonstrate Industry Leadership

Aligning operational activities to strategic goals allows for a greater ability to prioritize and plan our work. The CalPERS 2013-15 Business Plan initiatives are linked to budget resources to ensure the budget process is connected to the planning cycle. A two-year business planning cycle with an incremental annual refresh process improves alignment to the operational complexities in a large public organization.

This report ensures transparency regarding initiative progress made for the reporting period. Competing organization priorities and staff resources are identified as key risks which may potentially impact the completion of some initiatives by the planned completion dates.

BUDGET AND FISCAL IMPACTS

Resources for the CalPERS 2013-15 Business Plan initiatives were funded by redirecting existing internal resources or funds were requested through the annual budget planning process. No additional funds are being requested at this time.

ATTACHMENTS

- Attachment 1 – CalPERS 2013-15 Business Plan, Fourth Quarter Status Update
- Attachment 2 – CalPERS 2012-17 Strategic Plan Annual Report, July 2014
- Attachment 3 – CalPERS 2013-15 Business Plan

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