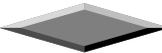


**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION**

MINUTES OF MEETING

Wednesday, June 19, 2013



The Board of Administration met on Wednesday, June 19, 2013 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 9:47 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
Bill Slaton

Board of Administration Members excused: Priya Mathur

AGENDA ITEM 3 – PRESIDENT'S REPORT

President Feckner expressed his appreciation of public service employees and invited members to keep abreast of the Board's work, discussions, and decisions. President Feckner reminded those present that the Board is available to speak to member groups upon request.

President Feckner announced that the Board will be conducting its annual strategic off-site July 15-17 in Petaluma, CA at the Sheraton Hotel.

Lastly, President Feckner announced the birth of Vivienne Sara Mathur Quijano to Priya Mathur.

AGENDA ITEM 4 – EXECUTIVE REPORTS

a. Chief Executive Officer Report

Anne Stausboll reported on the following:

- The Board will be voting on Health Plan rates today. If approved, these rates will go into effect on January 1, 2014. The proposed package would:
 - Raise overall premiums next year by an average of 3 percent – the lowest average increase since 1998.
 - Add several new HMO providers.
 - Contain rates reflecting the implementation of risk management across HMO and PPO plans.

Open enrollment period will be September 16 through October 11. Annual health plan statements will go out to members in August. The statement will outline current coverage, provide information on new plans, and contain instructions for making selections.

- The Board will also be voting on the State and Schools Valuation for 2013-14. The full report will be published online later this summer. Ms. Stausboll also recognized the staff that worked on the valuation, noting that this valuation was particularly challenging due to PEPPRA implementation and the extraction of data from my|CalPERS for the first time.
- The Investment Committee approved the Capital Market Assumptions.
- CalPERS hosted an academic symposium on Sustainability and Investment last week in Davis, CA in partnership with UC Davis Graduate School of Management and the Columbia Law School Millstein Center. The database of this research is available online.
- CalPERS received a commendation for its ESG report as the best responsible investment report by a large pension fund. This commendation was awarded by Responsible Investor, a sustainable finance and governance news source.
- CalPERS is hosting its first annual Diversity Inclusion All-Staff event. Hosted by the CalPERS Diversity Outreach Program, the nationally-recognized speaker and author, Steve Robbins, Ph.D., will share his unique concept around unintentional intolerance with our staff. There will be 2 sessions – 10:00 a.m. and 2:00 p.m. on July 24.
- There are 29 languages spoken at CalPERS. We have 78 staff members who have volunteered their services for interpretation and translation.

b. Chief Investment Officer Report

Ted Eliopoulos, Acting Investment Officer, presented the Chief Investment Officer's (CIO) report to the Board and reported on the following:

- Fiscal Year-to-Date performance of the total fund is strong. As of April 30, 2013, it is 14.3 percent on a net basis, reflecting a very strong performance of the public equity markets over the last 10 months.
- As of April 30, 2013, the 10-year return is 7.8 percent and our since-inception return is 8.7 percent on a net basis.
- The weak spot continues to be our 5-year return, which was significantly impacted by the financial crisis and the weak performance of the real estate portfolio.
- The Asset Allocation fund continues to have the majority of its assets allocated to growth risks. The public and private equity assets comprise 64 percent of the total fund as of the April time period. Income assets are 16 percent of the fund, and real assets comprise a little over 9 percent of the fund. The remainder of the fund's asset allocation is across the liquidity, inflation and hedge fund programs.
- All of the asset classes are within their strategic policy ranges.

AGENDA ITEM 5 – CONSENT ITEMS

Action Consent Items:

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

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

AGENDA ITEM 6 – CONSENT ITEMS

Information Consent Items:

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

AGENDA ITEM 7 – 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, June 17, 2013.

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

The next meeting of the Investment Committee is scheduled for August 19, 2013 in Sacramento, California.

b. Pension and Health Benefits Committee

George Diehr, Acting Chair, Pension and Health Benefits Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, June 18, 2013.

On **MOTION** by Committee and **CARRIED** with one abstention from Richard Costigan, the Board approved the proposed 2014 Health Maintenance Organization premium rates for Anthem Blue Cross, Blue Shield of California, Health Net, Kaiser Permanente, Sharp and United Healthcare (Attachment 1), inclusive of the benefit changes outlined in the agenda item.

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

- The proposed 2014 Preferred Provider Organization rates for PERS Select, PERSCare, and PERS Choice (Attachment 2), inclusive of the benefit changes outlined in the agenda item
- The proposed 2014 rates for the California Association of Highway Patrolmen (CAHP) Health Benefits Trust, the California Correctional Peace Officers Association (CCPOA) Benefit Trust Fund, and the Peace Officers Research Association of California (PORAC) Insurance and Benefits Trust (Attachment 3)

Additional information may be found in the June 18, 2013 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Pension and Health Benefits Committee is scheduled for August 20, 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 Tuesday, June 18, 2013.

On **MOTION** by Committee and **CARRIED** the Board approved the June 30, 2012, Actuarial Valuation for the 1959 Survivor Program and the corresponding transmittal letter to the Governor and Legislature; and adopted the employer and employee monthly premiums, as detailed in the agenda item, for Fiscal Year 2013-14.

On **MOTION** by Committee and **CARRIED** with abstentions from Grant Boyken and Terry McGuire, the Board approved the June 30, 2012, Legislators' Retirement System Actuarial Valuation and the corresponding transmittal letter to the Governor and Legislature; and adopt the employer contribution rate of 38.381 percent for the period of July 1, 2013, through June 30, 2014 for the Legislators' Retirement System.

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

- Adoption of the State and Schools Actuarial Valuation and employer contribution rates, as detailed in the agenda item, for the period of July 1, 2013, to June 30, 2014.
- The recommendation for the Investment Office to modify three standard contract terms and conditions of Indemnification, Limited Liability, and Fiduciary, for contracts that do not include investment advisory services.

Additional information may be found in the June 18, 2013 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Finance and Administration Committee is scheduled for September 17, 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 Tuesday, June 18, 2013.

On **MOTION** by Committee and **CARRIED**, the Board approved the 2013-14 Performance Plans: Chief Executive Officer and Chief Investment Officer.

Additional information may be found in the June 18, 2013 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Performance, Compensation and Talent Management Committee is scheduled for the week of September 16, 2013 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 Wednesday, June 19, 2013.

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

- The proposed 2013-15 Risk Assessment Plan
- The proposed 2013-15 Compliance Plan
- The proposed Audit Plan for Fiscal Year 2013-14
- The acceptance of the External Auditor's Annual Plan for the audit of the Financial Statements as of and for the year ended June 30, 2013.

Additional information may be found in the June 19, 2013 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Risk and Audit Committee is scheduled for September 17, 2013 in Sacramento, California.

f. Board Governance Committee

The Committee did not meet in June.

AGENDA ITEM 8 - Proposed Decision of Administrative Law Judges

On **MOTION** by George Diehr, **SECONDED** by JJ Jelincic and **CARRIED**, the Board approved acceptance of Independent Board Counsel to adopt the Proposed Decisions for Agenda Items 8a through 8c in their entirety, as the Board's own decisions.

AGENDA ITEM 9 – Petitions for Reconsideration

On **MOTION** by George Diehr, **SECONDED** by Richard Costigan and **CARRIED**, the Board approved acceptance of the recommendations of our Independent Board Counsel and deny the Petitions for Reconsideration at Agenda Items 9a and 9b.

AGENDA ITEM 10 – FULL BOARD HEARING – PIER’ ANGELA SPACCIA

This item was postponed until 1:00 p.m. time certain.

