

CalPERS
Board Workshop:
Strategic Plan Development

June 14, 2016



Agenda

Item	Agenda Topic	Speaker	Timeframe
1.	Introduction <ul style="list-style-type: none"> • Workshop objectives 	Doug Hoffner	5
2.	Strategic Plan Approach <ul style="list-style-type: none"> • Activities and timeline • Framework 	Timi Leslie, Founder & President, BluePath Health	15
3	Board Feedback <ul style="list-style-type: none"> • Strategic Plan Approach • Vision Mission • Themes 	Timi Leslie	15
4	External Stakeholder Feedback <ul style="list-style-type: none"> • Progress and accomplishments • Improvement and opportunity • Key challenges • SWOT 	Timi Leslie	20
5.	Breakout Discussion <ul style="list-style-type: none"> • Gather Vision/Mission input • Agree to key themes and challenges 	Group	60
6.	Readout	Group	30
7.	Next Steps <ul style="list-style-type: none"> • July 19th Board Offsite – Goals/Objectives • September 20th Board Meeting - Review draft strategic plan 	Doug Hoffner	5

Workshop Objectives

- 1 Review Strategic Planning Approach and Timeline
- 2 Review Stakeholder Feedback and incorporate into planning
- 3 Review SWOT and Themes and prioritize analysis for defining Goals and Objectives

Strategic Plan Development Overview and Timeline

Jan 2016 – April 2016

Jan 2016 – June 2016

June 2016 – Nov 2016

Project Plan



Board Engagement*

March Board Meeting
Information

May

June Board Meeting
Workshop

July Board Offsite
Workshop

September Board Meeting
Information

Nov – Dec Board Meeting
Information/Action

Strategic Planning Kick-off

Board Interviews

Stakeholder Feedback

Top Strategic Themes

Strategic Plan Draft

First Reading

Approach, Timeline, & Stakeholder Engagement

SWOT

Draft Goals & Objectives

2nd Reading / Approval

March

May

June

July

Sept

Nov - Dec

Stakeholder Outreach

March 2016 – June 2016



Internal Outreach: CalPERS Board of Administration, Executive Team, and Staff

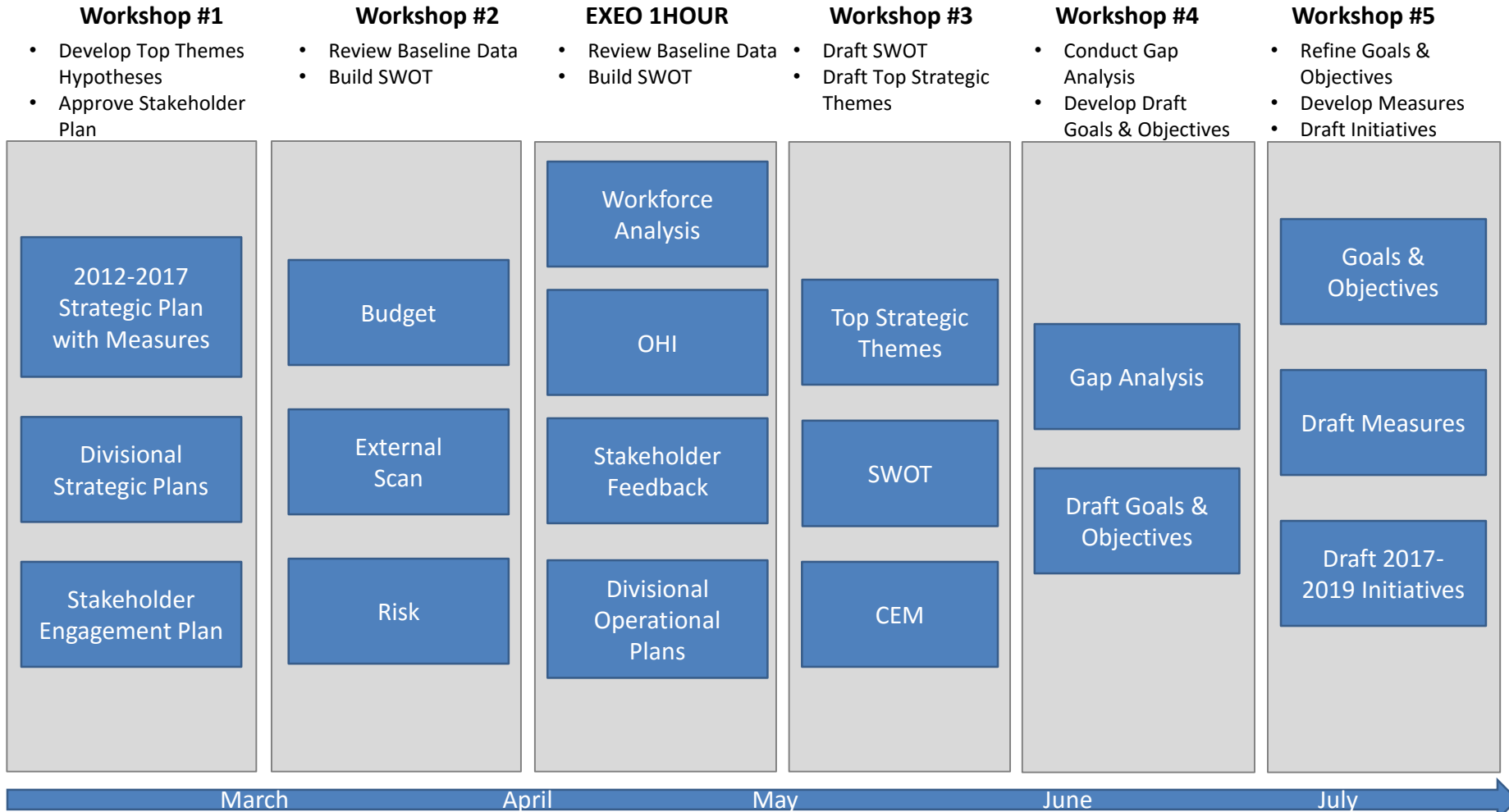
External Outreach: Employer, Member, Retiree and Labor groups, Federal and State Representatives, and other Business Partners

6/6/2016

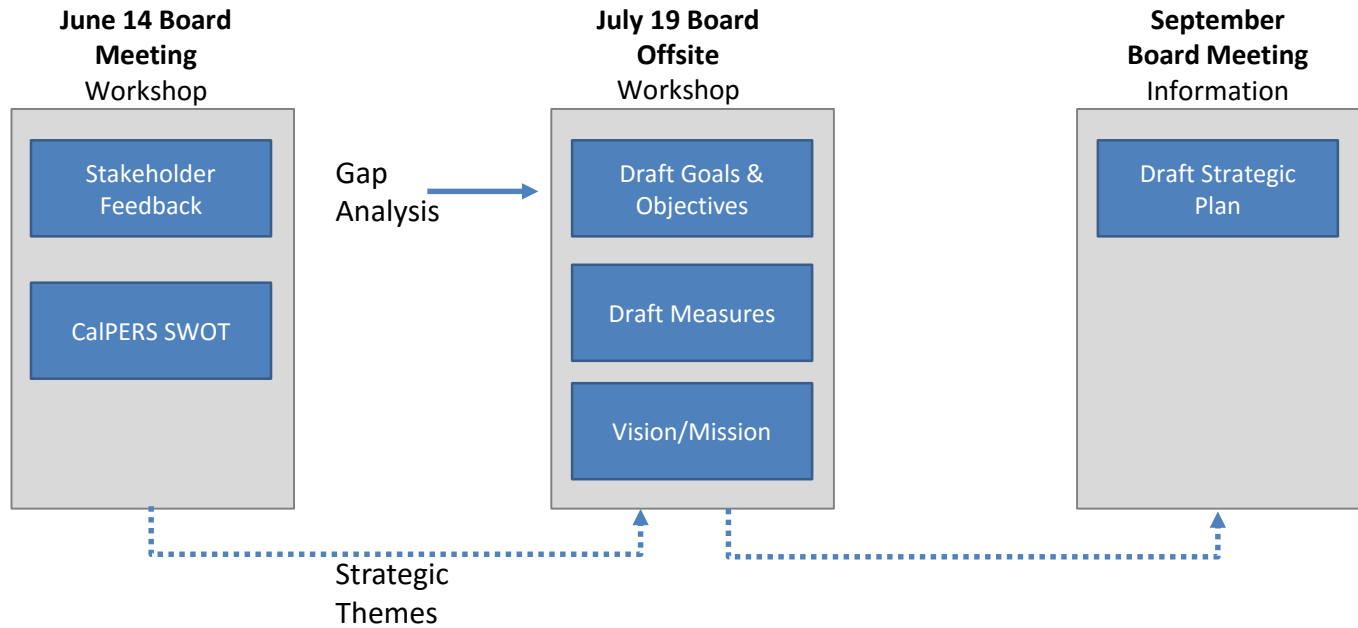
*The schedule may require eventual adjustment based on the timing of the CEO recruitment and selection process.

