

Annual and Final Report of the 2012-2017 Strategic Plan

September 2017

A Message from Our Board President and Chief Executive Officer

This marks the final year of the *2012-17 Strategic Plan*. We have worked toward its completion for five years, so it has become a welcome and familiar friend to us. Now we welcome a new strategic plan that we will become just as familiar with over the next five years.

Before we do that, however, we want to look back at both the last year and the full five years of accomplishments we achieved through this plan, as we followed its roadmap to reach goals surrounding pension and health benefit sustainability, organizational strength, and policy engagement.

Over this time, we have sought to enhance the lives of our members and their beneficiaries. Here are just a few of the many accomplishments that helped us deliver promised retirement and health benefits to our 1.8 million members and their beneficiaries:

We reduced risk to our investment portfolio by lowering the discount rate, which over the long-term will help our 3,000 employers improve pension security for their employees.

We earned a net preliminary 11.2 percent investment return last year, and a net preliminary 8.8 percent over the last five years, despite turbulent financial markets.

We successfully negotiated 2018 health care premiums, maintaining a 2.3 percent increase among all plans, and a 3.9 percent increase over the last five years.

We helped more than 455,000 members and their families navigate health plan selections during the last five years of Open Enrollment, and our customer service teams served over 5 million members and their dependents with timely end-to-end service during the same time frame.

On July 1, we embarked on a new journey with new goals. Our new *2017-22 Strategic Plan* has five goals that will keep us busy for the next five years: fund sustainability, health care affordability, reduce complexity, risk management, and talent management. We also updated our vision and mission statements to succinctly capture what we do here at CalPERS.

We would like to thank all of you who have helped contribute to the success of the *2012-17 Strategic Plan*, and we look forward to working with you to reach new heights in the future.

Sincerely,

Rob Feckner
President, CalPERS Board of Administration

Marcie Frost
Chief Executive Officer



We Are Proud to Serve Those Who Serve California

For 85 years, CalPERS has provided retirement and health security for our members who serve California. Our Strategic Plan provides clear goals, articulating the focus we share to serve our members.

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 Core Values

Quality | Respect | Accountability | Integrity | Openness | Balance

This Year's Annual Report

This year's report is unique in that it is both an annual report and a five-year final report. Its organization reflects both the one-year and the five-year accomplishments by colorcoding blue for one-year and green for five-year accomplishments.

■ 1 year (2016-17)

■ 5 year (2012-17)

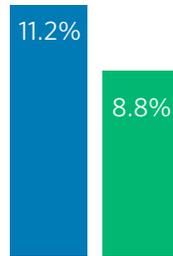
*Revised for the 2017-22 Strategic Plan.

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

Investment Returns

1 year

Over the last fiscal year, CalPERS investments earned a net preliminary 11.2 percent return.



5 year

At the end of the fiscal year ending June 30, 2017, CalPERS earned a net preliminary return of 8.8 percent on investments over the five-year period. This was despite continued challenges in the economy and financial markets.

Investment Gains

5 year

Realized \$23.8 billion in private equity net gains over Fiscal Years (FY) 2011-16.



California Economy

5 year

Fueled the California economy with more than \$17 billion in retirement benefits paid to retirees in FY 2015-16. Retiree spending rippled through the state's economy, generating nearly \$21 billion in economic activity and supporting about 129,000 jobs.



Investing in California

1 year

Investments in California for FY 2016-17 totaled \$27.3 billion. This represents 9.3 percent of the Total Fund. More than 262,000 jobs are supported as a result of CalPERS' private asset class investments in California.

5 year

Fiscal Year	Investment	Jobs
2012-13	\$20.7 billion	188,000
2013-14	\$20.8 billion	290,500
2014-15	\$25.7 billion	320,300
2015-16	\$27.8 billion	362,500
2016-17	\$27.3 billion	262,000

Goal A

Business Effectiveness

5 year

Implemented the Private Equity

Accounting and Reporting Solution, a new service and technology solution which allowed CalPERS to report on private equity fees and profit sharing accurately for the first time, placing CalPERS as a leader in this area among other pension plans.

Investment Expense Reduction

5 year

Generated a total of \$709 million

in ongoing and one-time investment expense reductions over the last five years, primarily in external investment manager, transaction, and consultant fees.

\$709
MILLION
IN
SAVINGS

California Employers' Retiree Benefit Trust

1 year

Increased the number of contracted employers participating

in the pre-funding of health benefits by more than 6 percent.

+6%

5 year

Contracted employers participating increased

by more than 50 percent, to 524. The number of total plan members increased over 150 percent to over 700,000. Increased assets under management over 200 percent to a total of \$6.8 billion.

+ PARTICIPATING
EMPLOYERS

+50%

Recovered Losses

5 year

Market value of the fund has grown \$159 billion

from the depths of the Great Recession to \$323 billion as of June 30, 2017.

GREW BY
\$159
BILLION

A line graph with four data points connected by a line, showing an upward trend. The text 'GREW BY \$159 BILLION' is overlaid on the graph.

Goal A

Health Care Rates

1 year

Successfully negotiated

2018 health care premiums in a challenging environment, maintaining a 2.3 percent increase among all plans. Basic plans experienced a 2.5 percent average increase and Medicare plans a 1 percent average increase.

5 year

In a challenging environment,

premium rate increases averaged 3.9 percent across all health care plans. Basic plans experienced a 4.2 percent average increase and Medicare plans a 1.7 percent average increase.



Dependent Eligibility Verification

5 year

Concluded the Dependent Eligibility Verification (DEV)

project, which reviewed the eligibility of a total of 354,944 health plan subscribers and 706,557 dependents. One-time savings and claims cost avoidance of nearly \$122 million resulted from the DEV project's cumulative disenrollments from its Verification and Amnesty phases.



Pension Spiking

1 year

The CalPERS Board of Administration approved regulations

that guard against pension spiking by providing clarity to employers on the six types of compensation not counted toward pension calculation. These are: bonus pay, management incentive pay, value of employer-paid member contributions, off salary schedule, uniform allowance, and temporary pay upgrade.



Goal A

Litigation Recoveries

1 year

Working with the Office of the Attorney General, we improved long-term pension sustainability by recovering approximately \$129 million from a ratings agency that improperly rated investments purchased by CalPERS.



5 year

Improved long-term pension sustainability by recovering approximately \$480 million through lawsuits against ratings agencies that improperly rated investments purchased by CalPERS.

Fund Sustainability

1 year

Improved monitoring of the financial health of public agencies, providing employers, members, and stakeholders with education.

PROVIDED
FINANCIAL
EDUCATION



5 year

Protected our members' retirement security through our work on municipal bankruptcies.

Established a Treasury Management Program for payment of member benefits and organizational expenses without interruption, regardless of market conditions.

Value-Based Health Care

5 year

Established Value-Based Purchasing

Designs (VBPD) for elective knee or hip joint replacement, cataract surgery, colonoscopy, and arthroscopic surgery. The VBPD program directed members to preferred sites of care and saved more than \$16 million in the first two years without compromising quality of health care.

Long-Term Care

5 year

Reopened CalPERS Long-Term

Care in late 2013, expanded eligibility twice during the 5-year period to allow broader entry, and provided plan members with the option to repurchase Daily Benefit Allowance they had voluntarily given up in the past.

Goal A

Pharmacy Benefit Manager

1 year

Implemented a new Pharmacy Benefit Manager (PBM)

contract covering more than 500,000 CalPERS non-Kaiser members. The new PBM contract with OptumRx is designed to save at least \$63 million on prescription drug costs in its first year.



Health Benefits Program Annual Report

1 year

Completed first Health Benefits

Program Annual Report designed to assist employers and other stakeholders in making informed decisions by providing a comprehensive look at health care cost trends, health cost drivers, population health, and overall health program design.

Medicare

5 year

Implemented the Employer Group Waiver Plan

for more than 130,000 Medicare members, resulting in savings of \$60 million annually in Medicare Part D prescription drug costs.



Public Employees' Pension Reform Act

5 year

Implemented the new Public

Employees' Pension Reform Act of 2013, a comprehensive set of reforms that represent a significant step in ensuring California public pensions are sustainable.

Awards - 5 year

Ranked third for sustainable investment among

the world's 1,000 largest asset owners in 2013, a 12-place improvement over the 2012 ranking.

Received the 2014 Value-Based Health Award

from the Institute for Health and Productivity Management. The award recognizes organizations for excellence in health care management. CalPERS was cited for providing employees with quality care and cost savings.

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

Environmental Protection Agency Recognition

1 year

CalPERS was recognized by the Environmental Protection Agency's Climate Registry for reducing its enterprise-wide greenhouse gas emissions by 75 percent, exceeding the Governor's mandated 10 percent reduction by 2015 nearly seven times over. CalPERS has the highest percent reduction in entity-wide greenhouse gas emissions as compared to any other state agency.

75%
REDUCTION
OF GREENHOUSE
GAS EMISSIONS



Customer Service Rating

5 year

Achieved an overall customer satisfaction rating of nearly 93 percent on customer satisfaction surveys.

 **93%**
SATISFACTION RATING

Conservation Efforts

5 year

Reduced water consumption at CalPERS headquarters by 44 percent, exceeding the 2013 baseline by nearly 20 percent and saving 38 million gallons of water from 2013 through 2016. Additionally, CalPERS donated 42 tons of food waste that was used to produce alternative fuel for the city of Sacramento's vehicle fleet during 2015 and 2016.

Diverse Contracting and Workforce

5 year

For the five fiscal years spanning 2012-17, CalPERS achieved an overall average of 5.8 percent Disabled Veteran Business Enterprise (DVBE) participation of all contracts awarded.

5.8% 
CONTRACTS AWARDED
TO DVBE VENDORS

Goal B

Innovation

5 year

Launched two innovative tools

for employee and enterprise development and innovation. The Spark, launched in 2014, provides a social media platform that allows employees to network ideas and gain input on projects and ideas. The Idea Factory, launched in 2016, is an employee-driven innovation and social media platform, designed to inspire staff to share ideas and solutions that will improve CalPERS' performance and service.

Succession Planning and Knowledge Transfer

5 year

Facilitated succession planning and

knowledge transfer, implemented a Career Services Center, Job Rotation Pilot, and Informal Mentoring Program.

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



INCREASED OPPORTUNITIES
FOR CAREER DEVELOPMENT

Open Enrollment

1 year

Assisted more than 105,000 members and their

families with adding or changing health plans during Open Enrollment (OE).

Also transitioned over 680,000 members to view their OE information and Health Plan Statement online. Members now can view, download, or print their customized statements as needed and have convenient access to OE publications to help them make informed decisions about health plan enrollment.

5 year

More than 455,000 members and their families

were assisted with adding or changing health plans during OE.

Valuation Reports

1 year

Produced over 3,600 public

agency valuation reports, helping these employers establish the contribution requirements necessary to properly fund benefits.

3,600

PUBLIC AGENCY
VALUATION REPORTS



Goal B

Asset Liability Management

5 year

Developed an Asset Liability

Management (ALM) process that takes an integrated view of assets and liabilities to inform decisions designed to achieve a sound and sustainable fund.

Lowered Discount Rate

5 year

Lowered the discount rate

from 7.5 percent to 7 percent over three years following an extensive review of projected investment return rates, risks, and demographics.



Risk Appetite

1 year

As part of the strategic goal to cultivate

a risk-intelligent organization, CalPERS conducted a workshop to seek Board guidance on the appropriate level of appetite for enterprise risks. Establishing risk appetite supports decision-making and resource allocation priorities.



Compliance Reporting

5 year

Developed compliance

reporting to monitor key compliance activities for the Board and senior management.

Employer Response Teams

1 year

Employer response teams within the

organization resolved and closed 84 percent of their 1,313 cases within 1-3 days of receipt.

