MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

PENSION & HEALTH BENEFITS COMMITTEE

ROBERT F. CARLSON AUDITORIUM

LINCOLN PLAZA NORTH

400 P STREET

SACRAMENTO, CALIFORNIA

TUESDAY, AUGUST 18, 2015

10:26 A.M.

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

A P P E A R A N C E S

COMMITTEE MEMBERS:

Ms. Priya Mathur, Chairperson

Mr. Michael Bilbrey, Vice Chairperson

Mr. John Chiang, represented by Mr. Grant Boyken

Mr. Rob Feckner

Mr. Richard Gillihan, represented by Ms. Katie Hagen

Mr. J.J. Jelincic

Mr. Henry Jones

Ms. Theresa Taylor

Ms. Betty Yee, represented by Mr. Alan Lofaso

BOARD MEMBERS:

Ms. Dana Hollinger

Mr. Ron Lind

Mr. Bill Slaton

STAFF:

Ms. Anne Stausboll, Chief Executive Officer

Ms. Ann Boynton, Deputy Executive Officer

Ms. Donna Lum, Deputy Executive Officer

Mr. Matt Jacobs, General Counsel

Ms. Jan Falzarano, Assistant Chief, Health Policy Research Division

Ms. Jennifer Jimenez, Committee Secretary

A P P E A R A N C E S   C O N T I N U E D

STAFF:

Mr. Doug McKeever, Chief, Health Policy Research Division

Mr. Anthony Suine, Chief, Benefit Services Division

Ms. Stacie Walker, Chief, Retirement Research and Planning Division

ALSO PRESENT:

Chris Jennings, Jennings Policy Strategies
(via teleconference)

Mr. Tom Lussier, Lussier Group
(via teleconference)

L.R. Roberts, California State Retirees Chapter 2, California State Employees Association

Mr. Tony Roda, Williams and Jensen
(via teleconference)

C.T. Weber

I N D E X

P R O C E E D I N G S

CHAIRPERSON MATHUR: I'd like to call the Pension and Health Benefits Committee meeting order.

First order of business is roll call.

COMMITTEE SECRETARY JIMENEZ: Priya Mathur?

CHAIRPERSON MATHUR: I'm here.

COMMITTEE SECRETARY JIMENEZ: Michael Bilbrey?

VICE CHAIRPERSON BILBREY: Good morning.

COMMITTEE SECRETARY JIMENEZ: Grant Boyken for John Chiang?

ACTING COMMITTEE MEMBER BOYKEN: Here.

COMMITTEE SECRETARY JIMENEZ: Rob Feckner?

COMMITTEE MEMBER FECKNER: Good morning.

COMMITTEE SECRETARY JIMENEZ: Katie Hagen for Richard Gillihan?

ACTING COMMITTEE MEMBER HAGEN: Here.

COMMITTEE SECRETARY JIMENEZ: J.J. Jelincic?

COMMITTEE MEMBER JELINCIC: Here.

COMMITTEE SECRETARY JIMENEZ: Henry Jones?

COMMITTEE MEMBER JONES: Here.

COMMITTEE SECRETARY JIMENEZ: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Here.

COMMITTEE SECRETARY JIMENEZ: Alan Lofaso for Betty Yee?

ACTING COMMITTEE MEMBER LOFASO: Here.

CHAIRPERSON MATHUR: Well, we do have a quorum of the Committee. I'd also like to note for the record that Ron Lind and Dana Hollinger are in attendance.

And before we get into the actual agenda, I would like to take a moment of personal privilege to spend a few minutes to honor and recognize Ann Boynton, who has been the Deputy Executive Officer for Benefits, Programs, Policy and Planning for the past five years.

Ann will be leaving us at the end of this week on a new chapter in her career. Now, as frequent attendees of this Committee will know, Ann is a bright and talented leader with extensive and deep knowledge of health and retirement policy and planning, contract administration and State and federal legislation.

You probably best know Ann as our health care executive. And over her time at CalPERS, she has employed her many skills and talents to partner with the Board to transform CalPERS Health Benefits Program. She was the chief architect of our Health Benefits Purchasing Review, which identified 21 initiatives to reform our health care delivery and payment systems, which are now approaching full implementation.

The ultimate objective of these initiatives is two-fold, one improving the quality of care for our members, and also moderating unsustainable health care costs trends.

In addition to her impressive work in the health care arena, Ann also spearheaded our pension benefits policy work. She coordinated the cross-functional team that worked with the Board to develop our 2014 groundbreaking Pension Beliefs.

Overall, Ann's dedication to her team and her open and honest communication resulted in a high performance team with a focus on team success. Ann demonstrates all of the qualities of a leader. She sees the big picture, communicates effectively, and shows determination in all that she does.

As Chair of the Pension and Health Benefits Committee, I have had the pleasure and honor of working closely with Ann over the past several years. And at all times, I have valued her frankness, her humor, and her genuine concern for the well-being of our members and our employees. I not only respect Ann as a colleague, but also treasure her as friend.

So, at this point, I would like to invite Ann to the stage, or should I take comments first?

I'll take afterwards.

And she's agile.

(Laughter.)

CHAIRPERSON MATHUR: Okay. Let's see, how do we do this? So we have, as usual, a resolution --

DEPUTY EXECUTIVE OFFICER BOYNTON: I can read upside down.

CHAIRPERSON MATHUR: Can you read upside down?

So many talents.

(Laughter.)

CHAIRPERSON MATHUR: So we have a resolution from the Board to Ann. And I won't read every whereas, but let me just -- I'll just read a couple.

"Whereas, she's been a strong advocate for CalPERS national presence as a major provider of health care serving on the boards of the Integrated Healthcare Association, the Pacific Business Group on Health, and the California Health Performance Information System, and whereas Ann is a stanch advocate for breast cancer awareness and an enthusiastic supporter of CalPERS fund raising efforts for the Susan G. Komen foundation, and whereas Ann provided the Board of Administration with valuable counsel and advice during her time with the System.

"Now, therefore, be it resolved the CalPERS Board of Administration, individually and as a body, express our sincere appreciation for Ann Boynton for her many contributions and outstanding service to the system".

So, Ann, thank you so much for all that you've done for us.

(Applause.)

DEPUTY EXECUTIVE OFFICER BOYNTON: You'll all be pleased to know I'm going to defer on any comments, other than just to reiterate what a wonderful time it's been over the past five years. It's a wonderful place to be, and amazing staff, and a tremendous CEO. The work here is phenomenal and I will miss it.

CHAIRPERSON MATHUR: Well, we wish you all the best. I know there are some members of the Committee that want to make a few comments. So I might -- maybe, we'll head back and I'll let them speak to you.

DEPUTY EXECUTIVE OFFICER BOYNTON: I'll do one of those really graceful things.

(Laughter.)

CHAIRPERSON MATHUR: Okay. Mr. Boyken.

ACTING COMMITTEE MEMBER BOYKEN: Thank you.

Ann, on behalf of Treasurer Chiang, and speaking for myself, I just wanted to thank you for your service in the past five years. Priya did good job of describing them, but you've been shepherding a number of initiatives that have been groundbreaking and a lot of work.

And one of the memories that I have is watching from my office as you were at the legislature talking about the changes we made in the Long-Term Care Program.

I just thought better you than me, because I could have never of done that. You gave the facts and you stayed cool under pressure. So thank you.

CHAIRPERSON MATHUR: Thank you.

Mr. Jones.

COMMITTEE MEMBER JONES: Thank you, Madam Chair.

Yeah, I just wanted to echo the comments that Priya has made and Grant also, Ann. And also, thank you for the responsiveness and the follow through that you've exercised on a number of issues that I brought to your attention. And you were always there to listen and take note and get back to me that the problem has been addressed and solved. And so I really appreciate that. And enjoyed working with you for the last five years.

CHAIRPERSON MATHUR: Mr. Lofaso.

ACTING COMMITTEE MEMBER LOFASO: Thank you, Madam Chair.

Ms. Boynton, on behalf of my myself and the Controller -- and I'll be honest, I've only been here for a short eight months, but it was -- all those things that Ms. Mathur said about you were evident from day one. And a well earned accolades and look forward to your continued presence in the health care field and good luck.

Thank you.

CHAIRPERSON MATHUR: Thank you.

Mr. Bilbrey.

VICE CHAIRPERSON BILBREY: I too want to congratulate you and wish you the best on your new endeavors and new adventures. I, too, when I first got to the Board, you were one of the first welcoming faces that welcomed me to the Board and really helped me acclimate to the Board and understand especially in the area of health. And so I thank you for that. I've learned so much from you, and I, again, have the best wishes for you for your continued success.

CHAIRPERSON MATHUR: Ms. Hollinger.

BOARD MEMBER HOLLINGER: Yes. I've been here a year, but I've decided that the health portion is clearly the most complicated. So having your direction in simplifying complexity and your role in helping me understand the issues, I just want to thank you enough and want to wish you the best in your future.

Thank you.

CHAIRPERSON MATHUR: Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: I also would like to thank you, wish you good luck, and just to get an early start, your costs are too high.

(Laughter.)

CHAIRPERSON MATHUR: Mr. Slaton.

BOARD MEMBER SLATON: Thank you, Madam Chair.

I want to just reiterate what Ms. Hollinger said. You know, you have always been available to us, particularly when we have some times not the smartest question we're asking, and you've done it with grace and aplomb and with a desire to make sure we had the best understanding we could of the issues. So you've been a great help to me in coming to understand very complex health issues. So thank you very much, and best of luck. And luckily, the State of California is still going to be benefit from your expertise. So good luck.

CHAIRPERSON MATHUR: All right. Well, with that, we'll move on to the Executive Report. So you can't just stay silent.

DEPUTY EXECUTIVE OFFICER LUM: Good morning, Madam Chair, members of the Committee. Donna Lum, CalPERS staff.

And certainly, we're all going to have an opportunity to express our gratitude to Ms. Boynton for the work that she's done. But certainly, for me, it's been an honor and a privilege to work with her and to really observe how she's shaped this Committee and to take a lot of leadership, experience. And again, just wish Annie the best going forward.

So I do have a couple of brief updates that I'd like to share with you this morning. In an ongoing effort to provide education retirement services to our members, this month we did host two additional CalPERS Education -- or Benefit Education Events. One was hosted in Bakersfield and the other in Garden Grove. Again, very successful fairs. We had in attendance over 1,500 members attend those two events.

And then I also wanted to remind you that the Sacramento CBEE is coming up. And it's scheduled for September 18th and 19th here at the Sacramento Convention Center. And as of today, we already have 3,000 members registered to attend.

So there's no doubt that Sacramento is always the largest event. And we certainly anticipate that there will be more attendees at this event as well. But for our members who may be watching the webcast, we want to remind you that we do have additional CBEEs that are scheduled up through the end of this fiscal year from January to July. And those dates and locations are posted on the CalPERS website.

Next, I'd like to provide you with an update on an effort that we have undertaken to market our health program and it's a new campaign. In an effort to successfully promote and grow the Health Benefits Program, we partnered with our Office of Public Affairs and recently launched a health marketing campaign. It's an outreach campaign.

And through this efforts, we are specifically aiming our efforts toward public agencies that have pension contracts with us, but do not currently contract with CalPERS for health care benefits.

Through this effort, we're going to be sending out four separate emails that are tailored to these agencies. And these emails include facts and the benefits of our health program, as well as our 2016 rates. They'll have contact information, and it will also promote a couple of upcoming workshops that we have.

Now, the promotion of these workshops is very important -- is a very important element, as these are tailored with information in the emails. But essentially, we're going to be hosting them. One is in the Walnut Creek regional office on September 29th, and the second one is at the Glendale regional office on October 1st. And these emails encourage the recipients to attend.

So the information that we're going to be providing at these workshops really focuses on the options and the flexibility of our program, as well as our competitive premium pricing.

The workshops also create a great opportunity for our staff to interact with prospective public agencies that are maybe interested, answer questions, and to provide information about what it would take to engage in the contracting process for these benefits.

So we're really excited about this reach-out effort. We currently have about 1,150 agencies that participate in our health program. And we certainly know that there are many more that are prospective agencies, and hope that these workshops will provide information for them to make some choices and decisions.

And then lastly, I wanted to just give you a brief update on our efforts around open enrollment. As you'd imagine, it's a busy time of the year for us. The open enrollment period starts on September 14th, and it goes through October 9th. We have already begun the education process with our employers to ensure that they have the tools and resources necessary to help our active employees -- or members that may be wishing to make an enrollment change.

I did want to bring to your attention that the open enrollment packages are being sent to over 670 CalPERS members. I believe that you are getting, if you haven't received a copy of the package. And for our members, this is what the package looks like. We started mailing them yesterday. About half of them were mailed yesterday, and the other half will be mailed on August 24th.

We believe that we've significantly enhanced the materials this year and provide a lot of information to the members in the information that they will need to make an informed decision about what they may want to do during the open enrollment period.

