Investment Committee

California Public Employees' Retirement System

Agenda Item 6d

March 16, 2015

ITEM NAME: Legislative and Policy Engagement Guidelines for Investments

PROGRAM: Legislation

ITEM TYPE: Action

RECOMMENDATION

Staff recommends the Investment Committee approve one of the following:

1) The General Guidelines and Investment Guidelines in Version A of the Proposed CalPERS Legislative and Policy Engagement Guidelines as contained in Attachment 1 and repeal the corresponding legacy legislative guidelines, or

2) The General Guidelines and Investment Guidelines in Version B of the Proposed CalPERS Legislative and Policy Engagement Guidelines as contained in Attachment 2 and repeal the corresponding legacy legislative guidelines.

EXECUTIVE SUMMARY

This is the second reading in this Committee for the proposed General and Investment Legislative and Policy Engagement Guidelines. They have been revised to reflect the Committee's discussion and suggested changes during its February meeting. In addition, the Pension and Health Benefits Committee will conduct a second reading of the proposed General, Pension, and Health Legislative and Policy Engagement Guidelines at its March meeting.

Both versions of the proposed CalPERS Legislative and Policy Engagement Guidelines consolidate into one document the various policy standards, priorities, and initiatives for state and federal legislation and regulation (Attachments 3-8) previously adopted by the Board of Administration (Board). Both versions also reflect important elements of Board approved Beliefs, Principles, Policies, Priorities, and Initiatives. The major difference between Version A and Version B pertains to section (II)(D)(1) under Sustainability. Version A includes guidelines based on the Global Investor Statement on Climate Change onto which CalPERS is a signatory. Version B carries forward the Energy and Environment language from the 2007-08 Federal Legislative and Regulatory Investment Policy Guidelines.

The proposed guidelines have been developed, and are designed to summarize CalPERS' perspectives on various policy issues that impact the long-term sustainability and effectiveness of its programs. They are intended the improve the ability of staff and contracted representatives to identify, monitor, and engage on

policy issues of importance to the Board, and help ensure consistent promotion of CalPERS' positions to state and federal policymakers. In no way do these guidelines bind the Board in any way when determining its view on various policy proposals.

Staff seeks approval of the General Guidelines and Investment Guidelines to achieve and facilitate the CalPERS Strategic Plan goals and objectives.

STRATEGIC PLAN
This item supports the CalPERS 2012-17 Strategic Plan Goal C to engage in state and national policy development to enhance the long-term sustainability and effectiveness of our programs. The Guidelines will assist in guiding public policy engagement by the System and communicating its perspective on pension, health, and financial markets.

INVESTMENT BELIEFS
This agenda item supports CalPERS' Investment Belief 10 that strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives.

BACKGROUND
The purpose of the Board's existing Legislative Policy Standards is to provide staff a framework within which they can work on legislation and regulations with a level of comfort that they are acting consistent with the desires of the Board. Legislative activity frequently does not mesh with the Board's meeting schedule, so it is important for staff to have a clear notion of the Board's basic views so that they can respond timely and appropriately as events unfold. The Legislative Policy Standards also provide guidance to staff in preparing legislative agenda items so that they are consistent with the views of the Board.

The existing CalPERS Legislative Policy Standards were originally adopted in 1996. They were slightly modified in 1998 and again in 2001. Comparable Initiative Policy Standards were adopted by the Board in 1997. The Board adopted Federal Legislative and Regulatory Investment Guidelines in 2007.

ANALYSIS
Purpose of Proposed Guidelines
The proposed guidelines allow the Legislative Affairs Division and the CalPERS federal representatives responsible for investment, retirement, and health issues to respond to requests to write letters or testify on legislative or regulatory issues in a timely fashion, and without having to bring each request before the Board. They will also assist staff and our federal representatives to determine which legislative and regulatory issues need to be tracked and monitored, along with the necessary direction to engage when necessary. The Investment Committee and Investment Office staff has articulated a three-pronged public agenda for improved regulatory effectiveness of derivatives, housing finance, and credit rating agencies that will be actively pursued.

The proposed engagement guidelines for investment-related legislative and regulatory activities are reflective of the Committee's previous deliberations and approvals of investment-related beliefs, principles, and initiatives, including the CalPERS Investment Beliefs, CalPERS Global Governance Principles, Emerging Manager Five-Year Plan, and CalPERS for California Report, as well as existing Board legislative and investment policy standards, guidelines and initiatives. The proposed guidelines are grouped into subject areas of Investor Independence, Corporate Accountability, Financial Markets, Sustainability, and Diversity.

Their adoption by the Board will also serve to eliminate the current: 1) Legislative Policy Standards; 2) State Ballot Initiative Policy Standards; 3) the 2009-10 Health Policy Priorities for State Legislation; 4) CalPERS Federal Health Care Policy Initiatives; 5) 2007-08 Federal Legislative and Regulatory Investment Policy Guidelines; and 6) Federal Legislative and Regulatory Policy Guidelines for Retirement Security.

BUDGET AND FISCAL IMPACTS
Not Applicable

BENEFITS/RISKS
The Legislative and Policy Engagement Guidelines will assist the Board to perform its constitutional mandate, fulfill its mission, and achieve consistency in its policies. Periodically reviewing and updating its policy standards and guidelines reduces the risks to meeting these goals.

