VIDEOCONFERENCE MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

FINANCE & ADMINISTRATION COMMITTEE

ZOOM PLATFORM

MONDAY, APRIL 19, 2021

10:05 A.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
LICENSE NUMBER 10063

APPEARANCES

COMMITTEE MEMBERS:

David Miller, Chairperson

Theresa Taylor, Vice Chairperson

Henry Jones

Fiona Ma, represented by Frank Ruffino

Stacie Olivares

Jason Perez

Ramon Rubalcava

BOARD MEMBERS:

Margaret Brown

Rob Feckner

Lisa Middleton

Eraina Ortega

Shawnda Westly

Betty Yee, represented by Lynn Paquin

STAFF:

Marcie Frost, Chief Executive Officer

Dan Bienvenue, Interim Chief Investment Officer

Michael Cohen, Chief Financial Officer

Matthew Jacobs, General Counsel

Scott Terando, Chief Actuary

Kelly Fox, Chief, Stakeholder Relations

APPEARANCES CONTINUED

STAFF:

Jennifer Harris, Chief, Financial Planning, Policy and Budgeting Division

Justin Heeb, Assistant Chief, Operations Support Services Division

Pam Hopper, Committee Secretary

Nina Ramsey, Associate Pension Actuary

Dallas Stone, Chief, Operations Support Services Division

Paul Tschida, Senior Pension Actuary

ALSO PRESENT:

J.J. Jelincic

Mr. David Soares, Retired Public Employees Association

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PROCEEDINGS

CHAIRPERSON MILLER: It's 10:05 by my clock, so I'll call the Finance and Administration Committee open session to order.

And the first order of business is the roll call.

Ms. Hopper, please

COMMITTEE SECRETARY HOPPER: David Miller?

CHAIRPERSON MILLER: Here.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: Here.

COMMITTEE SECRETARY HOPPER: Frank Ruffino for Fiona Ma?

ACTING COMMITTEE MEMBER RUFFINO: Present.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

Jason Perez?

COMMITTEE MEMBER PEREZ: Here.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

Theresa Taylor?

VICE CHAIRPERSON TAYLOR: Here.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Here.

COMMITTEE SECRETARY HOPPER: Mr. Chair, I have everyone in attendance with the exception of Stacie Olivares. I do not show that she's connected yet as of right now.

CHAIRPERSON MILLER: Yeah, I do not see her either. Let me see if I've got anything in the chat.

No, I do not see anything. I think if we'll take a moment or two, if someone could -- staff could reach out and see if we can see what's happening with Ms. Olivares whether she's going to be -- whether she's having technical problems or anything.

COMMITTEE SECRETARY HOPPER: I see her now.

CHAIRPERSON MILLER: Okay. There she is.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Here.

COMMITTEE SECRETARY HOPPER: Thank you.

Mr. Chair, all is in attendance.

CHAIRPERSON MILLER: Thank you, Ms. Hopper.

Okay. Our first item to take up now is Item number 2, approval of the April 19th, 2021 Finance and Administration Committee timed agenda. What's the pleasure of the Committee?

VICE CHAIRPERSON TAYLOR: Move approval.

COMMITTEE MEMBER JONES: Move approval.

Second.

CHAIRPERSON MILLER: Okay. Moved by Ms. Taylor, seconded by Mr. Jones.

Any discussion on the matter?

I'll call for the question. Ms. Hopper, would you please call the roll.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: Aye.

Henry Jones?

COMMITTEE MEMBER JONES: Aye.

COMMITTEE SECRETARY HOPPER: Frank Ruffino for Fiona Ma?

ACTING COMMITTEE MEMBER RUFFINO: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Aye.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Aye.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

COMMITTEE SECRETARY HOPPER: Theresa Taylor?

VICE CHAIRPERSON TAYLOR: Aye.

COMMITTEE SECRETARY HOPPER: Mr. Chair, I have the motion being made by Theresa Taylor, seconded by Henry Jones with all ayes.

CHAIRPERSON MILLER: Okay. The ayes have it.

On to Item 3, the Executive Report, and I will call on Mr. Cohen for the executive report.

CHIEF FINANCIAL OFFICER COHEN: Thank you, Mr. Chair. Good morning, Board members. Michael Cohen with the CalPERS team. I have two items to report this morning as part of the executive report.

The first one is a reminder to those who are watching that next week, Tuesday, April 27th, we'll have our second quarterly asset liability management webinar. This, as you'll recall, is designed to keep our stakeholders up to date on what's going on with the ALM process as it heats up through the rest of the calendar year.

And the second note is more unfortunate. And that one is that CalPERS filed a lawsuit on Friday against one of our former long-term employees, given that she had illegal accessed ten dormant retiree accounts and diverted funds from those accounts. These dormant accounts represent a very small portion of the overall portfolio of CalPERS member accounts, but we will make all of the accounts whole. And as part of our investigation, we are conducting a forensic audit.

We have added additional security protocols to lock those dormant accounts down as this investigation continues. This employee is no longer here. And as I mentioned, we did file the lawsuit in an effort to recover all of the stolen funds. We are working with law enforcement and we have sent notification to all of our team members, stakeholders, and so forth in the last few minutes. There's additional information that I would point anyone who's interested to on our website, including a copy of that lawsuit.

And so with that, I'll turn it back to you, Mr. Chair.

CHAIRPERSON MILLER: Thank you, Mr. Cohen. Does anyone have any questions or comments for Mr. Cohen at this point?

Seeing none.

We'll move on to Action Consent items. And I do have a request to pull Action Consent Item 4b. So this will be for 4a, c, and d. So what's the pleasure of the Committee?

VICE CHAIRPERSON TAYLOR: Move approval.

CHAIRPERSON MILLER: Moved by Ms. Taylor.

COMMITTEE MEMBER JONES: Second.

CHAIRPERSON MILLER: Seconded by Mr. Jones.

Okay. I'll -- any discussion?

I'll call for the question.

Ms. Hopper.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: Aye.

COMMITTEE SECRETARY HOPPER: Frank Ruffino for Fiona Ma?

ACTING COMMITTEE MEMBER RUFFINO: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Aye.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Aye.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

COMMITTEE SECRETARY HOPPER: Theresa Taylor?

VICE CHAIRPERSON TAYLOR: Aye.

COMMITTEE SECRETARY HOPPER: Mr. Chair, I have a motion being made by Theresa Taylor, seconded by Henry Jones for items 4a, 4c and 4d.

CHAIRPERSON MILLER: All right. Thank you, Ms. Hopper. The ayes have it. The motion carries.

And so we'll now turn back to Item 4b on the action consent items. And I'll come back to Mr. Cohen to present this one.

CHIEF FINANCIAL OFFICER COHEN: Sure. So this one is an annual contracting prospective report to notify the Board of upcoming contract amounts. If there's any questions, I'll probably need some help in pulling some folks into the meeting to answer those. But given that this was a consent item and a routine report and I don't have a prepared presentation for you.

CHAIRPERSON MILLER: Okay. Thank you.

Questions from any of the Board?

Okay. It looks like Ms. Brown has a question.

BOARD MEMBER BROWN: Yes. Thank you. I thought you were going to skip me.

(Laughter.)

BOARD MEMBER BROWN: Mr. Cohen, I have some just general questions and then a few specific ones. And so I'm looking right now at page 12 where it talks about the -- what the prospective report includes. And a lot of these are -- we talk about contracts of a million dollars or more. And, you know, I'm feeling like I want to see this number lowered to $500,000 or more, especially when you look at these bullet points that say any amendments or items previously reported by the Committee when the amount is increased by a million or more. So that means if that contract is increase by $900,000, the Board doesn't see it. I just think a million dollars is a pretty big threshold for us and I'd like to see that number lowered. I don't know -- I don't think it really increases the workload. It's just a few more pages in the report.

And So I'd like to see that for more oversight and accountability. A lot of these we don't see. We also don't see purchase orders. I've asked at the last meeting or maybe two meetings ago, if I could see the purchase order listing, because I did want to see some of those. But -- so let me -- so can I have your comment about lowering it to 500,000?