We've also partnered with the Office of Public Affairs, the Office of Stakeholder Relations, and our Benefit Programs and Policy Planning Branch to add some new features to the enrollment materials. So I think one of the best features that we've added is on the health statement that each member will receive. It will show their current premium, and then it will also show the 2016 premium, if they were to remain with their existing subscriber.

And we know that that was a point of confusion in past years during open enrollments where members may have felt that they weren't quite clear on what the premium change was going to be, and some of the charts may have been more complex. So this clearly states on their statement what the change would be.

We've also -- or in this package, we have information for Medicare enrollees whose plans are no longer going to be available in 2016. And the health plan statements -- or the health plan statements also advise them to choose a new plan. And it also does let them know that if they do not choose a plan that they would automatically be enrolled into the UnitedHealthcare's group Medicare Advantage PPO plan, and that there would be no action needed on their behalf, if that was their desire.

And then lastly, we've partnered quite closely with our retiree stakeholder groups and our health plan partners to ensure that the retirees that are impacted by the CalPERS Medicare changes in 2016 receive clear and consistent information about the changes during this open enrollment period.

So Medicare enrollees and members who turn 65 between August and December of this year have already received a letter about CalPERS changes. And those went out in early August, and encouraging them to review their open enrollment materials. And then they will also be receiving reminder letters in September and October.

We've worked real closely with the carriers, and have provided letters so that they are -- their member services departments are aware of our communications and about the transition.

And then we've also provided a very helpful one-page flier to the retiree groups to distribute to their members. And so this flier is a quick reference guide for CalPERS Medicare changes that are beginning for

2016.

And lastly, we are hosting a webinar. As you can see, we're doing a lot of outreach, a lot of communication trying to make it very clear of what the changes are and what's expected during this open enrollment period. And tomorrow, we have a webinar, which is aimed at providing information again on UnitedHealthcare group Medicare Advantage PPO for the retirees.

So that completes my update. Thank you.

CHAIRPERSON MATHUR: Thank you. A lot of work going on.

Okay. I see no requests to speak, so we'll move on -- did you anything Ms. Boynton?

DEPUTY EXECUTIVE OFFICER BOYNTON: Just a couple highlights for the Committee meeting today. First of all, thank you for your incredibly generous words and the resolution. It's been, as I noted, a tremendous privilege to work here at CalPERS for the past five years.

To quote Monty Python, "I'm not dead yet".

(Laughter.)

DEPUTY EXECUTIVE OFFICER BOYNTON: And we have an entire Committee meeting to get through.

I received one comment when we were looking at the agenda for today that it looked like a very calm meeting compared to some that we have shared together over the past years. And I think that's potentially true, but the topic particularly around the excise tax is incredibly important for the Committee. I'll highlight that this is the beginning of a year-long conversation that you'll be having with staff about the excise tax, and how you, as a Committee and as a Board, want to approach the tax and what the implications are to the employers who contract with us.

In preparation for that item, I will note that we do not know the answers to these questions yet, and we will endeavor over the next many months to bring forward to you the questions that we are asking and seek your guidance, and additional areas you would like us to explore.

I will caution that we could take a relatively calm agenda and make it into a four hour meeting, through the discussion of the excise tax and the very fact that there is so much there that is unknown. To the extent that what you can do today is provide staff with specific areas that you're curious about and recognizing we don't have answers, we'll carefully take note of all those things and over the next many months come back to you again and again and again on this topic to get to some resolution by about this time next year of where you'd like to head into the 20 -- as you approach the 2018 rate negotiations.

That concludes my report.

CHAIRPERSON MATHUR: Thank you. Seeing no requests.

So we'll move on to Agenda Item number 3, which is the action consent items, approval of the June meeting minutes.

ACTING COMMITTEE MEMBER BOYKEN: Move approval.

VICE CHAIRPERSON BILBREY: Second.

CHAIRPERSON MATHUR: Moved by Boyken, seconded by Bilbrey.

All those -- any discussion on the motion?

Seeing none.

All those in favor say aye?

(Ayes.)

CHAIRPERSON MATHUR: All those opposed?

Motion passes.

Agenda Item number 4, I've had no requests to take anything off of consent.

So we'll on to Agenda Item Number 5, Adoption of Proposed Regulations Parent-Child Relationship.

Mr. McKeever.

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER:

Good morning, Madam Chair, members of the Committee. Doug McKeever, CalPERS staff. I'm hopeful that the third time is a charm for these regulations before you today. You have already seen them twice and have approved them to move forward on two separate occasions. We have to bring these back today because there were some language changes that were made both to the affidavit and the regulations that we had to synch up between the two documents. And as such, we have been asked by the Office of Administrative Law to bring them back to this Committee to formally adopt those final regs, so that we can then resubmit those to the Office of Administrative Law in the hopes that they will approve those, with the expectation that then we will implement the new provisions effective January of 2017 -- '16. So this is an action item seeking your approval again for the third time on these regulations.

CHAIRPERSON MATHUR: Okay. Mr. Jones.

COMMITTEE MEMBER JONES: I move approval.

COMMITTEE MEMBER JELINCIC: Second.

CHAIRPERSON MATHUR: Motion is made by Jones, seconded by Jelincic.

Any discussion on the motion?

Seeing none.

All those in favor say aye?

(Ayes.)

CHAIRPERSON MATHUR: All opposed?

Motion passes. Thank you, everyone.

We'll move on to Agenda Item number 6, the Federal Health Care Policy Representatives Update. And I believe we have them on the phone.

MR. JENNINGS: Yes, Madam Chair. It's Chris Jennings on the phone for you.

CHAIRPERSON MATHUR: All right. Well, welcome to the -- you are live in the auditorium. And please proceed.

MR. JENNINGS: Thank you. And Madam Chair, I'm not sure if I have any privileges as a consultant, but I would like to make a point about Ann, which is solely and quickly to say that just as your consultant over the last five years, it also has been a great privilege to work with her and see her represent you so well, not just internally but also externally with stakeholders, whether they be the Congress, whether it be administration, or business or labor or other stakeholders who well learned how much CalPERS plays a leadership role in a value purchasing role to improve how we purchase health care across the nation. And I just wanted to say it's been a great privilege to work with her.

CHAIRPERSON MATHUR: Thank you.

MR. JENNINGS: Today, I'm going to be brief. I did want to mention three major items that I think are well worth highlighting as part of the federal interactions of relevance to CalPERS on the health care front. One relates to delivery reform, another relates to the ongoing challenges of prescription drug pricing and costs overall, which is going to be the predominant focus of my presentation, and lastly issues related to the so-called Cadillac tax and its implications relative to CalPERS and potential work that the Board may want to consider supplementing what the staff has already done on your behalf.

With your permission, I'll proceed with those three?

CHAIRPERSON MATHUR: Please.

MR. JENNINGS: On the first, and I will say that I'm representing Yvette Fontenot as well as myself today. On delivery reform I wanted to mention something that I think is a great validation of the work that CalPERS has been doing over the last several years with regards to its reference pricing and purchasing approaches to health care.

The federal government CMS program just announced recently a major effort to do bundling purchasing for knees and hips, as well as new quality purchasing techniques around home health and hospice. The former on the knees and hips is going to be applying to 75 geographic years across the country, by the way, including San Francisco and Los Angeles.

What they have learned as what CalPERS have learned was the dramatic variation of pricing for the very same procedure in areas of care that there was no significant differences in outcomes. In fact, some of the lower cost practices actually had better and higher quality outcomes. And we see variances of 100 percent in pricing.

So similar to the CalPERS reference pricing approach on the knees and hips, CMS is proceeding with their policies on bundling, which is really a reflection of success that CalPERS experienced in California. And it may well raise some learning opportunities in other areas as well, as I fully expect CalPERS -- excuse me, that CMS will want to expand this effort, not just in these areas across the country, but in others such as spine surgery and other interventions that show dramatic variation in pricing but very, very little variation in outcomes.

Similarly, and because of some of this variation, and because of the focus that we look -- when we're looking at higher cost procedures, particularly for the chronically ill population, the Congress on a bipartisan level basis, led by Chairman Hatch and Senator Wyden who's the ranking Democrat on the Finance Committee as well as

Republican Senator Isakson and Democrat Senator Mark Warner is engaged in a major outreach campaign on developing more aggressive ways to coordinate care for the chronically ill.

They will be doing hearings later this fall. They're going to be outlining policies that they're contemplating as a result of some of their initial outreach to the stakeholders this summer. And they're going to be unveiling their policies prior to their hearings in early September, or thereabouts, and then have hearings to follow.

It may be an opportunity, number one, for CalPERS to reflect on some of the policy interventions to make sure that they are both consistent with what CalPERS is contemplating and doing, as well as they don't inadvertently undermine some of the work that CalPERS is engaged with.

They've also -- CalPERS may want to contemplate even participating in some of the hearings, as well, is something that we can talk about later.

I'll shift quickly to the prescription drug cost challenges and developments. As CalPERS and every other purchaser across the country has learned, overall health care costs is increasing beyond what we have seen in recent years. In recent years, growth has been quite,

quite small, very, very moderate by historical standards. This last year we saw a little bit more of a jump notable in CalPERS between 7 and 10 percent, I believe, maybe as much as 11 in some areas.

What's particularly relevant about some of those cost increases on the premium side is how much of the percentage of those premiums are driven disproportionately by prescription drug costs. We are now seeing overall costs, both for outpatient and inpatient, well exceeding 20 percent of overall premium spend -- per half the premium spend, and likely to increase even more with the advent of more and more specialty drug products with no competition being out in the marketplace to exert discounts.

And there's three particular areas that I wanted to highlight specifically. One is a very, very recent CMS proposed rule that deals with how biosimilars will be coded for Medicare reimbursement. This is an important policy call that may have ramifications for how private sector reimburses on these products as well. And there is significant efforts by some of the pharmaceutical innovators to require that each separate biosimilar have a different code, which will make it much more difficult for purchasers to promote and push for cheaper biosimilar products to be substituted, always with the ability for a physician to override it for medical reasons.

There are a lot of purchasers who are now contemplating letters to CMS and approaches to CMS, most notably from the National Leadership Coalition, to ask that perhaps all the biosimilars be coded the same or, at minimum, support CMS proposal, which is to have the initial innovator have a separate code, but all other biosimilars be coded in the same code.

I mentioned this -- I don't want to go into all the details of this, but it is an important element that could have ramifications to be able to constrain costs going forward. There are members of Congress, even some folks on the Democratic side on California, like Congressman Eshoo who is promoting having coding for each individual product.

The second pharmaceutical related issue, of course is something we have talked about before, which is of great interest in the Congress to promote incentives for more cures and treatments. As part of that, there have been some of the pharmaceutical industry who have asked for more market exclusivity protections to incent more research and development in particular areas.

This is an approach that would lead to less competition and choice, and has raised substantial concerns by purchasers, and by purchasers, I mean plans, businesses, labor, consumers. But nonetheless, there's some bipartisan interest in contemplating this. And why I'm raising it now is the Senate is contemplating acting on some of this legislation later this fall and early into next year, something that CalPERS may want to also be engaged with.

And lastly, I wanted to just briefly mention that the ranking Democratic on the Committee has mentioned his interest in some of the pharmaceutical cost trend lines to look at value purchasing for prescription drug costs just as we're looking at value purchasing in other elements of health care.

He's just opening up this discussion, but it is something that I thought it would be important to mention to you. It is somewhat of an outlier for some in Congress to think about value purchasing in the drug marketplace. And as such, I thought I should raise it to your attention.

And lastly, I wanted to mention developments around the so-called Cadillac tax. The administration has hinted at implementing this policy. Nonetheless, they do have some -- there have been comments submitted by CalPERS. There is another request -- there's been another request by the IRS and Treasury to -- for further supplemental comments on how they Implement those. Those were -- that request was just made on July 30th. And it may be in CalPERS' interest to contemplate additional comments working with other purchasers, who have very real concerns about how the policy will be actually formally implemented.

I would say that, as this is occurring, however, there is a growing interest in Congress, and there has been legislation introduced that has Republican and Democratic support to altogether repeal this policy. There are other members who are contemplating alternatives to repeal, primarily driven by the concern that -- two concerns. One is that repealing the policy would cost tens of billions of dollars relative to the baseline, and would increase the deficit if it did not have an offset. And if you did have an offset, it would be very controversial in the Congress to get that passed.

And secondly, whether there's a Republican or Democratic interest in not having a complete 100 percent tax deductibility for health care going forward we've just seen as recently as today and yesterday, signals not just by the ACA, but by Republican Presidential candidates that they will want to limit some of that tax deductibility or tax exclusion status of the current employer-based health preferred benefits, and perhaps to use that as an offset for other policy changes.

Again, this is a much more complicated area to get into than we have time for today, Madam Chair. But with that, Madam Chair, I would just say that this is -- this issue is heating up. I anticipate it getting more attention within the next year, and certainly very, very significant attention in 2017 and beyond.