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:
- Mr. Glazier introduced External Affairs’ newest Division Chief for Stakeholder Relations, Ms. Rita Gallardo. Mr. Glazier also recognized Ms. Linda Evans, who was Acting Division Chief of Stakeholder Relations.
 - Office of Stakeholder Relations will be gathering feedback from the stakeholders to analyze its efficiencies. Results of the survey of members, employers and employees will be presented at the off-site meeting in July.
 - CalPERS will now be live webcasting four workshops from our next retirement planning fair. Customer Services and Outreach Division and Strategic Event Management Team have planned two retirement planning fairs this fall in Sacramento and Long Beach. The webcast will be available on the CalPERS website for any members who are not able to attend the fair and will include the basic fundamentals of retirement benefits, how CalPERS health coverage carries over into retirement for our active members as they retire, options to purchase service credit, and the advantages of deferred compensation programs.
 - Board meeting webcast viewing for May was down from April’s all-time high viewership. The Board meetings continue to average about 2,000 viewers during the 3-day course of the meetings. External Affairs will be actively promoting the Board meeting webcasts at retirement fairs, educational conferences, in publications to our employees and retirees, and within social media networks.
 - Congratulations to the CalPERS social media team for receiving the gold award from the State Information Officers Council for the grassroots communication campaign, Ask 5. This campaign increased CalPERS Facebook followers by more than 100 percent.
 - Update on our sponsored bills:
 - SB 215, which is our CalPERS housekeeping bill passed out of the Senate on a bipartisan vote. It is set for hearing next week in the Assembly PERS Committee. No further amendments are planned or expected there.

- SB 220, which is our CalPERS conformity bill, is to amend the PERL to assist with PEPRA implementation, and it passed the Senate on consent, and is set for hearing next week in the Assembly PERS Committee.
 - AB 373, which is our long-term care eligibility bill, has passed the Assembly on a bipartisan vote and is scheduled to be heard next week in the Senate Appropriations Committee. No issues are anticipated in being able to move this bill out of appropriations.
 - Update on SB 13, the PEPRA clean-up bill: Set for hearing in the Assembly PERS Committee on Wednesday, June 26. It will likely be amended as the Assembly will be working on the bill over Summer Recess. Last day for this bill to pass out of the Fiscal Committee is August 30.
 - AB 160 provides an exemption from PEPRA for transit workers, contingent on the federal government's determination on whether PEPRA violates transit worker's collective bargaining rights. It was made a 2-year bill in the Assembly Appropriations Committee, but was amended within an urgency clause – if necessary it can still be moved until the end of January 2014
 - Update on bills held on the Appropriations suspense file at the end of May:
 - AB 761 – which requires CalPERS and CalSTRS to divest from gun and ammunition manufacturers. CalPERS Board adopted an oppose position in the April 2013 meeting.
 - AB 469 – which requires more nutritious food options in State buildings and vending machines. CalPERS Board adopted a support position in the April 2013 meeting.
 - SB 189 – which provides restrictions on group health wellness plans. This bill was initially brought before the PHB Committee in May 2013. Instructions were to bring this bill back to the Board when it was in the second house.
- b. Tom Lussier, CalPERS Federal Liaison, provided updates on federal legislation and reported on the following:
- Congress is largely focused on issues not directly impacting significant CalPERS priorities. One of these issues is achieving comprehensive bipartisan immigration reform.
 - CalPERS is submitting statements for the record and/or delegation correspondence regarding Sustainable Growth Rate reform in the health care

arena, and in support of key Dodd-Frank priorities in the financial regulatory arena. Specific highlights include: actively opposing efforts to require onerous and unnecessary economic analyses by the SEC to advance critical Dodd-Frank regulations, legislation to repeal provisions that require corporations to disclose the ratio of CEO compensation to the median total compensation for all other company employees, proposals to rollback requirements that all fund advisors be subject to regulation and registration, and legislation that would reduce the PCAOB's authority to address the issue of auditor rotation.

- The President's appointment of Kara Stein and Mike Piwowar to become SEC Commissioners will be considered by the Senate Banking Committee prior to July 4 recess, and the Senate will take up these appointments prior to their August recess.

AGENDA ITEM 12 – PUBLIC COMMENT

Winn Williams is a retired member of CalPERS from a contracting agency, formerly a fire captain with a local safety agency, Chino Valley Independent Fire District, and has been on industrial disability since 2002. Mr. Williams applied for reinstatement several years ago as the employer determined in 2009 that Mr. Williams was no longer disabled. Despite this determination, Mr. Williams was not reinstated and has continued to receive disability payments from CalPERS. Mr. Williams believes that local safety employers should not be permitted to leave disability retired members languishing on CalPERS disability rolls, when they are no longer disabled. In his view, there is a deficiency in Public Employees' Retirement Law that needs to be corrected. The language that allows this deficiency is Government Code Section 21193. Mr. Williams suggested that this flaw could easily be corrected by amending the language of Government Code 21193 in the annual housekeeping bill, SB 215.

Mr. Williams also spoke on a separate issue regarding the CalPERS administrative fee of \$100 per month for the group plan of CalPERS. Mr. Williams would like an explanation of that administrative fee.

The Open Session meeting recessed at 10:42 a.m.

The meeting was reconvened at approximately 1:00 p.m.

AGENDA ITEM 10 – FULL BOARD HEARING – PIER’ ANGELA SPACCIA

Roll was called and the following members were present:

Rob Feckner, President
George Diehr, Vice President
Michael Bilbrey
Darlene Schell for Julie Chapman
Terry McGuire for John Chiang
Richard Costigan
JJ Jelincic
Henry Jones
Ron Lind
Bill Lockyer
Bill Slaton

Board of Administration Members excused: Priya Mathur

At the April 17, 2013 Board meeting, the Board rejected the proposed decision and scheduled this matter for a full Board hearing limited to the question of whether staff erred in rescinding the purchase of five years of Additional Retirement Service Credit, which is referred to as ARSC, or airtime in this proceeding, by the City of Bell who is referred to as the City in this proceeding, on behalf of Pier’Angela Spaccia, who is referred to as Ms. Spaccia or the Member in this proceeding.

President Feckner advised that in the current proceeding, no other issues are before the Board and thus, the Board does not have the authority to hear any other issues. Ms. Spaccia is the respondent in this matter. Ms. Spaccia’s former employer, the City, has declined to submit written argument.

Senior Staff Counsel with CalPERS is Wesley Kennedy. Assistant Chief Counsel for CalPERS is Marguerite Seabourn. Stephen Onstot, attorney with Aleshire and Wynder representing the City of Bell. Harland Braun, attorney representing Ms. Spaccia.

Chirag Shah from the Los Angeles-based law firm of Shah and Associates, the Board’s independent counsel on full Board hearings to proposed decisions from the Office of Administrative Hearings (OAH), was present to guide and advise the Board in these proceedings should Board members have questions.

President Feckner reminded those present that the record from the hearing before the Administrative Law Judge stands as is, but the parties have the opportunity to present oral and written arguments. Ms. Spaccia and CalPERS staff have submitted written arguments; however, the City has decided not to submit a written argument. President Feckner provided a general outline of the procedures for the hearing and confirmed that all parties received copies of the Statement of Policy and Procedures for Full Board Hearings before this Board. President Feckner announced that since CalPERS staff is

in agreement with the City's position, Mr. Kennedy will be sharing the staff's 15-minute oral agreement time with Mr. Onstot.

Mr. Shah provided a brief summary of the case and provided the substantive facts.

Mr. Kennedy then presented CalPERS argument to uphold staff's determination and reject Ms. Spaccia's claim of estoppel. Mr. Onstot used the remaining time to add the City's argument.

Mr. Braun then presented his arguments on behalf of Ms. Spaccia's case.

Mr. Kennedy presented his rebuttal to Mr. Braun's arguments. And Mr. Onstot added to Mr. Kennedy's rebuttal.

Mr. Braun then presented his rebuttal.

The floor was opened for questions by the Board. Mr. Jelincic requested a discussion in closed session.

The Board of Administration Open Session recessed into Closed Session at 2:05 p.m. and reconvened at 2:18 p.m.

On **MOTION** by George Diehr, **SECONDED** by Richard Costigan and **CARRIED**, the Board approved the adoption of all aspects of the proposed decision of the Administrative Law Judge, except for any language stating that staff erred in rescinding five years of purchase of additional retirement service credit purchased by the City of Bell on behalf of the member, and the proposed decision be revised to provide that staff did not err when it rescinded the purchase of five years of additional retirement service credit by the City of Bell on behalf of the member, and furthermore, this decision be precedential.

There being nothing further to come before the Board of Administration, the Open Session meeting adjourned at 2:21 p.m.

The next Board of Administration meeting is scheduled for the week of August 19, 2013 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer