

CalPERS 2012-17 Strategic Plan
Annual Report | July 2013

A Message from the Chief Executive Officer and Board President

We are pleased to present this report that chronicles our achievements and progress toward our five-year strategic plan.

CalPERS mission is to 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. This is a tremendous responsibility that relies on the sustainability of our system.

To accomplish this mission, we adopted a strategic plan for 2012-17, with three strategic goals that address pension and health benefit sustainability, organizational strength, and policy engagement. This year was marked with many achievements and initiatives that strengthen and better position our organization for the future.

We are proud to report that, as of June 30, 2013, we earned a preliminary 12.54 percent return on our investments, net of fees, despite continued challenges in our economy and financial markets. Our average investment return over the last 25 years of 8.5 percent exceeds our actuarial assumed discount rate of 7.5 percent. Our funded status—or the percentage of assets we have to pay long-term benefits—was 73.6 percent as of June 30, 2011.

We also implemented the new Public Employees' Pension Reform Act (AB 340), a comprehensive set of reforms that represent a significant step in ensuring California public pensions are sustainable. In the area of health care, we expanded member choice of our health plans to provide more quality health care options and greater geographic service areas to meet the needs of our members and their families. To better serve our customers, we now have online self-service capabilities so our members and employers can manage their retirement and health transactions, and we hired our first-ever Chief Financial Officer to provide robust management of our financial and risk operations.

As we continue our work in 2013-14, we remain focused on our vision of being a trusted leader, respected for our integrity and innovation. We hope this report provides valuable insight into the future of CalPERS and our continued work to serve the public employees who serve California.

Sincerely,

Anne Stausboll
Chief Executive Officer

Rob Feckner
President, CalPERS Board of Administration

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CalPERS Vision, Mission, and Core Values

At CalPERS, we are proud to serve those who serve California. For more than eight decades, we have built retirement and health security for people who invest their lifework in the State. Our Strategic Plan guides us as we deliver on the promise to serve with the highest of commitment.

Vision

A trusted leader respected by our members and stakeholders for our integrity, innovation and service

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

Core Values

Quality | Respect | Accountability | Integrity | Openness | Balance

Overview of Strategic Goals & 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

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

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 agenda and expand impact

A Reflection on Our Year

Improve long-term pension and health benefit sustainability (Goal A)

Key Accomplishments 2012-13

Launched an Asset Liability Decision-making Framework

Utilized a new Asset Liability Decision-making Framework to develop an integrated view of our assets and liabilities. This risk-based framework guides the development of our actuarial policies and asset allocation, with the goal to better understand and manage the tradeoffs between funded status, employer rates and rate volatility.

Earned Strong Investment Returns

Earned a preliminary 12.54 percent return on our investments, net of fees, which is above our actuarial discount rate of 7.5 percent. Better risk management strategies and increased investment returns improve the sustainability of the pension and health benefits we provide to our members and employers.

Expanded Member Choice in Health

Expanded member choice in our health plans and negotiated an average premium rate increase of 3 percent, the lowest average increase since 1998. These new offerings will provide quality health care to our members at the lowest possible cost, expand competition, and allow us to continue our innovations in health benefit design. Four new health plans will be available to our members in most areas of the state.

