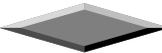


**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION**

MINUTES OF MEETING

Wednesday, April 17, 2013



The Board of Administration met on Wednesday, April 17, 2013 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 10:30 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
Henry Jones
Ron Lind
Bill Lockyer
Priya Mathur
Bill Slaton

Board of Administration Members excused: none.

AGENDA ITEM 3 – PRESIDENT'S REPORT

President Feckner announced that the Board will be making two important decisions. The first will be selecting a company to administer the HMO health care program for the next five years. The other decision will be regarding changes to the actuarial policies on long-term funding of the pension plan.

President Feckner mentioned the Susan G. Komen Race for the Cure to take place on May 11, 2013. He encouraged participation in this important cause.

President Feckner called for a moment of silence for the Boston tragedy.

AGENDA ITEM 4 – EXECUTIVE REPORTS

a. Chief Executive Officer Report

Anne Stausboll reported on the following:

- Focus on strategic issues with a goal of ensuring stability of the pension fund and health care program:
 - Actuarial smoothing and amortization methodologies
 - Pension and Health Benefits Committee HMO contract procurement
- Municipal bankruptcies in Stockton and San Bernardino
 - Stockton is eligible to proceed in the bankruptcy process and is current on its regular employer contributions to the System.
 - San Bernardino is scheduled to release its budget for a vote by its City Council.
- Pension Reform Act (PEPRA) developing the implementing regulation.
- my|CalPERS (also known as PSR System) final system acceptance
- Organizational Health Index (OHI) Survey completed and results are being analyzed.
- Coffee Sessions will begin May 6.
- Ms. Stausboll recognized staff of Health Policy Research, Operations Support, Legal, Health Plan Administration, Kathy Donneson, Doug McKeever, and Ann Boynton for implementing the health care procurement process.

b. Chief Investment Officer Report

Janine Guillot, Chief Operating Investment Officer, presented the Chief Investment Officer's (CIO) report to the Board and reported on the following:

- Year-to-Date performance is very strong at 11.9 percent.
- 10-Year and Inception-to-Date exceed eight percent, with 10-Year being 8.11 percent and Inception-to-Date at 8.5 percent.
- 5-Year return weak due to performance of real estate portfolios, which is just beginning to show a strong recovery.
- Asset classes are all within their strategic policy ranges.

AGENDA ITEM 5 – CONSENT ITEMS

Action Consent Items:

- a. Approval of March 2013 Meeting Minutes
- b. Board Travel Approvals

On **MOTION** by JJ Jelincic, **SECONDED** by George Diehr and **CARRIED**, the Board approved Action Consent Items 5a and 5b.

AGENDA ITEM 6 – CONSENT ITEMS

Action Consent Items:

- a. Proposed Decision of Administrative Law Judges
- b. Petitions for Reconsideration

On **MOTION** by George Diehr, **SECONDED** by Priya Mathur and **CARRIED**, the Board approved acceptance of Independent Board Counsel to set Item 6a1 for a full board hearing.

On **MOTION** by George Diehr, **SECONDED** by Henry Jones and **CARRIED**, the Board approved acceptance of Independent Board Counsel recommendations to adopt the Proposed Decisions of Administrative Law Judges (ALJ) for Action Consent Items 6a2 through 6a4, and 6a6 through 6a8 in their entirety, as the Board's own decisions.

On **MOTION** by George Diehr, **SECONDED** by Michel Bilbrey and **CARRIED**, the Board approved acceptance of Independent Board Counsel recommendations to deny the Petitions for Reconsideration for Action Consent Items 6b1 and 6b2.

AGENDA ITEM 7 – CONSENT ITEMS

Information Consent Items:

- a. Board Meeting Calendar
- b. Draft Agenda for May 2013 Meeting
- c. General Counsel's Report

AGENDA ITEM 8 – COMMITTEE REPORTS AND ACTIONS

a. Investment Committee

Henry Jones, Chair, Investment Committee, presented the Committee Summary report to the Board. The Committee met on Monday, April 15, 2013.

Additional information may be found in the April 15, 2013 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Investment Committee is scheduled for May 13, 2013 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, April 16, 2013.

On **MOTION** by Committee and **CARRIED** with one abstention by Howard Schwartz on behalf of CalHR, the Board approved the adoption of a **Support** position with clarifying technical amendments on Assembly Bill 410: Retention of Health Benefits After Reinstatement from Retirement.

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

- Adoption of a Support position on Assembly Bill 459: Food and Beverage Guidelines for State Concession and Vending Operations.
- Approval of the June 30, 2012, Judges' Retirement System (JRS) Actuarial Valuation Report and the corresponding transmittal letter to the Governor and Legislature; and, continue to encourage the California Legislature and Governor to adopt an employer contribution schedule that includes advanced funding of the JRS.
- Approval of the June 30, 2012, Judges' Retirement System (JRS) II Actuarial Valuation Report and the corresponding transmittal letter to the Governor and Legislature; and, adopt the employer contribution rate of 22.687 percent for the period of July 1, 2013, through June 30, 2014, for the JRS II.

On **MOTION** by Committee and **CARRIED** with two abstentions: JJ Jelincic and Michael Bilbrey, the Board approved the following:

- Approval of the Committee's recommendation to amend existing actuarial smoothing and amortization policies to improve the soundness and sustainability of the system by adopting amendments to the following existing actuarial policies as shown in the attachments:

- Board Resolution No. ACT-96-05E (Rev.) regarding amortization and smoothing policies (Attachment 1)
 - Board Resolution No. 05-02-AESD (Rev.) regarding smoothing employer contribution rates (Attachment 2)
 - Board Resolution No. 95-05C (Rev.) regarding the actuarial asset valuation method effective with the June 30, 2013 actuarial valuation (Attachment 3)
- Approval to rescind the following actuarial policy:
 - Board Resolution No. 05-01-AESD (Rev.) regarding the employer rate stabilization policy (Attachment 4)
 - These proposed changes will impact employer contribution rates for the State plans, School pool, and public agencies starting with fiscal year 2015-16

Public Comment

Dan Pellissier, a representative of California Pension Reform, spoke before the Board prior to the vote on amending the existing actuarial smoothing and amortization policies.

On **MOTION** by Committee and **CARRIED**, the Board approved the CalPERS proposed 2013 Federal Health Care Policy Initiative with amendments to clarify that the efforts not be limited to public programs under the *Waste, Fraud and Abuse* section of the Policy. (Attachment 5)

On **MOTION** by Committee and **CARRIED** with one abstention by Richard Costigan, the Board approved the award of the non-exclusive contract as a result of Request for Proposal No. 2012-6334 (the "RFP") to Blue Shield of California, Anthem Blue Cross, United Health Services, Inc., and Sharp Health Plan – each of which is comprised of two health benefit plans, a fully insured plan and a self-funded plan. The contract awards are at the discretion of the Board as authorized by Section VII.F.1 of the RFP, and subject to successful negotiation of terms and conditions satisfactory to CalPERS. Should negotiations with any of these proposers not be successful, the Board may, based on its exclusive discretion as authorized under Section VII.F.1 of the RFP, direct staff to negotiate with other proposers regarding proposals that meet the needs of the Board. Those plans will likewise be comprised of two health benefit plans, a fully insured plan and a self-funded plan.

On a **MOTION** by JJ Jelincic, **SECONDED** by George Diehr and **CARRIED** with one abstention by Richard Costigan, the previous motion was amended to include Health Net.

Additional information may be found in the April 16, 2013 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Pension and Health Benefits Committee is scheduled for May 14, 2013 in Sacramento, California.

c. Finance and Administration Committee

George Diehr, Chair, Finance and Administration Committee, presented the Committee Summary report to the Board. The Committee met on Wednesday, April 17, 2013.

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

- Approval of the Semiannual Contracting Prospective Report of Solicitations, Contracts, Purchase Orders and Letters of Engagement.
- Approval of the 2013-15 Business Plan as a second reading with the amendment to the Workforce Strategic Plan Implementation Initiative which clarifies the initiative's role in supporting Diversity and Inclusion.
- Approval as a second reading, the proposed Fiscal Year 2013-14 Annual Budget Proposal as listed:
 - Approve the proposed CalPERS Administrative Budget of \$405,978,000 and 2,685 positions.
 - Approve the proposed CalPERS Enterprise Projects Budget of \$33,288,000.
 - Approve the proposed CalPERS Headquarters Building Account Budget of \$40,676,000.
 - Approve the transmittal of this agenda item to the appropriate parties as listed in the item.
- Approval of the proposed elected Board member percentages of time to be spent on Board related duties for Fiscal Year 2013-14 with the amendment that the proposed percentage of time for George Diehr be adjusted to 100 percent for Fiscal Year 2013-14.
- Approval to sponsor legislation to amend Section 20574 of the Government Code administered to clarify ambiguities and establish certain steps and requirements that will assist CalPERS staff in the orderly and efficient administration of the System.