CHIEF FINANCIAL OFFICER COHEN: Sure. I mean, I think if I recall correctly - and why don't we go ahead and have Dallas Stone brought into the meeting, given he oversees the Contracting Unit of CalPERS. But I -- my understanding is that this report the threshold is set by, you know, Committee policy, so obviously a Committee vote to lower the threshold we'll happily comply with that. But there is, I will say, from my experience on the sort of providing information for this reports, it does take a fair bit of work to, you know, pull it together. It's not sort of an automated report. So it's -- there is some workload associated with putting it together each time. But obviously, we'll comply with the desires of the Board regarding any information and --

BOARD MEMBER BROWN: Well, let me ask you a question. We prepare this report twice a year?

CHIEF FINANCIAL OFFICER COHEN: That's correct.

BOARD MEMBER BROWN: Okay. And I assume it's a query we run to get the -- to get the dollar amounts over a million? It would be the same query, except you'd lower the amount to 500,000. I don't know our systems. Maybe Dallas can tell us how easy that would be, but I -- that's one of my asks. And then let me give you the two other ones, so we can grab them as well.

CHIEF FINANCIAL OFFICER COHEN: Sure.

BOARD MEMBER BROWN: Moving to page 15, BlackRock Financial Management, Inc. And it says contract amendment to add services, fees to be negotiated. And so I want to know what those services are we're getting from BlackRock. And I know you'll need to bring somebody on to answer that question.

And then my next question, and this is more generic for you, Mr. Cohen. As I look on page 17 and when we talk about these new contracts, what's interesting is typically when a public agency has contracts, usually they have not to exceed, not to exceed two million, not to exceed four million. Except when we look at the details of these contracts, I'm looking specifically at items 4 for Jeffries LLC, and then one and two, Berman Tabacco and Orrick Herrington. These say what they're expected to exceed. And typically, when we give a contract for services, we -- or even things, we say what it shall not exceed. And so I'm wondering why we do it this way.

CHIEF FINANCIAL OFFICER COHEN: Sure. Let me pass it over to Dallas. But on that specific question, I think I can answer it. Talking about the over a million dollars is because it's hitting the threshold to be included in the report. But let me turn it to Dallas and also see if we can get Dan from the Investment Office to pop in on the BlackRock question.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: Thank you, Michael. And can we also promote Justin Heeb. He's our Assistant Chief over our contracts and procurement area.

So Ms. Brown, just to answer your question with regard to the amount of work or the work that goes into putting this agenda item together twice a year. So what we do is we reach out to each program area, because again you need a prior approval before these contracts can be executed. So we reach out to each program area asking them if they have any contract solicitation services that they will be trying to execute that would exceed the million dollar threshold.

We collect all of those requests. We compile them in that report and then we send it to you through the Board for prior approval before those are executed. So by lowering the threshold, that would just require us again to reach out to each program area with that $500,000 threshold and asking them to provide that information, which would be added to that report.

Would it add additional workload? It would most likely turn into additional items being placed on that report, but the process would remain the same.

BOARD MEMBER BROWN: Thank you.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE:

You're welcome.

BOARD MEMBER BROWN: Do you want to answer the other part of the question -- Michael, did you want him -- sorry, Mr. Cohen, did you want him to answer the other part of the question as to why the contracts say exceed two million as opposed to the contract term, which is not to exceed two million?

CHIEF FINANCIAL OFFICER COHEN: Sure. Go ahead Dallas, if you've got something to add to what I --

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE:

Yes. So if a contract was previously approved by the Board, let's say it had a $2 million threshold, and we know that it could possibly exceed a $3 million threshold or it goes over that hundred -- that $1 million mark, it needs to go back to the Board for additional approval, if it was to exceed that million dollar threshold. I don't Know, Justin, if you want to add anything to that with regards to why we have the exceeding language on there.

OPERATIONS SUPPORT SERVICES ASSISTANT DIVISION CHIEF HEEB: Yeah. Dallas, that is correct. So anything that may exceed that next million dollar mark to give us the ability to contract out, we would put that in the report as "may exceed" to allow us to have -- if the Board approves, to allow us to have the option to enter into a contract for those services that may exceed that amount.

That's why you see the language as the way it is listed in this report.

BOARD MEMBER BROWN: So, Mr. Heeb, if we look on page 16, the second box, number two, Orrick, Herrington and Sutcliffe, and it says that the estimated contract amount is expected to exceed one million. So does that mean it will not exceed two million, is that what that means?

OPERATIONS SUPPORT SERVICES ASSISTANT DIVISION CHIEF HEEB: Correct, Ms. Brown. If the contract were to get close to the $2 million mark or possibly exceed, we would need to come back to the Board and receive that approval. So with the approval of the way that that contract is written into this report, that contract may go up to, if approved, $1.9 million as currently written without coming for approval. You are correct.

BOARD MEMBER BROWN: Yeah. That's backwards the way that's written, in my opinion. Maybe other members of the Committee could say. But typically, if a contract is not going to exceed two million, that's what it would say, because it gives the impression that this contract is a million, but this contract is really a million 999999. All right. Those are my comments. I don't know if any of the other Board members have comments about this, but it's -- you know, it's (inaudible)--

GENERAL COUNSEL JACOBS: Ms. Brown. I have something to add on that, Ms. Brown. I think you're getting -- there's a distinction to be drawn here between what the contract itself says and the process that we're engaged in for the purpose of this report.

The contracts typically have a not-to-exceed amount in them. What we're talking about here is just because it may exceed, which is what Mr. Heeb and Mr. Stone are putting in here, a threshold that was determined by the Board, they're reporting it. But that's different from the contract itself having a not-to-exceed number in it, which I believe most of these or all of them do.

BOARD MEMBER BROWN: Thank you, Mr. Jacobs, for explaining that to us. I'm just saying that this report is misleading, because you look at that one million and you think they're getting a million dollar contract, but really they could be getting up to a two million -- well, a million nine hundred thousand dollar contract. That's all I'm saying that this report is a bit misleading.

Thank you.

CHIEF FINANCIAL OFFICER COHEN: And, Board Member Brown, did you have a specific question on BlackRock? I see Dan has joined us.

BOARD MEMBER BROWN: Yeah. So the question on BlackRock. This is on page 15, number 3, it says contract amendment to add services, fees to be negotiated. And I'm just wondering if you can tell us in open session what those services are that we're going to be adding to the contract?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Sure, Ms. Brown. Happy to. We were exploring use of BlackRock's Total Fund Risk System. So, you know, we've spent quite a bit of time looking at how we manage our risks and our risk technologies. We're exploring the Aladdin system for total fund risk. So that's what the additional services are.

BOARD MEMBER BROWN: I'm sorry. Do we have an idea of how much that is expected to cost? It does -- because this doesn't say will exceed ten million or will exceed five million. It doesn't have a number on here.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: You know, we're in negotiations frankly, so I would be a little bit hesitant to talk too much --

BOARD MEMBER BROWN: Okay.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

-- about what we expect it to cost, but you know, we -- I know we've talked about also the other risk systems, so we would expect that depending on where we end, it will be something like flat, but we'll certainly have full transparency as we -- as we conclude those negotiations.

BOARD MEMBER BROWN: All right. Thank you.

CHAIRPERSON MILLER: Okay. I have a question or comment from Ms. Taylor.

VICE CHAIRPERSON TAYLOR: Yes. Sorry about that. So I just want to remind everybody that the Board oversees the strategy. We voted on this. And it is unusual for Board members to ask for purchasing orders. And then the other information, which I thought was interesting, because these are fees that we normally pay for investments. And I think we're going to go into that later in the budget as well. So I just want to remind everybody that we oversee the strategy. And things like purchasing orders aren't something -- that's why we have staff just to remind everyone.

CHAIRPERSON MILLER: Okay. Thank you. I'm not seeing any other questions or comments from Board members. So does that pretty much cover that, Mr. Cohen?

CHIEF FINANCIAL OFFICER COHEN: This was an action item, so --

CHAIRPERSON MILLER: Okay. So -- okay. So unless there -- seeing no further questions or comments.

