CalPERS Board Workshop:
Strategic Plan Development

September 21, 2016

Presented by:

Doug Hoffner, Interim Chief Executive Officer, CalPERS
Timathie Leslie, Founder, BluePath Health
# Agenda

<table>
<thead>
<tr>
<th>Item</th>
<th>Agenda Topic</th>
<th>Speaker</th>
<th>Timeframe</th>
</tr>
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<tbody>
<tr>
<td>1.</td>
<td><strong>Opening Remarks</strong></td>
<td>Rob Feckner</td>
<td>5 min</td>
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<tr>
<td>1.</td>
<td><strong>Introduction</strong></td>
<td>Doug Hoffner</td>
<td>5 min</td>
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<td></td>
<td>• Workshop Objectives</td>
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<td></td>
<td>• Project Overview and Timeline</td>
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<td></td>
<td>• Review Vision/Mission/Core Values</td>
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<td>2.</td>
<td><strong>Goals and Objectives</strong></td>
<td>Timi Leslie</td>
<td>5 min</td>
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<td>3.</td>
<td><strong>Propose Measures Voting Exercise</strong></td>
<td>Executive Team</td>
<td>45 min</td>
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<td>4.</td>
<td><strong>Break Out Exercise</strong></td>
<td>Group</td>
<td>15 min</td>
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<td>5.</td>
<td><strong>Read Out</strong></td>
<td>Timi Leslie</td>
<td>10 min</td>
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<td>6.</td>
<td><strong>Next Steps</strong></td>
<td>Doug Hoffner</td>
<td>5 min</td>
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<td>• Communication Plan</td>
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<td>• First Reading Strategic Plan: November</td>
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<td>• Second Reading Strategic Plan: December</td>
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Workshop Objectives

1. Confirm Goals and Objectives
2. Agree to Strategic Measures and corresponding Targets
3. Review Communication Plan
Strategic Plan Development Overview and Timeline

Jan 2016 – April 2016
Project Planning & Governance
- March Board Meeting
  - Information
- Strategic Planning Kick-off
- Approach, Timeline, & Stakeholder Engagement

Jan 2016 – June 2016
Current State Assessment
- May
  - Board Interviews
- Stakeholder Feedback
- SWOT
- June Board Meeting
  - Workshop
- Vision & Mission
- Top Strategic Themes
- Draft Goals & Objectives

June 2016 – Nov 2016
Development of Strategic Plan
- July Board Offsite
  - Workshop
- Review Goals, Objectives, and Measures
- September Board Meeting
  - Workshop
- September Board Meeting
  - Information/Action
- Nov – Dec Board Meeting
  - Information/Action
  - First Reading
  - 2nd Reading / Approval

Stakeholder Engagement
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
Updated Vision and Mission

CalPERS Vision
A respected partner providing a sustainable retirement and healthcare system for those who serve California

CalPERS Mission
Deliver retirement and healthcare benefits to members and their beneficiaries

CalPERS Core Values
Quality | Respect | Accountability | Integrity | Openness | Balance
## 2017-2022 Strategic Plan - DRAFT

### Goal: Strengthen the long-term sustainability of the pension fund

<table>
<thead>
<tr>
<th>Objectives</th>
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</thead>
<tbody>
<tr>
<td>• Fund the System through an integrated view of pension assets and liabilities</td>
</tr>
<tr>
<td>• Mitigate the risk of significant investment loss</td>
</tr>
<tr>
<td>• Deliver target risk-adjusted investment returns</td>
</tr>
<tr>
<td>• Educate employers, members, and stakeholders on system risks and mitigation strategies</td>
</tr>
<tr>
<td>• Integrate environmental, social, and governance considerations into investment decision making</td>
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### Goal: Transform health care purchasing and delivery to achieve affordability

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<td>• Restructure benefit design to promote high value health care</td>
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<td>• Improve the health status of our employees and members, and the communities where they live</td>
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<tr>
<td>• Reduce the overuse of ineffective or unnecessary medical care</td>
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</table>
### Goal: Reduce complexity across the enterprise