Strategic Plan Development Overview and Timeline (Cont.)

Executive Timeline



Strategic Plan Development Overview and Timeline (Cont.)



Strategic Plan Framework



- ▶ **VISION** – What is our 5-year destination (statement of intent)?
- ▶ **MISSION** – Why do we exist (statement of purpose)?
- ▶ **GOALS** – What will it look like as we progress (statements of descriptive end-states)?
- ▶ **OBJECTIVES** – How will we get there (statements of measurable actions)?
- ▶ **INITIATIVES** – What are the means and the major inputs by which we can accomplish the Objectives? (Span 1-5 years)

Strategic Plan - Board Feedback

2012-2017 Strategic Plan

In your opinion, how has the current Strategic Plan contributed to the organization? What worked? What didn't?

What We Heard:

- Strategic Plan served the organization well*
- Good guidepost*
- Plan provides focus and priority*
- Aids in decision making and taking stances*
- Great to have goals and a long-term view*
- Goal C was tough, but necessary*
- Wellness did not evolve as planned*
- Need to ensure staff can find themselves on strategic plan*

Strategic Planning Process

Related to the Strategic Plan development process, do you see this as a refresh of the plan vs. an overhaul? And to support the next planning cycle, is a 5-year plan an appropriate timeframe?

What We Heard:

- Most recognize the development process as a refresh of the current plan*
- Majority feel 5-year timeframe is appropriate*

How do you think the transition to a new CEO will impact the new Strategic Plan in regards to timing, etc.?

What We Heard:

- Concepts and overall strategy should remain intact*
- Minor tweaks may be needed after new CEO*

When looking at the Strategic Plan and reporting the progress out to the Board, how do you view the current process and how do you view your role? Do you have any recommended improvements or changes?

What We Heard:

- Board role could be more involved and engaged earlier in the process*
- Strategic Plan updates could be made more concise. Focus on a dashboard that reports progress and escalation to Board if required*

Vision/Mission – Board Feedback

In consideration of where CalPERS is today vs. back in 2012 when we revised the Mission and Vision along with the Strategic Plan, do these statements resonate with you? Are they still in a good place? What are your thoughts about revisions?

Vision

A trusted leader respected by our members and stakeholders for our integrity, innovation, and service

Mission

Provide responsible and efficient stewardship of the System to deliver promised retirement and health benefits, while promoting wellness and retirement security for members and beneficiaries

What We Heard:

- They are fine. Well crafted.
- Mission is straight forward – and established in the constitution of the state.
- Swap the words trusted and respected.
- Mission – Instead of members, replace ‘for those who serve California and their beneficiaries’
- Remove wellness

External Stakeholder Feedback Outreach

Over 4 months, we spoke to over 35 individuals representing over 35 organizations. Questions included:

- Progress
- Accomplishments
- Areas of opportunity
- Areas for improvement
- Key challenges
- SWOT

Stakeholder	Organization
Administration	Government Operations CalHR California State Personnel Board California Department of Finance*
Employer Associations	League of California Cities (LOCC) California Association of School Business Officials (CASBO) California State Association of Counties (CSAC) California Special Districts Association (CSDA) Rural County Representatives of California (RCRC) Association of California School Administrators (ACSA) California Society of Municipal Finance Officers (CSMFO) - Finance
Labor Associations	California Professional Firefighters (CPF) Service Employees International Union (SEIU) – 1000* Service Employees International Union (SEIU) – California* Service Employees International Union (SEIU) - International California School Employee Association (CSEA) Aaron Read & Associates* American Federation of State, County and Municipal Employees (AFSCME)* Blanning & Baker California Association of Highway Patrolmen (CAHP) Peace Officers Research Association of California (PORAC)*
Retiree Associations	California State Retirees (CSR) Retired Public Employees Association (RPEA) California School Employee Association (CSEA) - Retirees California State University Emeritus and Retired Faculty Association (CSU-ERFA)*
Pension Associations	National Association of State Retirement Administrators (NASRA) National Council on Teacher Retirement (NCTR) National Conference on Public Employee Retirement Systems (NCPERS) California Association of Public Retirement Systems (CALAPRS)
Federal	Avenue Solutions/Jennings Policy Strategies K&L Gates Williams and Jensen PLLC/The Lussier Group
State Legislature	Representatives from Caucuses* Pro Tempore Policy Consultant* Senate Public Employment and Retirement Committee* Speaker of the Assembly, 63rd Assembly District* Assembly Public Employees, Retirement & Social Security Committee*
Business Partners / Other	California Association of Physician Groups (CAPG) Integrated Healthcare Association (IHA) Mercer Covered California California Legislative Analyst's Office (LAO)* Pension Consulting Alliance (PCA) Wilshire BlackRock Association of Asian American Investment Managers (AAAIM) Toigo Foundation* New America Alliance (NAA) National Association of Investment Companies (NAIC) National Association of Securities Professionals (NASP) California Chamber of Commerce – Interviews to be scheduled California Business Roundtable – Interviews to be scheduled Howard Jarvis Taxpayers Association – Interviews to be scheduled Orange County Business Council

External Stakeholder Feedback Summary

PROGRESS AND ACCOMPLISHMENTS

Trust

- The CalPERS brand is respected. CalPERS has come a long way
- CalPERS is forward thinking and is viewed as a leader in many ways
- CalPERS is great at listening, stakeholder out-reach and being transparent
- Overall engagement with partners and stakeholders has improved
- CalPERS communicates well with others

Investment and Risk Management

- CalPERS has accomplished significant success with de-risking efforts
- CalPERS is focused on long-term, as they should be. The sustainability of the fund is paramount
- CalPERS is effectively managing the fund while keeping costs down
- CalPERS is ahead of the curve as expressed in investment beliefs. These beliefs are a major accomplishment

Customer Service / my|CalPERS

- The CalPERS Web portal and user interface is exceptional
- CalPERS delivers high quality customer service

Innovation

- CalPERS is a leader in testing new strategies in health purchasing
- CalPERS often brings about innovation in government aligned internal processes
- CalPERS' focus on price and value should continue

Talent

- CalPERS staff are viewed as mission driven and have integrity
- CalPERS is often looked to as a source to fill other government agency positions
- CalPERS is viewed as a high performance organization

External Stakeholder Feedback Summary (cont.)

