



# Legislative and Policy Engagement Guidelines

California Public Employees' Retirement System  
Board of Administration  
**Approved March 18, 2015**

## INTRODUCTION

CalPERS has a long history of engagement in the development of public policies that impact retirement and health benefits for our members and beneficiaries. To this end, the Board of Administration establishes CalPERS' policy goals and guides staff and contracted representatives in developing and executing engagement strategies that advance the achievement of these goals and the Board's priorities.

These guidelines are intended to summarize CalPERS' perspectives on various policy issues that impact the long-term sustainability and effectiveness of its programs as well as ensure consistent promotion of CalPERS' positions to state and federal policymakers. They consolidate previously-adopted legislative guidelines and include important elements of the following Board approved documents: Pension Beliefs, Investment Beliefs, Global Governance Principles, CalPERS for California Report, and the Emerging Manager Five Year Plan. These guidelines do not revise or amend source documents or bind the Board in any way when determining its view on various policy proposals.

## I. GENERAL GUIDELINES

- A. Support proposals that add protections to the Trusts.
- B. Support proposals that give the Board increased flexibility in its administration or reduce administrative costs.
- C. Support proposals that correct structural deficiencies in the Plan, or reduce waste, prevent fraud in, or abuse of the CalPERS plans and programs.
- D. Support proposals that promote transparency and accountability for the System or entities that conduct business with the System, provided those proposals do not jeopardize the System's ability to conduct business or infringe on the Board's fiduciary authority.
- E. Support proposals that enhance ethics and integrity in System governance.
- F. Support proposals that enhance or protect the fiduciary authority of the Board and oppose proposals that impede or infringe on the Board's fiduciary authority.
- G. Oppose proposals that deprive members of vested benefits and that do not provide an equivalent, compensating benefit for that deprivation.
- H. Oppose proposals that endanger the tax-exempt status of the Trusts, or the deferred treatment of income tax on employer and employee contributions and related earnings.

- I. Oppose proposals that create unreasonable cost or complexity in the administration of the System.
- J. Oppose proposals that reduce or limit the Board's administrative or actuarial authority.
- K. Respect the distinction of issues that are taken up during collective bargaining and refrain from taking a position.

## II. INVESTMENT GUIDELINES

### A. INVESTOR INDEPENDENCE

- 1. Support proposals that preserve and enhance both the independent fiduciary authority of institutional investors, as well as, the investment authority of plan trustees to act for the exclusive benefit of plan participants and beneficiaries.
- 2. Oppose proposals that impose investment mandates or restrictions as well as proposals that direct investment options and decision-making.
- 3. To not oppose federal investment restrictions, provided that any restrictions be imposed consistently among all U.S. investors, in the event that the federal government determines that an investment is not in the national interest of the United States of America.

### B. CORPORATE ACCOUNTABILITY

- 1. Support proposals that advance the corporate governance goals and objectives expressed in CalPERS' Investment Beliefs and Global Governance Principles, including but not limited to, proposals that:
  - a. Enhance shareowner rights and protections and encourage corporate accountability.
  - b. Promote the effective management of financial, physical, and human capital to create long-term value.
  - c. Promote the transparency of operating, financial, and governance information about companies.
  - d. Promote high quality global accounting standards, integration of relevant ESG performance factors, and rigorous independent audit.
  - e. Promote the effective management, evaluation, and mitigation of risk.
  - f. Provide shareowners with effective access to the director nomination process.
  - g. Provide shareowners with an effective mechanism to ensure executive compensation programs align management with the long-term economic interests of shareowners.
  - h. Promote strong human capital practices, including fair labor practices, responsible contracting, workplace and board diversity, and healthy and safe working conditions.

### C. FINANCIAL MARKETS

1. Support proposals that advance the financial markets goals and objectives expressed in CalPERS' Investment Beliefs and Global Governance Principles, including but not limited to, proposals that:
  - a. Foster fair, orderly, and effectively regulated capital markets.
  - b. Promote earlier identification of issues that give rise to overall market risks and foster action that mitigates those risks.
  - c. Promote full disclosure so that markets provide incentives that price risk and opportunity.
  - d. Foster alignment of interests and protect investor rights and the independence of regulators.

### D. SUSTAINABILITY

1. Support proposals that foster a strong and durable global economy and advance the sustainability goals and objectives expressed in CalPERS' Investment Beliefs and Global Governance Principles, including, but not limited to, proposals that:
  - a. Encourage capital deployment at scale to finance the transition to a low carbon economy and encourage investment in climate change adaptation.
  - b. Provide stable, reliable, and economically meaningful carbon pricing that helps redirect investment commensurate with the scale of the climate change challenge.
  - c. Phase out subsidies for fossil fuels.
  - d. Promote the alignment of energy and transportation policies to stimulate new technologies that will enhance competitiveness and innovation leading to meaningful greenhouse gas reductions.
2. Support proposals that foster a healthy and diverse California economy with strong companies, solid infrastructure for commerce, robust business development, and fair labor practices and employment.
3. Support proposals that promote the cultivation of the next generation of external portfolio management talent consistent with the CalPERS Emerging Manager Five-Year Plan.