84% OF **1,313**
CASES SOLVED

Diversity and Inclusion Strategy

5 year

Created enterprise-wide strategy

framework for Diversity & Inclusion at CalPERS. The plan details strategic efforts in three key focus areas: talent management, education, and communication.

Goal B

Pension Benefit Payments

1 year

Added 73,596 service

retirement and survivor benefit payees, supporting the financial security of our members and their families through significant life events.



5 year

Service retirement and survivor

benefit payees increased by 385,649 during the period, supporting the financial security of our members and their families through significant life events.

Health Risk Adjustment



5 year

Stabilized premiums and protected against adverse selection

by risk-adjusting premiums, a process which began in 2014, and rewards plans for efficiency and motivates them to provide better data.

Charitable Giving

1 year

CalPERS' team members contributed \$137,448 to Our Promise:

California State Employees Giving at Work campaign; and 51,950 pounds of food and cash donations to the State Employees' Food Drive.



5 year

CalPERS' team members contributed \$685,386 to Our Promise:

California State Employees Giving at Work campaign; and 223,694 pounds of food and cash donations to the State Employees' Food Drive.



Goal B

Customer Education and Outreach

1 year

Provided retirement planning, health, and program education with 2,400 classes to 82,837 customers to help members make informed retirement and health decisions. This includes 33,017 members who attended a total of 336 breakout sessions at nine CalPERS Benefits Education Events (CBEEs).

5 year

Offered retirement planning, health, and program education with 11,231 classes to 306,297 customers to help members make informed retirement and health decisions. This includes 102,702 members who attended a total of 1,266 breakout sessions at 32 CBEEs.

Customer Service

1 year

Served 1,130,985 customers through our telephone, electronic, and in-person channels, providing timely end-to-end customer service that is adaptive to customer needs, and achieving an 80 seconds average call wait time.

5 year

Served over 5 million customers and their dependents through our telephone, electronic, and in-person communication channels, providing timely end-to-end customer service that is adaptive to customer needs. Additionally, the CalPERS Contact Center decreased the average call wait time by nearly seven minutes during this period, from over eight minutes in 2012-13 to 80 seconds in 2016-17.

Goal B

Awards - 5 year

Received awards from the Government

Finance Officers Association for excellence in government finance, budget reporting, and financial reporting.

CalPERS was named the 2013 and the

2016 Sustainable Business of the Year by the Business Environmental Resource Center, which recognizes Sacramento-area businesses that demonstrate outstanding commitment to enhancing sustainability.

Received the 2013 Environmental Protection

Agency Energy Award for reducing energy consumption by 35 percent and generating 35 percent fewer greenhouse gas emissions.

CalPERS' Diversity and Inclusion Group

received the 2017 Spotlight Impact Award presented by the Association of Employee Resource Groups & Councils, a practice group of PRISM International, Inc., for great achievements in organizational impact, talent management, and a culture of inclusion.

The Center for Digital Government

bestowed the 2016 Best of California Award upon CalPERS, as well as the top award for best Analytics and Business Intelligence project categories, and best Customer Service Dashboard.

Achieved Platinum LEED® certification for

Lincoln Plaza East and West buildings and Gold LEED® certification for the Lincoln Plaza South building, as a result of energy and water sustainability initiatives.

Received CAPIO Gold Award for website

redesign, and four Gold Awards and one Honorable Mention from the State Information Officers' Council for the work of our Office of Public Affairs during 2015-16.

CalPERS received the 2016 Association

of Energy Engineers Sustainability Award for continual improvement through energy use reduction.

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

Diversity Forum - INVO

1 year

Hosted a Diversity Forum in September, which brought together nearly 300 attendees from the investment industry. In addition, co-hosted the 2017 Diversity Forum in May, which featured speakers from the business world, and drew 435 attendees.



Leadership Opinion

1 year

Published opinion-editorial pieces authored by Board Members and the CEO on CalPERS' policy decisions on market volatility, the pension debate, the discount rate, and criticism of CalPERS.

Thought Leadership

5 year

Published nine research papers on a broad range of topics to share our ideas and experiences through our leaders. Topics included: business intelligence, municipal bonds and bankruptcy, CalPERS economic impacts on California, assessing changes in CalPERS retirement benefits, defined contribution plans, improving retirement readiness, and attracting and retaining a talented workforce.

Proxy Voting

1 year

Conducted proxy voting campaigns with companies in which we invest. Coalitions of investors voted to approve 18 out of 33 proposals on important matters regarding environmental, social, and governance issues.

5 year

A total of 151 individual company proxy solicitation campaigns were conducted during this period, in which we advocated for governance reform; high-quality, independent and diverse boards; long-term compensation to align management interests with shareowners; and reporting on sustainability factors.



Goal C

Employer Education

1 year

Hosted the 17th Annual Educational Forum, bringing together more than 900 attendees representing 350 unique public employer agencies who are CalPERS partners.

5 year

Hosted 3,544 attendees representing 1,721 employers at Educational Forums spanning the years 2012-2016. On average, 709 persons representing 344 employers attended each year.



Environmental, Social, and Governance Strategic Plan

1 year

Adopted the Environmental, Social, and Governance Strategic Plan, making significant progress on proxy access, board diversity, and climate risk reporting.



Emerging and Diverse Manager

1 year

Hosted the Third Annual Emerging, Transition, and Diverse Manager Day, with more than 30 events and meetings for participants. The event provided an opportunity for emerging and transition managers to meet with senior asset class staff and investment advisers, and introduce their firm.

Investment Beliefs

5 year

Adopted a set of 10 Investment Beliefs that provide a basis for strategic management of investments and inform organizational priorities. The Investment Beliefs reflect CalPERS' values and acknowledge our responsibility as a long-term investor to sustain the ability to pay benefits for future generations.

Stakeholder Engagement

5 year

Hosted 32 on-site stakeholder meetings with leaders and liaisons of stakeholder groups, with over 1,000 in combined attendance.

Board Meeting Webcasting and Videos

5 year

CalPERS conducted 49 Board of Administration meeting webcasts, and developed 670 videos, to support the enterprise.

Goal C

Pension Beliefs

5 year

Adopted Pension Beliefs that articulate CalPERS' views on public pension design, funding, and administration. The Pension Beliefs are designed to reflect our commitment to our core mission and to help advance dialogue on public pensions.

Letters on Federal Issues

5 year

Submitted numerous letters to federal leaders on issues such as the Windfall Elimination Provision, the Department of Labor's Fiduciary Duty Rule, and Secure Choice programs. These letters help convey pension and health care issues that are important to CalPERS members.



Peer Comparison - Investment Office

1 year

Total investment-related expenses declined by \$281 million from the prior fiscal year due to our cost savings efforts. The annual CEM Benchmark Survey found that CalPERS' investment costs were 9.6 basis points lower than that of other U.S. public pension funds.



Legislation

5 year

CalPERS actively monitored approximately 1,400 pieces of legislation and five Annual Budget Acts, and provided the California Legislature and the Governor's Office with information on the impacts of these bills to CalPERS.



Education and Engagement

5 year

Provided leadership by hosting two Global Chief Financial Officer Conferences representing plans and attendees from Australia, Canada, China Singapore, Sweden, and the United States. The first conference, held in 2014, drew 84 attendees. The 2015 conference drew 52 attendees from all over the world.

Goal C

Awards - 5 year

Received an A+ from the Principles for Responsible Investment Assessment Report, and an A+ in Listed Equity Active Ownership in 2015. Fewer than eight assets owners of the 245 surveyed globally received such a score.

CalPERS won the 2017 Responsible Investor's award for Innovation & Industry Leadership for its Environmental, Social, and Governance Strategic Plan.

CalPERS was recognized with eight awards for excellence in government communications by the State Information Officers' Council during the 2015-16 fiscal year. Of these, three were Gold Awards and five were Silver.

CalPERS received the Gold Award from the California State Information Officers' Council for the "Ask Five" Social Media Campaign implemented in 2012-13.