ATTACHMENTS
Attachment 1 – Version A: Proposed CalPERS Legislative and Policy Engagement Guidelines
Attachment 2 – Version B: Proposed CalPERS Legislative and Policy Engagement Guidelines
Attachment 3 – CalPERS Legislative Policy Standards
Attachment 4 – CalPERS State Ballot Initiative Policy Standards
Attachment 5 – 2009-10 Health Policy Priorities for State Legislation
Attachment 6 – CalPERS Federal Health Care Policy Initiatives
Attachment 7 – 2007-08 Federal Legislative and Regulatory Investment Policy Guidelines
Attachment 8 – CalPERS Federal Legislative and Regulatory Policy Guidelines for Retirement Security

DANNY BROWN, Chief
Legislative Affairs Division

WYLIE TOLLETTE
Chief Operating Investment Officer

Version A

PROPOSED CALPERS
LEGISLATIVE AND POLICY ENGAGEMENT GUIDELINES

INTRODUCTION

CalPERS has a long history of engagement in the development of public policies that impact retirement and health benefits for our members and beneficiaries. To this end, the Board of Administration establishes CalPERS' policy goals and guides staff and contracted representatives in developing and executing engagement strategies that advance the achievement of these goals and the Board's priorities.

These guidelines are intended to summarize CalPERS' perspectives on various policy issues that impact the long-term sustainability and effectiveness of its programs as well as ensure consistent promotion of CalPERS' positions to state and federal policymakers. They consolidate previously-adopted legislative guidelines and include important elements of the following Board approved documents: Pension Beliefs, Investment Beliefs, Global Governance Principles, CalPERS for California Report, and Emerging Manager Five Year Plan. These guidelines do not revise or amend source documents or bind the Board in any way when determining its view on various policy proposals.

I. GENERAL GUIDELINES

A. Support proposals that add protections to the Trusts.

B. Support proposals that give the Board increased flexibility in its administration or reduce administrative costs.

C. Support proposals that correct structural deficiencies in Plan design, or prevent fraud, reduce waste, or abuse.

D. Support proposals that promote transparency and accountability for the System or entities that conduct business with the System, provided those proposals do not jeopardize the System's ability to conduct business or infringe on the Board's fiduciary authority.

E. Support proposals that enhance ethics and integrity in System governance.

F. Support proposals that enhance or protect the fiduciary authority of the Board and oppose proposals that impede or infringe on the Board's fiduciary authority.

G. Oppose proposals that deprive members of vested benefits and that do not provide an equivalent, compensating benefit for that deprivation.

H. Oppose proposals that endanger the tax-exempt status of the Trusts, or the deferred treatment of income tax on employer and employee contributions and related earnings.

I. Oppose proposals that create unreasonable cost or complexity in the administration of the System.

J. Oppose proposals that reduce or limit the Board's administrative or actuarial authority.

K. Respect the distinction of issues that are taken up during collective bargaining and refrain from taking a position.

II. INVESTMENT GUIDELINES

A. INVESTOR INDEPENDENCE

1. Support proposals that preserve and enhance both the independent fiduciary authority of institutional investors as well as the investment authority of plan trustees to act for the exclusive benefit of plan participants and beneficiaries.

2. Oppose proposals that impose investment mandates or restrictions as well as proposals that direct investment options and decision-making.

3. To not oppose federal investment restrictions, provided that any restrictions be imposed consistently among all U.S. investors, in the event that the federal government determines that an investment is not in the national interest of the United States of America.

B. CORPORATE ACCOUNTABILITY

1. Support proposals that advance the corporate governance goals and objectives expressed in CalPERS' Investment Beliefs and Global Governance Principles, including, but not limited to, proposals that:

   a. Enhance shareowner rights and protections and encourage corporate accountability.

b. Promote the effective management of financial, physical and human capital to create long-term value.

c. Promote the transparency of operating, financial, and governance information about companies.

d. Promote high quality global accounting standards, integration of relevant ESG performance factors, and rigorous independent audit.

e. Promote the effective management, evaluation and mitigation of risk.

f. Provide shareowners with effective access to the director nomination process.

g. Provide shareowners with an effective mechanism to ensure executive compensation programs align management with the long-term economic interests of shareowners.

h. Promote strong human capital practices, including fair labor practices, responsible contracting, workplace and board diversity, and healthy and safe working conditions.

C. FINANCIAL MARKETS

1. Support proposals that advance the financial markets goals and objectives expressed in CalPERS' Investment Beliefs and Global Governance Principles, including, but not limited to, proposals that:

a. Foster fair, orderly, and effectively regulated capital markets.

b. Promote earlier identification of issues that give rise to overall market risks and foster action that mitigates those risks.

c. Promote full disclosure so that markets provide incentives that price risk and opportunity.

d. Foster alignment of interests and protect investor rights and the independence of regulators.

Version A

D. SUSTAINABILITY

1. Support proposals that foster a strong and durable global economy and advance the sustainability goals and objectives expressed in CalPERS' Investment Beliefs, Global Governance Principles, and the Global Investor Statement on Climate Change, including, but not limited to, proposals that:

    a. Encourage capital deployment at scale to finance the transition to a low carbon economy and encourage investment in climate change adaptation.

    b. Provide stable, reliable and economically meaningful carbon pricing that helps redirect investment commensurate with the scale of the climate change challenge.

    c. Phase out subsidies for fossil fuels.

2. Support proposals that foster a healthy and diverse California economy with strong companies, solid infrastructure for commerce, robust business development, fair labor practices and employment.

3. Support proposals that promote the cultivation of the next generation of external portfolio management talent consistent with the CalPERS Emerging Manager Five-Year Plan.

E. DIVERSITY

1. Support proposals that recognize diversity and inclusion as an important business issue that enhances competitiveness and innovation.

2. Support proposals that encourage corporate boards to establish and disclose a diverse mix of director attributes, experiences, perspectives and skill sets that are most appropriate for effectively overseeing management's execution of the company's long-term business strategy.

III. RETIREMENT GUIDELINES

A. RETIREMENT BENEFITS

Defined benefit plans, properly constructed, are a better means for employees to enhance their retirement security than other available options. As a result, areas of interest include, but are not limited to:

1. Support retirement plan designs for Californians that include a defined benefit component, where lifetime retirement benefits reflect each employee’s years of service, age, and earning and are adequate for full-career employees.

2. Support retirement plan designs for Californians that have professionally managed funds with a long-term horizon, incorporate pooled investments and pooled risks, and shares the funding responsibility between employers and employees.

3. Support proposals that provide all employees the opportunity to pursue retirement security, including but not limited to access to defined benefit plans, retirement savings accounts, or Social Security.

4. Oppose proposals that would limit meaningful retirement security in the private sector, such as prohibitions on defined benefit plans.

B. RETIREMENT PLAN FUNDING AND ACCOUNTABILITY

Responsible Trust funding and accountability are central to appropriate fund management. Therefore, we

1. Support proposals and policies that ensure transparent financial reporting of the Trusts' assets, using industry recognized accounting and actuarial standards.

2. Oppose retirement benefit plan changes that would result in an unfunded liability without proper actuarial funding to address the liability.

C. SOCIAL SECURITY

For many, but not all, workers, Social Security is an important aspect of long-term financial security. Therefore, we

1. Support proposals and policies that would extend the Social Security system's long-term solvency without reducing retirement security for CalPERS members or others who participate in the system.

2. Support proposals that maintain state and local government and their employees' options to elect participation in the Social Security system, and oppose mandatory participation.

IV. <u>HEALTH CARE GUIDELINES</u>

A. PRESCRIPTION DRUGS

Prescriptions drugs play an increasingly important role in the health and well-being of our members and their dependents. Therefore, we

1. Support the development of a clear, efficient and timely regulatory pathway for biosimilars and interchangeable biologics.

2. Support efforts to end anti-competitive arrangements between brand and generic pharmaceutical companies – so-called "pay for delay" settlements.

3. Support proposals to allow Medicare to enter into direct negotiations with pharmaceutical manufacturers in order to obtain discounts on prescription drugs and support reimbursement polices under Medicare that encourage the development of biosimilars, and interchangeable biologics in particular.

4. Support proposals that will reduce the cost of prescription drugs while also maintaining appropriate quality of and access to brand name, generic, biosimilar and interchangeable drugs.

B. PAYMENT FOR QUALITY AND VALUE

Financial systems drive market, provider and consumer behavior. Therefore, we Support payment reform that transitions fee-for-Service payments to payments that promote improved patient outcomes.

1. Support proposals that establish and implement benchmarks and targets intended to improve delivery of health care services, patient health

outcomes and population health, in addition to prioritizing measures and data that identify the highest value interventions.

2. Support efforts to promote transparency in the reporting of cost and quality for both for-profit and not-for-profit organizations, including health plans, insurers, health care providers, hospitals, and physicians.

3. Support proposals that strengthen the Medicare program, such as strategies to constrain cost growth, implement payment reforms that shift away from fee-for-service, improve the quality of health care or extend the life of the Medicare Trust Fund.

4. Support federal proposals to test, evaluate, and expand new payment structures, models and methodologies to reduce health care expenditures while maintaining or improving quality of care, including the commercial market.

C. ACCESS

Competitive and reasonably priced health care advantages employees and employers. Therefore, we:

1. Support proposals that would seek to assure the financial viability of risk-bearing provider groups.

2. Support proposals to enhance affordable provider access in rural areas.

D. RISK POOL STABILITY

1. Support proposals to stabilize and enhance public agency participation in the CalPERS health program.

2. Oppose proposals that impinge on risk pool stability.

3. Support proposals that reduce cost-shifting to CalPERS, including cost-shifting from under-funded governmental programs.

E. LONG-TERM CARE

1. Support proposals that maximize the successful implementation coverage offerings for CalPERS Long-Term Care Program.

2. Support efforts to increase availability of reasonably priced long term care products.

Version A

Consolidated Statements

This following list of previously-adopted CalPERS standards, guidelines, priorities and initiatives have been consolidated into this document:

- *Legislative Policy Standards (2001)*
- *2007-08 Federal Legislative and Regulatory Investment Policy Guidelines (2007) State Ballot Initiative Policy Standards (2009)*
- *2009-10 Health Policy Priorities for State Legislation Pursuant to Strategic Plan (2009)*
- *Federal Legislative and Regulatory Policy Guidelines for Retirement Security (2011)*
- *CalPERS Federal Health Care Policy Initiatives (2013)*

References

California Public Employees' Retirement System. 2012. *Emerging Manager Five-Year Plan.* California Public Employees' Retirement System. https://www.calpers.ca.gov/eip-docs/about/pubs/emerging-manager-five-year-plan.pdf

California Public Employees' Retirement System. 2014. *CalPERS Beliefs*. California Public Employees' Retirement System. http://www.calpers.ca.gov/eip-docs/about/pubs/calpers-beliefs.pdf

California Public Employees' Retirement System. 2014. *CalPERS for California 2013.* California Public Employees' Retirement System. https://www.calpers.ca.gov/eip-docs/about/pubs/california-2013.pdf

California Public Employees' Retirement System. 2014. *CalPERS Global Principles of Accountable Corporate Governance.* California Public Employees' Retirement System. http://www.calpers-governance.org/docs-sof/principles/2014-05-calpers-global-principles-accountable-corp-gov.pdf

Global Investor Statement on Climate Change. 2014. http://20nagd2iv3kl3tlgmf32bvkf.wpengine.netdna-cdn.com/wp-content/uploads/2014/09/GlobalInvestorStatement2014_Final.pdf

Version B

PROPOSED CALPERS LEGISLATIVE AND POLICY ENGAGEMENT GUIDELINES

INTRODUCTION

CalPERS has a long history of engagement in the development of public policies that impact retirement and health benefits for our members and beneficiaries. To this end, the Board of Administration establishes CalPERS' policy goals and guides staff and contracted representatives in developing and executing engagement strategies that advance the achievement of these goals and the Board's priorities.

These guidelines are intended to summarize CalPERS' perspectives on various policy issues that impact the long-term sustainability and effectiveness of its programs as well as ensure consistent promotion of CalPERS' positions to state and federal policymakers. They consolidate previously-adopted legislative guidelines and include important elements of the following Board approved documents: Pension Beliefs, Investment Beliefs, Global Governance Principles, CalPERS for California Report, and Emerging Manager Five Year Plan. These guidelines do not revise or amend source documents or bind the Board in any way when determining its view on various policy proposals.

I. GENERAL GUIDELINES

A. Support proposals that add protections to the Trusts.

B. Support proposals that give the Board increased flexibility in its administration or reduce administrative costs.

C. Support proposals that correct structural deficiencies in Plan design, or prevent fraud, reduce waste, or abuse.

D. Support proposals that promote transparency and accountability for the System or entities that conduct business with the System, provided those proposals do not jeopardize the System's ability to conduct business or infringe on the Board's fiduciary authority.

E. Support proposals that enhance ethics and integrity in System governance.

F. Support proposals that enhance or protect the fiduciary authority of the Board and oppose proposals that impede or infringe on the Board's fiduciary authority.

G. Oppose proposals that deprive members of vested benefits and that do not provide an equivalent, compensating benefit for that deprivation.

H. Oppose proposals that endanger the tax-exempt status of the Trusts, or the deferred treatment of income tax on employer and employee contributions and related earnings.

I. Oppose proposals that create unreasonable cost or complexity in the administration of the System.

J. Oppose proposals that reduce or limit the Board's administrative or actuarial authority.

K. Respect the distinction of issues that are taken up during collective bargaining and refrain from taking a position.

II. INVESTMENT GUIDELINES

A. INVESTOR INDEPENDENCE

1. Support proposals that preserve and enhance both the independent fiduciary authority of institutional investors as well as the investment authority of plan trustees to act for the exclusive benefit of plan participants and beneficiaries.

2. Oppose proposals that impose investment mandates or restrictions as well as proposals that direct investment options and decision-making.

3. To not oppose federal investment restrictions, provided that any restrictions be imposed consistently among all U.S. investors, in the event that the federal government determines that an investment is not in the national interest of the United States of America.

B. CORPORATE ACCOUNTABILITY

1. Support proposals that advance the corporate governance goals and objectives expressed in CalPERS' Investment Beliefs and Global Governance Principles, including, but not limited to, proposals that:

   a. Enhance shareowner rights and protections and encourage corporate accountability.

Version B

b. Promote the effective management of financial, physical and human capital to create long-term value.

c. Promote the transparency of operating, financial, and governance information about companies.

d. Promote high quality global accounting standards, integration of relevant ESG performance factors, and rigorous independent audit.

e. Promote the effective management, evaluation and mitigation of risk.

f. Provide shareowners with effective access to the director nomination process.

g. Provide shareowners with an effective mechanism to ensure executive compensation programs align management with the long-term economic interests of shareowners.

h. Promote strong human capital practices, including fair labor practices, responsible contracting, workplace and board diversity, and healthy and safe working conditions.

C. FINANCIAL MARKETS

1. Support proposals that advance the financial markets goals and objectives expressed in CalPERS' Investment Beliefs and Global Governance Principles, including, but not limited to, proposals that:

a. Foster fair, orderly, and effectively regulated capital markets.

b. Promote earlier identification of issues that give rise to overall market risks and foster action that mitigates those risks.

c. Promote full disclosure so that markets provide incentives that price risk and opportunity.

d. Foster alignment of interests and protect investor rights and the independence of regulators.

D. SUSTAINABILITY

1. Support proposals that foster a strong and durable global economy and advance the sustainability goals and objectives expressed in CalPERS' Investment Beliefs and Global Governance Principles, including, but not limited to, proposals that:

    a. Improve transparency and timely disclosure of environmental risks, such as those associated with climate change that will enable investors to evaluate both risk and opportunities.

    b. Promote the development of a clear and predictable national climate policy that will enable businesses to evaluate and justify large-scale, long-term capital investments necessary to transition to a cleaner, more energy efficient economy.

    c. Promote the alignment of energy and transportation policies to stimulate new technologies that will enhance competitiveness and innovation leading to meaningful greenhouse gas reductions.

2. Support proposals that foster a healthy and diverse California economy with strong companies, solid infrastructure for commerce, robust business development, fair labor practices and employment.

3. Support proposals that promote the cultivation of the next generation of external portfolio management talent consistent with the CalPERS Emerging Manager Five-Year Plan.

E. DIVERSITY

1. Support proposals that recognize diversity and inclusion as an important business issue that enhances competitiveness and innovation.

2. Support proposals that encourage corporate boards to establish and disclose a diverse mix of director attributes, experiences, perspectives and skill sets that are most appropriate for effectively overseeing management's execution of the company's long-term business strategy.

Version B

III. RETIREMENT GUIDELINES

A. RETIREMENT BENEFITS

Defined benefit plans, properly constructed, are a better means for employees to enhance their retirement security than other available options. As a result, areas of interest include, but are not limited to:

1. Support retirement plan designs for Californians that include a defined benefit component, where lifetime retirement benefits reflect each employee's years of service, age, and earning and are adequate for full-career employees.

2. Support retirement plan designs for Californians that have professionally managed funds with a long-term horizon, incorporate pooled investments and pooled risks, and shares the funding responsibility between employers and employees.

3. Support proposals that provide all employees the opportunity to pursue retirement security, including but not limited to access to defined benefit plans, retirement savings accounts, or Social Security.