### E. DIVERSITY

1. Support proposals that recognize diversity and inclusion as an important business issue that enhances competitiveness and innovation.
2. Support proposals that encourage corporate boards to establish and disclose a diverse mix of director attributes, experiences, perspectives, and skill sets that are most appropriate for effectively overseeing management's execution of the company's long-term business strategy.

### III. RETIREMENT GUIDELINES

#### A. RETIREMENT BENEFITS

Defined benefit plans, properly constructed, are a better means for employees to enhance their retirement security than other available options. As a result, areas of interest include, but are not limited to:

1. Support retirement plan designs for workers that include a defined benefit component, where lifetime retirement benefits reflect each employee's years of service, age, and earning and are adequate for full-career employees.
2. Support retirement plan designs for workers that have professionally managed funds with a long-term horizon, incorporate pooled investments and pooled risks, and shares the funding responsibility between employers and employees.
3. Support proposals that provide all employees the opportunity to pursue retirement security, including, but not limited to, access to defined benefit plans, retirement savings accounts, or Social Security.
4. Oppose proposals that would limit meaningful retirement security in the private sector, such as prohibitions on defined benefit plans.

#### B. RETIREMENT PLAN FUNDING AND ACCOUNTABILITY

Responsible Trust funding and accountability are central to appropriate fund management. Therefore, we:

1. Support proposals and policies that ensure transparent financial reporting of the Trusts' assets using industry recognized accounting and actuarial standards.
2. Oppose retirement benefit plan changes that would result in an unfunded liability without proper actuarial funding to address the liability.

#### C. SOCIAL SECURITY

For many, but not all, workers, Social Security is an important aspect of long-term financial security. Therefore, we:

1. Support proposals and policies that would extend the Social Security system's long-term solvency without reducing retirement security for CalPERS members or others who participate in the system.
2. Support proposals that maintain state and local government and their employees' options to elect participation in the Social Security system and oppose mandatory participation.

#### IV. HEALTH CARE GUIDELINES

##### A. PRESCRIPTION DRUGS

Prescriptions drugs play an increasingly important role in the health and well-being of our members and their dependents. Therefore, we:

1. Support the development of a clear, efficient, and timely regulatory pathway for biosimilars and interchangeable biologics.
2. Support efforts to end anti-competitive arrangements between brand and generic pharmaceutical companies – so-called “pay for delay” settlements.
3. Support proposals to allow Medicare to enter into direct negotiations with pharmaceutical manufacturers in order to obtain discounts on prescription drugs and support reimbursement policies under Medicare that encourage the development of biosimilars and interchangeable biologics, in particular.
4. Support proposals that will reduce the cost of prescription drugs while also maintaining appropriate quality of and access to brand name, generic, biosimilar, and interchangeable drugs.

##### B. PAYMENT FOR QUALITY AND VALUE

Financial systems drive market, provider, and consumer behavior. Therefore, we:

1. Support payment reform that transitions fee-for-service payments to payments that promote improved patient outcomes.
2. Support proposals that establish and implement benchmarks and targets intended to improve delivery of health care services, patient health outcomes and population health, in addition to prioritizing measures and data that identify the highest value interventions.
3. Support efforts to promote transparency in the reporting of cost and quality for both for-profit and not-for-profit organizations, including health plans, insurers, health care providers, hospitals, and physicians.
4. Support proposals that strengthen the Medicare program, such as strategies to constrain cost growth, implement payment reforms that shift away from fee-for-service, improve the quality of health care, or extend the life of the Medicare Trust Fund.
5. Support federal proposals to test, evaluate, and expand new payment structures, models, and methodologies to reduce health care expenditures while maintaining or improving quality of care, including the commercial market.

##### C. ACCESS

Competitive and reasonably priced health care advantages employees and employers. Therefore, we:

1. Support proposals that would seek to assure the financial viability of risk-bearing provider groups while ensuring access to reasonably priced health care.
2. Support proposals to enhance affordable provider access in rural areas.

D. RISK POOL STABILITY

1. Support proposals to stabilize and enhance public agency participation in the CalPERS health program.
2. Oppose proposals that impinge on risk pool stability.
3. Support proposals that reduce cost-shifting to CalPERS, including cost-shifting from under-funded governmental programs.

E. LONG-TERM CARE

1. Support proposals that maximize the successful implementation coverage offerings for CalPERS Long-Term Care Program.
2. Support efforts to increase availability of reasonably priced long-term care products