CalPERS' Federal Legislative and Policy Priorities for the 119th Congress

Investments

Millions of Americans, including CalPERS' members, rely on the financial markets for their retirement security. For CalPERS, 55 cents of every dollar we pay in benefits come from investment returns. With a $530 billion pension fund and liabilities for decades ahead, we need to generate a 6.8% rate of return per year. Therefore, the sustainability of portfolio companies and safety, soundness and efficiency of financial markets are of vital importance. Long-term value creation requires effective management of three forms of capital: financial, physical, and human. In furthering this goal, we will advocate that Congress and financial regulators focus on the following priorities:

Efficient and Equitable Markets

- **Corporate Governance, Shareholder Proposals, and Proxy Voting Advisors**
  Corporate governance and the ability of investors to submit shareholder proposals and have access to proxy voting advisors and research help ensure that companies are managed in a way that aligns with shareholder interests and long-term value creation. Strong corporate governance practices enhance transparency, accountability, and decision-making, reducing risks and improving financial performance. Shareholder proposals provide an essential avenue for investors to influence corporate policies on sustainability, executive compensation, and other key matters. Access to proxy voting research empowers investors to make more informed decisions. These elements collectively help investors manage risks, drive better corporate practices, and maximize returns. We will support policies that strengthen shareholder rights, producing a better company-shareholder engagement system.

- **Market Manipulation and Fraud**
  There continues to be a need to closely monitor market fraud and related activities, and heighten scrutiny on investment activities, including disclosures, accounting, and due diligence. We will work with the Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB) to address accounting and fraud related issues.

- **Sustainable Equity Market Structure**
  We invest in global equity markets for their ability to provide exposure to economic growth and serve as a reliable source of liquidity. We will advocate for policy proposals that strike an appropriate balance between encouraging entrepreneurship and capitalism, with the need for strong antitrust policies and curbs on monopolistic competition by the Department of Justice (DOJ) and the Federal Trade Commission (FTC). We will also closely monitor SEC market structure rules that may impact our own liquidity.

- **Equitable Credit Risk Assessment of U.S. Pensions**
  CalPERS routinely works with a number of large banking organizations to obtain an array of financial products and services, including derivatives, so that we may grow and manage our fund on behalf of our beneficiaries. Any proposal that would seek to change bank capital rules should consider the relative risk assessments assigned to highly regulated, transparent, low-risk public pension funds. Any risk weighting changes to public pensions should be commensurate with other entities that pose similar credit risks. While the original Basel III Endgame proposals included a requirement to hold publicly traded debt in order to obtain more favorable risk weightings, the most recent guidance from the federal regulators appears to acknowledge the exception for low-risk public pension funds. We will advocate for regulatory changes that ensure equitable risk assessments for public pension funds.

- **Enhance Market Liquidity**
  The two major financial market shocks of 2008 and 2020 led the U.S. Treasury Department and Federal Reserve System to develop several asset purchase and lending facilities that provided liquidity for companies and government entities authorized to participate. As major market participants, pension funds can also benefit from access to these types of emergency liquidity facilities during periods of major market stress. We will engage with policymakers and regulators to explore future opportunities for pension funds to participate in these types of programs designed to improve the effective flow of capital and support sustainable economic growth.

- **Housing**
  CalPERS seeks competitive risk-adjusted returns while contributing to the increase or improvement of the supply of market-rate and affordable housing. Recent substantial increases in mortgage interest rates highlight the need to preserve the liquidity of the mortgage-backed securities market and protect taxpayers from uncompensated catastrophic housing risk exposure. We will advocate for housing finance reforms and national mortgage-serving standards that protect investors, honor the seniority of debt holders, and provide enhanced data access.

- **Insurance**
  Insurance plays a critical role in promoting efficient and equitable markets, particularly as climate change intensifies the frequency and severity of extreme events such as wildfires, flooding, and hurricanes. These disasters can disrupt supply chains, devastate communities, and impose significant financial burdens on individuals, businesses, and local governments. We will support data-sharing policies and initiatives between insurers, governments, and businesses that improve risk assessment and enable more accurate pricing models that mitigate premium volatility over time and prevent insurance coverage gaps. We will support policies that promote transparent and consistent reporting of climate-related risks by insurers, guided by reporting frameworks like the one developed by the International Sustainability Standards Board (ISSB), that foster accountability and market stability.

Portfolio Opportunities and Resilience

- **Technology**
  Effective policies concerning technology, including cybersecurity, cryptocurrency, and artificial intelligence (AI), are critical to the performance, stability, and resiliency of the market and the long-term performance of our portfolio. While innovations in cryptocurrency and decentralized finance promise new investment opportunities and increased financial inclusion, the lack of comprehensive regulatory frameworks increase volatility and potential risk. Similarly, the rapid integration of AI within organizations can enhance efficiency and decision-making, but also created potential risks related to data integrity and cybersecurity. Effective regulation of these technologies, governed by consistent standards, promote trust and stability in investment markets and the wider economy.
    - **Cybersecurity:** We will support policies requiring public companies to periodically disclose information on their cybersecurity risk management, strategy, and governance practices and to report material cybersecurity incidents in a timely manner.
    - **Cryptocurrency:** We will support policies that apply like-kind regulatory standards and enforcement mechanisms to financial products and services, regardless of the technology behind those products and services.
    - **Artificial Intelligence:** We will support policies that promote transparency in AI application and decision-making, enforce standards through frameworks such as risk-based classification, and ensure strong cybersecurity and data protection.

- **Sustainable Business Practices**
  Climate change presents profound long-term risks and opportunities to our portfolio requiring a comprehensive and forward-thinking approach. Physical impacts (e.g., wildfires, extreme weather, sea-level rise, drought) can affect our investments (e.g., real estate) and disrupt portfolio companies' supply chains and operations. Climate change's acute and chronic physical impacts can affect people's health, food security, migration, water supply, and other ecosystem services in ways that could increase volatility in financial markets and harm economic growth. Transition shifts or risks in policy, technologies, industries, and customers, due to changed climate norms or movement towards a lower-carbon economy, can affect the financial success of existing business models and industries. Our portfolio companies' long-term success depends on the degree to which they can successfully navigate these transitions. As such, in line with our fiduciary duty, it is critical to consider climate-related risks as a factor that can significantly impact long-term returns to the fund.
    - **Carbon Pricing and Carbon Adoption:** We will advocate for effective carbon pricing mechanisms and prioritize promoting climate adaptation strategies that enhance resilience in vulnerable regions in order to mitigate future risks.
    - **Resource Extraction:** We will emphasize the importance of responsible resource extraction practices, particularly for raw materials essential to clean energy technologies. Ensuring that extraction is conducted in ways that minimize

environmental harm and respect human risks is vital to sustainable growth and the long-term stability of supply chains.
    - **Corporate Disclosures:** We will support policies, including adopting the ISSB standards, that enhance corporate disclosures on governance, strategy, and risk management related to climate change. Accurate, timely, and standardized disclosures enable informed decision-making for investors and allow us to better account for risk.

- **Energy and Infrastructure**
  The rapid electrification of industry, transportation, and digital infrastructure, such as data centers and AI, demand significant investment in modernizing energy transmission and distribution systems. Reliable, scalable, and efficient energy infrastructure is critical to meeting this increased demand while ensuring the stability, security, and resilience of the grid. We will advocate for policies that facilitate the development and upgrading of transmission networks, streamline permitting for energy projects, and promote regional coordination to integrate renewable energy sources effectively. By engaging with policymakers and regulators, we aim to create a regulatory environment that contributes to the expansion of essential energy infrastructure, aligning our long-term risk-return objectives.

- **Human Capital Management**
  We support human capital disclosure and governance practices that reflect internationally recognized standards, including those in our Labor Principles, that reflect the shared understanding of safe and healthy workplaces and the value of those who contribute their time and skills to work that benefits companies and investors alike. Proper management of human capital has been a cornerstone of the CalPERS Investment Beliefs as we see it vital to the long-term value creation and risk mitigation of the companies we invest in.
    - **Corporate Disclosures:** In collaboration with the Human Capital Management Coalition (HCMC) and other stakeholders, we will engage proactively to shape and support regulatory standards that promote transparency, accountability, and responsible workforce practices. We will advocate for enhanced reporting requirements, urging the SEC, the Financial Accounting Standards Board (FASB), and the International Accounting Standards Board (IASB) to include standardized, line-item disclosures on workforce demographics, turnover, total cost of the workforce, health and safety, productivity and compensation, diversity, and human rights. We will also engage with the ISSB to expand and refine its human capital management disclosure standards, to promote globally consistent and comparable metrics.
    - **Corporate Governance:** Consistent with the CalPERS Labor Principles, we will advocate for sound governance structures and practices that protect workers' freedom of association and right to collective bargaining, and practices which promote a safe and healthy work environment. We will also advocate for the

elimination of all forms of forced, compulsory, or child labor, and discrimination in respect of employment and occupation.

Health

With more than 1.5 million members, CalPERS is the largest purchaser of public employee health benefits in California and the second largest commercial purchaser in the nation after the federal government. In 2023, we spent over $11.3 billion to purchase health benefits for active and retired members and their families on behalf of the State of California (including the California State University) and nearly 1,200 public agencies and schools. Approximately 21% of our $11.3 billion spend was for outpatient prescription drugs alone. CalPERS strongly supports legislative and regulatory changes that improve health care quality, access, and affordability for our partners and members. Specific priorities during this Congress include:

- **Reducing Prescription Drug Prices**
  Rising prescription drug costs are driven largely by the growing number and increasing launch prices of specialty drugs and gene therapies, which represent a small fraction of drugs prescribed and administered, but account for almost half of the overall CalPERS spend.
  - We support, and are committed to working with, the federal government in continuing their efforts to negotiate drug prices for Medicare.
  - We support policies that will accelerate generic and biosimilar drug market entry and limit anti-competitive arrangements used by drug manufacturers that block or delay the entry of lower-cost generic drugs and biosimilars.
  - We support legislation that requires Pharmacy Benefit Managers (PBMs) to publish their prescription drug data to increase cost transparency and PBM accountability.
  - We continue to support pharmacy legislation and policies that advance value and safety, and that safeguard against sudden market impacts and unwarranted drug price increases.

- **Addressing Anti-Competitive Behavior within the Healthcare Market**
  Consolidation of health care providers has increased costs and reduced access for CalPERS members.
  - We support measures enabling federal and state oversight of horizontal, vertical, and cross-market mergers and acquisitions, as well as increased transparency and information regarding market activities, to help contain health care costs.
  - We support policies that encourage a more open market, foster competition, drive innovation, improve quality, and reduce health care costs.
  - We support policies prohibiting “anti-tiering” and “anti-steering” clauses in contracts between providers and health plans that restrict plans from directing patients to use specific providers and facilities with higher quality and lower prices.

- **Improving Access to and Delivery of Behavioral Health Treatment**
  The burden of untreated and undertreated behavioral health conditions is both a major population health problem and a delivery system challenge. While important improvements have been made in care delivery, our behavioral health systems continue to experience limited workforce capacity and inadequate infrastructure to track and improve outcomes at the patient and population levels.
    - We support proposals aimed at integrating behavioral and physical health and, with a focus on early intervention and treatment, to improve health outcomes, save money, and reduce stigma.
    - We support bolstering the country's behavioral health resources and workforce at all levels of care, including expanded roles for non-physician providers, community health workers, and team-based case management.
    - We support improved accuracy of health care provider directories and stronger enforcement standards to protect those seeking mental healthcare and substance use treatment.