4. Oppose proposals that would limit meaningful retirement security in the private sector, such as prohibitions on defined benefit plans.

B. RETIREMENT PLAN FUNDING AND ACCOUNTABILITY

Responsible Trust funding and accountability are central to appropriate fund management. Therefore, we

1. Support proposals and policies that ensure transparent financial reporting of the Trusts' assets, using industry recognized accounting and actuarial standards.

2. Oppose retirement benefit plan changes that would result in an unfunded liability without proper actuarial funding to address the liability.

C. SOCIAL SECURITY

For many, but not all, workers, Social Security is an important aspect of long-term financial security. Therefore, we

1. Support proposals and policies that would extend the Social Security system's long-term solvency without reducing retirement security for CalPERS members or others who participate in the system.

2. Support proposals that maintain state and local government and their employees' options to elect participation in the Social Security system, and oppose mandatory participation.

IV. HEALTH CARE GUIDELINES

A. PRESCRIPTION DRUGS

Prescriptions drugs play an increasingly important role in the health and well-being of our members and their dependents. Therefore, we

1. Support the development of a clear, efficient and timely regulatory pathway for biosimilars and interchangeable biologics.

2. Support efforts to end anti-competitive arrangements between brand and generic pharmaceutical companies – so-called "pay for delay" settlements.

3. Support proposals to allow Medicare to enter into direct negotiations with pharmaceutical manufacturers in order to obtain discounts on prescription drugs and support reimbursement polices under Medicare that encourage the development of biosimilars, and interchangeable biologics in particular.

4. Support proposals that will reduce the cost of prescription drugs while also maintaining appropriate quality of and access to brand name, generic, biosimilar and interchangeable drugs.

B. PAYMENT FOR QUALITY AND VALUE

Financial systems drive market, provider and consumer behavior. Therefore, we Support payment reform that transitions fee-for-Service payments to payments that promote improved patient outcomes.

1. Support proposals that establish and implement benchmarks and targets intended to improve delivery of health care services, patient health

outcomes and population health, in addition to prioritizing measures and data that identify the highest value interventions.

2. Support efforts to promote transparency in the reporting of cost and quality for both for-profit and not-for-profit organizations, including health plans, insurers, health care providers, hospitals, and physicians.

3. Support proposals that strengthen the Medicare program, such as strategies to constrain cost growth, implement payment reforms that shift away from fee-for-service, improve the quality of health care or extend the life of the Medicare Trust Fund.

4. Support federal proposals to test, evaluate, and expand new payment structures, models and methodologies to reduce health care expenditures while maintaining or improving quality of care, including the commercial market.

C. ACCESS

Competitive and reasonably priced health care advantages employees and employers. Therefore, we:

1. Support proposals that would seek to assure the financial viability of risk-bearing provider groups.

2. Support proposals to enhance affordable provider access in rural areas.

D. RISK POOL STABILITY

1. Support proposals to stabilize and enhance public agency participation in the CalPERS health program.

2. Oppose proposals that impinge on risk pool stability.

3. Support proposals that reduce cost-shifting to CalPERS, including cost-shifting from under-funded governmental programs.

E. LONG-TERM CARE

1. Support proposals that maximize the successful implementation coverage offerings for CalPERS Long-Term Care Program.

2. Support efforts to increase availability of reasonably priced long term care products.

Version B

Consolidated Statements

This following list of previously-adopted CalPERS standards, guidelines, priorities and initiatives have been consolidated into this document:

- *Legislative Policy Standards (2001)*
- *2007-08 Federal Legislative and Regulatory Investment Policy Guidelines (2007) State Ballot Initiative Policy Standards (2009)*
- *2009-10 Health Policy Priorities for State Legislation Pursuant to Strategic Plan (2009)*
- *Federal Legislative and Regulatory Policy Guidelines for Retirement Security (2011)*
- *CalPERS Federal Health Care Policy Initiatives (2013)*

References

California Public Employees' Retirement System. 2012. *Emerging Manager Five-Year Plan.* California Public Employees' Retirement System. https://www.calpers.ca.gov/eip-docs/about/pubs/emerging-manager-five-year-plan.pdf

California Public Employees' Retirement System. 2014. *CalPERS Beliefs*. California Public Employees' Retirement System. http://www.calpers.ca.gov/eip-docs/about/pubs/calpers-beliefs.pdf

California Public Employees' Retirement System. 2014. *CalPERS for California 2013.* California Public Employees' Retirement System. https://www.calpers.ca.gov/eip-docs/about/pubs/california-2013.pdf

California Public Employees' Retirement System. 2014. *CalPERS Global Principles of Accountable Corporate Governance.* California Public Employees' Retirement System. http://www.calpers-governance.org/docs-sof/principles/2014-05-calpers-global-principles-accountable-corp-gov.pdf

California Public Employees' Retirement System
Board of Administration
Legislative Policy Standards
Revised December 19, 2001

CalPERS Mission

Our mission is to advance the financial and health security for all who participate in the System. We will fulfill this mission by creating and maintaining an environment that produces responsiveness to all those we serve.

To fulfill its mission and to provide consistency in its policies, the CalPERS Board of Administration shall adopt Legislative Policy Standards. In adopting these standards, the Board shall perform its duties for the exclusive purposes of providing benefits to participants and their beneficiaries, minimizing employer retirement contributions, and defraying reasonable expenses of administering the System. The Board's duty to its participants and beneficiaries shall take precedence over any other duty.