And with that, I'll conclude my remarks.

CHAIRPERSON MATHUR: Well, thank you very much, Mr. Jennings for those -- for those remarks. You covered quite a bit. We do have a member of the Committee who has a questions.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Hi, Chris. On D and E, the 21st Century Cures and the Trans-Pacific, they're kind of related. But could you expand a little bit on what other sorts of things are in the 21st Century Cures that we need to be concerned with. And at the TPP, who's pushing for this longer exclusivity?

MR. JENNINGS: Well, okay, those are -- yeah, on the 21st Century Cures policy, I would say most of the other policies related to increases in funding for biomedical research and NIH, streamed lined collaborations between different folks, both private and public sectors, in terms of streamlining collaboration and information to help accelerate not just R&D, but the actual transference of R&D to products. And I'd call them sort of applied research.

None of those are areas that I believe have immediate concerns to CalPERS. Indeed, one could argue that if you look at some of the demographic challenges that this country faces, if we don't find some significant medical interventions to constrain the cost of such things, such as Alzheimer's disease, Parkinson's and other chronically ill burdens when we're doubling our senior population over the next 30 years, we'll have significant cost consequences as well.

So there is a purchaser's interest in having appropriate incentives for R&D in these areas. But when it crosses over to extending market exclusivity for certain products, which would then just allow products to have longer periods of time without competition in the marketplace, that will significantly increase costs.

So I would say to you that the primary concern and issue related from a purchaser's perspective to the 21st Century Cures legislation in the House, and it will be a different name related to innovation in the Senate, that would be the one provision I would guess we need to follow most closely.

On the trade legislation and the authorization, that is something that that has probably -- it has ramifications for domestic, but particularly for international abilities of countries to access lower cost drugs, there is a push by some in the pharmaceutical industry, maybe all, to ensure that market exclusivity for the biosimilars in the United States is matched internationally, which would then create even greater pressure to forever codify the 12-year period of market exclusivity in this country, and also limit countries' abilities abroad to access biosimilars in a sooner -- in a quicker period of time and a cheaper amount of money.

And so there is a big, big pushback on -- in both the international community and some within this country, generic industry has raised concerns we're certain. There have been AARP and others have raised things domestically, and very significant opposition abroad. It's unclear where we are on a -- on the trade policies, in terms of the final agreements. And it's unclear whether CalPERS wants to get engaged with this policy or not, but certainly there has been major, major concerns raised.

COMMITTEE MEMBER JELINCIC: Okay. And then one other question. You talk a little bit about -- in your report about the coding for biosimilars. In your --

MR. JENNINGS: Yes.

COMMITTEE MEMBER JELINCIC: In one of your weekly reports, you said that under this reg -- at least if I understood it correctly, at least under this regular, the biosimilars would have to compete, but the -- with each other, but not -- wouldn't be required -- the brand wouldn't be required to compete with the biosimilars. Can you expand a little bit on that?

MR. JENNINGS: Yes. So if you have -- what CMS is proposing is to have a separate code, one for the innovator, and then one for all the biosimilars, there are some within the pharmaceutical industry who are saying that they're advocating the interests of biosimilars want to have a code for each of the biosimilars. That actually would lead to even higher costs for the purchasers. I guess the way I could best describe this policy is that where the administration is proposing is sort of in the middle of the two extremes in this area.

Purchasers, probably to your point, would rather have all biosimilars, whether they were the innovator or not, all in the same code, so they're all competing with one another. And that is something that there are some in the National Leadership Coalition who they are actually contemplating right now whether or not that's the position they're going to be taking. And the letter is going to be circulating round to CalPERS as early as this week for CalPERS to comment on.

What -- again, what the pharmaceutical industry wants is separate codes for every biosimilar product. CMS has chosen to sort of split the difference, and I think would welcome purchasers commenting on behalf of either of the first two in opposition to the innovator pharmaceutical industry's position.

COMMITTEE MEMBER JELINCIC: Thank you.

MR. JENNINGS: Certainly.

CHAIRPERSON MATHUR: So I have a question as well. And this is sort of around the long-term strategy around specialty drugs, which we already can see it's a problem, but it's a problem that's only going to get worse over time in terms of the cost of these specialty drugs. Although, they serve a very important purpose, I think, in addressing real medical needs, but the cost is going to quickly become really unsustainable, and a increasingly significant component of our health care spend.

Can you talk about the coalitions or working groups that are developing to sort of try to identify some long-term solutions, and how we at CalPERS should be engaging in those discussions?

MR. JENNINGS: Well, yes, absolutely. There are sort of a plethora of different stakeholder interests. I would say that those most align with CalPERS tend to be business/labor health plans. Interestingly, the hospitals and other health providers -- this is a new development, were they reporting to CalPERS Board. They're so concerned about what percentage of the overall health care spend is going to drugs, that they, unlike the past, are much more willing to engage in coalitions to raise concerns about drug prices.

This is not -- normally, in the years past, it was just -- it wasn't -- they didn't feel threatened. But now they think that because there's continued pressure by federal and private and State purchasers to constrain overall health care costs to the extent that the pharmaceutical industry makes up more of the overall health care spend, that increases pressure on them even more so to reduce reimbursement rates to them.

So all of those, to your point, are very viable collaborators. Even, most interestingly, some of the oncology physicians have raised concerns very, very publicly about the prices of some of these products, not so dissimilarly for the concerns raised by some of the other providers as health care stakeholders.

They could be a very, very important ally to purchasers, because ultimately the patient community, when you are sick, you are very deferential to what your physician says is important. And traditionally, the physician community has been, you know, relatively sensitive about any limitations on the pharmaceutical side of things. Now, they're far more open to it.

So I would suggest, other than some of the innovators on the pharmaceutical side, there's even a broader array of potential stakeholders for alliances

The Leadership Coalition has formed a coalition. They have one on -- specifically on prescription drug pricing. They tend to have members ranging from AARP to health plans to the hospital community and some physicians. So that coalition does exist. CalPERS does engage with them through their membership with the Coalition. Sometimes, there may even be an interest in CalPERS being even more aggressive or writing their own letters independent of the coalitions, just because of the influence and reputation CalPERS has.

This -- these issues around pharmaceuticals, because they are pharmaceutical cost issues, because they are increasingly prevalent in terms of premium drivers within your world, may justify much more visible activities by CalPERS, even independent of the coalitions.

CHAIRPERSON MATHUR: Okay. Thank you. We have another question for Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: This is actually directed to staff. Do you feel you have enough direction on how to deal with this and to take an aggressive position?

DEPUTY EXECUTIVE OFFICER BOYNTON: Yes.

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON MATHUR: Thank you. Well, thank you very much for being on the phone with us today, Mr. Jennings.

MR. JENNINGS: My pleasure.

CHAIRPERSON MATHUR: Take care.

MR. JENNINGS: Thank you.

CHAIRPERSON MATHUR: We'll move on to Agenda Item number 7, the Federal Retirement Policy -- I'm sorry, is that right? Agenda Item 7, representatives update, I'm sorry, on pensions. I confused myself for a second there.

And do we have the Lussier Group and Williams and Jensen on the phone?

MR. RODA: Yes, Madam Chair, this is -- and members of the Committee, this is Tony Roda with Williams and Jensen. And I'm here with Tom Lussier of the Lussier Group.

CHAIRPERSON MATHUR: Great. Welcome.

MR. RODA: Thank you.

CHAIRPERSON MATHUR: So --

MR. RODA: And at the outset -- oh, please.

CHAIRPERSON MATHUR: No, I was just going to say please proceed.

MR. RODA: Thank you. Well, at the outset, I just want to echo the comments about Ann Boynton. And I've worked with her just a short time, Tom for much longer. But, you know, we wish Ann well. She's been terrific to work with, and wish her the best in her new pursuits.

So with that, I'll talk a little bit about what we see in Washington as kind of the hot button points. I'm going to turn it over to Tom toward the end to talk about two of the three legislative issues that -- and regulatory issues that we're going to address.

But, you know, it's difficult to predict legislative activity, even in fairly serene times, but in this particular year, given the Presidential election, particularly on the Republican side, where we see the emergence of a candidate that most people thought would not be in this race for more than a couple weeks, and how it's really roiled positions. And when Congress comes back in September, they are not going to be able to divorce themselves from really what's being said.

This is a concern across the Board, but it's a concern in the area of public pensions. And I know you've probably seen through our weekly and monthly reports that, you know, our opponents have a lot of ammunition aimed at us right now. They're -- just in the last five weeks, there have been numerous reports and studies, many of which financed by the Laura and John Arnold Foundation, which call into question public pension plans and their funding.

Pew did a report on State and local pension debt approximating it to be over $1 trillion. The Patton Institute promoted the benefits of DC plans. Brookings promoted the benefits of mandatory Social Security. And then you join that, you know, with the median returns of public pension plans that were released in July, press related to lawsuits in Illinois and New Jersey, and all this adds up to not -- more than keeping the issue alive for our opponents, but really stocking them and arming them with ammunition. So we have to be very cognizant of that as we go forward.

Now, what can we -- what can we predict in this somewhat strange legislative world right now? The first is we have heard numerous occasions from Senate Finance Committee Chairman Hatch and his senior pension counsel that they are looking at putting together a pension bill this fall. Now, the last major pension bill that Congress enacted with the President was in 2006. And that was fairly sweeping, dealing with both with -- mostly with private, but some public pension issues. Will this issue -- will this bill take on the same scale? It's really difficult to know.

But what Senator Hatch is looking at doing is drawing from three areas to put this bill together. The first is his own SAFE Act, which was introduced in the last Congress, and we expect to be reintroduced some time this fall. And as you all will remember, the SAFE Act included a Title 1, which dealt with public pension annuity accumulation plans, which really are designed to be replacements to DB plans. So that is a concern certainly of CalPERS and the public pension community.

The second element or component of this bill would be -- the proposals that came from the various working groups on tax reform. And for our purposes, the -- excuse the sirens in the background, if you could hear those. For our purposes, the working group did not really address public pension issues. They, in fact, in a way said why, which was the only issue they addressed in their working group report were those on which they had consensus.

So you can tell that there was not consensus on our issues. It doesn't mean they can't, you know, manifest themselves through Senator Hatch, but for purposes of the working group, it was mostly private sector oriented.

And then the third component would be individual senators' requests. And they could range from a whole variety of things. Certainly there's been renewed interest in the pick-up rule and flexibility on the pick-up rule. There's been an interest in -- over the years in greater transparency on plans. We have not seen that legislation yet reintroduced.

But all of this makes us very much want to be on our toes and ready for the fall. In late June, we did a round of meetings with Ann Boynton, Tom and I did. We met with staff of both California senators, with staff of the Senate Finance Committee, and the Aging Committee in the Senate. So we have raised some of these issues already, and we will continue to do so.

And with that, I'm going to turn it over to Tom to talk about two additional areas.

MR. LUSSIER: Good morning. I want to talk first about an area where we are much more proactive on behalf of CalPERS and others. That's the issue of the Social Security Windfall Elimination Reform Provision filed this year as HR 711. You'll recall that when I was with you at the off-site, I told you that we saw positive movement, and that we were working very closely with both Congressman Brady and Congressman Neal, the two principal co-sponsors.

The mission at the moment is to build momentum and to demonstrate to House leaders that the legislation has viability. One of the ways in which we've been asked to do that is to enhance the number of co-sponsors. When I was in California for the off-site I had an opportunity to talk with staff. And subsequent to that, Ms. Stausboll addressed a letter to each member of the California delegation encouraging them to consider joining as a co-sponsor.

The letter -- unfortunately, timing is everything. The letter arrived in most of their offices shortly before the recess, but we did see almost immediately Congressman Vargas and Congressman Garamendi join. Three or four other Californians that had already joined. And while they're in recess, we are reaching out to staff. And personally, I would expect a fairly significant response from the delegation shortly after they return.

As I mentioned, we continue to work with Mr. Brady's office very closely. As to what the next steps might be, there are varying opinions. Some suggest there could be a hearing. Some suggest it could be simply a markup. Others suggest that HR 711 could be introduced as an amendment to some larger must-pass piece of legislation. I think from our perspective, we're prepared to support and assist in any of those strategies. And we'll continue to do inform you and your staff as that process evolves.

Lastly, we both wanted to share with you just the update that there are two issues at the Department of Labor -- regulatory issues that we know that you are interested in that we are monitoring activity that we think will result in the next steps in the regulatory process by the end of this year.

The first is the fiduciary rule, which I again discussed with you in the off-site. Between then and now, CalPERS has filed comments with the Department of Labor offering general support for the rule, as have other public funds. They have -- the Department has just recently completed four days of public hearings on the rule. And depending upon who you listen to or watch, the comments on the hearings are everything from possible consensus to future lawsuits and everything in between. We will continue to monitor that issue and we'll communicate with staff as appropriate.

