



## **Agenda Item 9b**

November 17, 2015

**ITEM NAME:** Annual Cost Efficiency and Effectiveness Report

**PROGRAM:** Financial Office

**ITEM TYPE:** Information

### **EXECUTIVE SUMMARY**

The Annual Cost Efficiency and Effectiveness Report provides a summary of efforts made by CalPERS over the past four fiscal years to reduce costs and improve overall effectiveness in services provided to our members and employers. Cost savings and cost avoidance efforts totaling \$564.6 million are included in this report; this represents an increase of \$388.5 million, or 220.6%, over the reported savings in last year's report of \$176.1 million. Several operational efficiencies recently implemented or underway are also discussed. Attachment 1 details the cost savings and operational effectiveness improvements.

### **STRATEGIC PLAN**

CalPERS 2012-2017 Strategic Plan, Goal B supports the agenda item: to cultivate a high-performing, risk intelligent and innovative organization by actively managing business risks with an enterprise-wide view.

### **BACKGROUND**

Efforts have been made by the organization to reduce costs and realize savings. Some of these savings are reflected in the CalPERS Total Budget but other efficiencies are reflected in health premiums and other cost avoidance efforts not necessarily reflected in the budget. In addition, operational improvements continue to be identified and implemented.

### **ANALYSIS**

CalPERS strives to manage its investment, health and pension operations in an efficient manner to minimize costs for the benefit of our members and the organization. Several initiatives were implemented that resulted in actual savings and avoidance of costs to the organization. CalPERS has identified \$564.6 million in savings as follows:

**Investment Office - (\$305.0 million):**

Savings primarily due to winding down the Absolute Return Strategy Program, cost effective portfolio management, continued reduced reliance on external consultants, and contract re-negotiation of existing relationships with more favorable cost terms.

**Health Program - (\$237.8 million):**

The breakdown of health initiatives are detailed as follows:

**Dependent Eligibility Verification Audit (\$121.6M)**

- Savings achieved through removal of ineligible dependents from the employee health plans.

**Flex Funded Health Plans (\$58.9M)**

- Reductions achieved in administrative fees with the implementation of these new plans in FY 2013-14.

**Hip and Knee / Reference Pricing Expansion (\$23.5M)**

- Worked with Health Plan partners to eliminate unnecessary emergency room visits and improve outpatient care management.

**Member Pays the Difference (\$18.4M)**

- Members must pay cost difference between brand name and generic equivalent drugs.

**Compounding Strategies (\$13.0M)**

- Eliminated use of custom medications that required manual compounds made in the pharmacy due to unproven results and safety.

**High Performance Generic Step Therapy (\$2.4M)**

- Members are required to use generic medication options prior to trying a more expensive brand.

**Operational Savings - (\$21.8 million):**

Savings in the Operational areas include:

**my|CalPERS State Staff vs IT Consultants (\$21.4M)**

- Annual cost savings of \$9.3 million ongoing due to hiring state staff instead of relying on IT consultants.

**Information Technology Efficiencies (\$235K)**

- Aligned personal computer specifications to match Department of General Services to obtain lowest prices, consolidated security technology for encrypted link between CalPERS and customer browsers, and a PeopleSoft upgrade that reduced cost by automating analysis of the maintenance processes.

**Educational Forum (\$154K)**

- Increased the number of participants to the forum and reduced costs with state rates on hotel rooms and reduced overtime costs.

**Human Resources Talent Management (\$37K)**

Restructured new employee orientation and provided more in-house training classes, thereby reducing consultant and travel costs.

In addition to cost efficiencies realized, there have been effectiveness improvements as follows:

**Timesheet Automation - Human Resources**

- Provides easier access, timelier processing and more information to managers and staff.

**On-line Hiring Application Tracking - Human Resources**

- Provides system enhancements to the hiring process, more and faster access to information for hiring managers and improves stakeholder efficiency.

**Procurement Automation - Operations Support Services**

- Procurement database system addresses audit findings, reduces enterprise risk by providing electronic routing and approvals, and more comprehensive reports.

**Reduced Customer Call Wait times – Customer Services and Support**

- Reduced customer call wait time by 409 seconds, a 71% reduction, from 577 seconds in 2013 to 168 seconds in 2014.

CalPERS will continue to implement fiscal prudence by identifying cost savings strategies and operational efficiencies throughout the enterprise.

**BUDGET AND FISCAL IMPACTS**

There are no costs associated with the review of this item.

**BENEFITS/RISKS**

The benefit is additional information provided to the Board on savings captured, cost avoidance measures implemented and operational improvements undertaken by the organization.

**ATTACHMENTS**

Attachment 1 – CalPERS Annual Cost Efficiency and Effectiveness Report

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