

2014-15 Strategic Plan Annual Report

August 2015



A Message from the Board President and Chief Executive Officer

In 2012 CalPERS charted a course to improve the long-term sustainability of the Fund, cultivate an innovative, high-performing organization, and enhance the effectiveness of our pension and health care programs.

This report reflects the achievements in the third year of a five-year strategic plan and serves as a record of our progress.



During fiscal year 2014-15, we witnessed important progress in the areas of cost effectiveness, risk mitigation, innovation, and policy development.

Great strides were made to reduce health care costs to the tune of more than \$124 million. We recovered \$800 million from losses we sustained in the Great Recession, and reduced investment fees by more than \$90 million.

Risk management was also a focus during the year. Together, our investment, finance, and actuarial teams developed new strategies to reduce risk and volatility in the Fund to ensure the long-term sustainability of the System.

We established a Treasury Management Program for payment of member benefits and organizational expenses without interruption, regardless of market conditions. We launched a new website providing a better experience for our customers, and we implemented a social media platform for our employees to encourage collaboration and communication.

We advanced corporate practices and policy discussions on investments and health care through engagement at the state and federal levels, and protected our members' retirement security through our work on municipal bankruptcies.

While the continued financial and economic environment had an impact on our investments, our long-term returns remain strong.

As we embark on the final two years of our strategic plan, we remain committed to ensuring the sustainability of the Fund, cost reductions, enhanced customer experience, and delivery of quality health care and pension benefits to the public employees who serve California.

Sincerely,

Rob Feckner
President, CalPERS Board of Administration

Anne Stausboll
Chief Executive Officer



We Are Proud to Serve Those Who Serve California

For more than 80 years, CalPERS has built and managed retirement and health security for people who invest their life's work in our state. Our strategic plan guides us as we deliver on the promise to serve with the highest level of commitment.

Our Vision

Be a trusted leader respected by our members and stakeholders for our integrity, innovation, and service.

Our 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.

Our Values

Quality | Respect | Accountability | Integrity | Openness | Balance

Our Strategic Focus

CalPERS 2012-17 Strategic Plan has three major goals. We work toward achieving each goal through a series of strategic objectives.

Goal A

Improve long-term pension and health benefit sustainability.

Strategic Objectives

- Fund the system through an integrated view of pension assets and liabilities
- Educate employers and other stakeholders to make informed decisions about retirement security and health care
- Deliver target risk-adjusted investment returns
- Ensure high-quality, accessible, and affordable health benefits
- Create a lifestyle of wellness among members and employers

Our Year in Review: Healthcare

- Established a new Medicare Advantage plan



LOWERED HEALTH CARE PREMIUMS BY 3% FOR



- **Increased the number of contracted employers** participating in the California Employers' Retiree Benefit Trust Program by more than 15 percent, to 427 participating employers

- **Engaged state and federal policy makers** on the importance of unimpeded access to biosimilar and interchangeable biosimilar drugs to help contain health care costs

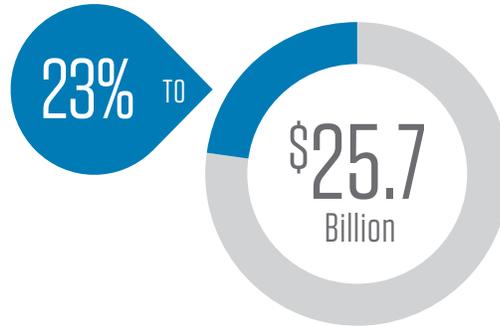
- **Launched a new online application** for CalPERS Long-Term Care program, a cost-of-care calculator, and a pilot program to ensure participants are able to transition successfully from hospital to home and not face re-hospitalization

- **Removed ineligible persons** from coverage under CalPERS health plans **= \$106 Million** in Projected Savings & Claims Cost Avoidance

Goal A
Improve long-term pension and health benefit sustainability.

Our Year in Review: Investments

→ Increased investments in California



→ Represents approximately 8.5 percent of the CalPERS portfolio

→ More than 68 percent of private equity investments in California are in areas with high populations of minority groups

→ Earned a preliminary return of 2.4 percent on our investments

→ Reduced external investment management and consultant fees, saving more than \$90 million

→ Achieved long-term returns in excess of the 7.5% actuarial discount rate



RECOVERED MORE THAN

\$800 Million



FROM

Investment losses in mortgage-backed securities and investment rating legal settlements

Goal A
Improve long-term pension and health benefit sustainability.

Our Year in Review: Pensions

→ Fueled the California economy with retirement benefits paid to retirees



→ Generated more than \$9.64 in economic activity for each tax payer dollar

HELPED CREATE OR SUPPORT



TAX REVENUE GENERATED



→ Developed risk mitigation strategies designed to improve the soundness and sustainability of benefits for our members, and reduce volatility in employer contributions

→ Worked with the federal bankruptcy court to confirm that the City of Stockton's plan of adjustment to exit bankruptcy did not impair pensions

Our Focus for the Year Ahead

- Enhance investment operations cost savings through transition of investment management activities from external consultants to CalPERS staff
- Optimize the my|CalPERS system and ongoing knowledge transfer to realize increased operational efficiencies
- Develop innovative healthcare models and pursue state and federal legislation, where necessary, to pave the way for cost savings and better care for our members
- Enhance protection of the security of member and employer data
- Continue to develop and implement risk mitigation strategies to ensure long-term sustainability of the Fund

Goal B

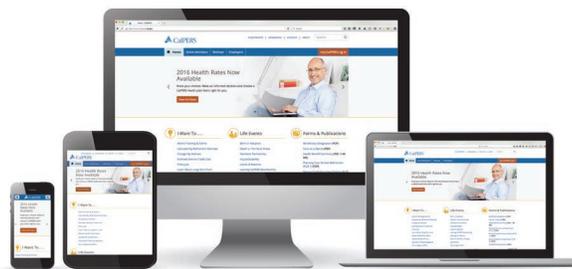
Cultivate a high-performing, risk-intelligent, and innovative organization.

Strategic Objectives

- Use a focused approach to generate, test, refine, and implement new ideas
- Deliver superior, end-to-end customer service that is adaptive to customer needs
- Recruit, retain, develop, and empower a broad range of talents against organizational priorities
- Actively manage business risks with an enterprise-wide view

Our Year in Review: Customer Service and Giving

→ Launched a new CalPERS website to improve user experience including:



- A clean, modern design
- Improved search capability via Google Search
- Improved access for mobile devices and tablets
- More pathways to the most requested tasks

→ Implemented customer flow management technology throughout our eight Regional Offices, reducing member wait times for frequent services and allowing for more prescheduled appointments



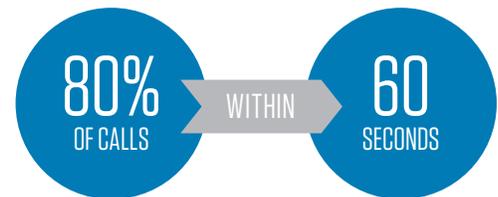
→ Assessed the views of our stakeholders on CalPERS' reputation and credibility that led to improved customer service to employers, and increased engagement and enhanced communication with stakeholders

→ Contributed more than \$88,000 to Our Promise: California State Employees Giving at Work, \$37,000 to the Susan G. Komen Foundation, and 30,000 pounds of food to the State Employees' Food Drive

DONATE



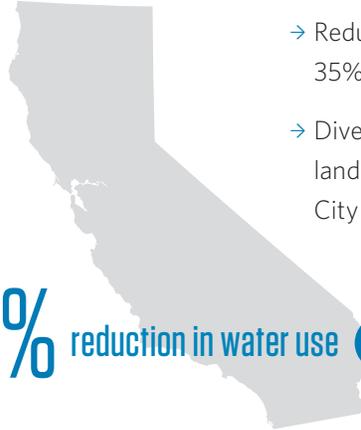
IMPROVED CALL WAIT TIMES
BY ANSWERING



Goal B
Cultivate a high-performing, risk-intelligent, and innovative organization.

Our Year in Review: Innovation

→ Saved water and energy in recognition of California's historic drought:



→ Reduced energy usage per square foot by 35% at the CalPERS campus

→ Diverted over 26 tons of food waste from landfills to produce alternative fuel for the City of Sacramento's vehicle fleet

30% reduction in water use = **9** million gallons of water saved

→ Launched a multi-year **Workforce Strategic Plan** to improve organizational performance and help us recruit, retain, develop, and empower a broad range of talent

→ Launched *The Spark*, an internal social media platform to increase collaboration and communication among staff across the enterprise



→ Implemented a **Treasury Management Program** that enhanced cash controls, cash integrity, and liquidity management

→ Launched an *Insight & Inquiry* speaker series to better inform staff about new research related to CalPERS business

Our Focus for the Year Ahead

- Increase customer feedback opportunities and advance the customer experience through more functionality, compliance, and business process improvements
- Identify pension and administrative cost savings, performance improvements, and simplification of retirement options for our members and beneficiaries
- Redesign the hiring process to make it more efficient

Goal C

Engage in state and national policy development to enhance the long-term sustainability and effectiveness of our programs.

Strategic Objectives

- Clarify and communicate CalPERS' perspective on pension, health, and financial markets
- Provide education and engagement opportunities to shape policy agendas and expand impact

Our Year in Review: Communicating Our Perspective

- As part of a shareholder coalition, advanced good corporate governance practices in America:

OBTAINED MAJOR SHAREHOLDER SUPPORT ON



50+

Shareowner Proposals on Proxy Access

SUCCESSFULLY ENCOURAGED



Companies to adopt or agree to adopt majority voting standards in director elections



10,700

COMPANY PROXIES

Consistent with CalPERS' Global Principles of Accountable Corporate Governance

- Through participation with Ceres, supported a resolution seeking greater climate change-related reporting by companies, including emissions, carbon assets, low carbon energy research and development, investment strategies, executive incentives, and public policy, resulting in full management support by BP and Shell Oil

Goal C

Engage in state and national policy development to enhance the long-term sustainability and effectiveness of our programs

Our Year in Review: Communicating Our Perspective

→ Engaged federal policy makers on important investment and health care issues, including:



Derivatives



Housing finance



Credit rating agencies



Medicare reform



Affordable Care Act excise tax

→ Published research on strategies to improve retirement readiness and increase participation in defined contribution plans



www.calpers.ca.gov

Our Year in Review: Education and Engagement

→ Provided leadership by hosting conferences on issues important to our business mission:



- CalPERS Emerging Manager and Diversity Day
- Cost Effectiveness Measurement Global Pension Administration Conference
- Global Chief Financial Officer Conference
- Employer Educational Forum

Our Focus for the Year Ahead

- Implement communication strategies to leverage our leadership in key policy issue areas, including asset liability management, retirement security, and health care
- Enhance member, employer and stakeholder understanding of financial literacy and retirement security
- Continue our federal advocacy efforts in the areas of health care-related issues, corporate governance, and retirement security
- Enhance relationships with industry partners and academia to communicate our perspectives on pension, health, and investments



Our Recognized Excellence

Organization

Government Finance Officers Association

Responsible Investor

Asset Owners Disclosure Project

State Information Officers Council

U.S. Green Building Council

California CIO Academy

Asian Pacific State Employees Association

National Association of Corporate Directors

Award

Budget Reporting

Best Responsible
Investment Report

“AAA” Grade

Government Communication

Leadership in Energy and
Environmental Design Platinum
and Gold Certifications

Chief Information Officer of the
Year (Liana Bailey-Crimmins)

Equal Employee Opportunity Hero
Award (Lindy Plaza, 1956-2014)

Directorship 100 List
(Anne Simpson)



California Public Employees' Retirement System
400 Q Street
P.O. Box 942701
Sacramento, CA 94229-2701
www.calpers.ca.gov

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