Secondly of interest to some of you, generally of interest to all of you, in the sense that it promotes retirement security, is the rule-making around the issue of State based retirement initiatives similar to the Secure Choice that has passed in California. We are monitoring what DOL is doing. We are monitoring what they're asking about, and we will keep you informed as those rules surface, again we would expect, later this year.

So with those topics, we'd be happy to take questions on any of those or on anything else that members might be interested in.

CHAIRPERSON MATHUR: Thank you very much, Mr. Roda and Mr. Lussier. We do have a couple questions from committee.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Hi. On HR 711, as you've talked to the California delegation, are there any people who are pushing back? And the reason I ask the question is I can see some retirees out there taking copious notes. Is there anybody they ought to be beating up on?

(Laughter.)

MR. LUSSIER: No. We have gotten, in a couple of offices, what we consider to be very legitimate questions about the impact of the new formula, but I haven't -- none of the meetings were negative. I am not aware of any member who has expressed opposition. In fact, I'm not aware, as of now, of any organization that's expressed opposition. So, no, I don't think that we need to do any beating up at the moment.

COMMITTEE MEMBER JELINCIC: Okay. And on four of four of your report, I see that the Senate Health Subcommittee had a very unbiased hearing on the fiduciary regulations. I just thought I really enjoyed the title.

Thank you.

CHAIRPERSON MATHUR: Thank you.

Mr. Boyken.

ACTING COMMITTEE MEMBER BOYKEN: Thanks. So my question is also about the fiduciary rule. I wonder, Tom, if you could give us a little bit of a sketch of who the opposition is, what the sticking points or what -- if people are trying to make revisions to the draft rules right now, what those are?

MR. LUSSIER: I think you could probably express it simply to say the financial services industry. I think the industry, as a whole, is very concerned about the limitations -- perceived limitations that the rule would put on them. I think there's great concern about legal liability as to -- is who's going to draw the line. And I think we all acknowledge it's potentially a difficult line to draw between where education stops and advice starts.

I think that's pretty much where the opposition is coming from. And, you know, I think it will be to the Department to try to figure out if they can -- if they can answer those concerns and draw a line that people will feel, you know, somewhat comfortable with.

ACTING COMMITTEE MEMBER BOYKEN: Thank you.

CHAIRPERSON MATHUR: Okay. Thank you. I see no further requests to make -- to question -- for questions from the Committee, so thank you very much Mr. Roda and Mr. Lussier for your report.

MR. RODA: Thank you.

MR. LUSSIER: Thank you.

CHAIRPERSON MATHUR: We'll move on to Agenda Item number 8, Customer Service and Support Performance Update.

Ms. Lum and Mr. Suine.

DEPUTY EXECUTIVE OFFICER LUM: Here we are again. Good morning. Donna Lum, CalPERS staff. And joining me is Anthony Suine, CalPERS staff.

So Agenda Item number 9 is an information item. And it's our fourth quarter update on our performances. And as illustrated on Attachment 1, you can see that we've had a really outstanding year in customer service. The vast majority of the services that we provide to our members and employers have achieved a high level of satisfaction, both satisfaction and with customer experience.

But before I turn it over to Anthony to provide some highlights on some of the projects, I just wanted to take a quick moment and to thank all of the Customer Services and Support staff, as well as all of our internal and our external partners. What you see on this dashboard represents a culmination of team work and dedication from all of the business owners and individual staff that provide service throughout CalPERS. And so it's an excellent job that they do, and we're very proud of the work that they provide and the services as well.

So, at this time, I'd like to pass it over to Anthony Suine, and he'll provide some highlights on some of our initiatives and projects.

BENEFIT SERVICES DIVISION CHIEF SUINE: Thanks, Donna. Good morning, Madam Chair, members of the Committee. Anthony Suine, CalPERS staff.

As Donna mentioned, our dashboard is in a green status at the end of the fiscal year, last year, and primarily due to the great work that our staff does and their dedication to it.

Today, I'd like to focus my update on the Service Delivery Transformation Roadmap Initiative that was successfully completed, which also led to and was critical to the success of improving our customer service performance.

As a reminder, this roadmap was a three-year initiative and encompassed 21 different projects. And it focused on four customer service areas that helped us transform our services and how we deliver them. Those four areas were access, quality effectiveness, and the services.

And these projects concentrated on staff development, on our customers, and on the tools we use to provide customer service. For staff, they focused on enhancing their knowledge, their writing skills, how to take effective notes and place them in our customer accounts, and also how to deal with giving them guidelines on dealing with those complex cases that have complicated elements and how to escalate those and get them resolved. So we're really focused on their core competencies.

For our customers, we focused on increasing the computer-based training to them and making that available on-line and increasing those modules that they could access.

We also looked at generating life and career events for our customers that helped them better understand their Pension and Health benefits. And around the tools, probably the most evident tool that we enhanced was our website usability project, which led to the deployment of our new website at the end of last fiscal year.

Also, under the tools, we really utilized business intelligence more, and more efficiently and effectively to manage and anticipate our workload. And both those two projects that we undertook really required assistance from the entire enterprise. And it calls to mind the information technology partners that we had, our Public Affairs Division, and our Retirement Research and Planning Divisions that really put a lot of work into that and helped this be a collaborative and cooperative effort to make this a successful roadmap in the completion.

Lastly, I'd just like to call out one of the projects that was in our roadmap that will even continue under our new business plan, and that's the full voice of the customer. And previously, I spoke on several occasions about our on-line surveys that we implemented in the past year or two. And this really takes the pulse of our members who are using our on-line services, like retirement applications, estimates, changing direct deposits. And that feedback has always been very positive and we continue to receive positive feedback from those on-line surveys.

In the last fiscal year, we transitioned in more direct surveys for our internal business processes. So when somebody is not using our on-line tools, they're instead submitting a paper form for retirement, or a service credit purchase. And we are directly surveying those individuals after they complete the process. And this helps us understand the touchpoints along the process, where we can improve there, and then their overall satisfaction.

So we implemented those two surveys recently. It's early in the distribution, but we've had positive results from those. And now, we're focusing on expanding those surveys to our other business processes, such as refunds, death benefits, and the disability retirement process. So we're looking forward to that feedback.

And lastly, I'd just like to take an opportunity to thank the Board for their support over these three years and this roadmap. And your support in getting these initiatives through and all the resources and efforts that were needed to make those happen. So thank you for helping us accomplish those, and that concludes my report, and I'm happy to take any questions.

CHAIRPERSON MATHUR: Well -- did you want to say something else, Ms. Lum?

DEPUTY EXECUTIVE OFFICER LUM: Yes, if I could --

CHAIRPERSON MATHUR: Go ahead.

DEPUTY EXECUTIVE OFFICER LUM: -- just for a quick second. Certainly, a lot of the enhancements and changes that we made with my|CalPERS and member self-service has led to a high degree of interaction and satisfaction with our members as well. But I just wanted the share a highlight that we just experienced at the

Garden Grove CBEE, and I mentioned CBEEs earlier.

We had a staff person that was helping a member at one of kiosks file a retirement application on-line. And that member had a couple of family members with them, and there were some onlookers of other members that were there at the CBEE. And upon completion of filing and pressing the enter key for the retirement application, there was this sense of high five and applaud that occurred in that little circle. And it generated a lot of discussion on the floor about well what just happened there.

And it's just one example of, you know, the observation and the pride that the staff have when they can actually see the service and the delivery of that service and the completion for our members. So I just wanted to share that with you. They made a point to share that information with me over the weekend. And I thought it was a really interesting observation.

CHAIRPERSON MATHUR: Thank you very much.

Ms. Hagen.

ACTING COMMITTEE MEMBER HAGEN: Thank you. I just wanted to take a moment to congratulate you on your implementation of the roadmap. Just as an observer and contributor at various points, I really have remarked that it's a model customer service improvement effort for State government. I think other State agencies could learn a lot from you all. And I just want to applaud you for focusing on improving your staff's core competencies. So thank you.

BENEFIT SERVICES DIVISION CHIEF SUINE: Thank you.

CHAIRPERSON MATHUR: Well, it is a very pretty chart.

(Laughter.)

CHAIRPERSON MATHUR: It's nice to see it all green, and it clearly is the culmination of a significant body of work on the part of your teams, and really focusing on the three key areas, as you identified, the staff development, the customers, and then the tools that support both. And really remarkable outcome and look forward to further improvements down the line. But this is -- very happy with the results.

BENEFIT SERVICES DIVISION CHIEF SUINE: Thank you.

CHAIRPERSON MATHUR: So thank you.

I have no further requests from the Committee, so we'll move on to Agenda Item number 9, the Excise Tax.

(Thereupon an overhead presentation was presented as follows.)

CHAIRPERSON MATHUR: Mr. McKeever.

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER: Good morning again, Madam Chair, members of the committee. Doug McKeever, CalPERS staff.

I had quite a few comments to open this up before I hand it off to Jan Falzarano. However, Ms. Boynton and Mr. Jennings thoroughly covered many of those, so I'm not going to repeat what they've already discussed. But I do want to bring up two points that I think are worthy of note that have yet to be discussed, which are, one, I think it's important to reiterate, as we did last week at our stakeholder meeting, that not only will we keep you appraised of what we're doing over the coming months, but the stakeholders as well.

When we tee'd this issue up to them last week, there were a lot of questions that were raised, not only by the retirees, by the active folks, but by employers as well. So there's a -- an engagement level that -- and an expectation level for a lot of information to be shared. And as we did last week, we committed to coming back to them as more information becomes available to ensure that they are actively engaged and up-to-date as well as you are.

And then the last thing I want to mention is Chris did touch on this, but I think it's worthy of note, which is staff is currently combing through the recently released proposed rules with our expectation that we will continue to work with both Ms. Fontenot and Mr. Jennings and our staff to develop a response to those proposed rules, which are due in October of this year.

And then the last thing I'm going to mention before I pass it over to Jan is what we're sharing with you today is the culmination of a very complex set of work that was generated to come up with, frankly, assumptions. And I want to emphasize the fact that when we illustrate for you today what the potential impacts look like relative to our current plans that may be subject to the tax, it is based upon a set of assumptions only. We are only using those premiums that we are aware of today. We do not factor all of the other complexities of the excise tax into our assumptions, specifically those that are applicable to employers, such as a flexible savings account or a health savings account that have to be accounted for.

So what we're going to share with you today, be mindful of the fact that where we have identified that there are impacts potentially for our plans hitting the tax in the out years, they are just that. They are assumptions. And as the rules become more pronounced and we understand this more in the coming months, we'll be able to refine that for you and the stakeholders and bring that back with more updated analysis and trends.

So with that, I'm going to turn it over to Jan Falzarano who will walk you through the PowerPoint presentation.

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: Good morning. Jan Falzarano, CalPERS staff. So back in March we provided a high level overview of the excise tax as part of the agenda item that we did on narrow networks. And that agenda item included excise tax estimate for two of the CalPERS health plans in two regions primarily to illustrate the potential impact of this tax and how quickly those dollar amounts can get -- add up.

And then back last month in July at the Board off-site, Adam Solander from Epstein, Becker, Green also came and presented his perspective on the excise tax.

So today, I will present a high level review of this tax with the focus on Attachment 1, which contains hypothetical cost estimates for all of CalPERS plans in all of our regions. And then I will also discuss some of the challenges that are facing our contracting employers in regards to the tax.

But first, I'm going to go over the main components of the tax. And as Doug has mentioned, I'd like to preface that all the information that we are providing today, including the illustrative cost estimates, are an analysis based on the original statutory language in the ACA, as no rules have been released to date.

So the main component of the excise tax is it doesn't become effective until January of 2018. The coverage threshold right now, as it stands, is 10,200 for a self individual that is enrolled. And for anything other than the self-enrolled, which is two and family plan, it is $27,500. There's a 40 percent excise tax that's non-tax deductible for anything that is above the threshold. And what is considered as part of applicable coverage is the aggregate costs that is above the threshold and any cost to the actual employee not just being enrolled in the lowest plan -- cost plan.

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HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: So the IRS defines applicable coverage that is subject to the excise tax as any pre-tax employee and employer contribution that's made towards health benefits premiums, any pre-tax contribution made by either employee and/or the employer on any of these type of health related expenditures.

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HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF

FALZARANO: Applicable tax also refers to retiree coverage, and all of the other items listed on here. A special note about retiree coverage is those retirees that are enrolled in a basic plan, they're not subject to the excise tax. They are subject -- I apologize. Those that are enrolled in a Medicare or Advantage -- Medicare Advantage, or a supplement to Medicare, are not applicable coverage, and therefore they're not subject to the excise tax. But the retirees that are enrolled in the basic plan, yes, they would be considered applicable coverage.

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HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: So what is not applicable coverage is any after-tax health contributions made by employees and the employers, any long-term care insurance, any stand-alone dental or vision policies, and also things that are considered excepted benefits. And there is a very narrow scope on what is considered excepted benefits.