Ms. Hopper, I'll call for the question.

COMMITTEE SECRETARY HOPPER: Okay. Can get who did the motion and who seconded on this particular item?

VICE CHAIRPERSON TAYLOR: I think I made the original motion and Henry seconded it.

COMMITTEE SECRETARY HOPPER: Okay.

CHAIRPERSON MILLER: Yeah.

COMMITTEE MEMBER JONES: That was on the other three items.

CHAIRPERSON MILLER: Oh, okay.

COMMITTEE MEMBER JONES: That was not this item

CHAIRPERSON MILLER: Okay. So do I --

COMMITTEE MEMBER JONES: So you need a motion.

CHAIRPERSON MILLER: So we'll need a motion on this one then.

VICE CHAIRPERSON TAYLOR: I make the motion.

CHAIRPERSON MILLER: Okay.

COMMITTEE MEMBER JONES: Second.

CHAIRPERSON MILLER: Okay. We have a motion from Ms. Taylor, seconded by President Jones. So now I'll call for the -- any further discussion?

No. Seeing none. I'll call for the question. Ms. Hopper, please call the roll.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: Aye.

COMMITTEE SECRETARY HOPPER: Frank Ruffino for Fiona Ma?

ACTING COMMITTEE MEMBER RUFFINO: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Aye.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Aye.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

COMMITTEE SECRETARY HOPPER: Theresa Taylor?

VICE CHAIRPERSON TAYLOR: Aye.

COMMITTEE SECRETARY HOPPER: Mr. Chair, I have a motion being made by Theresa Taylor, seconded by Henry Jones for Item 4b, Semiannual Contracting Prospective Report.

CHAIRPERSON MILLER: Thank you, Ms. Hopper. The ayes have it. The motion passes.

So that takes us to information consent items. And I'm not seeing any requests to discuss or pull any of those.

So that will bring us to action agenda items. And our first action agenda item is the 21 -- 2021 to '22 annual budget proposal. And so I'll go to Mr. Cohen.

(Thereupon a slide presentation.)

CHIEF FINANCIAL OFFICER COHEN: Thank you, Mr. Chair. And if we can bring Jennifer Harris in to present the budget. And as she's coming in and we're getting the PowerPoint queued up, I did want to just make an introductory comment. When you look at the overall percentage increase of the budget, it is quite large. But you do need to keep in mind that we had sort of artificially reduced the current year budget dramatically, based on our mid-year budget cuts that the Board approved in November. That combined with the current PLPs, the sort of furlough program for State employees, are bringing down our expenses in the current year before they pop back up in the budget year, as well as Ms. Harris will go into the investment external fees, which are also driving the increase.

And with that, let me turn it over to Jennifer to walk you through the details of the budget.

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: Good morning, Mr. Chair and members of the Committee. Jennifer Harris with CalPERS Financial Office.

It's my pleasure to present the 2021-22 annual budget. This is an action item and your approval today will set the funding levels for the new fiscal year beginning on July 1st. As I typically do, I'll begin with a brief update on where we are with current year spending.

Next slide, please.

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FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: CalPERS total 2020-21 budget is 1.621

billion. This does include the 72.3 million budget reduction that we took at mid-year to achieve savings.

As detailed on page five of the budget, which is Attachment 1 to this agenda item, you'll see that as of December 31st, we've spent 722.8 million, or nearly 45 percent of the budget. Based on our projections, we do estimate that we'll end the fiscal year with about 15.7 million in savings. This includes 11.9 million in unexpended administrative operating costs, 1.7 million for headquarters building costs, and 3.8 million in unexpended third party administrator fees.

The current year update that's in the budget also includes some information on our Social Security program fees. Based on our collections, we anticipate that the fund balance will be about 2.6 million. This is a pretty high fund balance for the program. And we are proposing to suspend collection of those fees for the 21-22 fiscal year. We do need Department of Finance approval on that fee modification as required by State law.

Next slide, please.

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FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: Moving onto the proposed budget.

Can you move the slide?

There we go. Our total 2021-22 proposed budget is 1,888,000,000. This a 267.1 million increase compared to the authorized budget. This is including both operating costs and external fees.

Need to go back one budget -- or one slide please, back to slide 3.

Well, our operating cost increases are primarily due to the anticipated cancellation of those personal leave program days, the furloughs that we were taking, as well as the restoration of funding for some one-time reductions that we took in the current year to achieve savings. A large majority of our increase is with the external investment manager fees. And this is due to increased assets under management, or AUM, revised asset allocations and expected continued portfolio performance.

There are funding for 2,843 authorized positions. This number does reflect the 32 positions that we eliminated at mid-year. There are no funds included for permanent positions in the blanket or seasonal clerks performing non-seasonal workload.

Next slide, please.

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FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: The next slide does detail the overall budget. It shows you what our authorized budget was. Beginning in 2020-21, this was the annual budget approved by the Board last April. It shows what the authorized budget is currently, based on those mid-year reductions that we took, and then the proposed amount for fiscal year to 2021-22.

We do need to be on slide 4.

Great. Thank you. Oh, my apologies. It looks like I'm being delayed seeing it, but you all are seeing it. Great.

So here's that overall chart and you can see the increases for each of the budget categories. On the next slides, I'll walk you through the major changes for each of these components.

Next slide, please.

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FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: Within operating costs, we have a large increase for administrative operating costs. This is detailed on page ten of the budget. And this is increasing 59 million, or 12 and a half percent. This category does include both personal services expenses as well as OE&E. The biggest driver of our increase in this category is the anticipated cancellation of the statewide compensation reductions or the personal leave program.

While we won't know the outcome of this issue until after the State releases the May revision, the

Legislature has its legislative budgets hearings, as well as the outcome of collective bargaining. But even though we won't know the outcome of that, we are including an estimated amount here, given the timing of our budget cycle compared to the State's.

The personal services increase does reflect as well a 9.3 million increase. This is a restoration of funding for some of those one-time cuts that we took in the current year. And there is a decrease of 3.8 million for reduced temporary help and over time, and some revised health benefit calculations.

Pages 13 and 14 of your budget show that over the past five to six years, CalPERS has reduced temporary help and overtime costs by nine and a half million.

Next slide, please.

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FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: Within OE&E we are seeing a 20.9 million increase. This is driven by software and data processing expenses, the allocation of our facilities expenses to Affiliate Funds, an increase for statewide pro rata costs that are determined by the Department of Finance, and external vendor costs that we're anticipating for the upcoming Board elections.

Although our administrative costs are increasing compared to the mid-year budget - this is what Michael was talking about that we are seeing kind of the snapback effect - overall our administrative budget is 9.7 million less than it was a year ago today.

With the reductions that we took at mid-year as well as continued reductions that were ongoing, CalPERS will achieve 40 million in savings in its admin budget over a two-year period. This is over and above the reductions that we saw for those personal save -- personal savings reductions for the furloughs.

Additionally, it's far exceeding the $5 million target cut that the Governor's administration asked CalPERS to make for 21-22 alone.

Next slide, please.

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FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: Two other operating cost categories include investment operating costs and the headquarters building budget. Within investment operating costs, we are proposing a $4.2 million increase. This includes an increase for usage-based master custodian fees, as well as some technology expenses to continue investment data strategies within the Investment Office.

Headquarters building costs are going down four and a half million dollars. Now, the headquarters building budget that you see, this represents the amount of the headquarters costs that are paid for by the Pension Fund, by the PERF. So the net reduction that we're seeing here not only includes a decrease in both operating and non-operating costs, but as well as the allocation of some of the headquarters expenses to Affiliate Funds.

Additionally, there's some truing up going on, because of continued decreases in parking revenue, given that our buildings are closed.

Next slide, please.

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FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: So moving on to fees. Within fees, we have both investment external manager fees, as well as Third-party administrator fees. Both of these categories of expenses are significantly affected by external conditions. So, for example, investment external manager fees are impacted by portfolio performance and market conditions. In contrast, third-party administrator fees are largely influenced by the migration of members to different health plans.

