



# 2015-16 Strategic Plan Annual Report

August 2016



## A Message from Our Board President and Interim Chief Executive Officer

Over the past year, CalPERS has continued to positively impact the lives of our members and employer agencies. We worked to secure their financial futures, sought to share our ideas and knowledge for the greater good, and strived to be good stewards of the pension fund for this and future generations.



Fiscal year 2015-16 marked the fourth year of our five-year Strategic Plan, and also the beginning of planning for the 2017-22 Strategic Plan. The retirement of our longtime Chief Executive Officer, Anne Stausboll, who guided us through a tumultuous period in our 84-year history, also marks the beginning of a transition to a new leader who can continue to guide us in our mission.

While turbulent global markets impacted our investment portfolio, we adopted a disciplined and prudent policy that will reduce risk and volatility in our fund over the long term.

This year we successfully moderated 2017 health care premium increases in a challenging environment, especially in our Medicare program. Premium increases averaged 3 percent overall, which included a 1 percent premium decrease for Medicare plans. We forged a new contract for pharmacy benefits that we estimate will save at least \$60 million in its first year, adhering to our commitment to provide quality cost-effective health care for our members.

Overall, we effectively managed our costs and delivered a total budget that was nearly 3 percent lower than the two previous fiscal years.

We sought to share our ideas in many ways over the last year, from giving employees a platform to network and exchange ideas, to presenting on the world stage as our former CEO addressed the United Nations on the issue of climate change.

Finally, we worked to be good stewards of the environment by reducing our headquarters water consumption by an outstanding 44 percent, and by diverting more than 18 tons of food waste to produce alternative fuel for the city of Sacramento's vehicle fleet.

As we embark on the final year of our five-year Strategic Plan, we thank all of you who have helped contribute to our success this past year. We remain committed to ensuring the long-term sustainability of CalPERS, reducing costs, providing our members and partners with outstanding customer service, and delivering quality health care and promised pension benefits to those who serve California.

Sincerely,

**Rob Feckner**  
President, CalPERS Board of Administration

**Douglas Hoffner**  
Interim 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

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.

## This Year's Annual Report

This year's annual report views our accomplishments the way we believe our members would view them, while still linking accomplishments to our three strategic goals. This year's annual report is organized in the following categories:

- **Improving the lives of our members and ensuring the success of our employer agencies**
- **Securing the financial futures of our members and employer agencies**
- **Sharing our ideas and knowledge for the greater good**
- **Being good stewards and setting an example**

Finally, we wanted to share recognitions achieved by our staff and provide a look to the future.

### → Goal A

Improve long-term pension and health benefit sustainability.

### → Goal B

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

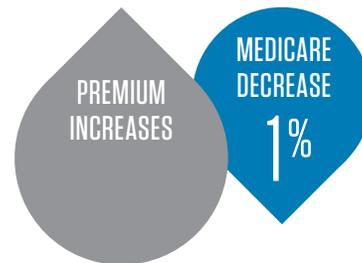
### → Goal C

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

# Improving the lives of our members and ensuring the success of our employer agencies

## Goal A

→ **Successfully moderated 2017 health care premium increases in a challenging environment, especially in our Medicare program.** Premium rate increases averaged 3 percent overall, and included a 1 percent premium decrease for Medicare plans.



## Goal B

→ **Addressed system defects, closed technical work items, and identified ways to redistribute work** for efficiency of processing through our Membership Section, thereby reducing our workload backlog by 96 percent to help deliver superior customer service.

REDUCED BACKLOG  
**96%**

→ **Served over 1.1 million customers** through our telephone, electronic, and in-person channels, providing timely end-to-end customer service that is adaptive to customer needs.



→ **Developed and executed a Pharmacy Benefit Manager contract** that fosters transparency, price competition, innovation, and estimated to save \$60 million in its first year.

