



# External Stakeholder Engagement Report

STRATEGIC PLAN DEVELOPMENT  
VERSION 1.0 JUNE 6, 2016

# CalPERS External Stakeholder Engagement Report

## Strategic Plan Development

### OVERVIEW

In January 2016, CalPERS initiated a process to develop a strategic plan that will succeed its current 2012-2017 strategic plan. As part of the development process, CalPERS staff conducted external stakeholder interviews between February and May 2016. It is anticipated that the feedback gathered from the interview process will inform and shape the direction of the next strategic plan.

### STAKEHOLDER ENGAGEMENT OBJECTIVES

CalPERS engaged external stakeholders to:

- Solicit progress and accomplishments from the 2012-2017 strategic plan
- Gather areas for improvement and other key considerations to inform the next strategic plan
- Identify challenges that may threaten the organization or present barriers to reaching its goals and objectives

This report contains a summary of insights provided by external stakeholders gathered through interviews. Overall, external stakeholders are pleased with the progress CalPERS made over the last five years. Major areas of accomplishment highlighted include: building trust among its stakeholders, vastly improving customer service and implementing my|CalPERS, adopting a risk management approach to investments, and cultivating innovation and talent.

External stakeholders outlined areas for improvement and market opportunities that should be considered as the new strategic plan is developed. These considerations fall broadly into the following categories:

transparency and engagement, research and policy, healthcare, leadership and knowledge transfer, and pension funding.

In addition, external stakeholders identified key challenges that may pose significant risk to the organization in the future.

### STAKEHOLDER GROUPS

CalPERS appreciates the insights and time provided by its external stakeholders throughout the interview process. CalPERS staff met with a wide variety of external stakeholders, including<sup>1</sup>:

- Administration
- Employer Associations
- Labor Associations
- Retiree Associations
- Pension Associations
- Federal
- State Legislature
- Business Partners / Other (Health and Investment partners)

### NEXT STEPS

CalPERS is gathering internal stakeholder input as part of its strategic planning effort through Board and staff interviews, workshops, surveys, and townhalls. This internal input will be combined with the external findings summarized in this report to develop the next strategic plan.

CalPERS is committed to continue the dialogue with its external stakeholders to ensure ongoing feedback as the plan is executed.

<sup>1</sup> A complete list of organizations can be found in the appendix

## PROGRESS AND ACCOMPLISHMENTS

External stakeholders were asked to describe their familiarity of the CalPERS 2012-2017 strategic plan and discuss its meaningfulness to their respective organization. External stakeholders agreed that the current plan is clear, easy to understand and provides direction that can be easily communicated to others. External stakeholders also agreed that the strategic plan is serving the organization well and provides the required guidance that has resulted in recognizable accomplishments and progress over the past five years. Accomplishments and areas of progress highlighted are summarized in the table below.

### 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

## IMPROVEMENT AND OPPORTUNITY

Given the strides that CalPERS has made, external stakeholders recognize the potential for improvement and opportunity. External stakeholders were asked to describe potential areas for internal operational improvements and to identify where there may be market-based opportunities in the future. The summary areas identified for potential improvement and opportunity include:

- Broaden stakeholder engagement and continue transparency efforts
- Advance the research and policy agenda
- Be more aggressive around healthcare purchasing to reduce costs and improve access to quality healthcare
- Ensure knowledge transfer and develop future CalPERS leaders
- Continue to have a long term view to sustain the fund

Additional detail gathered is listed under each summary area below:

### Stakeholder Engagement and Transparency

- Some communications can be made more easy to understand and simplified
- There is opportunity to work collaboratively with other peers to deliver high quality content
- Although transparency has significantly improved, there is a desire to receive higher quality content to stakeholders earlier in the engagement process
- There should be more discussion earlier in the decision making process that is fact based with the good and bad impacts laid out
- There is a desire to have more education to members, specifically in financial guidance

### Research and Policy

- CalPERS is viewed as an important data resource and should identify opportunities to share data that will bring value to its mission and goals
- There is a desire to collaborate in research areas with other government agencies and an opportunity to coordinate agendas
- Prioritize the implementation of Dodd Frank
- There will be a continued attack on defined benefit plans
- Next five years will require attention to ACA implementation including the excise tax
- CalPERS should engage more to shape policy outcomes

### Healthcare

- Current plan goals around health fall short by focusing on member health and outcomes. There is an opportunity to have a broader impact and to achieve the goals Triple AIM: Lower per capita cost, improve health of populations, and increase quality and patient experience
- There is general recognition that CalPERS must look at current benefit design to lower costs and reduce complexity
- Over the next five years, CalPERS should tackle increasing Rx costs and management of chronic disease

- There is an opportunity to partner with other CA public purchasers e.g. DHCS and Covered CA to coordinate programs and initiatives
- CalPERS is a leader in price transparency. Would like to see CalPERS do more in this area
- There is recognition that CalPERS should do more around wellness by promoting healthy communities and helping employers seek ways to increase wellness of their employees
- CalPERS should seek ways to alter and improve health care delivery – which could mean doing more than altering benefit structure.

#### **Leadership and Knowledge Transfer**

- There is concern about key leaders who are retiring and recognition that other key leadership positions are relatively new
- Loss of current CEO will be challenging to fill
- Need to recognize that there is a wave of state and CalPERS retirements on the horizon

#### **Pension Funding**

- It will likely be a low return environment for a long period of time
- Recognition that there is a negative cash flow and there will likely be more retirees than actives for future years
- Should think about sharing beliefs with other investors and drive bigger changes
- There is an opportunity to improve social impact investing analysis, have a meaningful discussion that weighs both positive and negative impacts

## KEY CHALLENGES

Stakeholders were asked to identify challenges that may threaten the organization or present barriers to reaching its goals and objectives. These challenges include:

### 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

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APPENDIX

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## List of Stakeholders Interviewed

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

\*Did not respond or declined interview



## External Stakeholder SWOT

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

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

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

**(T) Threats -** Obstacles, impending challenges

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