IMPROVEMENT AND OPPORTUNITY

Stakeholder engagement and transparency

Broaden stakeholder engagement and continue transparency efforts

Healthcare

Be more aggressive around healthcare purchasing to reduce costs and improve access to quality healthcare

Research and policy

Advance the research and policy agenda

Leadership and knowledge transfer

Ensure knowledge transfer and develop future CalPERS leaders

Pension funding

Continue to have a long term view to sustain the fund

KEY CHALLENGES

Cybersecurity

- Threats related to external cyber-attacks on CalPERS data assets and infrastructure

Volatility in financial markets

- Market swings and effect on cash flow

Global market return

- Interrelatedness and low-return environment

Workforce knowledge transfer

- Wave of upcoming staff retirements

Increasing plan maturity

- Negative fund cash flow as a result of more retirees than active contributors

Employer constraints

- Employer solvency and municipal bankruptcies

Rising cost of healthcare

- Health premiums and total cost of care are increasing

Potential legislative and regulatory action

- Potential repeal of Affordable Care Act and Implementation of Cadillac Tax
- Implementation of Dodd-Frank
- Defined benefit vs defined contribution debate

External SWOT

<p>(S) Strengths- Key advantages, unique resources, what we do well</p> <ul style="list-style-type: none"> • Customer Service • my CalPERS • Internal controls / Risk management • Understanding environment • Health innovation/ Expansion of plans • Health purchasing power • Investment and pension beliefs • ALM approach • Financial integrity • Economic impact • Governance • Respect • Member goodwill, trust, loyalty • Transparency • PR and communications • Long-term view • Training and development • Collaborative and innovative culture 	<p>(O) Opportunities - Potential actions upon interesting trends, changes in markets and policy</p> <ul style="list-style-type: none"> • Broaden stakeholder engagement • Advocate Investment and Pension beliefs • Health purchasing collaboration (public purchasers) • Investment partnerships • Shared services (legal, technology, procurement) • Greater use of analytics and business intelligence to advance research agendas • Understand how health offering compares to others (eg Define Health offering affordability metric, reframe success through triple aim lens) • Update pension primer for elected officials
<p>(W) Weaknesses- Areas for improvement, what others do better</p> <ul style="list-style-type: none"> • Transparency/ sharing data (can always do more) • Reactionary stance in terms of media and external communications • Member education around financial literacy and economics • Understanding audience preference in customer service • Understanding of new workforce needs • Health plan options (need to offer high deductible & leaner plan) • Wellness • Interrelations of risk factors • Size (and impacts when it works against you) • Complexity 	<p>(T) Threats - Obstacles, impending challenges</p> <ul style="list-style-type: none"> • Municipal bankruptcies and continued stress • Increasing health and pharmacy costs • Reduced return expectations • Market volatility • Low interest rate environment • Economic cycles • Cash flow (more retirees than actives) • Funding status • Federal administrative change and possible appeal of ACA • Defined benefit vs defined contribution • Cadillac Tax • Dodd-Frank • Cyber threats • Boomers leaving / Loss of talent/ State Vacancies • Knowledge transfer

Summary Themes

KEY THEMES

- Customer Service
- Fund Sustainability
- Health Care Cost Containment
- Culture
- Risk Management
- Efficiency and Reducing Complexity
- Technology
- Workforce Planning and Talent Management
- Engagement & Communications
- Policy

Next Steps

- Continue to develop gap analysis for key strategic themes
- July 19th Board Offsite Double Tree Rohnert Park (9am-12pm) – Goals/Objectives
- September 20th Board Meeting - Draft strategic plan

Appendix

Hand Outs:
Themes
SWOT
Exercise

Break out

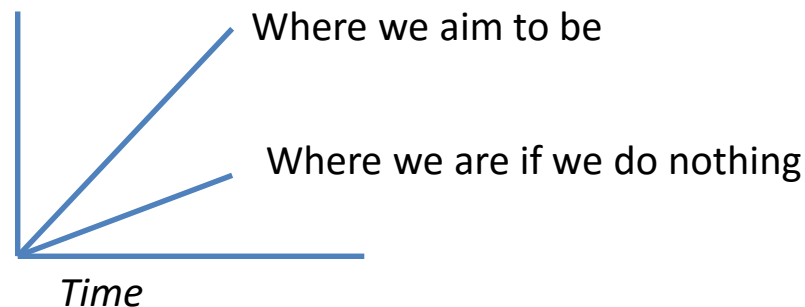
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Review Vision and Mission : Gather group input (15 min)

2

Key Themes (45 Min)

- What are our stakeholders telling us?
- What keeps me up at night?
- What are other organizations that I admire doing that we are not?
- How big are these challenges? – and how fast are they growing?
- What happens if we do nothing?
- What are some initial steps we should take to address?



Outcomes/Measures – Board Feedback

What outcomes are you anticipating that CalPERS will achieve over the coming years? How would you like to see these measured?

Funding

- Achieve 100% funding
- Meet fund rate of return

Cut Costs

- Cut external contracting in half

Health

- Create affordability metric for health offering
- Push down health rates

Staff

- Maintain staff satisfaction rates

ESG

- Integrate ESG metrics
- Count carbon / Contribute to Paris agreement

What are your thoughts on specific areas (if not already mentioned): simplification (reducing complexity), transformation, maturing programs (doing what we do well) vs. establishing new programs (growth)?

- Reduce complexity, but maintain innovation
- Resources exist to support current offering
- Need to focus on current portfolio
- Improve processes
- Make experience easier for members
- Only add if it makes sense

Summary SWOT

(S) Strengths- Key advantages, unique resources, what we do well

- Customer Service
- my|CalPERS
- Internal controls / Risk management / Data integrity
- Understanding environment
- Cost efficiency
- Comprehensive Annual Financial Reports
- Health innovation/ Expansion of plans
- Health purchasing power
- Investment beliefs
- ALM approach
- Financial integrity
- Economic impact
- ESG
- Improved strategic and business planning
- Governance
- Staff wellness program
- External respect
- Member goodwill, trust, loyalty
- Transparency
- PR and communications
- Long-term
- Training and development
- Collaborative and innovative culture

(W) Weaknesses- Areas for improvement, what others do better

- Transparency/ sharing data (can always do more)
- Reactionary stance in terms of press and communication
- Understanding audience preference in customer service
- Trust / Loyalty
- Health plan options (need to offer high deductible & leaner plan)
- Death benefit options are too complicated
- Opportunity to cut costs, drive efficient processes
- Talent management and succession planning
- Greater risk and compliance culture needed / Create fraud group
- Understanding of new workforce needs
- Prioritization, difficulty in saying no
- Too much demand on investment staff to meet budget
- Simplification of processes
- Measuring success
- Employer compliance
- Siloed automation
- Wellness offering for employers
- Size (and impacts when it works against you)
- Utilize CEM / Cost control
- Complexity
- Employee retention/Salary competitiveness
- Train needed management skills
- Lack of diversity in senior staff
- Moving capabilities from transactional to analytical
- Reliance on contractors

Summary SWOT (cont.)

(O) Opportunities - Potential actions upon interesting trends, changes in markets and policy

- Broaden stakeholder engagement
- Better understand customer and member life cycle
- Educate members around financial literacy and economics
- Advocate for investment and pension beliefs
- Health purchasing collaboration (public purchasers)
- Investment partnerships
- Shared services (legal, technology, procurement)
- Data sharing for research and policy
- Leverage cloud-based computing
- Use existing regulations to retain talent (e.g. CalSTRS)
- Enable mobile workforce
- Understand how health offering compares to others (eg Define Health offering affordability metric, reframe success through triple aim lens)
- Account for human capital in fund (e.g. fair wages, retirement with dignity)
- Define Absolute levels of Pension (eg index by Cost of living)
- Close legal loopholes through legislation
- Advocate Pension and Investment Beliefs
- Update pension primer for elected officials

(T) Threats - Obstacles, impending challenges

- Municipal bankruptcies and continued stress
- Increasing health and pharmacy costs
- Reduced return expectations
- Market volatility
- Low interest rate environment
- Economic cycles
- Cash flow (more retirees than actives)
- Funding status
- Fraud
- Federal administrative change and possible appeal of ACA
- Defined benefit vs defined contribution
- Cadillac Tax
- Dodd-Frank
- Cyber threats
- Boomers leaving / Loss of talent/State Vacancies
- Knowledge transfer