- **Promoting Healthcare Delivery Improvements**
  CalPERS believes that innovative and tested delivery system reforms can result in better healthcare quality, access, and reduced costs through collaborative efforts across purchasers and providers. CalPERS regularly engages with both state and federal purchasers, California health care entities, and national organizations, on a range of initiatives, including promoting alternative payment models, aligning policies to foster improvement in care, health equity, innovative digital health strategies, and shifting existing health care structures toward a value-based healthcare system. Multi-payer alignment on primary care investment, measurement, and value-based payment is essential to strengthening primary care.
    - We support delivery system reforms that use data and patient-reported outcomes to drive change at the patient, practice, and population levels.
    - We support better financial alignment between purchasers and providers to promote value-based care, enhance efficiency, and improve health outcomes.
    - We support payments for primary care that move away from fee-for-service and toward capitation, which better aligns payment incentives and supports investments in population health management.
    - We support standardized data collection and alignment across healthcare purchasers, using a focused set of clinically relevant quality measures to drive large-scale improvements in healthcare.
    - We support health equity strategies that close gaps in health and health care access, quality, and outcomes, and that invest in solutions to address health disparities.

- **Protecting Insurance Coverage and a Promoting a Robust Public Health Infrastructure**
  Comprehensive insurance coverage and access to preventive services are essential elements of a stable and cost-effective health care system. When populations lack insurance, costs shift to commercial insurance through uncompensated care, which is exacerbated by increased emergency room usage and limited access to preventive services. This drives up overall healthcare expenses, leading to higher premiums for insured individuals. It can also be detrimental to the stability of existing services, which further erodes quality and access to care.
  - We support maintaining federal investments and programs that reduce the number of uninsured Californians, such as Medicaid and the Affordable Care Act.
  - We support maintaining the integrity of the Medicare program to ensure access to high-quality, equitable-care and affordable coverage for our members.
  - We support fortifying key agencies under the Department of Health and Human Services—including the Food and Drug Administration, Centers for Medicare and Medicaid Services , Centers for Disease Control and Prevention, and the National Institutes of Health—to further their missions to curb the rising rates of chronic disease, increase utilization of preventive healthcare services (such as screening and vaccinations), ensure the safety and efficacy of medicines, and drive scientific advancements in healthcare.
  - We seek to ensure that all our members, regardless of where they live, have full access to all types of essential care, including reproductive healthcare and gender affirming care.

Retirement Security

CalPERS is the nation’s largest public pension system, with approximately 2.2 million members from California’s state, school, and public agency employers. CalPERS also administers supplemental income plans with over forty thousand participants. Keeping our promise of a secure pension remains a cornerstone of our mission and we will continue to focus our efforts to ensure the long-term sustainability of pension funds. Specific priorities in this Congress include:

- **Advance Retirement Savings and Security for All Employees**
  In our leadership role, CalPERS advocates for retirement security for America’s workers and for the value of defined benefits plans, retirement savings accounts, and Social Security.
  - We support proposals that would extend the long-term solvency of Social Security.
  - We support proposals that provide flexibility and improve retirement savings options.
  - We support policies that maintain state and local government options to elect participation in Social Security.

- **Protect Defined Benefit Plans**
  We will work to inform Congress, the Administration, and other national opinion leaders about defined benefit plans and the value they provide, not only to public sector employees, but to the general economy.
    - We support federal tax policies that encourage the preservation of pension plans by maintaining the deferred taxation of contributions and earnings until contributions are withdrawn or benefits are paid in retirement.
    - We oppose the taxation of public employee retirement system earnings, transactions, and contributions.
    - We oppose proposals that provide federal incentives or options to replace defined benefit pension plans, or proposals that place federal restrictions on state and local pension plan design flexibility.

- **Appropriate Plan Funding and Accountability**
  We support proposals for transparent financial reporting using industry-recognized accounting and actuarial standards that reflect the unique and varying legal and financial constructs of governmental plans, as well as efforts to minimize misunderstanding and misuse of retirement systems' financial and actuarial reporting.