Advocate/Activist: Lobby for changes; actively seek to shape the external environment

Sponsor or Support:

- Proposals which give the Board increased flexibility in its administration
- Proposals which provide remedies for inequitable, unfair, or discriminatory benefits
- Proposals which correct structural deficiencies in program design
- Retirement and health program changes developed through a collaborative effort, where the opinions of all relevant stakeholders are considered
- Proposals which add protection to the trust
- New retirement contract benefit options, when they include a proposal to consolidate contract options or promote the concept of Board-approved "pooling"
- Proposals which provide benefit improvements to excluded* employees which are consistent with those provided to represented employees
- Proposals which provide benefit improvements to excluded* employees and retirees to recognize the unique needs of those groups

*** NOTE:** For purposes of these Policy Standards, excluded employees are identified as those employees excluded from collective bargaining and not subject to a Memorandum of Understanding (MOU).

Innovator/Advisor: Design and recommend changes in benefits and new products, give the cost implications of proposed changes with alternatives when appropriate, and provide an unbiased analysis including the pros and cons of each proposal

Neutral or No Position:

- Proposals to change retirement benefits which are appropriately subject to collective bargaining and are consistent with other Board policies
- Proposals which do not significantly affect the benefit interests of our stakeholders and which do NOT significantly impact CalPERS benefits or the administration of the System
- Proposals to reclassify members from miscellaneous to safety, whether mandated or optional
- Proposals which have conflicting policy implications
- Health care industry mandates which add benefits or coverage's which are already included in the PEMHCA standardized health benefit package or are not detrimental to the program
- Health benefit proposals which mandate the health care industry to **offer** (rather than require) to the purchaser (CalPERS) benefit packages or design changes

Protector: Act when CalPERS is threatened, when mandates are proposed, or limitations to the Board's Authority arise.

Oppose:

- Proposals which threaten the Trust
- Proposals which deprive members of vested benefits and do not provide an equivalent, compensating benefit
- Any change which would endanger the tax-exempt status of CalPERS programs and the deferred treatment of income tax on employer contributions and related earnings

- Any investment mandate or restriction on the Board's investment authority
- Any benefit change which results in an unfunded liability and does not provide for proper actuarial funding
- Proposals which create a benefit change for a subcategory within a member classification, unless the proposal promotes the pooling
- Proposals which create unreasonable cost or complexity for the administration of the System
- Proposals which reduce or limit the Board's administrative authority
- Proposals which threaten the integrity of the PEMHCA purchasing pool concept or would result in adverse selection between plans
- Proposals which mandate benefits that would be detrimental to the CalPERS PEMHCA program

NOTE: "Stakeholders" means those people or entities who have an interest in the performance of the System, i.e., customers (members, beneficiaries, and employers), representative organizations, the Legislature, health providers, taxpayers.

These Legislative Policy Standards are meant to guide staff in formulating positions on legislative proposals and in no way bind the CalPERS Board of Administration from adopting a different policy position on any specific legislative proposal, as such proposals are presented to the Board.

Approved by the CalPERS Board of
Administration on October 22, 1997

California Public Employees' Retirement System
Board's State Ballot Initiative Policy Standards

CalPERS Mission

Our mission is to advance the financial and health security for all who participate in the System. We fulfill this mission by creating and maintaining an environment that produces responsiveness to all those we serve.

To fulfill its mission and to provide consistency in its policies, our Board of Administration shall adopt California State Ballot Initiative Policy Standards. In adopting these standards, the Board shall perform its duties for the exclusive purposes of providing benefits to participants and their beneficiaries, minimizing employer retirement contributions, and defraying reasonable expenses of administering the System. The Board's duty to its participants and beneficiaries shall take precedence over any other duty.

In accordance with our mission, we approve the following positions as they relate to California State Ballot Initiatives:

Support:
- Initiatives which give the Board flexibility in its administration
- Initiatives which provide remedies for inequitable, unfair, or discriminatory benefits provided by CalPERS
- Initiatives which add protection to trust funds administered by CalPERS

Neutral or No Position:
- Initiatives which do not directly affect the benefit interests of our stakeholders and which do not directly impact CalPERS benefits or the administration of the system
- Health care initiative mandates which add benefits or coverages which are already included in the PEMHCA standardized health benefit package or are not detrimental to the program
- Health benefit initiatives which mandate the health care industry to **offer** (rather than require) to the purchaser (CalPERS) benefit packages or design changes.

Oppose:
- Initiatives which threaten the trust funds administered by CalPERS. Initiatives which deprive CalPERS members of vested benefits and do not provide an equivalent, compensating benefit
- Any initiative which would endanger the tax-exempt status of CalPERS programs and the deferred treatment of income tax on employer contributions and related earnings
- Any investment mandate or restriction on the Board's investment authority
- Initiatives which reduce or directly limit the Board's administrative authority
- Initiatives which threaten the integrity of the PEMHCA purchasing pool concept
- Initiatives which mandate benefits to be included in CalPERS PEMHCA program

Approved by the CalPERS Board of Administration on October 22, 1997

- **NOTE:** These California State Ballot Initiative Policy Standards are meant to guide staff in formulating positions on ballot initiatives and in no way bind the CalPERS Board of Administration from adopting a different policy position on any specific type risks/costs analysis.

Approved by the CalPERS' Board of Administration on March 14, 2007
Revised March 18, 2009

2009-10 Health Policy Priorities for State Legislation Pursuant to Strategic Plan

Incorporation of Federal Health Priorities

The Board of Administration Federal Health Policy Priorities for 2009-10 are incorporated by reference into these State priorities.

Quality/Value/Access

Goal: Reduce rate of cost increases.

- Support legislation that will reduce large numbers of uninsured individuals, including universal coverage proposals that do not have a significant adverse impact on PEMHCA or on CalPERS members.
- Support legislation that will reduce the cost of prescription drugs for CalPERS and/or its members while also maintaining appropriate quality and access.
- Support legislation that will reduce cost-shifting to CalPERS, including cost-shifting from under-funded governmental programs.
- Support Medicare benefit changes that will reduce the cost of CalPERS supplemental benefits, including a meaningful expansion of prescription drug coverage.
- *Support legislation providing for Health Information Technology (HIT), balancing the value of electronic medical records to provide safe, high-quality care delivery and HIT's value to medical research activities, with the need to provide appropriate protections for individual privacy and consent concerns.*
- *Oppose legislation which would reduce size of the risk pool thereby adversely impacting the ability to negotiate favorable rates for a larger group.*

Goal: Focus on contributing causes.

- Support legislation that will create greater transparency in, and disclosure of, the cost of health care goods and services.
- Support transparency in the operations of health care service plans and other providers to the fullest extent possible without impairing patient-provider confidentiality.
- Support legislation that will enhance provider competition.
- Support legislation that will permit CalPERS members to obtain meaningful information about quality of care and cost of health services.

Relative burden of premium cost is largely a management-labor issue.

- Take no position on legislation pertaining to employer and employee cost sharing that is a result of collective bargaining and does not have a negative impact on current annuitants.

Goal: Reimbursements/purchasing based on quality and outcomes.

- Support legislation that will enhance evidence-based research and disclosure, including evidence-based prescription drug comparisons.
- Oppose mandated benefits when the efficacy of the proposed benefit is not supported by scientific, evidence-based research.
- Oppose legislation that would limit a health plan's ability to include in a provider contract reimbursement arrangements aligned with outcome or quality measures.

Stability

Goal: Stability of plan choice and provider networks.

- Support legislation that will provide continuity of care during network disruptions.
- Support legislation that seeks to protect patients from undue pressures during provider-plan contract negotiations or network disruptions.
- Support legislation that would seek to assure the financial viability of risk-bearing provider groups.

Goal: Stability in the CalPERS risk pool.

- Support legislation to stabilize and enhance *state and* public agency participation in the CalPERS health program.
- Oppose legislation that mandates a specific benefit design or other proposals that would limit CalPERS Board discretion in responding to market conditions.
- *Oppose legislation that destabilizes the risk pool.*

Choice

Goal: Allow participants to consciously select providers based on competencies, quality, and outcomes.

- Support legislation that will enhance decision-support tools, including the increased availability of provider cost and quality information.
- Support legislation to enhance affordable provider access in rural areas.
- Support legislation to standardize provider reporting of quality and financial information.
- Support legislation that promotes the ability of members and employers to make informed decisions resulting in improved lifestyle choices and health outcomes.

Approved by the CalPERS Board of Administration on April 18, 2013

CalPERS Federal Health Care Policy Initiatives

April 2013

Summary

CalPERS advocates for policies that aggressively improve quality and value in our health care system; stabilize and rationalize insurance markets; systematically constrain -- rather than shift -- health care costs; and promote transparency in the reporting of cost and quality.

Initiatives

Transparency

- Advocate for efforts to mandate the release of contractual arrangements between health plans and providers, for both for-profit and not-for-profit organizations, to promote transparency in the reporting of cost and quality
- Advocate for improved financial disclosures for not-for-profit health care providers, including hospitals and physician practices

Prescription Drugs

- Advocate for the development of a clear, efficient and timely regulatory pathway to bring generic biologics to market, including specialty drugs, and remove arbitrary access barriers for patients
- Advocate for efforts to end anti-competitive arrangements between brand and generic pharmaceutical companies – so-called “pay for delay” settlements
- Advocate for initiatives to allow Medicare to enter into direct negotiations with pharmaceutical manufacturers in order to obtain discounts on prescription drugs

Waste, Fraud and Abuse

- Advocate for policies, including new federal resources included in the Affordable Care Act (ACA) that aggressively target waste, fraud and abuse, including increased penalties for false claims; enhanced oversight of suppliers; and greater scrutiny of areas identified as being at elevated risk of fraud in all programs

Quality in Health Care

- Advocate for the implementation of the National Quality Strategy as established by the ACA, which will set benchmarks and targets to improve delivery of health care services, patient health outcomes and population health, in addition to prioritizing measures and data that identify the highest value interventions. This should include the continued implementation of the Health Information Technology for Economic and Clinical Health (HITECH) Act and other federal incentives to expand the adoption of HIT platforms across providers, thereby improving quality, ensuring efficiency in health care delivery and preventing medical error

Medicare

- Advocate for the implementation of policies that strengthen the Medicare program by constraining cost growth, improving health care quality and extending the life of the Medicare Trust Fund
- Advocate for the Center for Medicare and Medicaid Innovation (CMMI) in order to test, evaluate and expand new payment structures, models and methodologies to reduce

Approved by the CalPERS Board of Administration on April 18, 2013

program expenditures while maintaining or improving quality of care, including into the commercial market
- Advocate for the implementation and establishment of new delivery and payment reforms in Medicare that establish incentives for providers to improve health care quality and constrain cost growth, such as accountable care organizations, bundling arrangements and competitive bidding

Long-Term Care
- Advocate for federal policies that maximize the successful implementation coverage offerings for CalPERS Long-Term Care Program
- Advocate for policies that will coordinate Medicare benefits with long-term care coverage

Approved by the CalPERS' Board of Administration on November 13, 2007

2007-08 Federal Legislative and Regulatory Investment Policy Guidelines

Overarching Principles

- To preserve and enhance the independent fiduciary authority of institutional investors, to act for the exclusive benefit of their plan participants and beneficiaries; and

- To advocate for a global financial marketplace that ensures the long-term sustainability of the plan's investments and values responsible corporate conduct as well as shareowner engagement; and

- To advocate for the enhancement of the retirement security of public sector employees through participation in savings plans that supplement their defined benefit plans.

Fiduciary Authority

Support efforts to preserve the investment authority of plan trustees and administrators, and to act as independent fiduciaries on behalf of plan participants and beneficiaries.

Oppose policies that restrict or direct investment options and decision-making such as any federally mandated investment restrictions or requirements.

To not oppose Federal investment restrictions, provided that any restrictions be imposed consistently among all U.S. investors, in the event that the Federal government determines that an investment is not in the national interest of the United States of America.

Global Financial Marketplace

Support policies that enable a healthy, accessible, and transparent global marketplace and the sustainability of our long term investments.

Oppose policies that could serve to limit the health, accessibility, or transparency of the global marketplace, or the sustainability of our long term investments

Corporate Accountability

Support actions and policies that support effective implementation of the spirit of, as well as the goals and objectives embodied within, the Sarbanes-Oxley Act.

Support policies that enhance greater communication and transparency between companies and investors.

Support policies that encourage a corporate culture of accountability and transparency wherein directors are accountable to shareowners and management is accountable to directors.

Oppose efforts to reduce investor rights and protections.

Shareowner Rights

Support efforts to ensure meaningful accountability in the boardroom and that establish the alignment of the interests of directors with those of shareowners, such as providing shareowners with an effective mechanism to nominate qualified directors.

Support efforts to require shareowner input on executive compensation, such as enhanced transparency regarding the design of compensation policies; greater linkage between corporate performance and compensation, and opportunities to vote on compensation policies.

Support policies that encourage the implementation of majority vote election procedures for corporate directors.

Energy and the Environment

Support policies that improve transparency and timely disclosure of environmental risks, such as those associated with climate change that will enable investors to evaluate both risk and opportunities.

Support the development of a clear and predictable national climate policy that will enable businesses to evaluate and justify large-scale, long-term capital investments necessary to transition to a cleaner, more energy efficient economy.

Support the alignment of energy and transportation policies to stimulate new technologies that will enhance competitiveness and innovation leading to meaningful greenhouse gas reductions.

Supplemental Savings Plans

Support policies that enhance supplemental savings plans as a means to encourage participants to save for retirement and supplement their defined benefit pensions.

Diversity

Support policies and programs that recognize diversity as an important business issue that enhances competitiveness and innovation.

Approved by the CalPERS' Board of Administration on April 16, 2011

CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM

Federal Legislative and Regulatory Policy Guidelines for Retirement Security

OVERARCHING PRINCIPLES

According to research[i] conducted by the National Institute for Retirement Security, nearly 9 out of 10 Americans believe the U. S. retirement system is under stress and needs to be reformed. More than 80% of Americans believe that the recent economic downturn exposed the risks of America's retirement system. Nearly three-quarters of Americans believe that stock market volatility makes it impossible for the average American to predict how much money they will have in their nest egg when they retire. In this context, CalPERS underscores its commitment to the fundamental principles of a defined benefit retirement plan as the foundation for a secure retirement.

PRIORITIES

Retirement Benefits

- Support defined benefit retirement plans that provide sound income replacement in retirement through shared employee – employer responsibility, pooled and professionally managed investments and lifetime benefits.

- Support Federal policies that expand opportunities for workers to have access to a pension plan that would provide guaranteed retirement security based on the core principles of a defined benefit retirement plan.

- Support federal tax policies that encourage the preservation of pension plans and retirement savings accounts by allowing the deferral of taxation of contributions and earnings until benefits are paid throughout their retirement; oppose the taxation of public employee retirement system earnings, transactions, and contributions.

- Support policies that ensure the highest level of integrity and accountability in the administration of supplemental retirement accounts; including fee disclosures, asset allocation of target date funds, lifetime income disclosures and leakage mitigation techniques.

- Oppose any federal effort to mandate pension plan design features or to establish policy barriers that would undermine the preservation of pension benefits currently guaranteed by state and local retirement plans; oppose policy barriers that would limit the reestablishment of meaningful retirement security in the private sector.

Retirement Plan Funding and Accountability

- Support policies that report public pension fund liabilities in a manner that reflects: the long term nature of public employee retirement plans and governmental plan sponsors; the historical investment performance and reasonable expectations for future income; and the guarantee of public pension benefits under State constitutions, statutory, contractual and/or case law.

- Support accounting standards that preserve the link between accounting and funding; support policies that use portfolio diversification, smoothing of investment gains and losses, and managing growth in liabilities to minimize contribution volatility in order to maintain predictable budget requirements and enhance the ability of state and local governments to meet their funding obligations.

- Support the Governmental Accounting Standard Board (GASB) as an independent organization which is representative of state and local governments and reflects the unique accounting needs of the public sector and its stakeholders.

- Oppose any legislation that would establish a federal mandate that would require specific funding, accounting or actuarial standards for state and local pension plans or that would otherwise intervene in the independence of state and local governments to administer their plans within generally accepted accounting and actuarial standards.

Social Security

Since any failure of the Social Security system – the ultimate retirement safety net – to maintain benefits could place additional burdens on CalPERS, the system must be preserved for all current and future generations of Americans.

- Support policies that would extend the long-term solvency of the Social Security system without reducing benefits for CalPERS members and other Americans who participate in the system; oppose any effort that would convert the current Social Security system to a system of private accounts that would jeopardize the retirement security of CalPERS members.

- Support the option for state and local governments, who were originally precluded from participation in the Social Security system, to voluntarily elect to participate in the Social Security system; oppose any federal legislation that would mandate social security coverage for all state and local governmental employees.

- Support reasonable reforms of certain provisions of the Social Security Law that reduce or eliminate Social Security benefits for public employees who receive a public pension, such as the Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP) .

---

[i] Pensions and Retirement Security 2011 – A Roadmap for Policy Makers, National Institute on Retirement Security, March 2011