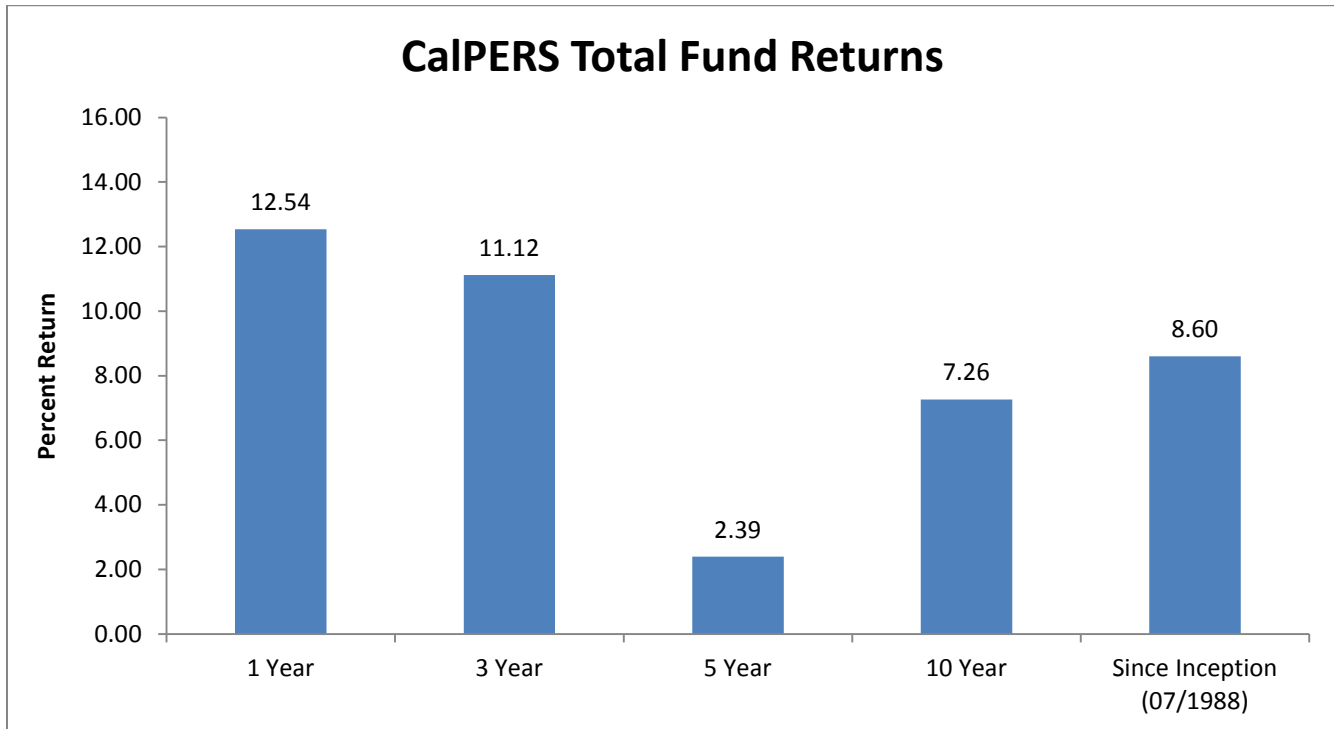
Additional Achievements

- Published more than 2,000 public agency valuations, including a new sensitivity analysis for each employer to better inform them of possible investment return impacts.
- Adopted new actuarial policies aimed at returning the System to fully-funded status within 30 years.
- Released a 5-year plan for emerging and diverse managers in our investment program.
- Approved a new line-up for the Supplemental Income Plan (SIP) to provide members with comprehensive investment options that are easy to manage.
- Implemented the Public Employees' Pension Reform Act (PEPRA).
- Stabilized our Long Term Care Insurance Program.

Strategic Challenges

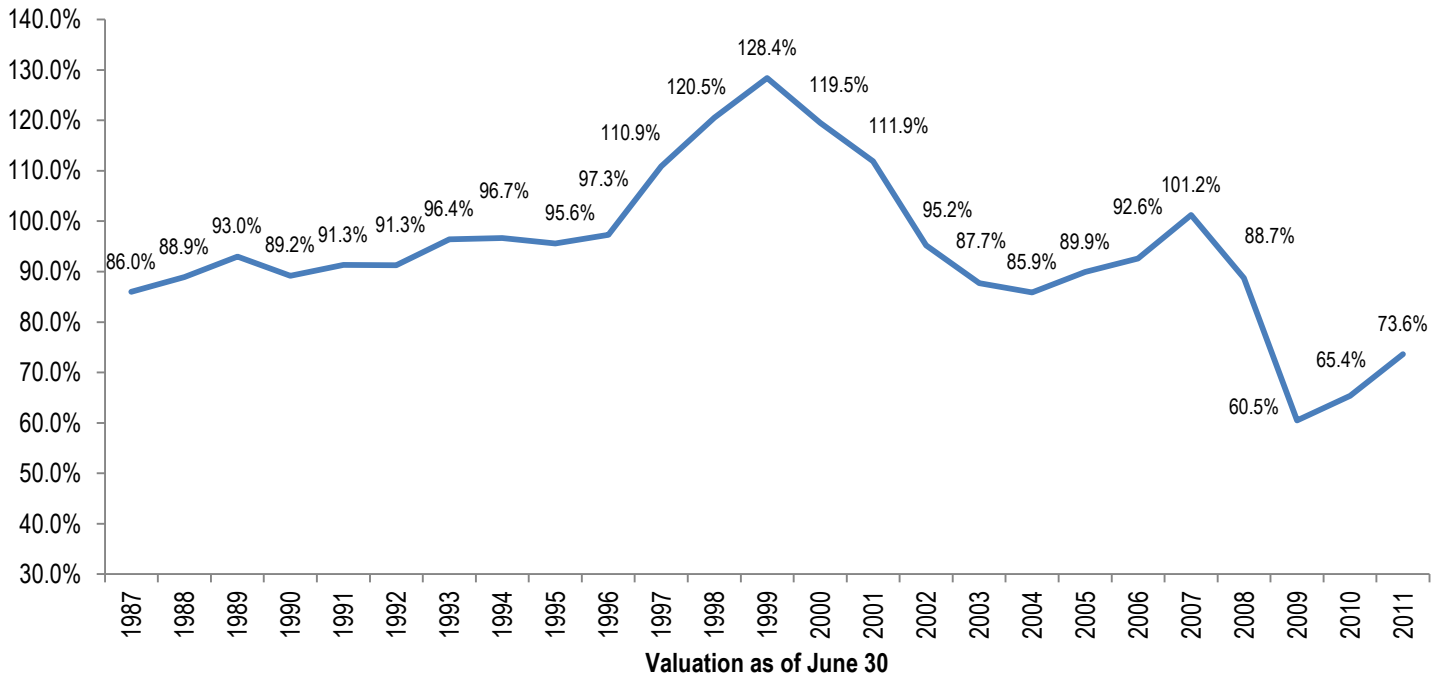
- Financial Market Uncertainty
- Public Agency Budget Challenges
- Ongoing Discussion Around Public Pensions
- National Health Care Reform Implications

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PERF¹ Funded Status based on Market Value of Assets² FY 1987-88 to FY 2010-11³



¹ Reflects funded status of Public Employees' Retirement Fund (PERF).