So Adam touched on excepted benefits at the off-site in July, but we didn't get a chance to discuss this in any depth. On the surface, it may sound as though employers can carve out certain benefits from their health plans, such as prescription drugs in an effort to remain below the excise tax threshold and call these carve-out benefits as excepted benefits.

However, the IRS does not allow this. Excepted benefits are specifically identified in federal law as not consisting of medical care or medical coverage, and therefore not governed by the requirements established under HIPAA, the Mental Health Parity Act, and also the market reforms of the Affordable Care Act. Our plans and the benefits that we provide must comply with all these federal laws.

So to provide and example, the State of California purchased its health benefits through CalPERS, but the vision and the dental and the EAP program benefits are separately contracted. For example, the vision coverage is contracted through VSP. So these are stand-alone benefits under separate contracts, and these are considered excepted benefits.

I'd also like to point out that health plans still must meet the 60 percent actuarial value in order to meet other rules in the ACA, and therefore we must maintain core benefits.

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HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: So moving on to employer mitigation strategies. We know that employers nationwide are trying to determine how to mitigate or put off for as long as possible the excise tax. So some of the things that they're doing is they're changing health benefit designs. One of the things is increasing copays and co-insurance. Copays and co-insurance are not considered applicable coverage, and therefore they're not subject to the excise tax. Some employers are removing all comprehensive plans and only going to a high deductible plan and shifting all their employees into those plans. And some are limiting or they're going to discontinue their employee savings accounts, so this is like your FSAs, your HSA, and your HRA accounts.

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HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: Employers are also looking at other strategies, such as only offering a PPO plan. Again, unlike the HMO plan, the PPO plans have a higher co-insurance structure. And so again, that's not subject to the excise tax. Some of them are offering plans with a lower actuarial value. Again, this is at the Bronze or at the Silver level. And they're removing the Gold and Platinum plans altogether.

And some employers are actually discontinuing health coverage. They know that there's an ACA penalty for the employer's shared responsibility for not providing coverage to at least 95 percent of your employees, but they're willing to pay that penalty in lieu of providing health care to their employees.

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HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: So the calculation of the excise tax. So for the excise tax, the IRS rule places the tax burden and the calculation of that tax exclusively on the employers. So that means all of our contracting agencies and CalHR will be responsible for calculating the total monthly costs of each employee's health coverage, including any additional applicable benefits and report this information to each coverage provider on an annual basis.

The coverage providers would have to pay its portion of the tax. In addition, the employer must also report the excise tax amount to the IRS. The coverage provider remits the funds to the IRS for their portion of the tax. Penalties will apply to the employer for any sort of incorrect calculation.

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HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: So as I mentioned at the beginning of the presentation, we are awaiting proposed and then final rules on the excise tax. To initiate the process of developing regulatory guidance, the IRS has released two notices to provide information on potential approaches, and request comments to assist in the regulation development process.

In May, CalPERS staff did submit comments in response to the first IRS notice intended to initiate and inform the process to developing regulatory guidance. On July 30th, they issued their second notice requesting for comments. Staff, as Doug just mentioned, are combing though that right now and we do plan to submit comments, which are due on October 1st.

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HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: So before we move on to Attachment 1, which has the cost illustrations, is there any questions at this time or comment?

CHAIRPERSON MATHUR: No, we don't have any right now.

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: Okay. Great. So on Attachment 1 --

CHAIRPERSON MATHUR: Oh, I spoke too soon. I'm sorry.

Mr. Jones.

COMMITTEE MEMBER JONES: Thank you, Madam Chair.

Yes, going back to -- let me go back to that slide. Just a minute. Oh, the main components, where you -- the coverage thresholds, where you indicate 27,500 for a family, two parties or three, et cetera, but then later you said that retirees in Medicare are not affected. So what if one of the family members are Medicare coverage and one is regular plan coverage care.

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: So the combo plan?

COMMITTEE MEMBER JONES: How does this affect -- I don't know if you have the answer, but it's a question.

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: We don't. We still have to figure out how to do the calculation. So in the second guidance right now, the IRS is asking for comments specifically on how we, you know, submit and do some of the calculation and the processes to do that. So we would have to figure out that at a later date.

COMMITTEE MEMBER JONES: Okay. Thank you.

CHAIRPERSON MATHUR: Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: You said that workers' comp is excluded. And that's -- I understand that. But one of the things that comes up periodically is combining workers' comp and medical as a combined coordinated plan. If that were to happen, do we have any idea whether the workers' comp component of it would also suddenly become part of the coverage?

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: So workers' comp specific is medical care maybe tied to a specific episode that's linked to workers' comp. And the Affordable Care Act is specifically for this for applicable coverage is anything that is considered health coverage. So this is permanent health coverage, and not just an episode of medical care that's linked to a workers' comp case.

COMMITTEE MEMBER JELINCIC: Okay. Thank you.

CHAIRPERSON MATHUR: Thank you. I see no further requests.

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HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: Okay. All right. So moving on to Attachment 1. So to understand the potential impact of the excise tax on our health plan, staff developed hypothetical scenarios to show the total cost of the tax for years 2016, '17, and '18, and also broke down the costs by health plan and by region.

We did identify a few errors in the numbers that's used in the illustration, but they do not change the overall result of our plans. And the errors that we identified do not change the impact.

The estimates that are here are based on staff's current understanding of the tax. And then we use the June 2015 subscriber enrollment accounts. Staff assumed a straight line annual premium increase of three and seven percent to show a hypothetical low and high in a premium trend. The estimates do not account for any new benefits added to our plans, or any additional benefits that may be provided by our contracting employers to their employees.

The estimates also do not account for any IRS threshold adjustments allowed under the excise tax statute, such as modifications due to employment in high risk professions, early retirement, age and gender factors, and indexing.

So based on what we know today, if the excise tax were in effect for 2016, and accounting just for the premiums alone, CalPERS health plans in total would already incur an excise tax liability of approximately $14.4 million.

Attachment 1 in the agenda also provides by health plan and by region the potential future impacts on CalPERS plans through 2018. So if it was 2018 using a three and seven percent hypothetical premium increase, the estimated total tax liability for CalPERS health plans is approximately $23.6 million, assuming the three percent increase, and up to $47.1 million, assuming a seven percent increase.

So, of course, any excise tax allocated to our plans would likely result in higher rates for all CalPERS members and employers.

So that concludes my presentation and I'm happy to answer any additional questions or comments at this time.

CHAIRPERSON MATHUR: Thank you.

Mr. Slaton.

BOARD MEMBER SLATON: Thank you, Madam Chair.

I think, at least from my perspective, what would be helpful to understand is the percentage impact on this. So, you know, it's pretty scary you look at a $45,000,000 number, but the reality is this -- you know, we have a very large spend on health care. So understanding what the potential ranges can be in -- relative to what we pay, I think would be instructive.

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER:

Mr. Slaton, we can certainly take that away and bring that back in our further analysis. And so just so that I'm clear, it would be a percentage of the excise tax as it relates to our total spend, which is now roughly around $8½ billion.

BOARD MEMBER SLATON: Right. So if that's a half a percent or percent or 1.3, whatever that number is, seeing the ratio, so you could see here's the percentage impact in each of these plans.

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER:

Okay.

CHAIRPERSON MATHUR: Thank you.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: I had raised this question in the briefing. Slide -- Attachment 1, Slide 14, the PERS Select, the 8 -- 2018 number just looked off pattern. Was that one of the numbers that was wrong or...

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER:

Mr. Jelincic, so just so I'm clear, it's Attachment 1, page 14 of 16?

COMMITTEE MEMBER JELINCIC: Yes.

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER:

For PERS Select. And it does reflect the State liability at 161,158.

COMMITTEE MEMBER JELINCIC: Right.

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER:

That was not an error. That is correct.

COMMITTEE MEMBER JELINCIC: Okay. Because it was just off pattern to everything else. Okay. Thank you.

CHAIRPERSON MATHUR: Thank you.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Yes. I wanted to follow on Mr. Slaton's -- thank you, Mr. -- I wanted to follow on Mr. Slaton's, because I think we need to see that percentage out estimated maybe further than 2018, because if it's going to increase, and our rates are going to increase, then that percentage gets larger and larger, correct?

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER: Yeah. Ms. Taylor, what we can do is, again, if we assume the same assumptions we used today at three and seven percent, we can just apply that same percent growth to the total spend, and then those numbers would be equal.

COMMITTEE MEMBER TAYLOR: Okay. Great. Thank you.

CHAIRPERSON MATHUR: Mr. Lofaso.

ACTING COMMITTEE MEMBER LOFASO: Thank you, Madam Chair.

One of the themes that -- pardon me. One of the themes that's slowly emerging is the fact that CalPERS isn't an employer. And I know the presentation discussed that the IRS puts the reporting burden on the employer.

So a two-part question. Does that mean that the reporting burden is ultimately going to land on the 1,100, 1,200 PEMHCA agencies? And the second part of the question is, given that's a very diverse group, and I know there's other -- what's our interaction with those agencies in starting to develop the awareness of this being a collaborative interaction?

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER: So two responses. First and foremost, yes, the responsibility is on the employer, which is going to complicate this, not only or CalPERS, but for each one of those employers. And because they have to do this by employee, it even further complicates it for the employer to have to calculate the potential liability by their -- each individual employee.

As it relates to our efforts to engage employers, we have, since the ACA was implemented, engaged our employers on a host of issues that have been applied to them. And we will continue to do so in this regard as well, but on a much more proactive basis, given the implications, meaning that we're not only going to help them understand what their responsibilities are, but seek guidance in figuring out, in talking with you, how we might be able to help the employer in this particular space.

Don't have answers to that today, but certainly the employer community in this -- with this particular tax is greatly affected.

ACTING COMMITTEE MEMBER LOFASO: Thank you.

CHAIRPERSON MATHUR: Thank you.

Mr. Lind.

BOARD MEMBER LIND: Thank you.

Doug, can you just talk a little bit about the rule-making process, which is really the only place where this thing can be, I don't want to say fixed, but ameliorated? So what are some of the comments that we are making around ways that maybe the burden wouldn't be quite as great as it is anticipated to be.

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER:

Mr. Lind, it's a little too early for me to provide you with some of these details, only that these proposed rules were just released the end of July, and our staff are just now going into the analysis part of it to formulate potential responses on our part.

I can suggest to you that there are things, such as geography, relative to the thresholds that have been discussed as to the fairness of having a threshold set at 10,200 for an individual in California versus 10,200 in Idaho, where the cost of care is completely different. And therefore, why is it that we should have to have the same type of a threshold here in California that they do somewhere elsewhere where that cost of care is less.

So there are -- there are areas that we're looking at today. And what I will commit to you is when we come back with our analysis and responses, and if we do, in fact, submit responses back to the Treasury, we'll make sure that you all are advised of that in the process.

BOARD MEMBER LIND: Thanks.

CHAIRPERSON MATHUR: Thank you.

There are also some potential legislative solutions that are brewing out there, but as were supported by our federal representative.

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER: Correct.

CHAIRPERSON MATHUR: Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Madam Chair.

Yes, I just wanted to congratulate you on a very clear presentation, taking a very complex subject matter and the presentation here really is clear and very, very good. So I know that when you're going to peel an onion, you know, it gets very, very complicated. So I would just look forward to receiving continued clear information like this. So thank you very much.

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER: Thank you, Mr. Jones, and we cried a lot as well.

(Laughter.)

CHAIRPERSON MATHUR: Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Thank you, Madam Chair.

My question is if we are looking at working through this, and maybe proposing legislation, or working through legislation, would part of that be -- I'm not saying I want to do this, but would part of that be to have CalPERS administer it rather than each employer?

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER: So Ms. Taylor, there has been some initial thought as to whether or not CalPERS could take on some of the administrative burden, but we're not in a position today to say that that is something that we can or cannot do.

COMMITTEE MEMBER TAYLOR: Right. Okay.

CHAIRPERSON MATHUR: So, Mr. McKeever, I think -- and maybe you were going to say this, but I think you wanted some direction as to how to proceed in terms of continued evolution of this analysis, and where to advocate and what to look at, is that correct?

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER: Certainly, if the Committee would like for us to continue down this path, which I'm assuming you would like us to, we will do so. And I'll work with the Chair to schedule out in the next few months how often we bring back this to the Committee, specifically knowing that there are time frames and milestones that need to be hit before we'll have any updates of substance.

CHAIRPERSON MATHUR: And how long will it take you to sort of think through the questions that Ms. Taylor just raised, in terms of whether -- to what -- what components could CalPERS assist employers with, what that might cost, what that might mean in terms of resources, how we would workout that relationship with employers?

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER: A lot will depend upon when the final rules are issued by the federal government. So although we're just in the initial phases of making comments, our comments will be taken into consideration with everybody else's. And then ultimately, Treasury will issue a final set of rules. Then we'll be able to really sit down and say now that we know that these have been issued and they're final, we can start doing a deep dive on the analysis and the impacts, and then assess whether there's opportunities for us to assist employers in that regard.

CHAIRPERSON MATHUR: Okay. Thank you.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: If we were to take that on, we would have to recover the money somehow. And presumably, we would recover it through a surcharge on the premium, which would further loop into the Cadillac tax. Am I missing something?

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER: Well, Mr. Jelincic, if we took on a role to assist employers, we'd have to figure out how that employer might be billed for that service. I do not believe it would be included in the premium. That would be separate and apart from the actual premium that is charged to the employer.

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON MATHUR: And just to clarify, since we do have so many public agencies and all of them have different cost-sharing arrangements with different bargaining groups around how the health care is paid for, it's only the employer-paid portion, correct, or it's on the employee paid portion?

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER:

It's the employee's share as well, and that's what makes this so complicated.

CHAIRPERSON MATHUR: Yeah. Okay.

DEPUTY EXECUTIVE OFFICER BOYNTON: And it's the employee's share, and any other things that are in there as noted on that, right, a flexible spending account, any of those things as well. So it's -- to your question earlier, Ms. Taylor, part of the question is, as the staff will evaluate this, what are the other things that we would have to get from the employer about what else they are spending -- what are the employers and employees spending in these kinds of areas that would also have to be reported, if we were going to be the reporting entity, and how all that fits together.

CHAIRPERSON MATHUR: And that's per family, per subscriber.

DEPUTY EXECUTIVE OFFICER BOYNTON: Per person -- yes, per individual.

CHAIRPERSON MATHUR: Okay. Well, I see no further requests to speak. You've thoroughly depressed the entire Committee and this entire room.

(Laughter.)

CHAIRPERSON MATHUR: And so we will move on to the Wellness Strategy Update, Agenda Item number 10.

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER:

And that's a great way to start of the wellness discussion. So this one also Jan Falzarano is going to cover as well.

(Thereupon an overhead presentation was presented as follows.)

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER:

So rather than belabor this with some opening comments, I'm just going to turn it over to Jan.

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: Is it still morning? So good morning.

CHAIRPERSON MATHUR: Two more minutes.

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: Jan Falzarano, CalPERS staff.

So during the January 2015 Board off-site, Doug and I presented information on various health and wellness programs implemented both by a government agency, such as the State of Oregon and also private employers, such as the Cleveland Clinic. At that time, the Board asked us to come back with potential menu options and programs and various price offerings. And so today, I am providing an update on the progress that we've made during the past six months on the health and wellness platform, starting with an update on our efforts to gather information on a health and wellness program through a Request for Information, or RFI process.

I will also provide an update on one of the pilot projects we presented back in January, the Bay Area Rapid Transit district, otherwise known as BART, and their recent implementation of WeightWatchers as part of their wellness offering.

And lastly, I will discuss costs and implementation challenges for the Board to consider between now and November when we return with an action item for the Board's consideration.

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HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: Woops, I should have started with that. Okay. So the Request for Information. So we released an RFI on June 1st of 2015 to a variety of companies that offer health and wellness solutions, and we received 13 responses.

We released this RFI after assessing the public agency employer's desire for a wellness program via public agency health benefits design needs assessment surveys and forms. The employers spoke. We listened and we realized we needed to better understand available wellness solutions outside of those that's already offered through our contracting health plan.

So the RFI asked for suggested approaches for obtaining optimal wellness results for CalPERS diverse and also very geographically dispersed membership. We asked the vendors to describe their product and solution designs, implementation abilities because of the size of our population, pricing, and also any experience that they have dealing with public sectors.

The vendors came back with health and wellness solutions were dependent of any current health plan offerings that we have -- any wellness offerings that we currently have through our health plans.

So our preliminary analysis of the RFI responses revealed that CalPERS has a wide range of options that we can offer our employers. And so to loosely categorize them, we call them the lean, the moderate, and the deluxe versions.

So the lean solution requires the lowest level of implementation effort and development as well. And we rely primarily on the existing contracts that we have in place with our health plans and communication channels that's already available.

So, for example, we would ask our health plans to synchronize the wellness offerings to all of our members, so they're all offering the same wellness components. We would increase outreach and education to both our employers and members through the existing CalPERS publication and webpages that we have, and also providing mobile or web-based solutions to engage our membership.

So the second option is a moderate option, which includes all the elements that I discussed under the lean option, but we might also incorporate things such as a health risk assessment, or HRA, that's administered by a health plan. We can also have the vendor facilitate employer driven wellness challenges, like something similar to what we've been doing with the BART pilot project, and also any HRA data and participation records.

The deluxe version would include everything that we listed in the lean and moderate design, but also include things such as vendor managed on-line web portals, and also biometric screenings, and case management and counseling services. So the responses that came back from the vendor from the lean option would cost anywhere from $0.50 per member per month up to $4.50 per member per month, and then up to the deluxe option which would cost about $7.50 per member per month, plus additional hundreds and thousands of dollars in administrative and management fees on top of that. So before I move on, any questions specifically on our RFI process?

CHAIRPERSON MATHUR: No questions at this time.

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HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: Okay. So let me provide a quick update on activities at BART and tell you how experiences there might help inform any future decisions. BART has been making progress on their wellness program. In the past year, they have completed an interest assessment of the workforce. They performed biometric screenings, and they organized a wellness champion network.

So far right now, there's currently 31 wellness champions who have made a one-year commitment and plan to organize activities every other month in the agency. The first effort promoted by the wellness champions was the launch of a short-term pilot, a WeightWatchers on-line plus program.

This program allows users to follow a weight loss plan entirely on-line with digital and mobile tools, including weight trackers, progress charts, restaurant guides and more. The pilot program will be available for all the BART employees and their dependents over the age of 18 for free. And the pilot will return until April 30th 2016.

The program enrollment actually started just a couple of weeks ago. It started on August 1st. And just within the first week and a half, there was over 222 participants that are enrolled, 140 of them were employees, 72 spouses, and 10 adult dependents.

So as the pilot progresses, we hope to report additional participant details such as the participation level and the total weight loss. We expect the pilot to provide useful metrics for us, and as well as lessons learned regarding the communication and implementation of on-line wellness solutions.

So as we continue to gather and analyze the wellness program, we're also very mindful of many considerations that are specific to CalPERS as a health plan purchaser.

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HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: So many of the examples we brought to the Board in January address how various employers, both in the public and private, are able to implement a wellness program for their employees. They can easily tie incentives as the employer to participate in a wellness program, but CalPERS, being in the role of a health plan purchaser, we're limited in our scope and capabilities. We're not the employer where we can offer solutions such as reduced premiums to incentivize participation. And additionally, we have barriers that employers may not have.

For starters, we have a challenge due to the skill of effort. We have a tremendously large membership, but we also have a diverse one. We service employers, active employees, retirees, spouses, and dependents. We understand from our experiences with numerous work-site wellness pilots that employee and labor collaboration is essential for any health and wellness strategies to be successful. But CalPERS is not an optimal position to identify the member-specific need, and we do not have the resources to case manage health and wellness for our entire population.

The second item for consideration is IDENTIFYING efficient and proven solutions. The most efficient way for us to offer the entire population a health and wellness platform may be though on-line solutions that are not tied to geographic locations like work sites and do not require personal case management.

This is why we piloted the WeightWatchers on-line plus program at BART to determine how successful the uptake would be of an on-line only solution, and also to gauge the success rates using a proven and known corporate entity's product. CalPERS is not the position to experiment with its population, and we must be extremely diligent and prudent when offering health and wellness solutions. If we get it wrong, we would have to answer to over a million dissatisfied customers.

So the final thing for consideration is the cost. The best way to implement a health and wellness platform across our entire membership is to role the wellness program costs into our premiums. Spreading the cost across the entire population would minimize the impact. But as we just spoke about in the previous agenda item, any cost increase, no matter how minimal that cost increase is, can put CalPERS plans closer to the excise tax threshold.

So that concludes my presentation. I'm going to turn it back over to Doug for further discussion.

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER:

Thank you, Jan. I think I want to emphasize the last point that Jan made about the potential implications of such a wellness project, especially if we move to a deluxe version where that particular project may be folded into the premium. I think we would really have to take a very, very hard look at something like that, given the potential risk of increasing the liability to our employers and our members of hitting that excise tax in 2018.

So what we're looking for, Madam Chair, is some guidance and direction from the Committee on what exactly you would like for us to bring back as staff in November. Certainly, we can bring back a full analysis of all the three alternatives. But again, I would caution that the third and the deluxe version may, at this point, be a hole that we don't want to go down, only because of the severe implications that it may have for CalPERS and its membership in 2018.

CHAIRPERSON MATHUR: Cost-wise.

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER: Cost-wise.

CHAIRPERSON MATHUR: Mr. Boyken.

ACTING COMMITTEE MEMBER BOYKEN: Thank you. Thanks for the presentation.

So Treasurer Chiang, both as Controller and Treasurer, wellness has been very important to him and he's been active in terms of -- and his office has in terms of participating in the State's pilot Healthier U work-site wellness program, which we're happy CalHR has taken a bigger role, actual position, so we're hoping that that takes off.

Now, I think staff has -- I mean, we've been talking about wellness for a while. It was one of our initiatives, and I appreciate all the work you've put into it. And I think you've laid out a good case for why it's difficult for CalPERS -- it doesn't have the employer/employee relationship to have a -- especially a work-site wellness program. We also, in addition to the work-site, we cover not only the employee, but their -- you know, their spouses and dependents.

But, I guess, what I'm wondering -- and then the excise tax figures into it all, too. So I guess I'm wondering, is there a role that we could play? Do we have expertise that would make it make sense, in terms of being a resource and somehow coordinating wellness efforts, even -- you know, if there's an on-line solution out there that seems appealing to us, could that be offered to not only our health, but our pension partners as something that's outside of the health program?

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER:

Mr. Boyken, I think those are all fair questions. And what I would suggest is if you want us to come back in November and flesh those out in more of the lean and moderate version, we can certainly do that. I think there's application for CalPERS to set a consistent standard on the platform that is used, as opposed to today where we know each one of our health carriers has a different flavor for their wellness component. And so I think for consistency for our membership and our employers, that may add a lot of value, if we were more consistent in our platform with an on-line tool. There's different ways in which that on-line tool could be implemented as well.

So again, I think what we're seeking is some direction back from you all as to how deep of a dive do you want us to go into with each of these three alternatives that have been presented today.

ACTING COMMITTEE MEMBER BOYKEN: Thanks. I'd be interested to hear what other Committees members think.

CHAIRPERSON MATHUR: Thank you.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: I would actually say we ought to take the deluxe off the table. I mean, we're looking at 7½ bucks per member per month. That is going to hit the Cadillac tax. That's another 380, so we're now at 1130 per member per month. And I just don't think that we ought to be going there.

The -- I share some of the same concerns that grant raised. We have seen that it's absolutely essential that the employer and the unions and the employees be involved, and we are not that. I think we may have a role as a sharer of information, you know, where we participate with people. And as other people have tried experiments, we can share what's worked and what's not worked an allow people to take and build their own programs with that additional knowledge.

We have wellness in our health benefits because we believe it lowers health costs. But a big part of the gains from the wellness program for the employer has been absenteeism, productivity. And those are things that, while we value and we like to see our employers do well, it's not our turf. So I -- I would be inclined to soft pedal it. And quite frankly, I would just absolutely forget the deluxe.

CHAIRPERSON MATHUR: Thank you.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Thank you, Madam Chair. I was -- I'm going to concur with Grant and J.J. here. I think the deluxe should be off the table. I think it's a shame that the Affordable Care Act has put us in a position where we can't offer something like this for our employees that actually helps us with health care costs. So I feel that that's unfortunate, but I don't see a way around it, at this point. And I'm thinking if we're looking at maybe, like Grant said, a deeper dive into the other two areas, maybe just an on-line, but how those employers could do that better would be the best idea.

CHAIRPERSON MATHUR: Thank you.

Ms. Hagen.

ACTING COMMITTEE MEMBER HAGEN: Thank you, Madam Chair.

I would like to just -- I guess in upcoming meetings, I would like to hear more discussion around how any wellness platform or program that CalPERS sponsors would fit into existing wellness programs, either offered by health plans or the employers themselves. I'm having a hard time visualizing, you know, how this would -- if this would sit on top of those existing plans, if employers would be forced to use these plans, or, you know, how that would work, because as we know, there are a lot of employers that have great wellness programs, that include biometric screening, on-line platforms, et cetera. So I'd be interested in having more discussion about that.

As it relates to the lean, moderate, and deluxe solutions, I really think that the biometric screenings and the on-line case management is important for a successful wellness program. You'd be hard challenged, in my opinion, to find a wellness program out there that don't have those elements. So I'd be a little hesitant to take those off the table right now, unless you could somehow work those into year lean and moderate solutions.