Additional information may be found in the April 17, 2013 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Finance and Administration Committee is scheduled for June 18, 2013 in Sacramento, California.

d. Performance, Compensation and Talent Management Committee

Michael Bilbrey, Chair, Performance, Compensation and Talent Management Committee, presented the Committee Summary report to the Board. The Committee met on Wednesday, April 17, 2013.

The Committee held an election for Performance, Compensation and Talent Management Vice Chair. Priya Mathur was elected Vice Chair.

Additional information may be found in the April 17, 2013 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Performance, Compensation and Talent Management Committee is scheduled for May 14, 2013 in Sacramento, California.

e. Risk and Audit Committee

The Committee did not meet in April.

f. Board Governance Committee

The Committee did not meet in April.

AGENDA ITEM 9 – REVISIONS TO COMMITTEE DELEGATIONS

On **MOTION** by Priya Mathur, **SECONDED** by George Diehr, and **CARRIED**, the Board approved the revisions to the Committee delegations for the Investment Committee, Pension and Health Benefits Committee, Finance and Administration Committee, Risk and Audit Committee, and the Board Governance Committee.

AGENDA ITEM 10 – EXTERNAL AFFAIRS/STATE AND FEDERAL LEGISLATION

Danny Brown, Chief, Governmental Affairs, provided an update on Public Affairs, State Legislation and CalPERS sponsored bills, and reported on the following:

- Media update regarding municipal bankruptcies in Stockton and San Bernardino and the portrayal of CalPERS in news and articles.
- Highlights of specific topics and decisions before the Board are provided on the CalPERS website.
- Office of Stakeholder Relations co-sponsored an educational event with the League of Cities and the California State Association of Counties (CSAC) examining the Affordable Care Act.

- On May 21, CalPERS will host the Second Annual California Business Leaders Roundtable.
- 2013 Educational Forum will be held on October 21 to 23 in San Jose, California.
- Update on our three sponsored bills:
 - SB 215, which is our CalPERS housekeeping bill passed out of the Senate PERS Committee on a 5-0 vote and is now scheduled to be heard in Appropriations next Monday.
 - SB 220, which is our CalPERS conformity bill to conform with PEPRA, is set for its first Senate PERS hearing on Monday, April 22. The bill includes over 20 sections, and staff continues to identify, draft, and add more sections as we become aware of them.
 - AB 373, which is our long-term care eligibility bill. It passed out of the Assembly PER Committee last week on a 5-2 vote, and is now being heard in Assembly Appropriations today.
- Update on SB 13, the PEPRA clean-up bill. That bill has now passed out of the Senate on a 37-0 vote, and is now over in the Assembly.
- AB 785 was removed by the author.
- AB 931 by Assembly Member Gaines, which would require CalPERS to offer a health saving account and a high deductible plan, has now been moved to a two-year bill.
- AB 1163, by Assembly Member Levine, which would change the Board composition and add two additional Board members, has also been moved to a two-year bill.
- AB 347, recently amended to reinstate the Rural Health Care Equity Program, has been amended again to apply to Sac Metro Fire and would add a new health vesting schedule for Sac Metro Fire.

Tom Lussier, CalPERS Federal Liaison, provided updates on federal legislation and reported on the following:

- Focus on both houses of Congress seems to be almost exclusively on issues related to guns and gun control and/or immigration.
- Substantive reform packages are being offered in the health care arena as the next round of health care reform. The Odd Bedfellows Report, comprised of providers, interest groups and insurance industry recommendations was released. The National Coalition on Health Care also provides recommendations in this report. We expect a similar report from the bipartisan policy group.

- Monitoring the repeal of the Sustainable Growth Rate (SGR). There is a growing consensus that the repeal should be linked with some fundamental payment reforms that move us from a system that compensates based on volume to compensating on quality.
- Beginning a series of visits with health care staff for member of the California delegation.
- Monitoring discussions regarding “Big Deal” that may expose issues of concern like tax exclusions for retirement savings. The President has recently proposed, as part of his budget, a cap. There are Social Security amendments that are being discussed. There may also be some discussion around the cost of Medicare.
- Congressman Nunes intends to introduce his legislation April 18 with fewer co-sponsors.

AGENDA ITEM 12 – PUBLIC COMMENT

William Fawx, Past President, CSR and Legislative and PERS Representative to Chapter 165 and member of RPEA, commented that Chapter 30 requested the Board of Directors of RPEA to research and publish more information regarding the specific costs that are going to be involved for retirees with the new health programs being initiated.

There being nothing further to come before the Board of Administration, the Open Session meeting adjourned at 11:28 a.m.

The next Board of Administration meeting is scheduled for May 15, 2013 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer