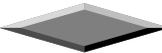


**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION**

MINUTES OF MEETING

Wednesday, May 16, 2012



The Board of Administration met on Wednesday, May 16, 2012 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 11:06 a.m. and the following members were present:

Rob Feckner, President
George Diehr, Vice President
Michael Bilbrey
Howard Schwartz for Julie Chapman
Terry McGuire for John Chiang
Richard Costigan
JJ Jelincic
Robert Biegler for Bill Lockyer
Priya Mathur

Board of Administration Members excused: Dan Dunmoyer and Henry Jones. Mr. Jones was participating by telephone but not voting.

AGENDA ITEM 3 – PRESIDENT'S REPORT

President Feckner commented on the following:

- Earlier in the morning, the Board held a productive session on CalPERS strategic planning process, and received an informative report on risk pooling.
- The Board last month selected a consulting firm, the Veaco Group, to facilitate its Board assessment process. Veaco will present its findings to the Board at its July offsite meeting.
- On behalf of the entire Board, President Feckner thanked all CalPERS staff and their family members who participated in the March of Dimes March for Babies and in the Susan G. Komen Race for the Cure.

AGENDA ITEM 4 – EXECUTIVE REPORTS

a. Chief Executive Officer Report

Anne Stausboll reported on the following recent activities:

- Kathleen Webb joined CalPERS in April as Chief of Risk, Compliance and Ethics.
- CalPERS last month released an audit of the City of Vernon that detailed 10 findings ranging from the city's failure to provide documentation on compensation and enrollment for its employees to improperly classifying its attorneys in safety classifications that provide enhanced retirement benefits. A determination about individual employees is underway and should be released by the end of the month.
- Since the last Board meeting, CalPERS released its first report on sustainable investing, which outlined its efforts to integrate sustainability across the investment portfolio, and also highlighted sustainable practices in CalPERS internal operations. The report was released in digital format only, on the CalPERS website and via Facebook and Twitter.
- Earlier in the month, CalPERS hosted its first Business Leaders Roundtable, where business leaders from around California learned more about CalPERS and discussed issues of mutual interest.
- CalPERS last month held the third of a series of four infrastructure roundtables.
- Staff have spoken at various recent events, including: the annual Milken Institute Conference in Los Angeles; the Skybridge Alternatives Conference (known as SALT); the California Association of Public Information Officials; and the California Association of Physician Groups.
- Governor Brown recently released a revised State budget proposal that includes a five percent pay reduction through a reduced work schedule. Staff is working on analyzing impacts and options.
- Ms. Stausboll this month kicked off her annual coffee sessions with staff. The coffee sessions are a spring tradition and provide an informal environment to interact with and answer questions from staff.
- This year PSR Project Director Karen Ruiz received the 2012 Best of California Award for Demonstrated Excellence in Project Management from the Center for Digital Government for her work on the project.

Ms. Stausboll recognized the recipients of the 2012 Achieving Personal Excellence (APEX) Award. APEX is a peer-driven process designed to recognize individuals who consistently exhibit a superior degree of excellence and a commitment to CalPERS Core Values.

President Feckner congratulated the winners and nominees of the APEX award.

b. Chief Investment Officer Report

Joseph Dear presented the Chief Investment Officer's (CIO) report to the Board and reported on the following:

- At the close of business on Monday, the Total Fund had \$230.8 billion in assets. All asset classes are within their policy ranges.

AGENDA ITEM 5 – CONSENT ITEMS

Action Consent Items:

- a. Approval of April 2012 Meeting Minutes
- b. Board Travel Approvals
- c. Proposed Decisions of Administrative Law Judges

On **MOTION** by Priya Mathur, **SECONDED** by Robert Biegler and **CARRIED**, the Board approved acceptance of Action Consent Items 5a; 5b; and 5c-1 through -6. For Proposed Decisions of Administrative Law Judges, the Board approved acceptance of Staff recommendation.

On **MOTION** by JJ Jelincic, **SECONDED** by George Diehr and **CARRIED**, the Board approved acceptance of Staff recommendation for Action Consent Item 5c-7.

AGENDA ITEM 6 – CONSENT ITEMS

Information Consent Items:

- d. Board Meeting Calendar
- e. Draft Agenda for May 2012 Meeting
- f. General Counsel's Report

AGENDA ITEM 7 – COMMITTEE REPORTS AND ACTIONS

a. Investment Committee

George Diehr, Vice Chair, Investment Committee, presented the Committee Summary report to the Board. The Committee met on Monday, May 14, 2012.

Additional information may be found in the May 14, 2012 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Investment Committee is scheduled for June 11, 2012 in Sacramento, California.

b. Pension and Health Benefits Committee

Priya Mathur, Chair, Pension and Health Benefits Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, May 15, 2012.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- SB 1294 (Berryhill) – Mariposa County: Employer Contribution for Retiree Health Benefits

Adoption of a Neutral, with Suggested Amendments position. The bill should be clarified to specify that employer health contribution changes that apply to represented employees must occur through collective bargaining and approved in a Memorandum of Understanding, and for unrepresented employees, through a resolution adopted by the County Board of Supervisors. This change will better reflect the County's current practice, as well as the approval requirements for employers to adopt the retiree health vesting schedule as a contract option in existing law.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- 1959 Survivor Benefit Program Actuarial Valuation and Employer and Employee Contribution Rates

Approval of the June 30, 2011, Actuarial Valuation Report for the 1959 Survivor Program, adoption of the employer and employee monthly premiums for fiscal year 2012-2013 as shown in the table in the Analysis section of the Committee Agenda item, and acceptance of the transmittal letter for filing with the Governor and Legislature.

Two individuals were present to speak to the Board prior to the following vote:

- Richard Gillihan from the Department of Finance urged the Board not to approve rates that phase-in the effects of the investment return rate change, referencing a letter from the Governor stating that his May revision fully funds the State plan costs for the 2012-2013 fiscal year without the phase-in.
- Neal Johnson, Service Employees' International Union (SEIU), spoke in favor of a phase-in.

On **MOTION** by Committee and **CARRIED** with nay votes by Howard Schwartz and Richard Costigan, the Board approved the following:

- State and Schools Actuarial Valuation and Employer Contribution Rates

Adoption of the employer contribution rates for the State and Schools for the period of July 1, 2012, to June 30, 2013, (with phase-in of the impact of the assumption change) as set forth in Attachment 1 to the Committee Agenda item.

On **MOTION** by Committee and **CARRIED** with one abstention by Terry McGuire, the Board approved the following:

- Legislators' Retirement System Actuarial Valuation and Employer and Employee Contribution Rates
 1. Approval of the June 30, 2011, Legislators' Retirement System Actuarial Valuation Report along with the change in funding method of assumptions as outlined in the report, and of the transmittal letter to the Governor and Legislature.
 2. Adoption of the employer contribution rate of 5.380 percent for the period of July 1, 2012, to June 30, 2013.
 3. Approval of the use of a 5.75 percent discount rate assumption in all affected member calculations effective as follows:
 - a. For service credit purchases under the "present value" method, the use of the new discount rate will apply to all applications postmarked on or after May 17, 2012.
 - b. For retirement applications, any application with a retirement date on or after May 17, 2012, will be subject to the new discount rate.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- Judges' II Retirement System Actuarial Valuation and Employer Contribution Rates
 1. Approval of the June 30, 2011, Judges' II Retirement System Actuarial Valuation Report along with the change in assumptions as outlined in the report, and of the transmittal letter to the Governor and Legislature.
 2. Adoption of the employer contribution rate of 22.837 percent for the period of July 1, 2012, through June 30, 2013, for the Judges' II Retirement System.
 3. Approval of the use of a 7.00 percent discount rate assumption in all affected member calculations effective as follows:
 - a. For service credit purchases under the "present value" method, the use of the new discount rate will apply to all applications postmarked on or after May 17, 2012.
 - b. For retirement applications, any application with a retirement date on or after May 17, 2012, will be subject to the new discount rate.

- Proposed Regulations to Permit Transfer of Assets in Severely Overfunded Situations

Approval of staff's recommendation to initiate the Rulemaking Process to adopt the proposed addition to Title 2 of the California Code of Regulations (CCR) permitting the transfer of assets between rate plans of a contracting agency in severely overfunded situations, as shown in Attachment 1 to the Committee Agenda item.

- Proposed Regulations: Dependent Eligibility Verification Amnesty

Approval of staff's recommendation to pursue proposed regulations that permit the Board to provide amnesty, for a specified time period, to employees or annuitants who voluntarily terminate their ineligible dependent's enrollment in a CalPERS health benefits plan, as shown in Attachment 2 to the Committee Agenda item.

- Proposed Regulations: Options for Medicare Supplement Plans

Approval of staff's recommendation to adopt the proposed emergency regulations to provide the Board flexibility to offer Medicare supplemental health plans from the same or different carriers that provide basic coverage, as shown in Attachment 3 to the Committee Agenda item, with the

clarification that approving these regulations does not constitute approval of any health plan pilot program or program change.

Additional information may be found in the May 15, 2012 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Pension and Health Benefits Committee is scheduled for June 12, 2012 in Sacramento, California.

c. Finance and Administration Committee

The Committee did not meet in May.

d. Performance and Compensation Committee

Michael Bilbrey, Chair, Performance and Compensation Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, May 15, 2012

On **MOTION** by Committee and, the Board approved the following:

- Acceptance of the Third Quarter status reports of the Chief Executive Officer and Chief Investment Officer.

Additional information may be found in the May 15, 2012 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Performance and Compensation Committee will be held on June 12, 2012 in Sacramento, California.

e. Risk and Audit Committee

JJ Jelincic, Chair, Risk and Audit Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, May 15, 2012

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- The proposed Risk Assessment Plan for Fiscal Year 2012-2012.
- The proposed Audit Plan for Fiscal Year 2012-2013.

Additional information may be found in the May 15, 2012 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Risk and Audit Committee will be held on August 14, 2012 in Sacramento, California.

f. Board Governance Committee

The Committee did not meet in May.

AGENDA ITEM 8 – my|CALPERS UPDATE

Donna Lum, Deputy Executive Officer, Customer Services and Support, reported on the overall status of the project:

- Customer contact call wait times have improved from an average of 20 minutes in March to 14 minutes in April. Seventy-one percent of calls are now answered between zero and six minutes, with a reduction in overall calls of about 6,000 last month. Virtual hold is usually available to callers until as late as 2:00 p.m.
- 28 new agents have been hired and are located at CalPERS emergency operations center. They are due to complete training by the middle of June.
- Employer call wait times remain at about 3 minutes.
- Other call center staff has been hired to begin the first week of July. They will be fully trained before member self-service is launched at the end of July.
- In April, death benefit payments increased from 443 in March to over 1,120. Last month, ten additional resources were redirected to focus on the queue of waiting documentation. They were able to collect valuable information for determining how best to address the workload. All lump sum payment requests are current. New cases involving monthly benefits payable to spouses are current. The large release at the end of April provided new functionality in processing death benefits. Among other features, the ability to pay multiple beneficiaries with a single transaction has been an effective time-saver.
- Service credit purchase processing continues to improve each month. A total of 1,174 requests were completed in April, far exceeding the projected 750. By July, the projected monthly productivity is expected to exceed 1,500. Additional steps are being taken to address continuing backlogs, including the redirection of resources and the hiring of 12 additional student assistants.
- Payroll related retirement adjustments continue to exceed projections.
- Many of the issues that generated erroneous benefit deductions from member warrants have been addressed through system fixes.
- The second round of usability testing on member self-service is now complete. Implementation for Release 1 is still on track for the end of July.

Chris Jasper, KPMG, Independent Project Oversight (IPOC), made the following observations:

- Work is still needed to finish the transition plans from key project team members to permanent staff.
- Frequent updates to the system have continued to improve available functionality to support business areas, with some of the most challenged areas beginning to see some operational improvements.
- The IPOC team has been working with leadership and the project team to identify those aspects of the overall implementation effort that would benefit most from objective measurement, evaluation and recommendations.