So within this budget -- and we should be on slide 8. There we go. So within the external fees portion of our budget, we are seeing a 207.5 million increase in external investment manager fees. These fees again are based on assets under management, which have increased, portfolio performance, and some strategies that we're employing.

The drivers include base fees for global equity, private equity, and opportunistic strategies, and performance fees for real assets. Details by asset class are shown in the budget on page 19.

Finally, we do increase -- expect a small increase, a 0.9 million increase in third-party administrator fees. We are seeing some migration again of members to plans with higher costs, administrative expenses, but there are some decreases offsetting that for the pharmacy benefit manager costs, as well as continued enrollment declines in the Long-Term Care Program.

That is the end of the slides.

In summary, the 2021-22 proposed budget is 1,888,000,000. This does reflect increases that are either mandated or that are necessary for CalPERS to meet its core mission and its strategic goals. We recommend approval of the budget as proposed and welcome your questions.

CHAIRPERSON MILLER: Okay. Thank you for that presentation. Very helpful. And I have a question starting off with questions from President Jones.

COMMITTEE MEMBER JONES: Thank you, Mr. Miller.

And thank you for the presentation. Just a couple of questions just to -- so that I can understand and not substantive questions, but as -- I have three.

The first one is Social Security. As I understand, this is a service we provide to the State to respond to federal government requirements. Could you kind of explain to me how that works? I know it's a small amount of money, but I'm just interested in how -- is this a service we're providing to the State and how does it work?

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: Sure. So since the early 1950s, CalPERS has been the State's designated program administrator for the Social Security program. So we act on behalf of the State of California in overseeing the collection and contracting for employers statewide who choose to offer Social Security benefits to their employees and the social security administration. And so these are public employers, so cities, counties, local districts, and the State.

So anybody or anyone of these employers who decides to provide Social Security benefits, they have to enter into an agreement and we oversee the Administration of that program.

For many years, there was residual interest sitting in the old age security fund that we used to cover the administrative costs. Two years ago, we did bring an item to the Board letting you know that per State law, we have the ability to charge the administrative fee to employers to cover the costs of this program. So we started collecting this fee for two years. We're doing really well with collections. We were unsure how collections would rollout, given that a fair number of those employers are not CalPERS-covered employers, but the majority of all employers are paying. And so per statute and regulations, when the fund balance exceeds more than 100 percent of administrative costs, we will revise the fee.

COMMITTEE MEMBER JONES: Excellent. Thank you.

The next question is -- it deals with the vacation accruals. Because of the reduction in time days off that were required to save money during the budget crisis, and individuals were compensated for that reduction by adding -- taking additional vacation days. So my question is if those employees don't take that -- those vacation days, isn't that increasing our long-term liabilities for a statewide impact?

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: Yes, that is the case. And under the collective bargaining agreements, although employees do receive two additional days off a month, they are not required to take them. We encourage them to and offer the time if somebody asks, but they are able to bank that time.

COMMITTEE MEMBER JONES: So do you believe that's significant and -- because it is statewide in terms of those individuals electing not to take it off and being part of their vacation they can use in their calculations for retirement.

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: Unfortunately, I have not done the calculation and worked with HR to identify what that long-term liability might be. But certainly, I think that it could be.

COMMITTEE MEMBER JONES: Okay.

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: That's always a trade-off that the State considers when it's making these fiscal decisions.

COMMITTEE MEMBER JONES: Okay. Okay. And then the last thing I'd just like to comment that the -- I recognize that the fees that you show have increased, but it should be -- should not be taken in isolation, because that's based on improved returns that those fees were increase, is that correct?

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION

CHIEF HARRIS: Oh, yes, absolutely. Yeah.

COMMITTEE MEMBER JONES: Okay.

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: A large driver of the increases in the external management fees really does reflect that we've had some excellent portfolio performance.

COMMITTEE MEMBER JONES: Okay. Okay. Thank you.

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: Um-hmm.

CHAIRPERSON MILLER: Okay. Thank you.

I have -- it looks like I have a question from Director Brown.

BOARD MEMBER BROWN: Thank you, Chair Miller.

I have a question. I'm on -- let's see, what page? Page 15 of 24 of Agenda Item 6a, the -- I'm looking at the investment operating costs.

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: Um-hmm.

BOARD MEMBER BROWN: And I'm just curious as to what is part of the business operations tool going up 25 percent this year. And it looked like it went up 25 percent the previous year. So can you explain to me what's going on with that?

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: Sure. And if we can bring in Dan Bienvenue as well to talk on this. Within our Investment Office, we have a number of data strategies reflected around the total fund performance strategy. And so we are implementing various tools for the Investment staff to not only take on additional investments internally -- and you've seen that, that we have more of our investments are being managed internally, but as well as data tools, so that they can identify when a decision and investments are made in one particular area, what's the impact to the other asset classes.

And, Dan, I don't know if you have any additional comments that you'd like to make on those specific strategies?

CHAIRPERSON MILLER: Yeah. I'm not seeing Dan here at the moment.

BOARD MEMBER BROWN: You want me to move on to my next question?

CHIEF FINANCIAL OFFICER COHEN: He just popped in.

CHAIRPERSON MILLER: Oh, there he is.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Yes. Hi. Yep, apologies. I'm here.

No, Jennifer is spot on. Basically, it has to do with our migration to, first of all, enhancing our performance platform, and then secondly really just the data and the total fund analytical work.

BOARD MEMBER BROWN: Okay. So do we expect that to continue to go up or do you think it's going to stay at about where that is?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE:

Candidly, I would -- I probably would expect it to continue to go up, probably not at the pace that it's gone up. But as we have migrated towards really focusing on the total fund, and internalizing assets, and managing, you know, risk, and the like, at the total fund level, there are costs that are associated with that. We think those are costs that are well worth the expense, because of the, you know, improvements that we've made around managing our liquidity, our leverage, and all of those things.

But improving our technology, and our data, and our total fund management does have costs associated with it, but we think those are costs that are well justified in terms of performance.

BOARD MEMBER BROWN: All right. Thank you. My next question is on page 157. And this one -- I mean, there's some large increases there in global equity, I see, but -- and this is for Dan. I see that the global equity fee is going up a hundred percent, is doubling, and then real assets is going up even greater. And I'm curious, since, you know, a lot of our -- well, why don't you tell me why that -- why that -- why those are.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: I'm sorry, Ms. Brown, can you remind which page you're looking at on the attachment.

BOARD MEMBER BROWN: I'm sorry. I'm on page -- yeah, page 19 -- my apologies. Page 19 of 24 in that table that talks about investment external management fees going up. So I look at global equity doubling to a hundred percent. These are performance fees, so -- so basically we're -- so performance fees are paid when we sell the asset, is that correct?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: In the case of Global equity, the assets are moving constantly. So performance fees are -- are based on just basically excess performance relative to the benchmark with some hurdles in place.

It is probably worth commenting and -- you know, and Jennifer spoke to this briefly also. We certainly think that it is good governance to include asset management fees, both basis and performance, in the budgeting process. But I will say that to some degree and, you know, I know -- I know Jennifer wrestles with this topic also. They defy budgeting, in some sense, right? If the market goes way down and the assets under management drops, the fees will go down. But I don't think anybody is going to be very happy with that answer, even though we have lower fees. And vice versa, as the market goes up, the base fees will go up. Probably a good problem to have. And we really have very little control.

What we have control over is the terms of our -- of our contracts, which is where we focused. And that's where you've seen our total basis points at the total fund level, you know, over the past say ten years go from, you know, over 50 basis points to call it 23 basis points in the total fund level, and even over the last five years go from, you know, mid-thirties to, as I say, sort of 23, 24 bass points.

But as far as global equity's performance fee, that is very forecast based, the performance of the -- you know, of the global equity portfolio has been very strong, specifically external managers has been very strong. That's very much accretive to the bottom line. But we do expect to -- you know, we do have performance fees in place for those contracts, and we -- we expect to pay. And frankly, we're -- those are places where our interests are aligned and we're happy to pay.

BOARD MEMBER BROWN: And is that the same answer for real assets as well?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: It's a very similar answer. I would say with real assets, it's probably even harder to predict in some ways. And I would because, because there's a timing on when it -- on when it actually crystallizes. I would say that thinks historically we have only seen the actuals paid be, you know, less than what we forecast every year. Again, we kind of tend to be conservative when we forecast. But, yes, it's a very similar answer, in that we expect both on the real estate and on the infrastructure side. We have seen good performance. We've seen it both accrued, but then also some crystallized, and we expect to be paying those fees in in 21-22.

BOARD MEMBER BROWN: Okay. All right. So basically, these are -- if everything goes well, we're going to pay these fees. And if they don't, then we save.

Okay. All right. Thank you. Those are my two questions. Thank you.

CHAIRPERSON MILLER: Okay. Thank you.

Next, I have Director Olivares.

COMMITTEE MEMBER OLIVARES: Thank you. I wanted to understand how we're getting some of these estimates for some of the subscriptions services for analyzing investment data. I know there's a lot of value in these services, but I'm not sure if we're doing this on a per person or organization-wide basis.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: You know, it really depends on the vendor, Ms. Olivares. In some cases, they are per person. We certainly pursue site-wide licenses, if the site license we think is a more cost effective way to do it, if there are -- is broad use of it. In the case of some services, it's a much more, you know, narrow set of users. So we'll negotiate on the per person basis, but this is something that we are spending quite a bit of time on right now.

We certainly have a business plan initiative for this year and will again for next year on cost effectiveness. And it will be looking at those and consolidating services where we can, you know, making sure that we're getting value for services that we're use -- that we're -- that we are getting and using, and then to your point, you know, trying to make sure that we -- we're getting, you know, bulk savings and just getting our -- you know, the best contract terms that we can.

COMMITTEE MEMBER OLIVARES: Thank you. Yeah, I was looking at some of Bloomberg fees in particular, which, you know, is a bit of change. It's quite a bit of money. And it looks like its far beyond the Bloomy, right, on a per person Bloomy for each person in INVO, so -- or it exceeds the Bloomberg terminal cost for each person in the Investment Office. Let me phrase it that way.

So I imagine it's not -- is that site-wide or are there additional services baked within the Bloomberg contracts, so that way CalPERS is getting additional analytics.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: It's a little of both. There are some places where we're using -- I'm not -- I'm not exactly sure what the per user is, so I would have to -- I would have to check those numbers. I will say that not everybody in INVO has Bloomberg, but in some cases we're getting real-time services, in some cases we're actually using other analytics of Bloomberg on some of their, you know, sort of trade routing technology. And so as a result of all of those things, it comes together. But your point is spot on and it's certainly an area that we are looking at. There are a handful of vendors that really dominate those subscription services. And it's pricey. Again, we do think there's value there, in that we operate in the market every day, but it -- but it is -- it is a pricey service.

COMMITTEE MEMBER OLIVARES: And how do we determine who in the Investment Office needs access to those services? It's obviously not going to be everybody that needs access to these. Can you walk me through that please?

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Sure. You know, it's really determined on an ongoing basis, really by -- you know, by manage -- by management. And it's determined based on job function. So certainly, the trader, certainly the portfolio managers, you know, do need it. As I say, there's more expense for real time. So say for myself, I do have a Bloomberg license, but mine is not real time, because I don't believe I need real time, you know, pricing and the like, but really it's in that way.

And then we have some places where we have, you know, a terminal sitting that can be used to, you know, sort of drag data out of, but they don't belong to any one individual. So there's -- there's all of those, you know, varying levels of sort of service and use by different members of the staff.

COMMITTEE MEMBER OLIVARES: So we have processes in place by management reviews the need for access based upon an individual's portfolio or job requirements, and then we're doing what we can to mitigate costs.

INTERIM CHIEF INVESTMENT OFFICER BIENVENUE: Correct and correct. Yes.

COMMITTEE MEMBER OLIVARES: Okay. Great. I think that's wonderful. Thank you.

CHAIRPERSON MILLER: Okay. Thank you.

And next, we have Controller Yee, a question.

BOARD MEMBER YEE: Thank you, Mr. Chair. I just had a question for Mr. Cohen, if I could. Really appreciate the -- I guess, the clarification or the clearer depiction of our position situation, so -- but I wanted to ask with respect to the position pool, I just wanted to get clarification about the types of positions that comprise that pool. And I know we've been trying to set this up as an efficiency measure. And is that pool really to service the entire enterprise, including the Investment Office?

CHIEF FINANCIAL OFFICER COHEN: Sure. Yes, it absolutely serves the entire enterprise. And the Investment Office has been sort of shrinking over the last couple of years as they give positions to the pool. And one of the areas where that really came in handy this past year is when the customer service center, our call center, was experiencing sort of a spike in volume. So the Investment Office sort of had some positions that they transferred to the pool.

And basically, Anthony Suine came to the executive team and, you know, provided information to document the increase in call volume, and then ten positions were transferred over there. So that's sort of a good example of how it was used to maximum benefit. And as you'll recall in November, we basically had 32 positions that were in the pool that the Executive team felt weren't going to be needed any -- for any foreseeable future, so that's where we eliminated them.

So it's sort of, I would call it, kind of a holding tank for positions, as we evaluate demands. So there are a handful of positions in this budget that are in the pool, since we don't know really as we come back to the office later in the year. You know, if there's going to be new demands on positions, there will be a handful that are available for the highest use. And twice a year, the Executive team goes through a process by which we sort of review all of the vacant positions that have been open for a while, as well as any that sort of management has identified as they come open that aren't needed to be filled, that come into the pool and sort of make a judgment as to, you know, how big the pool should be, and where, if any, they should be redirected at a point in time.

BOARD MEMBER YEE: Okay. Great. No, I appreciate the mechanism. And is it fair to say then that most of the positions are really more of support in nature, that are -- that comprise the pool?

CHIEF FINANCIAL OFFICER COHEN: You know, it really, I think, depends on the situation. There's nothing inherent, why they're -- they're more support oriented versus, you know, some other function. It happened -- my example, happened to be that way. And I think over the last couple of cycles, that's been the trend where we've put more positions into sort of a -- the actuarial Office, the customer service side of things. That's obviously where, you know, we want to make sure we're providing customer service, is always going to be kind of our top evaluation need, but, you know, other -- otherwise, wherever sort of we need within the organization the Executive team has worked really well to sort of trust each other's judgment and expect people to come forward when they have a true need, but not come forward when, you know, it's just sort of a want.

BOARD MEMBER YEE: Okay. Great. Great. Thank you. Thank you, Mr. Chairman.

CHAIRPERSON MILLER: Thank you.

I don't see any more questions from Committee members or the rest of the Board, but I believe we do have a couple public commenters queued up. So, Mr. Fox, if you would.

Mr. Fox or someone, do we have public comments to take now on this item?

STAKEHOLDER RELATIONS CHIEF FOX: Yes. I'll introduce David Soares to the -- to the public comment.

MR. SOARES: Thank you, Mr. Fox and Board members. My name s David Soares. I'm with the Retired Public Employees Association of California, where I'm an Assistant Area Director after retiring, serving 32 years as a prosecutor in Silicon Valley. My comment pertains to Agenda Item 6a.

The 21-22 percentage increase for investment internal managers at 30 percent isn't stated on the slide like every other category. Our issue here is that the entire proposed 21-22 salary and operating overhead, excluding external management fees, is projected to be about $700 million. But the projected 21-22 external management fees just for real estate and private equity, adding private equity performance to these extrapolated from the 2020 CAFR, which is not in the -- shown in the budget, are actually going to be at least $1.25 billion, for asset classes to which CalPERS is still struggling to deploy just 17 percent of assets under management due to too much money chasing too few deals.

The Philadelphia Inquirer is recently reporting that the Pennsylvania Teachers Retirement Fund is actually under FBI investigation for conflicts of interest involving that sector. My question is shouldn't sound fiduciary exercise the duty of inquiry to ask why such a high amount of fees -- 1.25 billion is the equivalent to 150 percent of all other operating overhead, are being paid on such a relatively small share of capital deployed.