So that's -- thank you. That's my feedback.

CHAIRPERSON MATHUR: Thank you.

Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Madam Chair. Yeah, I would be a little concerned when you mention that the cost would be just rolled over to be spread among all members. And that gets to are we then taking away what's bargained at the local level about, you know, health care and related issues? I think another concern I would have is that if this cost is spread among all members of including retirees, we just adopted a plan, not too long ago, that now provides some free wellness programs to our retirees that art part of Medicare. So now are we going to go back and charge them for a program that they're already receiving free? So this would be a major concern that I would have.

CHAIRPERSON MATHUR: Thank you.

Mr. Slaton.

BOARD MEMBER SLATON: Thank you, Madam Chair.

I guess what concerns me the most is I don't -- I still don't quite understand where scale helps with this. That there's so many alternatives that are out there in the wellness area provided by entrepreneurs, provided by health plans that I'm not sure I see that there's a scale benefit of having CalPERS do this.

So maybe you can speak to that or give me thoughts?

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER: Sure. Mr. Slaton, I think the common theme that I think we're all hearing is what is the true role of CalPERS as a purchaser in this space? And I think what you're finding is what we have found in our analysis, which is it would be extremely challenging and difficult in many cases to impose upon employers and employees a wellness platform.

There are just too many variables that have to take place. There has to be local participation and acceptance. There has to be executive leadership. We've already demonstrated that it's critical to have both management and labor at the table to develop these on their own, rather than have them be developed for them.

The success rate has been much higher in those that have been developed at the ground level through them. So I think what we're finding is the appetite where CalPERS can serve more as a facilitator, someone who can provide an option of tools that are available. And then for those employers who may not have an existing program in place, if they choose to implement such, here's an array of tools that you can use that we have found to be effective in our prior pilot efforts, feel free to take advantage of them. That's an approach.

So it's again how -- when we come back in November, I think we'll fully flesh this out to determine what we think is the best approach for CalPERS as a purchaser, recognizing that the more employers and employees that we get engaged in wellness, the better we're all going to be in the future relative to their health.

BOARD MEMBER SLATON: But what I hear you saying is that the driver is really the employer working with the employees to make a local decision about what they want to do.

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER:

Yeah, I firmly believe, based on our prior pilot efforts, that that is an absolutely critical component to the success of any wellness platform, that an employer and a labor group takes on.

BOARD MEMBER SLATON: Good. Well, as long as that's the focus that you're going to come back in November, I have no objection.

So thank you.

CHAIRPERSON MATHUR: Thank you.

Mr. Lofaso.

ACTING COMMITTEE MEMBER LOFASO: Thank you, Madam Chair. The current Controller also supports wellness. A great way of reducing costs and improving lives, but also reflecting on its improvement of the employer experience. And Mr. Jelincic referred to the employer benefits that aren't necessarily directed to health insurance purchasing. And apropos to a variety of the comments, there seems there's sort of a retail role and sort of a wholesale role.

And when we talk about various platforms, it seems to me there's an idea here that we might offer what could be characterized as retail options, where perhaps not being an employer CalPERS best efforts are directed as sort of the backbone support to our employers. It's one thing to support employers who are getting started and aren't sure what options. It's another thing to support employees who are very engaged and looking for better tools to figure out where their success is occurring if -- is there a role for PERS, understanding all of the health data and being able to help employers figure out where wellness is yielding benefits over time? Can you speak to that as a part of a function that CalPERS can engage and to help employers who want to be very engaged and want to find out what they're getting?

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER:

Yeah. Mr. Lofaso, so you bring up a really good point. And I'll point directly to the BART pilot that we're working on now, in which, for one of the first times, we actually were able to share data with BART on their employees' health status. Now, recognize they have enough employees where in aggregate we could do that, right, so you're not violating any HIPAA provisions. But what it did do is it allowed the employer, in this case BART, to have a window into some of the health issues that their employees are facing, not just BART as management, but the labor representatives who were at the steering committee who also saw the data, which allowed them to collectively then focus their energies and efforts on identifying a project, and focus that on the key areas of the data sets that they know are going to help their employees.

So to your point, yes, there is a role for CalPERS to play relative to sharing data to employers and employee groups sufficiently so that they can better understand where they ought to focus their energy and efforts.

ACTING COMMITTEE MEMBER LOFASO: Just a wrap-up, not to leave that exclusive, but I can see that this -- the presentation of deluxe, mid, and low seems to assume a retail orientation. And I'm just trying to mix up how the -- how CalPERS role in wellness is framed in terms of supporting employers, given the fact that we all know employers are ultimately the ones who are going to have to be responsible for this.

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER:

Yeah, if I may, I think what I'd like to suggest is that in November when we come back with the action item, we'll clearly articulate the role of CalPERS as we see it and seek your guidance then.

CHAIRPERSON MATHUR: I think what Mr. Lofaso's questions are suggesting is that if we are the facilitator, in terms of vetting potential vendors and solutions, but not actually purchasing them for the entire population, then it might be worth looking at the deluxe option, because then employers can choose their own -- employers and employees can chose at their own discretion. Whereas, if we are actually talking about layering this over our entire population, then deluxe is a lot less attractive a place -- you know, an area to explore.

We still have a couple of questions from the Committee.

Mr. Feckner.

COMMITTEE MEMBER FECKNER: Thank you, Madam Chair. Not counting the State, Doug, can you -- do you have any sense of the percentage of employers that are engaged in this now.

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER:

I don't think we've done a survey of our employer community to ask them who is engaged in an employer wellness strategy that we're not aware of. So I don't know, Mr. President.

COMMITTEE MEMBER FECKNER: Is there a possibility to get that information, I mean, via -- just by search of without a lot of excess work.

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER:

Let me take that away and see whether or not there's a way that we can do a quick survey of our employer community to find out if they can get us that data relatively quickly. We'll look into that.

COMMITTEE MEMBER FECKNER: Thank you.

CHAIRPERSON MATHUR: Thank you.

Mr. Bilbrey.

VICE CHAIRPERSON BILBREY: Thank you, Madam Chair. Sort of a similar question from Mr. Feckner, although you answered most of it. I know at the -- we engaged sort of a focus group and talked about wellness at one of the employer forums. I don't know if it was a couple years ago, but it seemed mixed on the amount who were participating. This information would be very helpful to see how many, at this point, are actually doing it. I think that everybody agrees that we need to do something with wellness.

And, you know, CalPERS being who we are, should be a leader in trying to move this, even though it is obvious not very easy to have happened. I -- also, Ms. Hagen, some of the parts of the deluxe really is in a component to make it to be successful, but it's very difficult, because obviously we don't want to look at raising rates even more.

So if there is a way to look at that in conjunction with a lean or a moderate, you know, I would favor that as well. But definitely I would like to learn more about the lean and moderate and see the dive on that.

Thank you.

CHAIRPERSON MATHUR: Thank you.

I have some questions. I think I've exhausted -- the Committee is exhausted, but -- so we had talked -- have talked in the past about how -- what we can do, through our benefit design, to encourage employers to do wellness themselves. So we've talked about providing either premium incentives to disincentives to employers who implement -- who implement wellness programs that might meet some set of criteria that we would identify, and then meet certain objectives, in terms of outcomes, and milestones, et cetera.

Did you -- you've done a lot of work here, but did you at all consider that or think about that as part of this review?

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: So we did take a -- consider that. The law allows us to pass the premium incentives and reductions only specifically to the employer, and we can't pass that incentive down to the member level, because then we deal with the Affordable Care Act and the non-discrimination rules that is around that.

So as we roll this out and we want to offer incentives, we have to work that piece out a little bit more in detail. We haven't thought about it. We just know that we have the capability. And how we would actually administer that, there would be a lot of criteria that we'd have to go through, employer engagement, what would you consider to be the success rate for the incentives to take place. And so we're not ready, at this time, to provide that information.

CHAIRPERSON MATHUR: And I imagine that we wouldn't be ready by November to adopt anything, or, you know, you might -- maybe you'd develop some preliminary thinking, but there's no way we would be ready in November. That would require some extensive, I think, outreach around something like that. But I do think we should think about that at the -- over the long term as to how do we encourage better behaviors among our members, and our employers to support those better behaviors, such that health outcomes, health status overall is improved.

That's a longer term thing to think about, but -- and maybe it's part of other strategic conversations we could be having around how we impact the cost drivers.

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER:

Yeah, Madam Chair, I look at this as a phased approach for CalPERS. I don't think we can bring to you in November a soup to nuts product and project that's going to improve the health of our members overnight. So I think what we need to do is identify those things that, within our purview, make sense, those things that we can advocate to the employers, how do we engage the employer and the members more proactively now compared to what they are, and get that information out to them. And then, as I think we see some benefits, continue to find ways in which we can enhance that particular model and platform.

CHAIRPERSON MATHUR: Okay. So what I've heard from the Committee, and we got quite a lot of feedback from the Committee, is interest in actually all three, although particularly interest in lean and moderate, concern about the cost of the deluxe option, a need to clarify a little bit what CalPERS' role might be, either in actually purchasing and then providing an opt-in or opt-out option for employers and/or employees, or by just merely vetting vendors and allowing -- and basically sharing the information with employers and allowing them to directly contract. So trying to clarify sort of what that role would be for CalPERS, and bringing -- and then -- so deluxe would be more interesting if we weren't actually providing it to the entire population.

Does that -- is that the kind of direction that you need? Is there anything else? Any other outstanding questions?

HEALTH POLICY RESEARCH DIVISION CHIEF McKEEVER:

No, I think that provides us with a clearer path forward to bring you something in November for your consideration.

CHAIRPERSON MATHUR: Okay. Great. Anything that I missed from the Committee? Anything you'd want to add to that?

I see none. Okay. We have now had this -- run this Committee for two hours. It is time to take a break. So I think what we're going to do is take a lunch break, even thought we only have one item left, and we'll come back in 45 minutes, so it's about quarter area after 1:00.

DEPUTY EXECUTIVE OFFICER BOYNTON: Okay. The last item is literally 15 minutes, and then I think we have a couple people signed up for public comment.

CHAIRPERSON MATHUR: You're okay?

THE COURT REPORTER: Yes.

DEPUTY EXECUTIVE OFFICER BOYNTON: It's up -- or a brief break perhaps for the reporter to finish up.

CHAIRPERSON MATHUR: Shall we take a five minute break then and do that?

THE COURT REPORTER: That's fine.

CHAIRPERSON MATHUR: Let's take a five minute -- thank you for the suggestion.

DEPUTY EXECUTIVE OFFICER BOYNTON: Thank you.

CHAIRPERSON MATHUR: We'll take a five minute break, come back and finish.

Thanks.

(Off record: 12:27 PM)

(Thereupon a recess was taken.)

(On record: 12:33 PM)

CHAIRPERSON MATHUR: I'm going to reconvene the Pension and Health Benefits Committee. Before we move into Agenda Item number 11, I realized I missed public comment on Agenda Item 10, and there was a member of the public who wished to speak on that item. So Ms. Roberts, do you want to come forward and speak on Agenda Item 10.

Ms. Roberts.

You can take one of those seats here on my left. And if you could identify yourself and your affiliation for the record. And you will have three minutes to speak.

MS. ROBERTS: Oh, it shouldn't take that long.

CHAIRPERSON MATHUR: Maybe move down the microphone so that it picks up you. Thank you.

MS. ROBERTS: That's actually too tall for me. Amazing. So I'm L.R. Roberts. I sit here so I can report back to Chapter 2 from CSR, CSEA. I, at this point, can't figure out what to tell my members about what they're going to end up paying for the excise tax. It's just astounding.

So other things that we're running into. Kaiser did an evaluation for my husband and he did get his Social Security disability. But for them to say that they won't do it for anyone else is just unacceptable. We cannot have Kaiser members disadvantaged when they apply for Social Security disability. Kaiser doctors must do those evaluations, and they've got to quit saying, oh, they're not going to do them. That needs to stop. And I have not had a report back on Kaiser being told that they will do them.

Let's see. And Kaiser is doing a lousy job of -- if you go to a pharmacy and you like try to buy a brace or something, they'll be out of it. Recently, I tried to buy a knee brace, and it was empty, and there was no spares. They are saving money -- they don't spend money -- they spend money on the top people, but they do not -- and they spend money on advertising. They don't spend money on the patients and they don't spend money on the staff.

I've actually had staff ask me to represent them as a steward, as I've gone to Kaiser. So when you go to get things, they have the bare minimum in the pharmacy, because you can see they're trying to save money. So, you know, that's not where they should save money.

But the other thing they do is you'll call to get your medicine prescribed, and they'll tell you it's going to be ready, but then they done actually order it till you physically get there.

So sometimes it could be an hour and a half wait. But when -- since he's on a special medication that has to come all the way from Hayward, we had to come back an extra day. So this idea that they tell you it's going to be ready, but then they don't actually even start on it until you physically get there, like we have nothing to do with our time. Thank, God, I'm no longer having to take sick leave to go and get such things. This is money saving at the expense of the patients, and it's not okay.