² Market Value of Assets (MVA) is the fair value of assets on the marketplace.

³ The funded status calculation lags by 2 years. Because of the market impact last year, the funded status will decrease for FY 2011-12. The funded status will continue to evolve based on many factors, including investment returns and actuarial assumptions.

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

Key Accomplishments 2012-13

Enhanced Customer Service

Launched self-service capabilities in my|CalPERS to allow members and employers to manage retirement and health benefits online.

Strengthened Our Workforce

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

Improved Financial Oversight

Hired our first ever Chief Financial Officer to strengthen our financial and risk management operations, including enhanced internal controls and treasury management.

Additional Achievements:

- Launched a multi-year Security Initiative to further protect confidential CalPERS member information.
- Introduced a new user-friendly Intranet to streamline communication across the enterprise.
- Implemented online application process to streamline hiring.
- Implemented Board and Staff Personal Trading Platform.
- Reduced consultant expenditure by 5.7 percent, resulting in cost savings of \$5.9 million and creating opportunities for civil service staff.
- Implemented over 1,200 enhancements to my|CalPERS in the following areas: pension audit system, internal workflow, direct deposit on-line, service credit purchase processing and on-line retirement applications.
- Implemented new technologies in the Contact Center, enabling skills-based routing which reduced the average call wait time for all customers from 12 minutes in June 2012 to 3 minutes in June 2013.
- Eliminated backlogged requests for Death Benefit Review and Retirement Allowance Payroll Adjustments.
- Reduced our Service Credit Purchase request backlog by 14,400 requests.

Strategic Challenges:

- Changing Member and Workforce Demographics
- Human Capital and Talent Management

“We launched self-service capabilities in my|CalPERS to allow members and employers to manage retirement and health benefits online.”

Engage in State and national policy development to enhance the long-term sustainability and effectiveness of our programs (Goal C)

Key Accomplishments 2012-13

Refined Investment Beliefs

Continued refinement of a set of Investment Beliefs that represent the underlying philosophies for the management of our fund. The beliefs—statements about capital markets and investor behavior—will inform CalPERS investment strategies and improve governance.

Led Sustainable Investment Research Initiative

Partnered with UC Davis and Columbia University to commission research and conduct a global academic Sustainability and Finance Symposium.

Implemented Knee and Hip Replacement Payment Cap

Implemented an innovative health pilot to cap payments for knee and hip replacements, resulting in \$5.5 million in cumulative savings for CalPERS, while keeping quality of care and out-of-pocket costs to members stable.

Additional Achievements

- Led shareowner and proxy solicitation campaigns at a wide range of companies to advocate for governance reform, high-quality, independent and diverse boards, long-term compensation to align management interests with shareowners, and reporting on sustainability factors.
- Provided written and oral testimony to Congressional committees on the need for “smart regulation” to protect investors, voicing strong support for Dodd Frank and independent funding of the U.S. Securities and Exchange Commission (SEC).
- Worked with various regulatory bodies, including the SEC, the U.S. Commodity Futures Trading Commission, and the Public Company Accounting Oversight Board, to address issues such as oversight of derivatives, replacements for benchmarks, and strengthening the independence of audit.
- Provided extensive technical support to the legislative and stakeholder process that led to the enactment of PEPRA.
- Launched a searchable database of over 700 academic studies on sustainability factors that impact investment risk and return.
- Initiated a three-year stakeholder assessment project to measure and improve stakeholder relationships with and perceptions of CalPERS. Completed the first stage of surveys with members, employers and employees.
- CalPERS Board and leaders appeared before numerous member groups, national organizations, and professional associations to share CalPERS views related to investments and financial markets, health care, and pension policy.
- Conducted two Town Hall Meetings with key experts on pension reform and health care, drawing more than 400 attendees.

- Sponsored our Employer Educational Forum for over 700 employers on topics including pension reform, my|CalPERS self-service, and State and national policy.
- Expanded use of digital communications including social media, webinars and webcasts to expand transparency and educate members, employers and stakeholders.

Strategic Challenges:

- Political and Economic Climate

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Awards

Commendation
Best Responsible Investment Report by a
Large Pension Fund
CalPERS report *Towards Sustainable
Investment: Taking Responsibility
Responsible Investor*

Gold Award
CalPERS “Ask Five” Social Media Campaign
California State Information Officers Council

Outstanding Information Technology
Achievement in Government
my|CalPERS
Government Computer News

Final Word

As an organization, we are focused on a long-term view of the needs of our members and their families, as well as California's public employers. We are committed to continuous learning, and to being flexible in the face of changing environmental, political and economic conditions.

We have an incredibly strong past, and continue to build a secure future for those we serve as we focus on our vision of being a trusted leader, respected for our integrity and innovation. We are proud to serve those who serve California.

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