Something needs to be done to ratchet down these potentially corrupt fees and to get this money back to work for the members and beneficiaries. California Constitution, Article 16, Section 17A and B limit the Board to defraying reasonable expenses of administering the system. Their seems to be no evidence offered that these fee increases are reasonable in any way, shape, or form.

And I'd like the Board to respond what are they doing to inquire about the reasonableness of this 30 percent increase in external management fees and especially looking at real estate and private equity.

Thank you.

CHAIRPERSON MILLER: Okay. Thank you, Mr. Soares.

Mr. Fox, do we have an addition -- another commenter?

STAKEHOLDER RELATIONS CHIEF FOX: Yes, Mr. Chair. We have one more caller. J.J. Jelincic from the Retired Public Employees Association.

MR. JELINCIC: Hi. This is J.J. Jelincic. And I would like to reinforce Dave Soares comments. But my comments are not on behalf of the organization. They're on behalf of myself.

And when you look at page three of the agenda item, managing the investment portfolio is a key core function of the system. The fact that management chooses to do part of that through outside managers, even though they're more expensive, does not change the nature of that expense. It is still a core operating expense. And the presentation being given tends to minimize the actual operating costs of the organization.

I don't know why the system chooses to make that display to minimize the operating costs. It may tie into the bonuses. It may tie into the ability to say, oh, look how low our operating costs are, but it is a misrepresentation of the facts. And I would encourage the Board to insist that operating costs be acknowledged as operating costs, and investment costs are an essential operating cost. They serve a key function. They are not inherently different, just because management chooses to take that action by using outside managers.

Thank you.

CHAIRPERSON MILLER: Okay. Thank you for your comments.

And so let me see where we are here. This is an action item. So unless there's any further questions or comments from anyone, I will entertain a motion.

COMMITTEE MEMBER JONES: Move approval.

VICE CHAIRPERSON TAYLOR: Second.

CHAIRPERSON MILLER: Moved and seconded.

So I'll call for Ms. Hopper to call the roll.

COMMITTEE SECRETARY HOPPER: Okay. Who made the second?

CHAIRPERSON MILLER: Ms. Taylor.

VICE CHAIRPERSON TAYLOR: I did, Pam.

COMMITTEE SECRETARY HOPPER: Thank you.

Henry Jones?

COMMITTEE MEMBER JONES: Aye.

COMMITTEE SECRETARY HOPPER: Frank Ruffino for Fiona Ma?

ACTING COMMITTEE MEMBER RUFFINO: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Aye.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Aye.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

COMMITTEE SECRETARY HOPPER: Theresa Taylor?

VICE CHAIRPERSON TAYLOR: Aye.

COMMITTEE SECRETARY HOPPER: Mr. Chair, I have a motion being made by Henry Jones, seconded by Theresa

Taylor, all ayes, on Agenda Item 6a, 2021-22 annual budget proposal.

CHAIRPERSON MILLER: Oh, thank you, Ms. Hopper. The ayes have it. The motion passes.

So that brings us to item -- the next item, 6b, annual review of Board member employee reimbursements. And I'll go to Mr. Cohen.

CHIEF FINANCIAL OFFICER COHEN: Thank you, Chair. This is an annual item that you see that basically authorizes the four Board members who are currently employed to have their employers reimbursed at the maximum percentage laid out in the agenda item. As you can see in table 2, the percentages proposed are fairly similar to what's in effect today.

We're happy to take any questions, if you have them.

CHAIRPERSON MILLER: I'm seeing no questions.

VICE CHAIRPERSON TAYLOR: Move approval.

CHAIRPERSON MILLER: Moved by Ms. Taylor.

COMMITTEE MEMBER JONES: Second.

CHAIRPERSON MILLER: Second by Mr. Jones.

So, Ms. Hopper, I'll call for the question, if you'd please take the role.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: Aye.

COMMITTEE SECRETARY HOPPER: Frank Ruffino for Fiona Ma?

ACTING COMMITTEE MEMBER RUFFINO: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Aye.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Aye.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

COMMITTEE SECRETARY HOPPER: Theresa Taylor?

VICE CHAIRPERSON TAYLOR: Aye.

COMMITTEE SECRETARY HOPPER: Mr. Chair, I have a motion being made by Theresa Taylor, seconded by Henry Jones, all ayes, for Agenda Item 6b, annual review of Board member employer reimbursements.

CHAIRPERSON MILLER: Okay. The ayes have it. The motion passes.

So that move us to Item 6c, State valuation and employer/employee contribution rates. And for that, I will call on Mr. Scott Terando.

(Thereupon a slide presentation.)

CHIEF ACTUARY TERANDO: Good morning, Mr. Chair and members of the Committee. Scott Terando, Chief Actuary for CalPERS.

Today, we have a couple of action items for the

Board. We'll start out with the State valuation and employee contribution rates, and then we'll move on to the schools rates and the associate contribution rates for the schools.

Just quickly, I'll note that these are annual items that come each year at this point in time. For that first item, I'll pass it along to Nina Ramsey who will step through valuation results and the associated contributions.

ASSOCIATE PENSION ACTUARY RAMSEY: Thank you, Scott. Good morning, Mr. Chair and members of the Committee. Nina Ramsey, CalPERS Actuarial team member.

Next slide, please.

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ASSOCIATE PENSION ACTUARY RAMSEY: We are here to present for your approval the results of the latest State valuation as of June 30th, 2020. This valuation determines the required contributions for the 2021-22 fiscal year.

The State plan consists of the five member subgroups listed on the slide, miscellaneous, industrial, safety, peace officers and firefighters, and CHP.

Next slide, please.

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ASSOCIATE PENSION ACTUARY RAMSEY: There have been a few significant changes since our last valuation. First, the PERF has earned a 4.7 percent investment return as of June 30th, 2020. The State also contributed an addition $2.5 billion in July of 2019, in accordance with Assembly Bill 84. This additional payment reduced the coming year's required contributions by $1.4 billion. This is the last remaining allocation of the AB 84 payment.

This payment is reflected in this year's funded status and improves the funded status by about 1.2 percent. CHP contributed an additional $268 million in August of 2020. This payment is not reflected in the funded status as it came in after our valuation date, but it will be included in next year's valuation. CHP has also decided to defer the savings from this payment until the 23-24 fiscal year.

Next slide, please.

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ASSOCIATE PENSION ACTUARY RAMSEY: Here, we have the current year and prior year results. As of June 30th, 2020, the market value of assets is approximately $151.2 billion. These assets include the 4.7 percent investment return and the AB 84 -- AB 84 additional payment, but not the CHP additional payment, as I mentioned on the last slide.

We have an accrued liability of approximately $214 billion, leaving us with an unfunded accrued liability of nearly 63 billion. The expected contribution for next year is $6.651 billion, which is 160 million greater than the current year. The rates are increasing, primarily due to the following reasons:

First, we have the progression of the amortization basis which ramp-in costs over five years. We also had an investment loss as of June 30th, 2020. And because the State plans experienced an overall payroll growth of 4.6 percent, which is higher than our assumed payroll growth rate of 2.75 percent. These increases were offset by members entering into lower benefit formulas due to PEPRA. We estimate that the state will see $52.1 million in savings in the 21-22 fiscal year due to increase in PEPRA membership.

Next slide, please.

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ASSOCIATE PENSION ACTUARY RAMSEY: Here, we have a comparison of the current year contributions and next year's by each member subcategory. You can see that four of the five plans have decreasing rates, that is for miscellaneous, industrial, safety, and POFF, and CHP has increased rates. The decrease in the rates is primarily due to the AB 84 payment, which has the largest portion being applied to the 21-22 UAL payment.

CHP did not receive any portion of the AB 84 payment and hence did not see the same reduction as the other plans. CHP has increasing rates, which is primarily due to experience losses, as of June 30th, 2020. In the center of the slide under the column titled "estimated rate", we have included the projected rates from last year's valuation report.

The four plans with decreasing rates are within 0.3 percent of what was projected in our last valuation, while CHP is 1.09 percent higher, again due to those experience losses.

Next slide, please.

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ASSOCIATE PENSION ACTUARY RAMSEY: On this slide, we have the final 21-22 rates listed by plan and the additional statutory contribution rate from the State. They sum to get the total contribution in the far right column. Additional information for the statutory contribution is on page six of the agenda item. Government Code 20683.2 requires that the savings realized by the State due to increased member contributions from PEPRA members be used as additional contributions towards the UAL for each plan.

This is not something that we are asking the

Board to approve. It is more for informational purposes. This additional contribution is maintained by the State during their annual budget process.

Next slide, please.

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ASSOCIATE PENSION ACTUARY RAMSEY: Next, we have a brief history of the state's overall funded status. The funded status is a measure of the plan's overall health. Each plan has its own funded status, which can be found on Attachment 2. But the state's overall funded status has increased by 0.6 percent to 70.6 percent as of June 30th, 2020.

Next slide.

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ASSOCIATE PENSION ACTUARY RAMSEY: Moving on to member contributions. In general, most State employees are exempt from the PEPRA requirement that members pay 50 percent of the normal cost. However, there are a few PEPRA groups within the State plans that do pay 50 percent of the normal cost. These groups include the California Legislature, California State University, and the Judicial Branch.

Because the normal cost has not changed by one percent or more this year, there is no required change to the member contribution rates for these groups.

Next slide, please.

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ASSOCIATE PENSION ACTUARY RAMSEY: There is also one bargaining, unit Bargaining Unit 16, who has greed to have all members PEPRA and classic contribute 50 percent of the normal cost. This year, the normal cost has not changed by one percent or more, so there are also no changes required regarding Unit 16 member contribution rates.

Next slide, please.

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ASSOCIATE PENSION ACTUARY RAMSEY: Lastly, we have the projected future contribution rates for each plan. These projections assume a seven percent investment return in the 2021 fiscal year and all future years. You can see that rates are noticeably hire in the 22-23 fiscal year. This is because 21-22 is the final year of the allocation of the AB 84 additional payment.

There won't be a $1.4 billion contribution to reduce the rates in 22-23, as there is there is in 21-22. Sorry, I'm just spitting a lot of numbers at you guys.

After 22-23, rates are mostly stable. The 2016 investment loss is fully ramped in in the 21-22 required payment, which is why the ramping in of costs does not generate any large change in the future rates.

As mentioned earlier, CHP made an additional contribution and chose to delay the savings until the 23-24 fiscal year, this is where you can see that dip in the contribution rates.

As I mentioned, these rates assume a seven percent return for all future years. These projections will likely change in our report to include the final return as of June 30th, 2021.

We will have our final report available later this summer. It will include our methods, assumptions, participant data, and that final investment return as of June 30th, 2021.

This concludes my presentation. And I would be happy to take any questions.

CHAIRPERSON MILLER: Great. Thank you for that very thorough and understandable presentation.

So at this point, I don't have a question from a Committee member at the moment. I have a question from Controller Yee.

BOARD MEMBER YEE: Thank you, Mr. Chair. Appreciate the presentation. I just wanted to maybe probe a little bit about the seemingly outsized increase in the projected future employer rates for State Peace Officers and Firefighters. And I know a lot of this assumes that we're not going to get the contribution to reduce rates going forward.

But it just seems like that's a pretty good sizes increase. Is that associated also with payroll growth or can you talk a little bit about that?

ASSOCIATE PENSION ACTUARY RAMSEY: Yes. So that is the one that definitely stands out the most. The $1.4 billion that was attributed to the 21-22 was split amongst the first four plans listed on that slide. The POFF plan get the largest part of that. I think the number can be found in the agenda item I believe page two or three, where it was over $700 million.

So basically, POFF just got the biggest chunk of that 1.4 billion, which is approximately 14 percent of their UAL payment. So because that's -- they're not going to have the next year, the rate has gone up.

BOARD MEMBER YEE: Okay.

ASSOCIATE PENSION ACTUARY RAMSEY: The 50.9 also includes losses from this year due to experience and the ramping in of other amortization bases.

BOARD MEMBER YEE: I see. Okay. So they got the bigger share of the rate reduction contribution.

Okay. Thank you.

CHAIRPERSON MILLER: Okay. I have a question now from President Jones.

COMMITTEE MEMBER JONES: Yes. Just a quick question. Who are -- the Bargaining Unit 16, who are those members?

ASSOCIATE PENSION ACTUARY RAMSEY: Those are the physicians, dentists, and podiatrists.

COMMITTEE MEMBER JONES: Thank you.

CHAIRPERSON MILLER: Okay. I'm not seeing any other questions.

And so, at this point, I guess it's an action item, so what's the pleasure of the Committee?

VICE CHAIRPERSON TAYLOR: Move approval.

CHAIRPERSON MILLER: Moved approval by Ms. -- was that Director Taylor?

VICE CHAIRPERSON TAYLOR: (Nods head.)

CHAIRPERSON MILLER: Okay. Moved by Ms. Taylor.

Do I have a second?

COMMITTEE MEMBER PEREZ: (Raise hand.)

CHAIRPERSON MILLER: Seconded by --

COMMITTEE MEMBER RUBALCAVA: Ramon will second. Ramon Rubalcava.

CHAIRPERSON MILLER: Oh. I already had -- okay. I had Mr. Perez seconding already.

COMMITTEE MEMBER RUBALCAVA: No problem. No problem.

CHAIRPERSON MILLER: Okay. Any further discussion?

Seeing none.

Ms. Hopper will call for the question.

COMMITTEE MEMBER RUBALCAVA: I think Mr. Jones has a question.

CHAIRPERSON MILLER: Oh. Henry has a question.

Okay. Mr. Jones. President Jones.

COMMITTEE MEMBER JONES: Sometimes I can't get to my chat box in time. Thank you.

It's just that I'm trying to go back. I remember seeing two different numbers in terms of the funded status, in terms of looking at I think it's Attachment 6, page seven, it shows the funded status from 2019 to 2020 going from 70.0 to 70.6. And somewhere earlier, you said the funded status had improved by 1.6 percent somewhere in there. And I'm just -- I'm trying to find where I saw that. But it -- I remember seeing a higher number. So could you explain that difference?

ASSOCIATE PENSION ACTUARY RAMSEY: Yes. So I believe it was on slide 3, it said 1.2 percent.

COMMITTEE MEMBER JONES: Okay. Yeah.

ASSOCIATE PENSION ACTUARY RAMSEY: So the 1.2 percent is just related to that AB 84 payment. So IF everything else the assumptions were met, meaning we earned a seven percent return and all the employees in the demographic changes were exactly what we predicted, then the funded status would have gone up by 1.2 percent. But we do have that investment loss working against that, so then the net result is an increase to the funded status of 0.6 percent.

COMMITTEE MEMBER JONES: Thank you very much.

CHAIRPERSON MILLER: Okay. I think that concludes -- I don't see anymore questions or comments in the chat. I'm looking. I'm not seeing anyone frantically waving at me at this time.

So -- okay. So at this point, I'll call for the question. Ms. Hopper, will you please call the roll.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: Aye.

COMMITTEE SECRETARY HOPPER: Was that an aye?

COMMITTEE MEMBER JONES: Yes.

COMMITTEE SECRETARY HOPPER: Thank you.

Frank Ruffino for Fiona Ma?

ACTING COMMITTEE MEMBER RUFFINO: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Aye.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Aye.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

COMMITTEE SECRETARY HOPPER: Theresa Taylor?

VICE CHAIRPERSON TAYLOR: Aye.

COMMITTEE SECRETARY HOPPER: Mr. Chair, I have a motion being made by Theresa Taylor, seconded by Jason Perez. All ayes for Agenda Item 6c, State valuation and employer and employee contribution rates.

CHAIRPERSON MILLER: Thank you, Ms. Hopper. The ayes of it. The motion passes.

And that will bring us to 6d, the schools valuation and employer/employee contribution rates.

Mr. Terando.

(Thereupon a slide presentation.)

CHIEF ACTUARY TERANDO: Thank you, Mr. Chair. I'll simply just turn it over to Paul, at this time, to run through the valuation results.

SENIOR PENSION ACTUARY TSCHIDA: Great. Thank you, Scott. Good morning, Mr. Chair, members of the Committee. Paul Tschida in the Actuarial Office here to present the results of the schools pool actuarial valuation and the recommend rates for fiscal year 21-22.

Next slide, please.

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SENIOR PENSION ACTUARY TSCHIDA: So the valuation date, like with the State, is June 30, 2020. And also like with the State, this valuation determines the required contributions for fiscal year 21-22.

Next slide, please.

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SENIOR PENSION ACTUARY TSCHIDA: So there are two note worthy events or items reflected in this valuation. The first is the investment return of 4.7 percent that Nina spoke about with the State, the same for the schools. And again, that rate is prior to reduction for administrative expenses.

Now, this return led to an actuarial experience loss as it was less than the seven percent assumed return. The second item is the State's $904 million contribution that was made in July of 2019. This was spread over three fiscal years in the form of supplanting payments for payments made on behalf of schools, employers in order to reduce their share of the contribution. The amount allocated to fiscal year 21-22 was $330 million. And the prior year, is worth noting, was 430 million.

So for this upcoming fiscal year 21-22, this $330 million supplanting payment will serve to reduce the employer rate -- the schools employer rate by 2.16 percent of pay.

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SENIOR PENSION ACTUARY TSCHIDA: So what we're showing here are the key valuation results. You can see that both assets and liability grew. Asset growth slightly outpaced liability growth in percentage terms, which led to a slight uptick in the funded status from 68.5 percent to 68.6 percent, a fairly nominal increase, but an increase nonetheless.

Now, the contribution rate for schools employers, after reduction for the State supplanting payments, will be 22.91 percent of pay in fiscal year 21-22. That is up from 20.7 the prior year.

The primary cause of that increase are just scheduled increases in existing amortization basis, ramping in, payroll growth escalation, things like that.

Now, the secondary cause of this increase was a decrease in the State's supplanting payment, from 430 million to 330 million. So both fiscal career 20-21 and 21-22 have a State supplanting payment that is going toward helping schools employers have a lower rate. But since the amount for this coming fiscal year is lower, it essentially increases the employer rate relative to last year. So that's a secondary cause of that employer rate increase.

And you can see that the rate for PEPRA members will say at seven percent. And we will touch on that a little bit more rater.

Next slide, please.

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SENIOR PENSION ACTUARY TSCHIDA: So here we have a little bit more detailed on the required contributions. On the top of the slide are the contribution rates, which are what employers will contribute as a percentage of pay. On the bottom are the dollar value of the contributions that are expected to be generated from those rates, assuming that payroll for the year matches what we are assuming.

So you see the columns we have last year and we have year 20-21 and 21-22. In the middle, we were showing what we had estimated the rates would be for this coming fiscal year, in our last year's valuation report.

Now, you can see that we have projected a 23 percent even employer contribution rate. The actual rate is coming in at 22.91, so a shade lower, but overall it's in line.

Next slide please.

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SENIOR PENSION ACTUARY TSCHIDA: Here, we have five years of funded status history of the schools pool. Again, as we -- as mentioned earlier, the funded status grew one-tenth of a percent over the last year. And over the last five years, the funded status is level to slightly downward trajectory. And a key driver of that is the drop in the discount rate from 7.5 percent to seven percent over the three years basically in the middle of this chart.

Next slide, please.

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SENIOR PENSION ACTUARY TSCHIDA: So as part of this valuation, in addition to setting the schools employer contribution rates, we also set the contribution rate for PEPRA members. Like, PEPRA members more generally in the system, those in the schools pool are required to contribute half of the normal cost of their benefit.

Now, in this year's evaluation, the total normal cost has not changed by more than one percent from when the member rate was last adjusted. So the member rate will not change. PEPRA members will continue to contribute seven percent of pay. And just coincidentally, the classic member's rate, it is set by statute, but it coincidentally is -- also happens to be seven percent.

So it's fairly straightforward. Every member of the schools pool contributes seven percent of pay.

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SENIOR PENSION ACTUARY TSCHIDA: So here, we have our projection, like Nine showed for State. We usually do a projection of what we -- based on what we know at this point, what we expect the next five years of rates to look like. And so we do estimate that the employer rate will be increasing in the coming years. We -- our expectation at this point is that it will peak in fiscal year 25-26, before starting to decline.

Now, the biggest jump from 21-22 to 22-23 is -- this is similar to what Nina was touching on. And what they're seeing in the State plan is that -- is due to the State's supplementing payment essentially going away. So we had a few years where the State was helping schools employers, giving them a reduced rate. But, fiscal year 21-22 is the last year of that assistance. And again, it reduced the rate -- the employer then that year by 2.16 percent. So you think of it -- the rate as bouncing back up after that reduction.

Now, again I'll make the same caveat that Nina made, which is that this projection at this point assumes that we have -- we earned an investment return it's supposed to be seven percent in the fiscal year ending in June 30 of this year.

The valuation report released later this year will include a revision to those projections that will reflect the actual return. And if we the actual return does exceed 7 percent, like we're -- all our of fingers are crossed that it will, then these projected rates will be a little bit lower.

So what we're showing in the valuation report hopefully will be lower than this. But again, this is based on what we know at this time.

So that concludes my prepared remarks and I happy to take any questions at this time.

CHAIRPERSON MILLER: Oh. Thank you for the fine presentation. And I'm not seeing any questions from any of our Board members or Committee members, at this time.

And let me just see if anyone is waving here.

Nope, no questions. Very clear, very comprehensive presentation.

Thank you very much.

SENIOR PENSION ACTUARY TSCHIDA: Thank yo.

CHAIRPERSON MILLER: So without any objection, I'll move on to Item 7, information agenda items, summary of.

COMMITTEE SECRETARY HOPPER: Mr. Chair.

VICE CHAIRPERSON TAYLOR: We have to vote on this.

COMMITTEE SECRETARY HOPPER: We have to -- this is an action item.

CHAIRPERSON MILLER: Oh, that's right. Yeah, I get ahead of myself. So what's the Committee's pleasure?

VICE CHAIRPERSON TAYLOR: Move approval of the item.

CHAIRPERSON MILLER: Moved by Ms. Taylor.

And seconded by?

COMMITTEE MEMBER JONES: Second.

CHAIRPERSON MILLER: I couldn't tell who that was.

COMMITTEE MEMBER JONES: Second. Henry.

CHAIRPERSON MILLER: Oh, Mr. Jones. Okay. President Jones.

So seeing no further discussion. I'll call for the question. Ms. Hopper, please, the roll.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: Aye.

COMMITTEE SECRETARY HOPPER: Frank Ruffino for Fiona Ma?

ACTING COMMITTEE MEMBER RUFFINO: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Aye.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Aye.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

COMMITTEE SECRETARY HOPPER: Theresa Taylor?

VICE CHAIRPERSON TAYLOR: Aye.

COMMITTEE SECRETARY HOPPER: Mr. Chair, I have a motion being made by Theresa Taylor, seconded by Henry Jones, all ayes, for Agenda Item 6d, schools valuation and employer and employee contribution rates.

CHAIRPERSON MILLER: Okay. And once again, the ayes have it and the motion passes.

So now, we will move on to 7a, the summary of committee direction. Back to you Mr. Cohen.

CHIEF FINANCIAL OFFICER COHEN: Thank you. I did not record any Committee direction.

CHAIRPERSON MILLER: Okay.

Thank you. And do we have anymore public commenters in the queue, Mr. Fox?

STAKEHOLDER RELATIONS CHIEF FOX: Mr. Chair, there are no callers at this time.

CHAIRPERSON MILLER: Okay. Well, unless I have any objections, I will move to adjourn.

Okay. Hearing none. We are adjourned.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Finance & Administration Committee meeting adjourned at 11:26 a.m.)

CERTIFICATE OF REPORTER

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration, Finance & Administration Committee meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California;

That the said proceedings was taken before me, in shorthand writing, and was thereafter transcribed, under my direction, by computer-assisted transcription.

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 24th day of April, 2021.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
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