And their facilities continue -- at all of them continue to be very, very poorly run. I take a friend in the middle of the night to get an emergency medication so he can breathe. We get there. The on-call pharmacy is upstairs, and there is no sign that tells you that. So we go into the hospital -- this is Kaiser Morse -- and I ran into some people in the hallway, and I screamed at them from a long distance, because he can barely walk, because he can't breathe, and I said where is the on-call pharmacy? It was upstairs.

We just came from physical therapy, which is at the back of the Dan B. Moore building, which is two blocks from the regular building and hard to get to. We just had our tai chi class in a conference room. They continue to make poor choices on facilities --

CHAIRPERSON MATHUR: Thank you for your comments. I'm sorry your time has expired.

Okay. We'll move on to Agenda Item number 11.

Go ahead. Hi, Stacie.

(Thereupon an overhead presentation was presented as follows.)

CHAIRPERSON MATHUR: Oh, your microphone.

RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF WALKER: Thank you. Now can you hear me?

CHAIRPERSON MATHUR: Yes, Ms. Walker. Go ahead.

RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF WALKER: Good afternoon, Madam Chair, Committee members. Stacie Walker, CalPERS staff. Today, I'm here to provide you with an update on CalPERS retirement research. In 2012, the Board established the Retirement Research and

Planning Division to conduct research that supports retirement security, and demonstrates industry leadership.

Since that time, we've published a collection of white papers guided by CalPERS Pension Beliefs. We've highlighted some of our work at conferences, and in a peer-reviewed journal. The findings from the papers are highlighted in the agenda item, and you can access them on-line through the agenda item hyperlinks. You can access them via your iPad or your computer at home. Just click on the agenda item title and you can download each of those white papers.

In addition, future research topics are captured in Attachment 2. Today, I'm pleased to share with you highlights from two of our recently completed reports. The first the CalPERS economic impacts and California, and the second the CalPERS 2014 retirement trends report.

This is the fourth installation of CalPERS economic impacts in California. This report summarizes findings from our benefit payment and investment economic impacts. Our Investment Office highlighted their findings in an Investment Committee agenda item in June, so I'll focus only on the economic impacts of our benefit payments.

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RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF

WALKER: The Bureau of Labor Statistics estimates that during the height of the -- our Great Recession job losses peaked at about 1.3 million. Since that time, our economy has slowly recovered. And by the end of 2013, the Kaiser Center for Economic Research estimates that the California economy recovered about 70 percent of those job losses.

In fiscal year 13-14, CalPERS paid approximately $15.3 billion in benefit payments to just more than half a million California residents. Staff estimates that these benefits supported nearly 105,000 jobs throughout California, and generated an additional $15.6 billion in economic output.

For each benefit dollar CalPERS paid, these payments generated $2.02 worth of economic activity. That's inclusive of the original benefit payment dollar. We call this the multiplier effect. Instead of looking at expenditures alone, we used an industry standard econometric model developed by Impact Analysis in Planning, or IMPLAN, to determine how the benefit dollars ripple through the economy. The model estimates primary, indirect, and induced expenditures that result from our benefit payments.

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RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF WALKER: Research shows that pension benefits act as an economic stabilizer during times of recession. They provide a steady reliable source of income. As economies grow more robust, the impact of benefit payments may diminish depending on the rate of those relative changes. As I mentioned before, this is the fourth time CalPERS has produced this study. And because of this dynamic, I caution against making any type of year-over-year comparisons.

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RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF WALKER: It also holds true that because of this dynamic, benefit payments may have different regional impacts due to variations in regional economies. To test this theory, staff analyzed the correlation between the county's gross regional product and the economic impact of CalPERS benefit payments.

On average, in counties with lower gross regional product and where CalPERS benefit payments made up a larger proportion of the regional income, the benefit payments provide greater stimulus to the economy.

The map you're looking at depicts the impact of CalPERS benefit payments by county. The lighter gray areas indicate the least impact, and the darker blue areas indicate the greatest impact. In short, CalPERS benefits continue to contribute to California's economy, but are even more impactful in rural areas with less robust economies.

In addition to the paper, we also created interactive county, legislative, and congressional district maps, which highlight the impact of our benefit payments in these areas. They'll be posted to our website next week. And you can find them if you look at about, organization, and facts at a glance.

The second paper that I'm going to discuss with you today is the CalPERS 2014 Retirement Trend Report. This report lays out the facts related to retirees and the conditions underwhich they retire, with the understanding that multiple factors impact the planning, timing, and security of a worker's retirement.

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RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF WALKER: This paper analyzes the data for new retirees in a given fiscal year over 15 years. The first year of the study is fiscal year 1998/99. And in each of the charts that's depicted as 1999. We examined data for five member groups highlighting average monthly defined benefit allowance. We call that the DB allowance. And what we mean is that's the amount that each new retiree received in their first full monthly warrant. We also looked at the inputs that make up the allowance and its replacement rate.

When calculating the average monthly DB allowance across all CalPERS member groups, inflation eroded the value of the DB allowance. If you look at the chart, in 1999, the average benefit allowance across all member groups was approximately $1,500. By 2013, the nominal amount of that DB allowance increased to $3,000. However, after adjusting for inflation, that decreased to just $2,000.

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RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF WALKER: The story is different for each retiree group. The purple line at the top of the chart are our PA safety members. And they realized the greatest increase in DB allowance over the study period. The dark blue line in the middle are our State non-safety members, and they realized the least increase in their average DB allowance.

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RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF WALKER: Member benefit factors are agreed upon through the collective bargaining process, but members control how long they work. Over time, there's been little variation in the average years a member -- of service for California -- for CalPERS retiree groups.

State non-safety retirees had the greatest fluctuation in years of service varying 2.7 years from the low in 1999 to the high in 2001.

There is, however, a difference between retiree groups. RPEA safety members retire with -- retired with the most years of service, while school members consistently had the fewest years of service. Some school members tend to start their career later and work part time, which may account for these fewer average years of service.

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RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF WALKER: Final compensation is also an important component of a member's DB allowance. After adjusting for inflation, all member group's final compensation increased, except for the State non-safety retirees. While their final compensation varied over time, in 1999, it was $4,200, while in 2013 it was $4,070, and that's after adjusting for inflation.

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RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF WALKER: Financial planners often use replacement rate as a measure of retirement income adequacy. Replacement rate is the comparison of pre- and post-retirement earnings. This study only looked at the CalPERS benefit replacement rate and does not consider any additional income during retirement such as Social Security or personal savings. The replacement rate varied more for some retiree groups than others. The PA safety rate is the highest topping out at more than 70 percent. PA safety members typically have a richer benefit formula and retire with more years of service, which contributes to that higher replacement rate. Ninety-seven percent of our CalPERS active safety members do not participate in Social Security, likely leaving their DB allowance and any personal savings as their primary sources of income during retirement.

The school replacement rate is the lowest, not exceeding 45 percent in a given year. School members often retire at an older age, but with less years of service, which contributes to their lower replacement rate. At least 96 percent of all active school members participate in Social Security, which eventually increases that replacement rate. Staff found that regardless of member group, that there was a strong correlation between years of service and the replacement rate.

These two white papers are only a sample of our work. They'll be available to the public on our website next week. You can access them from your iPad and the public can download them from our website.

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RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF

WALKER: That concludes my presentation, and I'm happy to answer any questions you might have.

CHAIRPERSON MATHUR: Thank you, Ms. Walker. We do have some questions from the Committee.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Thank you, Madam Chair.

I just want to thank you for doing these really extensive reports that we can use in the future when we have pension initiatives that come out against us. But also, I really thought it was helpful that you did it by legislative district. I'm looking forward to looking at that to see how that impacts each legislator's district in terms of the retirees that live there.

And then I had a question. You said that the replacement rate, the schools were the lowest, because they don't receive Social Security, is that what it was?

RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF WALKER: No, they actually have a very high participation rate in Social Security. They tend to have a lower average number of years of service, and often they work part time, and they start their career later.

COMMITTEE MEMBER TAYLOR: Okay. Great. Thank you very much.

RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF WALKER: Sure.

CHAIRPERSON MATHUR: Thank you.

Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Madam Chair.

Yeah, I just wanted to understand which inflation rate you're using, because we have an allowance that members can get up to two percent, and then there's CPI, but the actual rate that is provided is not always what they receive. So which one are you using in your adjustments?

RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF WALKER: CPI. It averages out to about 2.7 percent a year.

COMMITTEE MEMBER JONES: So CPI without considering what each member may get up to two percent?

RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF WALKER: Yes, because that actually reflects their purchasing power. And this is only for the new retirees. So we only looked at the folks who retired in that actual year.

COMMITTEE MEMBER JONES: Okay. Thank you.

CHAIRPERSON MATHUR: Thank you.

Mr. Boyken.

ACTING COMMITTEE MEMBER BOYKEN: Thank you.

I just want to echo Mrs. Taylor's comments here.

Research that comes out of your Division is always, you know, very interesting and useful. And the retirement trends, in particular shows relatively modest benefit for people who have really pretty long careers, but it also raise a question with me. Every year I asked for, what used to be called the Petrosino Report. I'm not sure if the current year's one is out, but it shows these sort of trends, you know, people for the current year what their age at retirement, their allowance -- their first allowance and salary at retirement. So is that out yet?

RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF WALKER: It's not out yet. We will probably have that out around October/November time period. We're also working with our Public Affairs Office to take a look at that and make it more user friendly for folks, incorporating more charts and graphs, and whatnot, into it.

ACTING COMMITTEE MEMBER BOYKEN: Thanks. So put me in as requesting it now, but I'll wait till it's ready.

RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF WALKER: Okay.

(Laughter.)

CHAIRPERSON MATHUR: Okay. I think the entire Committee would like to see that report when it's completed.

RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF

WALKER: Okay.

CHAIRPERSON MATHUR: Well, thank you so much for this work. It really is important work to make sure that there is accurate information about the benefits that our members receive and the impact of that on the State economy. So really important work and thanks for the presentation.

RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF WALKER: Thank you.

CHAIRPERSON MATHUR: I see no further requests to speak at this time.

So that brings us to the end of our committee, public comment.

I do have -- I don't have a member of the public here present who wants to comment, but there was -- I did receive an email -- oh, I do. Please come forward. And if you could sit in one of these seats over here to my left, identify yourself and your affiliation for the record, and -- excuse me -- you will have three minutes to speak.

MR. WEBER: My name is C.T. Weber. I'm actually a member of several groups, but I'm going to speaking for myself. I'm with RPEA, California State Retirees, and CARA. And I serve on all three of them.

But anyway, I want to preface my remarks by stating that I'm a -- have been and am a supporter of a single-payer health care system. And so I think that, you know, CalPERS should not be in the health care business, but should, you know, focus on pensions.

I'm particularly -- on Agenda Item 9, Attachment 2 on page six, where it deals with the employer mitigating strategies brought about because of the Affordable Care Act, which establish the Cadillac tax, which we're all going to be faced with, and the employers are trying to get out of or lower or some -- doing something. And it seems like some of the strategies include -- which is a lowering the -- what the benefits to employees. For example, changing the health care design by increasing copays. They're already, in my opinion, too high, if a women has like, you know, five children, she's got a $10 copay. You know, it's -- and they've all got codes. You know, you're in -- she's in deep trouble.

And also, the offering high deductible health plans. Those things are detrimental to State employees and retirees as well. And so I just wanted to talk about how this Affordable Health Care Act is impacting this and why there's a -- you know, really a need to get out of the business and turn it over to single-payer health care. I know we can't do that right now, but I just wanted to express the concerns.

Thank you.

CHAIRPERSON MATHUR: Thank you. Just to clarify, these were not proposals by staff --

MR. WEBER: No, I understand.

CHAIRPERSON MATHUR: -- nor are they representative of strategies that our own employers are implementing at this time.

MR. WEBER: Yeah, but I'm just concerned, you know, about the --

CHAIRPERSON MATHUR: We are all concerned. Thank you.

MR. WEBER: Thank you.

CHAIRPERSON MATHUR: Any other member of the public wish to speak at this time?

Then I would just like to mention that I received AN email from Wendy Lack, and she asked me to read something into the record. She has made a Public Records Act request for some GASB 68 reports for employers. We are -- we're still -- we're investigating -- our staff is looking into this. We're not -- it's not clear that this is actually public information that can be provided to a member of the public. But once staff has resolved that question, then they will be responding back to her.

Thank you. That concludes the Pension and Health Benefits Committee. Thank you all very much.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Pension & Health Benefits Committee open session meeting adjourned at 12:54 p.m.)

C E R T I F I C A T E O F R E P O R T E R

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, Pension & Health Benefits Committee open session 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 August, 2015.

James F. Peters

JAMES F. PETERS, CSR
Certified Shorthand Reporter
License No. 10063