**\$60m**

**CLOSED  
576  
CASES**



→ **Closed 576 cases submitted to our Employer Response Team, with 80 percent of those resolved within one to three days, gaining a customer satisfaction survey score of 95 percent among employers.**

## Goal A

### Improve long-term pension and health benefit sustainability.

- Launched the United Healthcare Medicare plan option during 2015 Open Enrollment. Members can receive care from any Medicare provider anywhere in the United States and its territories.
  - Expanded eligibility for CalPERS Long-Term Care to include former public employees, and to the grandchildren, grandparents, nephews, nieces, aunts, uncles, sons-in-law, daughters-in-law, brothers-in-law, and sisters-in-law of current and former public employees.
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## Goal B

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

- Cost effectiveness measurement results reflected a 4-point increase in the CalPERS customer service score over the prior fiscal year, from 73 to 77, and a 12-point increase over the past three fiscal years.
- Improved the timeliness of our Disability Retirement Determinations by over 50 percent, resolving most cases in less than four months.
- Achieved an overall customer satisfaction rating of 90 percent or higher on business process surveys.
- Enabled member access to all Open Enrollment materials, including their health plan statement, through myCalPERS Member Self-Services. This continues our efforts to "go green" and provides the information to our members more timely and efficiently.
- Automated the Medicare enrollment process for health program members turning 65, eliminating the need to provide paper documents and ensuring no one's coverage is disrupted.

# Securing the financial futures of our members and employer agencies

## Goal A

### HELPED CREATE OR SUPPORT



→ Fueled the California economy with retirement benefits paid to retirees, generating more than \$27.8 billion in economic activity, and supporting more than 362,000 jobs, an increase of 8.2 percent over the previous fiscal year, and representing approximately 9.2 percent of the CalPERS investment portfolio.

→ Realized \$4.1 billion in private equity net gains over the 2014-15 Fiscal Year.



→ Increased the number of contracted employers participating in the California Employers' Retiree Benefit Trust Program by more than 6 percent, to 493 participating employers.

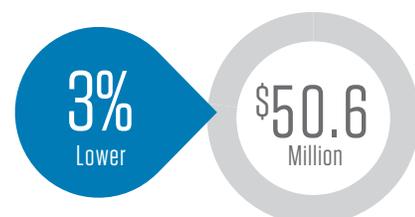
### RECOVERED MORE THAN



FROM

Investment losses in CalPERS' case against Moody's credit rating agency.

## Goal B



→ Effectively managed costs and delivered for the third year-in-a-row a budget that was nearly 3 percent or \$50.6 million lower than the previous fiscal year budget.

## Goal A

### Improve long-term pension and health benefit sustainability.

- Improved the Governmental Accounting Standards Board 68 (GASB) valuation process, allowing CalPERS to complete the GASB 68 valuations in house without the use of consultant actuaries. This process establishes reporting standards for government employers that pool their assets and obligations to provide defined benefit pensions.
  - Adopted a funding risk mitigation policy that will incrementally lower the discount rate in years of good investment returns, help pay down the pension fund's unfunded liability, and provide greater predictability and less volatility in contribution rates for employers.
  - Engaged on removal of the Affordable Care Act Health Excise Tax by submitting comments to the IRS and holding employer roundtables.
  - Processed more than \$2.6 billion for five flex-funded health maintenance organization carriers, and \$2.3 billion for our self-funded pharmacy benefit management vendor and three self-funded preferred provider organization plans: PERSCare, PERS Choice, and PERS Select. We also improved health care cost transparency and control, and increased accurate and timely data submissions for our annual rate-setting process.
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## Goal C

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

- Engaged federal policy makers on important retirement issues, including protecting defined benefit plans and advancing retirement savings and retirement security.
- Launched, with seven other investors, the Global Real Estate Sustainability Benchmark, for assessing and evaluating social and environmental factors, which will shed more light on sustainability considerations for investors.

# Sharing our ideas and knowledge for the greater good

## Goal B

→ **Launched Idea Factory**, an employee-driven internal innovation program where staff ideas and business solutions are discussed, recognized, and considered for implementation.



→ **Built an internal professional networking/mentoring site called illuminet**, which provides staff increased opportunities for career development.

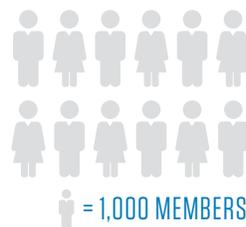


→ **Hosted the largest attended 2015 Global Chief Financial Officer Forum in September.** The represented plans and attendees included leaders from Australia, Canada, China, Singapore, Sweden, and the United States.

## Goal C

→ **Hosted the 2015 Educational Forum and served over 12,000 attendees** at nine Benefit Education Events, a record number of customers.

**12,000**  
ATTENDEES



→ **Addressed the United Nations** at the signing of the Paris Climate Change Agreement by our former CEO, Anne Stausboll.

## Goal C

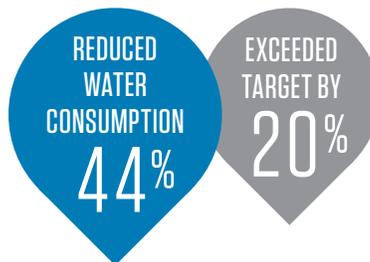
Engage in state and national policy development to enhance the long-term sustainability and effectiveness of our programs.

- Shared our ideas and experiences through our leaders:
  - “The Road to Recovery,” Public Retirement Journal – Anne Stausboll
  - “Managing CalPERS in Crisis,” Western City Magazine – Anne Stausboll
  - “Peerless Leader,” UC Davis Counselor Magazine – Anne Stausboll
  - “Boards Need to Have Backbones,” Corporate Board Member Magazine – Anne Simpson
- Delivered more than 20 leadership speeches before the Pacific States Institutional Investor Forum, National Black Caucus of State Legislators Annual Conference, Hawthorne Club, World Economic Forum, and numerous member and employer association meetings.
- Hosted a Diversity Forum in September, which brought together nearly 250 attendees from the investment industry.
- Partnered with researchers at UC Berkeley to publish four articles on cost savings achieved by reference pricing programs established for CalPERS members.
- Published research on strategies for public employers to attract and retain talent following pension reform that also supports retirement security.

# Being good stewards and setting an example

## Goal B

→ **Reduced water consumption** at our headquarters by **44 percent (14,340,000 gallons)** over the 2013 baseline, exceeding the target reduction by almost 20 percent.



→ **Diverted 18.49 tons of food waste** from landfills to produce alternative fuel for the city of Sacramento's vehicle fleet.



→ **Contributed through our staff** approximately \$104,000 to Our Promise: California State Employees Giving at Work; \$18,903 to the Susan G. Komen Foundation; and 44,160 pounds of food and \$13,447 in cash donations to the State Employees' Food Drive.



## Goal C



→ **Signed the Paris Pledge for Action:** the global climate change agreement reached at the 21st Conference of the Parties.

→ **Completed initial carbon footprint** for the CalPERS Global Equity Investment Asset Class, to better understand, quantify, and manage the carbon and climate change-related impacts, risks, and opportunities in our investments.

→ **Ran successful campaigns for proxy voting, with 17 of 31 proposals approved** with coalition of investors to vote on important matters that impact the direction of companies through which we invest.

## Awards and Recognition

- Received three awards from the Government Finance Officers Association for excellence in government finance, in budget reporting, and financial reporting.
- Achieved Gold LEED® certification for our Lincoln Plaza South building, making all our headquarters buildings LEED® certified.
- Awarded by Chief Investment Officer Magazine the 2015 Asset Owner Award for Public Defined Benefit Plans above \$100 Billion to our Chief Investment Officer, Ted Eliopoulos.
- Recognized CalPERS Chief Financial Officer Cheryl Eason as a CFO of the Year Honoree by the Sacramento Business Journal, for her efforts to increase transparency, improve risk management, and strengthen internal controls of our financial operations.
- Received a finalist award for Agency of the Year at the 16th Annual California State Agency Recognition Awards, as well as:
  - Bronze Advocate of the Year award to Lynette Hall, CalPERS small business and disabled veteran business advocate.
  - Richard G. Polanco Diversity Outreach Award for demonstrating diversity in outreach efforts.
- Received an A+ from the Principles for Responsible Investment Assessment Report, and an A+ in Listed Equity Active Ownership. Fewer than eight assets owners of the 245 surveyed globally received such a score.
- Received a CAPIO Gold Award for website redesign, and four Gold Awards and one Honorable Mention awards from the State Information Officers Council for the work of our Office of Public Affairs.

# Looking Ahead

## → Goal A

Improve long-term pension and health benefit sustainability.

## → Goal B

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

## → Goal C

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

## Goal A

- Enhance cost effectiveness, resource allocation, and efficiency of the investment program to increase net returns on assets.
- Provide employers with health data to identify major costs and assess impacts.

## Goal B

- Evaluate benchmarking data to identify cost savings and administrative performance improvements with pension administration.
- Develop and implement training and development programs to prepare employees for future leadership roles.
- Expand the Diversity & Inclusion Program to increase outreach and engagement.

## Goal C

- Continue to develop partnerships with industry experts, the business community, employers, and stakeholders on key policy issues to strengthen awareness and understanding of CalPERS' long-term strategic priorities and goals.



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