**Objectives**

- Simplify programs to improve service and/or reduce cost
- Streamline operations to gain efficiencies, improve productivity, and reduce costs

### Goal: Cultivate a risk-intelligent organization

**Objectives**

- Enhance compliance and risk functions throughout the enterprise
- Enhance cyber security program

### Goal: Promote a high-performing and diverse workforce

**Objectives**

- Recruit and empower a broad range of talents to meet organization priorities
- Cultivate robust leadership competencies and develop succession plans across the enterprise
Strategic Measures

- Strategic Measures are the parameters against which progress towards meeting goals and objectives can be assessed. These measures are central to measuring effectiveness of meeting goals, allocating resources, executing operations, and assessing/analyzing performance.

Targets

- Targets are established parameters for assessing whether goals or objectives have been successfully achieved or if acceptable progress is being made towards those goals and objectives. Targets (min/max) represent a commitment to pursuing a specific level and timing of results to be achieved.

Baseline

- A baseline is the starting point from which comparisons are made. It is measured at an agreed upon point in time (typically the current score) that serves as a basis for defining future change.

Benchmark

- Benchmarking refers to comparing yourself against some form of benchmark statistics, trends, or best practices. By definition, a benchmark is a standard by which something can be measured or judged. The goal of benchmarking is to compare an organization against relevant measures to identify where it is strong, where it is weak, and specifically where it can focus to improve operations.
## Fund Sustainability

**Goal:** *Strengthen the long-term sustainability of the pension fund*

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Measure Description</th>
<th>Target</th>
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<tr>
<td>Fund the System through an integrated view of pension assets and liabilities</td>
<td><strong>Funded status</strong>&lt;br&gt;Funded Status is a measure of a pension system’s health, it is the plan’s Market Value of Assets divided by the plan’s Actuarial Accrued Liability.</td>
<td>100% funded with acceptable level of risk</td>
</tr>
<tr>
<td></td>
<td><strong>Probability of falling below 50% funded over the next 30 years</strong>&lt;br&gt;Low funding levels represent risk to the members in that it shows the level of assets is not at the target level.</td>
<td>Downward trend</td>
</tr>
<tr>
<td></td>
<td><strong>Sharp Increases in Employer Contribution Rates</strong>&lt;br&gt;Sharp increases in contribution rates can impose financial strain on employers and may increase the risk that employers fail to make their required contributions.</td>
<td>Downward trend</td>
</tr>
<tr>
<td></td>
<td><strong>High Employer Contribution Rates</strong>&lt;br&gt;High employer contribution rates impose significant financial stress and may increase the risk the employers will default and be unable to make their required contributions.</td>
<td>Downward trend</td>
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## Fund Sustainability

**Goal:** Strengthen the long-term sustainability of the pension fund

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<tr>
<td>• Mitigate the risk of significant investment loss</td>
<td>Total ex-ante fund volatility</td>
<td>Total ex-ante fund volatility = 8% or less</td>
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### Fund Sustainability

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<tr>
<td>• Deliver target risk-adjusted investment returns</td>
<td>Annualized Excess Investment Returns Relative to Policy Benchmark</td>
<td>Meet or exceed the Policy Benchmark</td>
</tr>
<tr>
<td></td>
<td>This measure targets the effectiveness of the Investment Office in meeting the objective of achieving superior investment returns when compared against the Policy benchmark.</td>
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<td>• Educate employers, members, and stakeholders on system risks and mitigation strategies</td>
<td><strong>Stakeholder Assessment Survey</strong>&lt;br&gt;Annual stakeholder survey to members, employers and other stakeholder groups. Establish baseline in 2016 survey. Example question: “I understand the risks inherent in the System and I am confident that CalPERS is taking steps to reduce the risks.”</td>
<td>Baseline + upward trend</td>
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# Fund Sustainability

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<tr>
<td>• Integrate environmental, social and governance considerations into investment decision making</td>
<td><strong>Managers have policies and procedures (Survey)</strong>&lt;br&gt;A new measure, currently in a “pilot” phase, with results due to be reported in December, 2016. Going forward this will be tracked and reported by the new Inv. Manager Engagement Program (IMEP) in the Investment Office.</td>
<td>100% internal and external managers</td>
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# Health Care Affordability

**Goal:** *Transform health care purchasing and delivery to achieve affordability*

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<tbody>
<tr>
<td>Restructure benefit design to promote high value health care</td>
<td><strong>Overall Quality Composite</strong>&lt;br&gt;A framework that combines several (HEDIS)-like indicators into a single composite score that reflects quality of care across a variety of domains with a single metric.</td>
<td>Baseline + upward trend</td>
</tr>
<tr>
<td></td>
<td><strong>Access to Primary and Specialty Care</strong>&lt;br&gt;The “Getting Care Quickly” composite measure provides insight into how accessible health care is for enrollees who need immediate care and routine care.</td>
<td>Baseline + upward trend</td>
</tr>
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<td></td>
<td><strong>Total Cost per Member</strong>&lt;br&gt;Total cost of care per member per month indicates the average risk-adjusted costs borne by health plans and their members.</td>
<td>Baseline + downward trend</td>
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Health Care Affordability

**Goal:** Transform health care purchasing and delivery to achieve affordability

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<tr>
<td>Improve the health status of our employees and members, and the communities where they live</td>
<td><strong>Proportion of Adults who are Obese (BMI equal to or greater than 30)</strong>&lt;br&gt;Obesity is associated with higher rates of chronic health conditions, making this an excellent population health measure. BMI has been shown to be a reasonably proxy for obesity.</td>
<td>Get Healthy California 2022&lt;br&gt;Target: 11%</td>
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<td><strong>Prevalence of Diagnosed Diabetes, per 100 adults</strong>&lt;br&gt;Diabetes is a major cause of heart disease, kidney failure, blindness, stroke, and death. People with diagnosed diabetes, on average, have medical expenditures approximately 2.3 times higher than what expenditures would be in the absence of diabetes.&lt;br&gt;<strong>Diabetes Self-Management</strong>&lt;br&gt;This measure assesses percentage of enrollees with diabetes performing daily self-monitoring of blood glucose levels.</td>
<td>Get Healthy California 2022&lt;br&gt;Target: 7</td>
</tr>
<tr>
<td></td>
<td><strong>Mental Health and Well-being</strong>&lt;br&gt;Poor mental health is associated with rapid social change, stressful work conditions, gender discrimination, social exclusion, unhealthy lifestyle, risks of violence, and physical ill-health. Depression may cause changes in sleep, appetite, energy level, concentration, daily behavior, or self-esteem. This measure assesses the proportion of adults and adolescents with a major depressive episode.</td>
<td>Get Healthy California 2022&lt;br&gt;Target: Adolescents (12-17 years old): 7%&lt;br&gt;Adults (18 years and older): 5%</td>
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<td><strong>Overall Health Status reported to be good, very good, or excellent</strong>&lt;br&gt;An extensive body of international research demonstrates that this single question measure is significantly and independently associated with specific health problems, use of health services, changes in functional status, recovery from episodes of ill health, mortality, and sociodemographic characteristics.</td>
<td>Get Healthy California 2022&lt;br&gt;Target: 90%</td>
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# Health Care Affordability

**Goal:** *Transform health care purchasing and delivery to achieve affordability*

| Objective                                                                 | Measure Description                                                                                                                                                                                                                                                                                                                                 | Target                                                                 |
|---------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Reduce the overuse of ineffective or unnecessary medical care              | **Opioid prescription volume**
|                                                                            | Prescription opioid misuse is a public health problem that can lead to long-term health consequences, including limitations in daily activity, impaired driving, mental health problems, trouble breathing, overdose and death.                                                                                                                                  | Baseline + downward trend                                               |
|                                                                            | **C-section rate**
|                                                                            | Although cesarean births can be life saving and medically optimal, far too many are performed for non-medically indicated reasons, and the rise in these procedures has resulted in significant health, social and economic costs for American women, their babies and the general public.                                                                 | Each hospital and/or health system will meet C-Section rate of 23.9% or below (Low Risk, First Time, Single Births) |
|                                                                            | **Preventable Hospitalizations, per 100,000**
|                                                                            | Measuring potentially avoidable hospital admissions may identify adverse outcomes related to the mismanagement of chronic conditions, which has both cost and quality implications.                                                                                                                                                         | Get Healthy California 2022 Target: 727                                  |

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## Reduce Complexity

### Goal: Reduce complexity across the enterprise

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<tr>
<td>• Simplify programs to improve service and/or reduce cost</td>
<td><strong>CEM (Pension Administration) complexity score</strong>&lt;br&gt;Total complexity score equals the weighted average of the complexity by cause, before scaling, from the annual CEM Pension Administration Benchmarking Survey.</td>
<td>Reduce the weighted average CEM complexity score by 3%</td>
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<td><strong>Benefit Payment Timeliness</strong>&lt;br&gt;Captures the timeliness of four essential customer benefit payment streams: Service Retirement, Refunds, Disability Retirement, and Survivor Benefits. Timely payments are essential to a positive customer experience.</td>
<td>Issue 98% of all benefit payments within service levels timeframes</td>
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<td></td>
<td><strong>Customer Satisfaction</strong>&lt;br&gt;Consolidates various customer surveys into categories according to the topic they measure. The combined scores of the categories make up the overall score for the measure.</td>
<td>Achieve an overall satisfaction rate/customer experience for key business processes of 95%</td>
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<td><strong>Reduce number of external investment managers</strong></td>
<td>100 or less external strategic and transition managers</td>
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## Reduce Complexity

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<td>Streamline operations to gain efficiencies, improve productivity, and reduce costs</td>
<td><strong>CEM – Cost per member</strong>&lt;br&gt;From the annual CEM Pension Administration Benchmarking Survey, reduce cost per member, exclusive to Pension Administration and does not include health and investment.</td>
<td>Reduce 2% annually</td>
</tr>
<tr>
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<td><strong>Total Overhead Cost</strong>&lt;br&gt;Total Overhead costs calculated for Pension Administration and Health.</td>
<td>Reduce 1.5-2% annually</td>
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<td><strong>Net Value Added</strong>&lt;br&gt;Net value added relative to an appropriate peer universe median return adjusted for composition of asset allocation and after expenses.</td>
<td>Exceed the median US peer on investment cost and returns</td>
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# Risk Management

**Goal:** Cultivate a risk-intelligent organization

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<tr>
<td>• Enhance compliance and risk functions throughout the enterprise</td>
<td><strong>Stakeholder Assessment Survey</strong>&lt;br&gt;Annual stakeholder survey to members, employers and other stakeholder groups. Establish baseline in 2016 survey. Example question: “CalPERS has effective functions and programs to address compliance and risk.”</td>
<td>Baseline + upward trend</td>
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<td></td>
<td><strong>Employee Survey</strong>&lt;br&gt;Annual employee survey. Establish baseline in 2017 survey. Example question: “I am aware of CalPERS compliance and risk programs. I incorporate these functions into my daily work.”</td>
<td>Baseline + upward trend</td>
</tr>
<tr>
<td></td>
<td><strong>Annual Benchmark Survey of Risk and Compliance Awareness</strong>&lt;br&gt;Pension Compliance Workgroup does annual survey and supplies benchmarking reporting for participants.</td>
<td>Top Quartile</td>
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## Risk Management

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<td>• Enhance cyber security program</td>
<td><strong>Cyber Security Risk Rating</strong></td>
<td>Risk assessment determined to be within pre-designated risk levels.</td>
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<td>Annual cyber security assessment conducted by qualified third party.</td>
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## Talent Management

**Goal:** *Promote a high-performing and diverse workforce*

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| Recruit and empower a broad range of talents to meet organization priorities | **Increase recruitment channels**  
Increase the number channels used to broadcast open positions across the enterprise. Baseline inventory will be established in 2016. | Increase by 25% |
| | **Workforce diversity**  
Annual report that profiles diversity in the workplace. Data will be self-reported. | Published Annual Report |
| | **Employee survey**  
Employee engagement is maintained and work to achieve established targets. Conduct employee engagement surveys at regular intervals (e.g. onboarding, internal movement, exit). | Baseline + upward trend |

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**Talent Management**

**Goal:** Promote a high-performing and diverse workforce

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| **Cultivate robust leadership competencies and develop succession plans across the enterprise** | **Leadership Proficiency Assessments**  
Increased proficiency in leadership competencies as identified in 360 assessments. | Baseline + upward trend |
| | **Participation in Succession Planning Program**  
Participation of eligible leaders in CalPERS Succession Planning Program. | 50% participation of eligible leaders |
| | **Utilization of Development Plans for Succession Planning Program**  
Participants in Succession Planning Program with development plans. | 100% |

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CalPERS 2017-22 Strategic Plan | Communications and Implementation Plan Timeline

Communication Plan Goals

External Stakeholders
- Inform about CalPERS’ 2017-22 Strategic Plan and our desire to continue to partner with stakeholders.
- Educate to help promote CalPERS’ priorities and policies and meet the retirement and health benefits needs of our members and their families.

Internal Stakeholders
- Inform about CalPERS’ 2017-22 Strategic Plan.
- Educate staff to help them understand how their daily work connects to CalPERS’ mission, vision and strategic goals.

External Channels
- Stakeholder Outreach & Follow Up
- CalPERS News Release | Social Media | CalPERS Website
- Employer Visits by Executives | Discussions with Employer Groups
- Stakeholder Briefing Meetings
- Labor and Employer Roundtables

Internal Channels
- Staff Outreach – Key Themes
- The Spark
  - Inside CalPERS:
    - Spotlight Ad
    - Bulletins
    - Memos
- CEO Updates & Message from Board President
- Digital Media
  - Branch / Division Presentations
  - NEO
  - LEADER
  - ASTD

2016 Aug Sept Oct Nov Dec 2017 Jan Feb Mar Apr May Jun Jul

Stakeholder Outreach & Follow Up
CalPERS News Release | Social Media | CalPERS Website
Employer Visits by Executives | Discussions with Employer Groups
Stakeholder Briefing Meetings
Labor and Employer Roundtables
The Spark
Inside CalPERS:
- Spotlight Ad
- Bulletins
- Memos
CEO Updates & Message from Board President
Digital Media
Branch / Division Presentations | NEO | LEADER | ASTD
Next Steps

• Communication Plan
• First Reading Strategic Plan: November
• Second Reading Strategic Plan: December
<table>
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<tr>
<th>Core Values</th>
<th>Guiding Behaviors</th>
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| **Quality** | • Strives to exceed customers’ needs and expectations through competence, innovation, and teamwork  
• Proactively explores policy and product opportunities to better serve our customers  
• Seeks to “do it right” the first time  
• Considers, understands, and manages risk |
| **Integrity** | • Acts in all endeavors with an ethical, honest mindset, and in a professional manner  
• Honors commitments, keeps promises, and builds trust  
• Is truthful in all actions and communications |
| **Respect** | • Treats every person with kindness and humility  
• Values and recognizes every individual for their unique skills, talents, and contributions  
• Stays present in the moment and actively listens to understand others  
• Is courteous, responsive, and professional |
| **Openness** | • Approaches every situation with good intentions  
• Is receptive to new and diverse ideas  
• Listens, cooperates, and shares across the organization  
• Encourages a trusting environment by being genuine and transparent in actions and communications |
| **Accountability** | • Takes ownership of, and responsibility for, actions, risks, and results and uses outcomes as learning opportunities  
• Makes sound decisions from experience, good judgment, and collaboration  
• Gives and seeks clear expectations  
• Finds solutions that contribute to desired results |
| **Balance** | • Supports a healthy personal and professional balance  
• Maintains focus on long-term goals while meeting short-term needs  
• Embraces opportunities for personal and professional development  
• Supports an environment that is optimistic and enjoyable in which relationships can prosper across our organization and communities |