John Chiang arrived at this time and replaced Terry McGuire.

AGENDA ITEM 11 – EXTERNAL AFFAIRS/STATE AND FEDERAL LEGISLATION

a. Robert Glazier, Deputy Executive Officer, External Affairs, provided an update on Public Affairs, State Legislation and CalPERS sponsored bills, and reported on the following:

- The Securities and Exchange Commission (SEC) recently filed charges against a former CalPERS CEO and a former Board member. CEO Anne Stausboll held a media call to communicate CalPERS support of the SEC charges being filed, and to share CalPERS efforts to institute reforms in the areas of ethics, transparency and accountability.
- CalPERS audit of the City of Vernon was featured in an exclusive front-page story by the Los Angeles Times.
- Staff is keeping CalPERS employees informed with news from the Governor and Legislature concerning the Governor's proposed reduced work week schedule and pay for state employees.
- Staff held a webinar last week for members nearing retirement that provided a step-by-step guide to completing retirement applications, and to the options available. More than 4,000 individuals registered for the session.
- Webcasts of Board meetings are now being streamed to monitors in the lobbies of CalPERS eight regional offices.
- CalPERS has set a goal to increase its social media community by 100 percent during this fiscal year. Twitter now stands at 92 percent and Facebook at 73 percent of goal.

- On May 4, CalPERS hosted its first California Business Leaders Roundtable. Topics discussed included: health care and rising health costs; pension reform; and CalPERS investments, specifically corporate governance, infrastructure and California investing. Staff is planning to continue these meetings semi-annually.
 - On May 1, CalPERS Office of Stakeholder Relations hosted another Ambassador Program training in partnership with the City of Glendale. Attendance was over 80. The next two trainings will take place in Sacramento on June 21 and in San Jose on September 21.
 - CalPERS held its Infrastructure Investment Roundtable on Transportation in Los Angeles on April 23, with 46 attendees from both the public and private sector. The next roundtable will be held in San Diego on May 24 and will focus on energy. 50 attendees are already confirmed.
 - CalPERS will be sponsoring a series of pension town halls again this summer. These will be three-hour events where national, State and local pension experts will be able to discuss the current state of pensions here in California. The tentative dates are August 9 in Sacramento, August 16 in Anaheim and August 30 in Santa Clara.
 - SB 987 (Negrete McLeod) has now passed out of the Senate and is waiting to be taken up in the Assembly Policy Committee.
 - AB 2142 (Furutani) has now passed out of both the Policy and Fiscal Committees on unanimous votes and is now on the consent calendar in the Assembly Floor.
 - Staff is preparing to provide comments and technical assistance in anticipation of the release of a Conference Committee draft report by the Conference Committee on Public Employee Pensions.
- b. Tom Lussier, CalPERS Federal Liaison, provided updates on federal legislation and reported on the following:
- Recent revelations at JP Morgan are expected to generate an escalation of Congressional hearings that may strengthen support for the Dodd-Frank reform legislation and the Volcker Rule.
 - Staff has had some preliminary discussions with Senator Tom Harkin, Chairman of the Senate Health, Education, Labor and Pensions (HELP) Committee, who is drafting a bipartisan bill to address retirement security. Senator Harkin is interested in learning more about retirement security in California from a CalPERS perspective.

- Staff has reached out to members of the California Congressional delegation, the House Financial Services Committee, and the Senate Banking Committee, to communicate the affirmative actions that CalPERS has taken in response to the situation that led to the recent SEC action against CalPERS former CEO and a former Board member.
- The Treasury Department is now working on the definition of a governmental plan. Staff anticipates a growing discussion on the potential impact of this regulation at the State and local levels.

AGENDA ITEM 12 – PUBLIC COMMENT

No public comment.

There being nothing further to come before the Board of Administration, the meeting adjourned at 12:35 p.m.

The next Board of Administration meeting is scheduled for June 13, 2012 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer