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

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JAMES F. PETERS, CSR
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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

Mr. J.J. Jelincic

Mr. Henry Jones

Ms. Theresa Taylor

Ms. Betty Yee, represented by Mr. Alan Lofaso

BOARD MEMBERS:

Mr. Richard Costigan

Ms. Dana Hollinger

Mr. Bill Slaton

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Ms. Cheryl Eason, Chief Financial Officer

Ms. Donna Lum, Deputy Executive Officer

Mr. Doug McKeever, Deputy Executive Officer

Mr. Brad Pacheco, Deputy Executive Officer

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Dr. Kathy Donneson, Chief, Health Plan Administration Division

Mr. Tyrone Espinoza, Assistant Chief, Health Plan Administration Division

Mr. Matt Jacobs, General Counsel

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

Ms. Jennifer Jimenez, Committee Secretary

Mr. Anthony Suine, Chief, Benefit Services Division

ALSO PRESENT:

Mr. George Linn, Retired Public Employees Association

Mr. Chris Little, Butte County

Mr. Jai Sookprasert, California School Employees Association

Mr. Larry Woodson, California State Retirees

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P R O C E E D I N G S

CHAIRPERSON MATHUR: Good morning, everyone. We're going to get started with the Pension and Health Benefits Committee. We -- please -- first order of business is to call the roll.

COMMITTEE SECRETARY JIMENEZ: Priya Mathur?

CHAIRPERSON MATHUR: Good morning.

COMMITTEE SECRETARY JIMENEZ: Michael Bilbrey?

VICE CHAIRPERSON BILBREY: Good morning.

COMMITTEE SECRETARY JIMENEZ: John Chiang?

Rob Feckner?

COMMITTEE MEMBER FECKNER: Good morning.

COMMITTEE SECRETARY JIMENEZ: Richard Gillihan?

COMMITTEE MEMBER GILLIHAN: Good morning.

COMMITTEE SECRETARY JIMENEZ: J.J. Jelincic?

COMMITTEE MEMBER JELINCIC: Here.

COMMITTEE SECRETARY JIMENEZ: Henry Jones?

COMMITTEE MEMBER JONES: Here.

COMMITTEE SECRETARY JIMENEZ: Theresa Taylor?

CHAIRPERSON MATHUR: Excused.

COMMITTEE SECRETARY JIMENEZ: Alan Lofaso for Betty Yee?

ACTING COMMITTEE MEMBER LOFASO: Good morning.

CHAIRPERSON MATHUR: Okay. Next order of business is the Executive Report.

Mr. McKeever

DEPUTY EXECUTIVE OFFICER McKEEVER: Thank you, Madam Chair, members of the Committee. Doug McKeever, CalPERS staff.

Given this is my first Deputy Executive Officer report since assuming the office, I thought I'd take a few moments and just provide you with a brief glimpse of my thinking about moving forward and some of the initial priorities that I've got on at least my calendar, both short term and long term.

So basically coming into the role, I had three major priorities. One was reaching out to all our stakeholders and setting up meetings with them just to, in most cases, reengage with those individuals representing all of the stakeholders that we have here at CalPERS. So I've been diligent in that regard. And that started in earnest in September. And as you can imagine, there's quite a few of the stakeholders that are out there with us. So it's going to take me some time to get through all of them, but that is a commitment that I've made to them, and will continue along that line.

Two is the recruitment of the Legislative Division Chief. And I'm happy to report that that position has been filled and Mary Anne Ashley's first day was actually yesterday. Ms. Stausboll will provide and introduce her formally to the full Board tomorrow morning. And then the second recruitment is obviously my old position in the Health Policy Research Division and that process is currently underway.

And then third is getting up to speed on the legislative items in the areas of pension, investment, and health, building a relationship with our three federal representatives that represent all of those three topical areas, and then diving more into the whole issue of pension policy and research.

Ongoing efforts include a recognition of the need to remain focused on several key program areas, one of which is the pharmacy benefit manager solicitation, of which we are currently in. And Kathy Donneson will provide a process update on that later this morning.

And then the other two is one of them being the excise tax and its implications to CalPERS, our employers and our members. And then, as we always do, it seems like rates never end, and so certainly the rate process for 2017 is fastly approaching. So that will be a focus for early for next year.

Moving forward, my efforts will be to remain focused on those areas that I just mentioned. Yet, it's important to begin the process of looking forward in developing a longer strategic view with your engagement and that of others. One example of this is in the area of health care. As you all know, back in 2010 and '11, we began a extremely robust effort of developing what ultimately ended up being the 21 initiatives that this Board approved back in early 2012.

The good news is that we've had very favorable results on many of those initiatives that we've undertaken since 2012. In fact, one of those efforts, the Dependent Eligibility Verification Project, will be discussed this morning as well as to how we ended up with that project.

But given we're at a point where most of those 21 initiatives have either been successfully implemented or are currently in flight and will continue, I think it's time to refresh those and look at what it is that we want to do moving forward. So that will be an exercise that I'll begin in earnest in early next year. One thing that I do want to do is ensure that we also look to engage and create this under the guise of the organization's refresh of its strategic plan, which they're going to be starting very soon as well.

Moving forward to general updates for this month, I've got a couple to share with you. Good news is the parent-child relationship regulations were approved by the Office of Administrative Law. We brought those back to you for some minor amendments in August. So those are moving forward. They're currently with the Secretary of State. And assuming signature on those, those will become effective January 1st of 2016. The new regulations will provide our employers the authority to require that health plan subscribers submit specific documentation in addition to signing a new affidavit that substantiates their parental role. So it's a good thing that we'll now have that documentation in place, so that we will not find ourselves in the position we were when we started the validation process itself.

On the excise tax, I want to mention to you that on October the 1st staff did submit a second comment letter to the Internal Revenue Service on the excise tax on high cost employer-sponsored health coverage. Our comments focused on CalPERS's role as a health benefits purchaser and the complexities inherent in the calculation, reporting, and payment features of the tax.

Copies of both of our letters have been provided to you, and there should be some in the back for the audience. Specifically, we requested that the IRS consider changes to the proposed rules/regulations making the administrative functions of the tax more clear, expand the notification period for employers, given the other reporting requirements an employer has to make, and our concern that coverage providers may seek to recover the cost of the excise tax by increasing premiums.

We also provided feedback on the IRS proposed approach on how to determine the tax threshold adjustments based on age and gender. We reiterated the concerns made in our first comment letter that the excise tax as formulated could actually undermine the health security of Americans by increasing out-of-pocket costs, but CalPERS remains committed to helping ensure that the successful implementation of the ACA moves forward.

There is a lot of activity and communication surrounding the excise tax. If you read the papers or see the periodicals over the last month, you probably will see almost on a daily basis information that's coming out, either pro -- support of the tax or those efforts that are signaling something along the lines of a repeal of that tax. There's actually a group called the Alliance to Fight the 40, which has been formed both with management and labor representatives who are seeking to exactly repeal the entire effort.

It's even gotten in the Presidential election. As you may have heard that Hillary Clinton came out several weeks ago in support of repealing the tax. All of this needs to be tempered in our -- on our end as we continue to take -- undertake the analysis required to determine the impacts to CalPERS, our plans, members, and employers. And I'm committed to the ongoing updates that I will provide to this Committee and the Board including providing updated analysis on those impacts to CalPERS, and in the coming months to assist us in better understanding the issues of the tax and what we can develop as an advocacy position that will seek to protect health benefits for our employers and their employees.

Lastly, and to further our awareness on this issue, next week there are two workshops at the Ed Forum in which the excise tax will be discussed.

And then lastly on the issue of biosimilars, we wanted to let you know that we're working with our federal representatives on signing onto a letter with the National Coalition on Health Care regarding a recently proposed rule by the Food and Drug Administration concerning biosimilars. As you know, we've had many discussions with this Committee about specialty drugs and the issue of biosimilars. And the NCHC is planning to send a letter opposing unique international non-proprietary names for biosimilars, as well as commenting on other issues raised in the FDA's proposed regulations.

CalPERS most likely will sign onto the letters, because we share NCHC's concerns about discouraging cost saving substitutions. And if we do so, I'll make sure that that letter is made available to the Committee. That will be sometime in early November.

Madam Chair, that concludes my comments.

CHAIRPERSON MATHUR: Thank you, Mr. McKeever. We do have a question from the Committee.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Doug, have you had a conversation with Tom Moore about his different way of providing health insurance?

DEPUTY EXECUTIVE OFFICER McKEEVER: I have not had a conversation with Mr. Moore on that subject.

COMMITTEE MEMBER JELINCIC: Okay. Thank you.

CHAIRPERSON MATHUR: Thank you. Okay. So we'll move on to the consent items. Item number 3 is approval of the August meeting minutes.

VICE CHAIRPERSON BILBREY: Move approval.

COMMITTEE MEMBER JONES: Second.

CHAIRPERSON MATHUR: Motion was made by Bilbrey, seconded by Jones.

Any discussion on the motion?

Seeing none.

All those in favor say aye?

(Ayes.)

CHAIRPERSON MATHUR: Motion -- all those opposed say no?

Motion passes.

We've had a request to take up 4c under the information consent items. So as is our practice, we'll take those up at the end of the agenda.

We'll move on then to Agenda Item number 5, Retirement Options Simplification.

DEPUTY EXECUTIVE OFFICER LUM: Good morning, Madam Chair, members of the Committee.

CHAIRPERSON MATHUR: Good morning.

DEPUTY EXECUTIVE OFFICER LUM: Donna Lum, CalPERS staff, and joining me this morning is Anthony Suine. Agenda Item number 5 is an action item. And staff recommend to the Committee condensing the number of retirement options from 13 to 5. While the overall options would be reduced, the remaining options available to members would include a combination of existing and modified options. Approval of this item will allow staff to pursue the necessary regulatory and legislative changes needed to implement the proposed retirement option.

Just for context, according to CEM Benchmarking, which is a respected international company specializing in the field of retirement system benchmarking, CalPERS has the most complex set of payment options amongst all retirement systems. Likewise, CEM also identified CalPERS as having the most one-on-one counseling and member presentations, which is likely attributed to the level of training and information that our members need in order to make an informed choice as they're nearing their retirement. The wide array of pension options is often overwhelming to our members to understand as they're making these important decisions about retirement.

If you recall, at the February 18th, 2015 Pension and Health Benefits Committee, a recommendation was provided to the Committee to eliminate and combine a group of retirement options simplifying our options from 13 to 9. The recommendation was reviewed -- was received very favorably by this Committee. And the Committee asked that we also take a look at the additional options that we did not bring to the Committee for further analysis to determine if there was the opportunity to further simplify the options.

At the Committee's request, staff did conduct additional analysis of those retirement options, and today, Anthony is going to provide you with some background information about the analysis, and our recommendation going forward.

So at this point, I'm going to go ahead and turn it over to Anthony.

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

CHAIRPERSON MATHUR: Good morning.

BENEFIT SERVICES DIVISION CHIEF SUINE: Since February, we've been working closely with our Retirement Research and Planning Division to collect data on our statutory options, and focused on a comparison of the options, to determine if the member had selected the most beneficial option to them after we analyzed the known outcomes of those selections where possible. In other words, what would that member have selected if they had hindsight?

To review the known outcomes, we had to look at the member's retirement date, the option they selected, and the date of death of the member or the beneficiary. The detailed analysis for each option can be found in Attachment 1 of the agenda item.

What we found in the analysis is that the members who were taking reductions to their allowances to provide for a speculative benefit were not benefiting from that reduction the majority of the time.

Specifically, those members who took a reduction speculating their beneficiary would pre-decease them did not benefit from choosing that option 60 to 70 percent of the time. The analysis also made apparent that just the shear number of options available to our members and the multiple financial variations in those options to consider undoubtedly leads to confusion amongst our member community when making their financial decisions.

I had the opportunity to attend the July Board off-site. And at that off-site, Ann Huff Stevens, a graduate economics professor from UC Davis, spoke about the retirement landscape and financial decision making. And she made mention to the fact that less options, when it comes to financial decision making, is optimal.

At that off-site, Mr. Slaton also shared an experience with us about his father's jewelry store and how his father never gave more than three choices to a member because -- to a customer, because, at that time, it just becomes an overwhelming decision.

So we feel our retirement options are parallel, and we believe that our analysis came to a similar conclusion that condensing and consolidating the retirement payment options will lead to better customer service and more educated members.

As a result, we are proposing recommending legislative changes to streamline our retirement options going forward. These changes would not impact our current retirees and would only become effective once legislative and regulatory changes were to be approved.

Our recommendation includes the following five options: The unmodified allowance, which is the member-only benefit that provides the highest benefit payable; the Option 1, which provides for a return of contributions to a beneficiary if the member does not outlive the contributions they've made to the system; Option 2W, which provides for 100 percent ongoing benefit to a beneficiary upon the death of the member; Option 3W, which provides for a 50 percent ongoing benefit to a beneficiary upon the death of the member; and, then a flexible beneficiary option, which provides the member the ability to elect multiple beneficiaries and specify any certain dollar amount or percentage of their allowance to leave as an ongoing allowance.

These five options provide the member with the most viable financial choices and would simplify the decision making for our members. The condensed options represent nearly 80 percent of the choices all of our members have selected over the last 25 years. And as previously stated, the proposed 20 percent of the options recommending to eliminate have resulted in our members making non-beneficial choices 60 to 70 percent of the time.

We vetted this proposal with our various stakeholder groups, including the labor unions, our employer representatives, and our broader stakeholder engagement group here at CalPERS, which includes the retiree community, as well as the school associations.

All the groups have supported simplifying and condensing the number of options. However, we did spend additional time with the school associations reviewing the data that was specific to their members, and they do have a preference to include the Option 2 and 3 as part of the recommendation.

At this time, I'd like to turn it back over to Donna to share the benefits and impacts to our members and our system.

DEPUTY EXECUTIVE OFFICER LUM: Thank you, Anthony. And so it's clear from our regional offices' experience these are the staff that work closely with our members, they provide member education, they are the ones that conduct our Benefit Education Events, that even though they do -- we do provide extensive retirement planning education and counseling, staff do find themselves often repeatedly covering the various nuances of the different option scenarios to help the member through the decision-making process.

Narrowing the options will reduce confusion, it will improve the understanding of our members and the options that they have to select from, and it will make the decision-making process easier. It will also enable us to have more meaningful conversations with interacting with the members about retirement options.

If the Committee approves pursuing the recommended retirement options, we will proceed with developing the legislative and regulatory changes that are needed to implement the new options.

And so this concludes our presentation, and we're available to answer any questions you may have.

CHAIRPERSON MATHUR: Thank you.

Before we go to questions, I just want to note for the record that Ms. Taylor and Mr. Boyken have joined the Committee, and that Mr. Slaton is also in attendance.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: I got confused, which is probably not the first time. When I look at the options at the bottom of page two of four, I get confused when we say Option 2W plus 1. And in all of these, we are returning contributions if they don't outlive it. And yet, up above, we say that for 87 percent of our people that's a bad choice.

So I'm confused on how you combine 2W and 1. And then the other question is why are we encouraging the return of contributions that's not statistically a good choice?

BENEFIT SERVICES DIVISION CHIEF SUINE: Sure. So the option 2W plus 1 and the 3W plus 1 are currently option 4s that a member can choose. And the cost difference to include that we -- our suggestion and recommendation is to embed it in the Option 2W and 3W to eliminate the choice. And the fraction of the cost is negligible to the member. And what it provides for is if both the member and the beneficiary were to die before their contributions -- member contributions were exhausted, there would be a return to a beneficiary as a lump sum. So it's different than the statutory Option 1.

To answer your question about the statutory Option 1, we felt that although the data shows that, yes, 87 percent of the time they're outliving their contributions, that's the most highly elected option of our members. We didn't feel it would be prudent to eliminate a choice that's been made over 25 percent of the time as we go forward.

And we believe that with the more limited options, condensed options, we could spend more time educating our members on the Option 1, on the outcomes, and viable alternatives financially, such as potentially a term life insurance policy that could be in place rather than choosing an Option 2 if they were concerned about those contributions.

COMMITTEE MEMBER JELINCIC: Do we have any idea what the cost of the plus one is if somebody chooses the

Option 2 or the Option -- or 2W or 3W?
BENEFIT SERVICES DIVISION CHIEF SUINE: Yeah. In our average example, the average member it's about $2.
COMMITTEE MEMBER JELINCIC: Okay. And then the other place that I got confused is actually on the next page. You're talking about combining these options. And then on the table below, you're saying eliminate Option 4's, but it seems like we've put Option 4's in the first table, and it confused me.
BENEFIT SERVICES DIVISION CHIEF SUINE: Can you clarify that, Mr. Jelincic?
COMMITTEE MEMBER JELINCIC: It looks to me like the top table --
BENEFIT SERVICES DIVISION CHIEF SUINE: The second -- oh, yeah on page three of four, yeah.
COMMITTEE MEMBER JELINCIC: -- on page three of four. The top table contradicts what we're saying about the bottom table, which is that we're going to eliminate it, but then we say we're going to have it.
BENEFIT SERVICES DIVISION CHIEF SUINE: Sure. We are recommending to consolidate some of the Options 4's and eliminate other Option 4's. So if you remember, there's six Option 4's to choose from. And so we're recommending the elimination of two of the Option 4's. Two of the other Option 4's, the 2W plus one and 3W plus

one we're looking to embed in the statutory Option 2W and 3W. And then the other Option 4's which are the multiple beneficiary, we're looking to consolidate and make one option.

COMMITTEE MEMBER JELINCIC: And what are the two Option 4's that we're proposing to completely eliminate?

BENEFIT SERVICES DIVISION CHIEF SUINE: Those are the reduced allowance for a fixed period of time, and the reduction upon the death of a retired or named beneficiary. And those were the ones that have been elected less than on 100 times over the last 25 years.

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON MATHUR: I think that part of what Mr. Jelincic's questions highlight is that the names of these retirement options are themselves confusing and so there's a need to have more intuitive naming of these options.

BENEFIT SERVICES DIVISION CHIEF SUINE:

Absolutely. We agree and we've already -- we're already pursuing that. We were pursuing it in parallel, but we felt we needed to finalize what options we're moving forward with and then we will work on the renaming to make them more understandable.

CHAIRPERSON MATHUR: Great. We do have a few more questions.

Mr. Gillihan.

COMMITTEE MEMBER GILLIHAN: Thank you, Madam Chair. So I appreciate all the staff work on this. And I -- conceptually, I'm supportive of reducing the number of options, because just reading about them is overwhelming. And I can't imagine being somebody about to retire and being faced with this list of options and trying to, you know, project their life forward and decide the best course of action.

So my only question or concern is have we done anything to study the potential financial impacts long term of reducing the number of options?

BENEFIT SERVICES DIVISION CHIEF SUINE: You mean for the System, Mr. Gillihan?

COMMITTEE MEMBER GILLIHAN: For the system.

BENEFIT SERVICES DIVISION CHIEF SUINE: Yes, we have looked at that. And because all the options are supposed to be actuarial neutral, we don't believe there's any major savings. We have found that, you know, the Option 2's and 3's that we're recommending to eliminate, we could find some -- reduce some actuarial risk there, because it increased the opportunity for adverse selection there, because a member may know something about their beneficiary that we don't know and can't calculate.

So, you know, not to overstate the reduction in actuarial risk, but there is some there. And then there's a one-time outlay of expense to revise our educational materials and our publications and update our my|CalPERS system.

COMMITTEE MEMBER GILLIHAN: So if I could paraphrase what you said. So all of our options are intended to actuarially live equivalent, in terms of --

BENEFIT SERVICES DIVISION CHIEF SUINE: Correct.

COMMITTEE MEMBER GILLIHAN: -- you know, if you take the unmodified allowance versus some optional allowance, that in the end, if all of our assumptions hold true, that their -- it's a wash.

BENEFIT SERVICES DIVISION CHIEF SUINE: Correct.

COMMITTEE MEMBER GILLIHAN: And so for us, we're providing a streamlined set of choices to our members that help them make better choices, but in theory there's no additional risk to the system, is that correct?

CHIEF ACTUARY MILLIGAN: That's correct.

COMMITTEE MEMBER GILLIHAN: Thank you.

CHAIRPERSON MATHUR: But there could be also some administrative savings moving forward, and that these are simpler -- fewer to explain, less time spent with members trying to, you know, explain the whole breadth of options available to them, et cetera.

BENEFIT SERVICES DIVISION CHIEF SUINE:

Absolutely. And as Donna mentioned, we feel that we could have more meaningful conversations with that member, and it would make the administration simpler.

CHAIRPERSON MATHUR: Thank you.

Mr. Boyken.

ACTING COMMITTEE MEMBER BOYKEN: Thank you.

Yeah, just to piggyback on what Priya said. First of all, thanks for the report, Anthony an Donna, and appreciate the work. But later today, we're going to have a report on the cost effectiveness measures. And I think this effort of reducing some of the complexity and simplifying the options at retirement, you know, go toward reducing the complexity, which is one of the things that when we compare ourselves to our peers, we have a lot more complexity. And part of it is of this benefit chart and it has all these footnotes about the retirement options. And now I imagine hopefully you'll come out with a new one, you know, if you make this change, that will have fewer of those to sort through. There's plenty of other complexities with that chart, but -- so if it's appropriate at this time, I would move staff's recommendation.

CHAIRPERSON MATHUR: Is there a second to the motion?

COMMITTEE MEMBER JONES: Second.

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

We do have a member of the public who wishes to speak on this item Mr. Jai Sookprasert from the California School Employees Association. You will have three minutes to make your comments, and please identify yourself and your affiliation for the record.

Please go ahead. The mic is on.

MR. SOOKPRASERT: Good morning, Madam Chairman and members. Jai Sookprasert with the California School Employees Association. And we want to start out by thanking your staff for their indulgence on helping us with additional information.

As you have noticed in your conversation this morning, these are complex issues. And while we understand the desire to simplify, we're just asking for a little bit more time on Option 2 and 3, as had been mentioned by Mr. Suine so that we have an opportunity to really study the impact to our members. The figures that have been shared are based on statewide figures. What we just received this morning for school employees is that our members do select Option 2, for example, at a slightly higher rate. And we just want to have some comfort in understanding what the impact would be to our members.

We may eventually get to where you are in terms of let's simplify this, but understand that, you know, we kind of talk about this in abstraction. This is about somebody retiring making a decision whether they will outlive their spouse or not. And in making that decision, what are the benefits or negative ramification that's there.

And we're simply asking for a little bit more time. We literally just received some additional information on the school employees. Our members get a lower amount when they retire in general, and the options for them in making this calculation may be different. And so we're asking for just a little bit more time. So if you can pull that out, we did talk to staff and they said that one way or the other is not too big of a deal, because eventually this will go to legislation.

It would just help us to be able to at least break that down and analyze what that really means for those who do choose, even if the outcome is not as beneficial for them, and knowing more may lead them to choosing less. Ultimately, we're simply asking for a little bit more time to analyze.

And the datas are coming forth literally this morning, and we'll be able to make that assessment very soon here. So would appreciate your indulgence of giving the school group a little bit more time to look at Option

2 and 3 as it impacts our members.

Thank you.

CHAIRPERSON MATHUR: Thank you.

Mr. Feckner.

COMMITTEE MEMBER FECKNER: Thank you, Madam Chair. Donna and Anthony, what's your time frame looking like now. If it was an action item today, and we took an action, what time frame are you looking at?

DEPUTY EXECUTIVE OFFICER LUM: So there are several things that we would need to do once -- if the Committee approves going forward. Based on the legislative cycle, we would be bringing forward to the Committee in various cycles the legislative proposals, as well as the regulatory proposals that it would take to do the implementation. Providing if things go smoothly and we don't have a lot of rework on the analysis and the legislative language and the regulatory language, we anticipate that the earliest implementation would be at 2017. If there are delays and we run into the new legislative cycle, then it could be as late as 2018.

So that would give us the remainder of this fiscal year along with next year, as we are preparing the language to potentially address the additional questions or concerns or analysis needed for the Option 2 and Option 3.

BENEFIT SERVICES DIVISION CHIEF SUINE: The legislative proposals would come before you in February, if we were able to get those all together. And then we would start the legislative preview process.

COMMITTEE MEMBER FECKNER: Could we start down that process with the understanding that we're all looking for that same common goal, but keep these two pieces in until the February Board meeting?

DEPUTY EXECUTIVE OFFICER LUM: If it's the desire of the Committee to amend the recommendation to add back in Option 2 and 3 and reevaluate it during the additional process that we go through, we could certainly do that.

COMMITTEE MEMBER FECKNER: And given that, if at the end of that period of time, that could be pulled off, right?

DEPUTY EXECUTIVE OFFICER LUM: That's correct.

COMMITTEE MEMBER FECKNER: If, in February, they come back and say, look, we've done the research, it really isn't that of an big impact, you could just pull that out without any further impact, correct?

DEPUTY EXECUTIVE OFFICER LUM: Yes. Our desire would be that we would dialogue with the appropriate stakeholder groups early enough to avoid the -- you know, the additional work that it would take, the staff work, to draft legislation that may not be prudent going forward.

So we would have interaction with the stakeholder group.

COMMITTEE MEMBER FECKNER: Thank you. So, Madam Chair, if it's appropriate, I would like to amend the original motion to include item 2 and 3 until the February meeting when that decision can be made.

ACTING COMMITTEE MEMBER BOYKEN: I accept the friendly amendment.

CHAIRPERSON MATHUR: Okay. So a friendly amendment has been accepted, and we still have another question from the Committee.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: The question became moot.

CHAIRPERSON MATHUR: Okay. So there is a motion on the table to keep seven options -- or to reduce down from 13 to 7 options, including Option 2 and 3. Is that -- does that articulate everything that needs to be articulated for the motion?

A motion is on the table. Any further discussion on the motion?

Seeing none.

All those in favor say aye?

(Ayes.)

CHAIRPERSON MATHUR: All those opposed?

Motion passes. Thank you very much.

Move on to information items. Agenda Item number 6, Enterprise Risk Reports, Pension and Health Benefits Committee.

(Thereupon an overhead presentation was presented as follows.)

CHIEF FINANCIAL OFFICER EASON: Good morning, Madam Chair --

CHAIRPERSON MATHUR: Good morning.

CHIEF FINANCIAL OFFICER EASON: -- and Committee members. Cheryl Eason, CalPERS staff.

Today's agenda item provides an update on the four risk domains overseen by the Pension and Health Benefits Committee with the intent to obtain the Committee's input and perspective on staff's assessment of each risk and associated mitigation activities. The Risk and Audit Committee has delegated authority for oversight and approval of the Enterprise Risk Management framework, as well as direct oversight of the integrated assurance functions including compliance, audits, and risk.

For the first time, similar conversations will take place in other Board committees this month, in an effort to further integrate the management and oversight of risk into decision making, planning, and prioritization of business activities.

These conversations will form the recalibration of the enterprise risk management dashboard to be presented to the Risk and Audit Committee in November 2015.

Before I hand this item over to Donna and Doug to talk specifically about the risks associated with this Committee, let me briefly explain the criteria used to assess your risks. Two factors are used in assessing all risk, the impact and the likelihood of the risk actually happening.

So when we consider the impact of the risk, we use five criteria: Financial, legal compliance, operational, reputational, and strategic impacts. The criteria used for assessing the likelihood of the risk happening ranges from remote to expected. And we consider such things as the effectiveness of the controls in place, our historical experience, industry experience, and time horizons. Velocity, or the speed of impact, is also used as a criteria, and that ranges from early detection opportunities to gradual impact to sudden impact.

Each of these criteria are given a score creating a ranking for each risk. This ranking is arranged on the heat map, which is included in your materials, based on a low to high impact and low to high likelihood. Each risk has been recently reassessed and a projected ranking and trend provided for your review and discussion today.

With that, I will turn the agenda item over to Donna and Doug to talk specifically about those risks and those rankings.

DEPUTY EXECUTIVE OFFICER McKEEVER: Thank you, Cheryl. Madam Chair, members of the Committee, Donna Lum and I are briefly going to cover the four items that are overseen by this Committee. And I think it's worth noting that none of the four fall into the top 10 risk domains that are listed in the dashboard - so that's the good news - three of which fall under the minimal risk impact area and one actually was reassessed, as Cheryl just mentioned, recently to fall into the moderate, and that's on the health care costs.

So I'm going to cover briefly the health care cost one just to give you a rationale as to why we change it to moderate, and then turn it over to Donna for the customer service item.

On the health care cost one, as noted in my DEO remarks, the excise tax is coming upon us in 2018. And we felt it was prudent, based upon the potential implications to our employers and our members and our health plans, that this risk domain move from the stable, if you will, to a moderate, which shows an uptick in the potential risk that this will have on our potential health care costs.

So as we move forward and assess the excise tax, we will keep all of that analysis in mind, as we then continue to look at and evaluate the risks that are identified for you in this process and make sure that we are coordinated and make the necessary adjustments as more data becomes available. But for context purposes, I thought it was important for you to understand why that particular item has moved to moderate.

And if there are no questions on that, I'll turn it over to Donna for customer service.

CHAIRPERSON MATHUR: I don't see any questions.

DEPUTY EXECUTIVE OFFICER LUM: Thank you, Doug. So I'll just briefly cover the risks that are related to customer service. And I think it's important to recognize that identifying and mitigating and managing risk it's a continuous effort and it's an important effort for the organization as well as customer service.

The customer service risk on the dashboard continues to reflect a minimum risk level, and it's expected to remain at the low risk category for the unforeseeable future.

Our proactive approach to risk assessment and the development of risk mitigation strategies includes efforts that are surrounding the strategic and business plans, as well as other initiatives that we have partnered with with branches across the organization.

Specific efforts include measuring customer satisfaction, utilizing our workforce management tools, monitoring all proposed pending and chartered legislation, and regularly self-assessing business areas using a performance metric data. This environment enables us to identify where improvements are needed and risks may be potentially changing.

We had a slight increase in our risk score, as noted on Attachment 3. And that is due to the identification of the need to further enhance our efforts related to compliance. And so an area of focus for customer service this year and going forward is the development of a more robust and formalized compliance process.

We've recently partnered with the Enterprise Compliance Office to initiate a program that will systematically track and resolve compliance issues throughout the branch. And we're really excited about this effort, because we anticipate that it will enable us to identify compliance and risk issues early on before they become a greater problem.

Additionally, when it comes to compliance with our contracting agencies, we've assembled a team to carefully evaluate compliance issues and to implement compliance solutions that are designed to further strengthen internal controls.

This includes the implementation of compensation reporting efforts that are designed to ensure that the data that is being reported to CalPERS is accurate and timely entered into the system.

We're also working directly with the audit team to develop tools for our business partners to utilize to assist them with complex compliance issues. This includes membership and compliance rules, which is often a regular finding that we see in our audit reports.

An example of this is our joint effort is to develop a training metrics -- matrix, which will identify each employer, their employees, and the training that they would need to take to be able to successfully conduct business at CalPERS.

And then lastly, something to keep in mind is that we do rely heavily on data reported to CalPERS by our employers. And in the agenda item under challenges, we note that due to the complexity surrounding this area, it will continue to remain a challenge. However, with constant communication and our efforts to regularly find ways to enhance internal controls, we believe that we will improve the data integrity and remain at a minimal risk.

And this concludes my report. And Doug and I are available to answer any questions you may have.

CHAIRPERSON MATHUR: Thank you. You have sparked a question. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Although looking at -- it's change on the dashboard, it was not a big thing. What kind of additional compliance risk came forward that says maybe we need to look at this a little harder?

DEPUTY EXECUTIVE OFFICER LUM: So part of it was a self-assessment. And we looked at, from the numerous audits -- as you know, there's been an increase in the audit reports and we look at the audit findings. And we identified that we are continuing to see similar findings being repeated.

And so what it comes down to is how could we better educate our employers and work within our internal controls to mitigate the -- and improve the compliance and the adherence to the statutory requirements of, you know, providing benefits properly and the reporting of compensation and other like items.

COMMITTEE MEMBER JELINCIC: So the biggest thing really is a need to put additional resources into educating the employers, so that we get good data in, because bad data in means bad data out.

DEPUTY EXECUTIVE OFFICER LUM: That's correct.

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON MATHUR: Thank you.

Well, I think this is a very important effort to really integrate the risk thinking into each of the committees. I said this at the Investment Committee yesterday as well.

One thing that I think would be helpful for the committee is to somehow connect -- you get -- you gave some very good verbal comments today, but to connect a little bit more to each of these risk domains with the agenda -- sort of our calendar for the year, and where -- at which touchpoints will the Committee be address -- helping to address the risks and thinking about strategies to adjust the risks, and what are the different -- and what are the mitigations that are already ongoing?

So just a little bit more in writing perhaps, but I think this is a very good effort, and I really appreciate this being incorporated into the agenda.

Okay. I see no further requests to speak. Thanks very much.

We'll move on to Agenda Item number 7, Dependent Eligibility Verification Project closeout. Good news.

DEPUTY EXECUTIVE OFFICER McKEEVER: Madam Chair, members of the Committee, this report will be presented by Jan Falzarano.

(Thereupon an overhead presentation was

presented as follows.)

HEALTH POLICY RESEARCH DIVISION ACTING CHIEF FALZARANO: Good morning, Madam Chair, members of the Committee.

CHAIRPERSON MATHUR: Good morning.

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

So we are very happy, at this time, to report the completion of the Dependent Eligibility Verification Project and the cumulative savings and the disenrollment figures. But before I go into the project statistics, I just want to talk a little bit about the outreach effort that has taken place throughout this project.

Specifically to the verification, this project touched over 355,000 subscribers and over 706,000 dependents. Our staff worked very closely with HMS Employer Solutions to develop communication. And we sent over 1,065,000 letters to our members and an additional 23,000 emails to communicate and outreach for them.

Throughout the nine verification, HMS Employer Solutions received over 644,000 pieces of documentation, along with answering over 162,000 phone calls, and responding to more than 14,500 emails from our members and the employers.

So overall, these figures really did show the success of this project through all this communication, as we actually had a response rate of 94.6 percent from our membership. And so the external facing portion of this project actually was about a two-year process that started in April -- or late March of 2013 with the amnesty verification. And then we concluded in March 31st of 2015 with all nine cycles of the verification.

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HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: So for the State cycle, which began on July 26th and ended on July 31st, we reached out to over 220,000 subscribers and 436,000 dependents. For the public agencies and schools, that verification cycle started on June 2nd, 2014, and it ended this year on March 31st. And we reached out to almost 135,000 subscribers with almost 270,000 dependents.

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HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: So the State disenrollment figures is updated since the last time we brought this to you in November of 2014. The number right now is 8,379 dependents that were removed. In November, we brought a number to you, which was a little bit higher. It was 8,940 dependents. And so at the end of each verification cycle, we work with employers and retirees as well to disenroll their dependents, but many of them realized afterwards that they didn't submit their supporting documentation.

And hence, at that time, they would reach out either to their employers or they would reach out to CalPERS and provide us the supporting documentation that was necessary. And when we found those supporting documentations to be sufficient, we would go ahead and re-enroll their dependents. Hence, you would see we added back 561 dependents from the State verification cycle.

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HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: From the public agency and schools, we also conducted the same process to disenroll ineligible dependents and then re-enroll when they provided supporting documentation. And the total numbers for that is 3,181.

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HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: So the savings of this project starting from amnesty, which is still $41.5 million to the State verification which is modified now to be about $60 million, and the public agencies and schools, which is slightly under $20 million, our total savings to date is $121 million.

Now, the average that we used for the cost claims estimated avoidance is 4,421. We realized that this is actually very conservative, because this is based upon the 2012 plan utilization year, as we began this project in July early 2013. So for the consistency of this project, we went ahead and just used the 4,421 throughout the duration of this project, knowing that the claim utilization costs have gone up over the last several years.

So additionally for the public agencies and schools, we have over 1,200 public agencies. And each one of them may have multiple contracts with us based on employer bargaining group resolutions. So we were unable to do an actual savings based upon every employer contribution. So we did a hypothetical 70/30, where the employer is paying 70 percent of the contributions. And with that formula, we came up to slightly under $20 million.

CHAIRPERSON MATHUR: Can I just ask for a point of clarification on this slide?

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: Yes.

CHAIRPERSON MATHUR: Over what time period are these savings?

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: The savings is over, I would say, starting from July of 2013 -- actually, more August 2013 through June of 2015.

CHAIRPERSON MATHUR: Okay. Thank you.

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: So factoring in the internal costs of staff time that was spent on this project, which was slightly over $1 million, and our vendor contract, which was under $3 million, the staff estimates that the return on the investment is 31 to 1.

So needless to say, the project has been an immense undertaking for such an extensive and outreaching population, the success of which is attributable to the seamless partnership that CalPERS has with the dedicated staff at HMS Employer Solutions.

Moving forward, the Governor signed Senate Bill 98, which was a budget trailer bill that required CalPERS and CalHR to verify dependent's eligibility at least once every three years for State employees and State retirees.

And we also had to retain these documents for record keeping. So CalPERS has implemented additional measures to ensure enrollment integrity. One is the annual recertification process for confirming a member's parental role in a parent-child relationship. Two, as Doug just mentioned earlier, regulation to establish clear enrollment eligibility for a parent-child relationship, which will become effective January 1, 2016. And third, we revised the affidavit of parent-child relationship form accordingly.

So that concludes my presentation. I'm happy to answer any questions you have.

CHAIRPERSON MATHUR: Thank you. We have a number of questions from the Committee. Mr. Jones.

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

First of all, I want to congratulate you on a job well done, saving 100 -- almost 121, 122 million dollars that avoid the abuse that had occurred in this program before. And the one concern I had back in several presentations ago you just addressed, and that's what do we -- what processes do we build in to avoid this from happening going forward? And so I'm pleased to hear you mention about the annual certification and the changes in the forms to hopefully prevent this from ever escalating to the degree it had in the past. So I just want to congratulate you on a job well done.

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: Thank you.

CHAIRPERSON MATHUR: Thank you, Mr. Jones.

Mr. Boyken.

ACTING COMMITTEE MEMBER BOYKEN: Thank you.

So the savings, is that the total health spend? So we're spending that much less because -- or, I guess, what I'm wondering is does that also capture, if say a family had beneficiaries but they had to drop them, and now they're paying less of their member contribution, does that --

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: Yeah. So the employer contribution is a premium contribution savings, only when there was a party plan change as a result of the dependents being removed. And so that's an immediate savings that every employer will see, and the member will also see that savings as well, too, because of the premium reduction.

The claims cost avoidance is more of a long term. It's not an actual dollar for dollar savings, but it does impact the overall health premium rates for the future years as those claims are not seen by the health plans.

ACTING COMMITTEE MEMBER BOYKEN: Right. Okay. And then HMS, they were compensated based on the savings generated from the project, right?

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: No. HMS was paid on every subscriber. So it was an actual cost of us, I believe, at $10 per subscriber in the program. So the contract that was actually awarded to HMS was to be up to $3.5 million, but our actual spend was a little bit over 2.9 because of the number of subscribers that they verified during this process.

ACTING COMMITTEE MEMBER BOYKEN: Thank you.

CHAIRPERSON MATHUR: And just -- sorry, just to be clear, the estimated claims avoidance, that goes out into the future, so it's not limited to the July 2013 to June 2015?

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: That is correct. It's cost avoidance of future claims.

CHAIRPERSON MATHUR: It's cost avoidance out to how far?

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: We -- that -- well, for those that remain off, it's forever.

CHAIRPERSON MATHUR: Right.

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: For those dependents that may become eligible at a future date, then obviously it's -- the 122 -- or 121 million that we see, right now we're only claiming that as a one-time savings, understanding that there are components of it that will be ongoing savings. But because we are unable to calculate that, we cannot say that the full 121 million is an ongoing savings.

CHAIRPERSON MATHUR: Okay. So the estimated claims avoidance is only for that period, but we know that there will be claims avoidance moving forward that we just have not captured here, is that right?

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: Correct, because we do not know when members re-enroll their dependents.

CHAIRPERSON MATHUR: Okay. Thank you.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Doug, this is an issue that I've raised earlier. The premium structure is designed to cover the claims. And so when we say premium savings and then claims avoidance, how do we avoid double counting there?

DEPUTY EXECUTIVE OFFICER McKEEVER: So, Mr. Jelincic, an example of that would be, as Ms. Falzarano just mentioned, if you've got an individual or a family right now that's in a family plan, paying the three-party rate, and two of their dependents are removed, they move then from your family premium to the single premium, which is the immediate savings on the premium side that is experienced at that point in time, and moving forward. That is both then attributed to the employer, and the employee, because there's a share between both. So those are the immediate premiums savings.

The cost avoidance is separate and apart from.

That will be by those individuals that were removed. They're no longer seeing a physician or they're going to the hospital, thus incurring the costs. And as Jan mentioned, the average of that is about $4,400 on an annual basis per member in CalPERS. So that is an avoided cost that no longer will take place, because of them being removed. So I see those as two separate issues.

It is important to note that cost avoidance is just that. We didn't want to label it as actual savings, because frankly, it's very hard to quantify that long term. What we tried to do is look at the average cost and say this is what we perceived the cost shavings to be moving forward.

And then to your last point about premiums, any time that we have cost avoidance in the system, be it this project or any project that we undertake, that will have a direct impact on future year premiums when we negotiate the rate with the health carriers, because claims and experience should be on a downward trend based upon, at least in this case, this particular project.

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: I also want to add, if I may, one component about the premium contribution savings and the claims cost avoidance. Not every dependent that was removed also resulted in the premium savings. Only 58 -- approximately

58 percent of the subscribers that removed dependents resulted in a party plan change.

So that means some would have a family plan, they might have removed two or three ineligible dependents, but they're still in the family plan. And so the premiums collected from the plans are still the same, but yet we avoided the costs of those ineligible dependents to use any utilization against the plan.

COMMITTEE MEMBER JELINCIC: Okay. So I understand how there's an immediate premium savings, but this covers basically a three-year period. And so in the last year of that, some of the premium savings would have reflected the cost avoidance. And so the -- I'm still concerned about the double counting.

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: Some of it might have. I don't believe there's a double counting, because -- only because the premiums savings again did not always result in a party plan change as far as the claims cost avoidance. So what I mean by that is the party plan, there's no additional premiums that is collected, but the ineligible dependent has been removed from the plan, so they're not seeking services. And so it's not double counting, because there's no premiums -- additional premiums for those dependents.

CHAIRPERSON MATHUR: But what you're not capturing in the premium contribution savings is how the claims avoidance might impact future premiums?

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: Correct, yeah.

CHAIRPERSON MATHUR: They're only capturing that party plan change.

DEPUTY EXECUTIVE OFFICER McKEEVER: And the immediate one.

CHAIRPERSON MATHUR: And the immediate one.

COMMITTEE MEMBER JELINCIC: Okay. Thank you.

CHAIRPERSON MATHUR: Thank you.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: So I just wanted to congratulate you on this. This was a huge undertaking. I, myself, had to go -- I think, I actually had to go down to the county registrar and get my marriage certificate for you guys, but I'm very impressed the savings that it's given to the plans, I'm hoping will result in lower premiums. I think that's all everyone wants to see is that we do something like this and it does result in lowering our premiums hopefully. But thank you again. That was a great -- this was a great project.

CHAIRPERSON MATHUR: Thank you.

Mr. Slaton.

BOARD MEMBER SLATON: Thank you, Madam Chair. I want to add my congratulations as well. I wanted to -- you mentioned the trailer bill and the new requirement to do some of this process on a three-year rolling basis. Can you expand a little bit on how you plan on doing that, and what the cost implications, because you've done this one major project where you've -- a lot of people are out of the system who were not eligible. So it seems to me that as you go forward on a three-year basis, you're not going to have anywhere near the result -- the savings result, but yet you're going to incur costs. So how are you going to do that from a cost effectiveness standpoint.

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: So the trailer bill just passed this year. And so we are assuming, if we read the bill correctly, that in three years, which would be 2018, is when we would have to complete our first verification cycle for the State retirees, and active members.

The ongoing verification actually falls under the enrollment and eligibility area for our retirees. And for the State active members, that was actually a responsibility of CalHR that was identified in the bill. And so we would definitely partner with CalHR over the next several years to plan out the process of how we would roll this out in 2018.

BOARD MEMBER SLATON: Good. But it will become kind of a standard thing that we're going to be doing?

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: Correct. It would be recurring every three years.

BOARD MEMBER SLATON: Okay.

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: And it would -- yes, um-hmm.

DEPUTY EXECUTIVE OFFICER McKEEVER: Mr. Slaton, I think it's too early to tell workload implications or cost implications at this time. That's something that the staff is currently working on.

BOARD MEMBER SLATON: Okay. Thank you.

CHAIRPERSON MATHUR: Thank you.

Mr. Gillihan.

COMMITTEE MEMBER GILLIHAN: Thank you, Madam Chair. So back to the savings thing. I just -- I think this is a easier question, but I want to make sure we're talking about the same thing.

So any time we disenroll somebody, and it creates a tier change, they go from 3-party to 2, or 2 to 1, we immediately generate a monthly savings on the premium side. And so we're adding that up to create our total savings.

But my question is, is are we counting -- I mean, we did this over a period of time. So we started with the State, and we disenrolled people on the State side and we generated a savings number. Are we calculating that savings every month through March of 2015, are we just projects it out 12 months, or is there -- are we -- do we have a standard time frame that we're rolling these numbers up to, so that as we start with the State, and then we roll in the public agencies, the comparison is the same or are we just taking a one-month total and calling it good. I'm just trying to understand that framework.

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF FALZARANO: We're just doing the premium savings based upon a-12 month estimate. And for the State, we believe most of the savings occurred in 2014/15, is because that's when we did the majority of our disenrollments for that.

For the public agencies and schools, the majority of the public agencies and schools, due to the verification cycle, were removed early in 2015, until -- so we believe that most of the savings for the public agency and school fell under the 14/15 and maybe some overlap into the early parts of the 15/16 fiscal year.

COMMITTEE MEMBER GILLIHAN: But regardless, when it happened, we just project that monthly premium savings for 12 months, and cap it, so it's --

HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF

FALZARANO: Correct.

COMMITTEE MEMBER GILLIHAN: Okay. Perfect. Thank you.

CHAIRPERSON MATHUR: Thank you.

Well, I think you heard from the Committee how happy we are with the results of this program. It clearly was a very significant effort on the part of staff and a significant communication effort. And I think it was a success all around.

Thanks very much.

Okay. We'll move on to Agenda Item number 8, Long-Term Program Semiannual Update.

HEALTH PLAN ADMINISTRATION DIVISION CHIEF DONNESON: Good morning, Madam Chair, members of the Health -- Pension and Health Benefits Committee. My name is Kathy Donneson. I'm Chief of Health Plan Administration Division at CalPERS. And to my left is Tyrone Espinoza, CalPERS staff.

The long-term care semiannual update provides our annual trends for the program from 2012 to 2014, and the first six months of 2015. All of the information and statistics for this agenda item are found in Attachment 1, which I will review with you.

For this presentation, I will touch on a few key statistics, Long-Term Care 4 growth statistics and provide new information on the fall Long-Term Care 4 integrated marketing campaign, the CalPERS website, and the Transition Care Pilot. I will also provide a couple of highlights from our participant trends.

Turning to Attachment 1, on page three and four, you can see from the key statistics that the long-term care population is declining and it's due primarily to the 8,400 participants who passed away between 2012 and 2014, and we lost another 1,600 for the first six months of 2015. The annual premiums continue to remain above $300 million per year, even though there is some decline.

Turning to our LTC4 open application, which information is found on pages five through seven, you can see that the program has received over 2,200 applications, and approximately 1,197 were approved as of the 25th of September.

Our applications continue to steadily grow at a rate of 100 per month, and approvals constitute 64 percent of the underwriting decisions.

The essential three-year pre-packaged plan choice is the most popular of all of our pre-packaged plans. The use of the on-line application continues to grow, which is important, because the application can't be submitted until it's complete, which improves the efficiency of application processing, underwriting, and approval.

On pages eight and nine, this part of the attachment discusses the CalPERS Public Affairs Office launch of LTC4 integrated marketing campaign in Northern California to boost awareness of the CalPERS Long-Term Care Program with radio, newspaper, billboard and on-line advertising.

We are monitoring the effectiveness of the ad campaign through a special URL link, so that we can track the source of the advertisement that led to the website visit.

On pages 14 and 15, this is an update to our Transition Care Pilot. We've expanded the pilot from 400 eligible participants to 1,100 participants. And those participants have to have the PPO and long-term care policy, they are 65 years and older, and reside in the greater Sacramento area. And the design of the pilot is to reduce readmissions in this population -- hospital readmissions in this population.

Pages 17 and 18 provide highlights on program and participant statistics. And I'll just touch on a few highlights from this part of the attachment. Annual claimants are increasing at a rate of approximately 350 per year, and annual claims payments are increasing at a rate of seven million per year on average.

Looking at pages 19 and 20, which describes the top five categories for claims usage, one notable point is that pure dementia accounts for 35 percent of participants. This is two percent higher than last reported in March, and a major driver of use of assisted living facilities, and claims costs associated with this side of care.

This concludes my presentation, and I'm happy to answer any questions.

CHAIRPERSON MATHUR: Thank you. We do have a few questions.

Mr. Jones.

COMMITTEE MEMBER JONES: Thank you, Madam Chair.

Let me go Back to the page. It's page four of the presentation -- page three of the presentation.

HEALTH PLAN ADMINISTRATION DIVISION CHIEF DONNESON: Yes, Mr. Jones.

COMMITTEE MEMBER JONES: The chart that shows the projected participants and the premiums paid, and below it talks about the benefits paid.

HEALTH PLAN ADMINISTRATION DIVISION CHIEF DONNESON: Yes.

COMMITTEE MEMBER JONES: And I was just looking at the numbers. And if I look at the 2012, and you look at the premiums paid versus the benefits paid, and you have a coverage ratio of about 1.8 to 1. Then when you go to 2013, that coverage ratio drops to about 1.5, and so on and '14 to 1.2, and then in 2015 to 1.1. And we just had a -- on our enterprise risk management report earlier, it talked about this program being stable or the arrows pointing this way that it's going to be stables. So this chart doesn't suggest that it's going to be stable. If this practice continues, then this program appears to be headed for additional problems, notwithstanding the investment returns, because we can't purely rely on investment returns in this program.

So I'm trying to get a sense of is this cause for concern again, because I look at this pattern of this coverage ratio declining year after year.

DEPUTY EXECUTIVE OFFICER McKEEVER: Mr. Jones, next month in November at the Committee, we're going to give you the annual valuation of the long-term care report. And I think it's after that evaluation or valuation that we will reassess the risk and see where we're at in the program. So there's multiple components that we need to factor into the assessment of the risk domains. So the valuation report is going to help us shape whether or not that arrow, as you indicate, goes straight or we need to move it up to the moderate rate. So I think we'll be in a better position to answer that question next month.

COMMITTEE MEMBER JONES: Okay. Thank you.

CHAIRPERSON MATHUR: Thank you.

Mr. Gillihan.

COMMITTEE MEMBER GILLIHAN: Thank you, Madam Chair. So kind of piggybacking on Henry's point. It seems like this program is not growing -- or not growing at a very fast pace, and yet, I'm curious about our marketing program, and what we're spending on it, and how we're tracking our return per various marketing channels, whether they be print or broadcast or internet marketing. Are we tracking, you know, how much we spend for every new account signed up, and in our total investment, and who's paying for it? Are we paying for it or is our third-party administrator paying for it, and how much are we paying in overall marketing costs?

HEALTH PLAN ADMINISTRATION DIVISION CHIEF DONNESON: The marketing -- the overall marketing, which includes -- it's broader than just the advertisement. It includes all of the information that we have had to develop in terms of the open application. So we had a marketing budget that derives from LTC4 premiums. So that's where the dollars derived. It's built into the LTC4 premium to market LTC4.

For this particular campaign, which was the September -- the July to September campaign, the expenditures were $225,000. And I think Tyrone, correct me, it's -- we have, what, about 600,000 budgeted for this year fiscal year 14/15

HEALTH PLAN ADMINISTRATION DIVISION ASSISTANT CHIEF ESPINOZA: That's correct. The program does have budgeted approximately 600,000 for the fiscal year for marketing. And we've worked closely with our Public Affairs Office in the marketing campaign. And we've set aside that amount for marketing for this fiscal year. So we are consistent in matching the budgeted amount for marketing with the campaign cost.

COMMITTEE MEMBER GILLIHAN: And are we tracking the effectiveness of our various marketing efforts, in terms of spending X amount for every new account that's created?

HEALTH PLAN ADMINISTRATION DIVISION ASSISTANT CHIEF ESPINOZA: Mr. Gillihan, that is correct. We are monitoring the various marketing efforts from the integrated marketing campaign. Kathy mentioned in her presentation that we had a unique URL set up, Why Long-term Care, so that way we can identify all the various avenues of the marketing span to determine effectiveness.

For example, the URL for the billboards, we're able to determine how many people are logging onto the website based on that, on the buses. On the web banners, each have a unique URL, which we're able to identify traffic generated on the website, and we're able to assess the effectiveness of the campaign.

It's premature to identify now what the effectiveness has been because the marketing -- the integrated marketing just kind of concluded in September, but part of the campaign also has some additional marketing activities that are identified for later in the fiscal year.

So the answer to your question, unique URLs will help to identify the effectiveness of the campaign. And hopefully in the spring we'll be able to address that.

CHAIRPERSON MATHUR: Mr. Pacheco.

DEPUTY EXECUTIVE OFFICER PACHECO: Yeah. Brad Pacheco, CalPERS staff.

I just want to add, Mr. Gillihan, remind the Board that this was a pilot program that we started. We specifically chose the five region -- or five-county region in Sacramento because of the critical mass of public employees. So I think Tyrone is right, we are tracking it. We need to look at the analysis. What we have seen from the preliminary statistics is we do see a high amount of traffic going to the websites, clicking on the banner adds, almost twice as much as industry standards, just in general in the health care. What we're not seeing is people actually executing the application and following through with that. So I think we need to take that into account when we evaluate this going forward.

COMMITTEE MEMBER GILLIHAN: Thank you.

So, Madam Chair, if I could ask maybe at a subsequent meting if we could -- once we have the data collected from the pilot program, perhaps a little more information about our marketing efforts and our return on investment?

CHAIRPERSON MATHUR: I think that's a good idea. When would be a good time to do that? When do you think you'll have statistics to share?

HEALTH PLAN ADMINISTRATION DIVISION CHIEF DONNESON: Speaking of timing. Next month, we'll have the valuation in the Finance Committee. And then in December, we will have the highlights of the valuation presented in the Pension and Health Benefits Committee, which will help to answer both Mr. Gillihan's question and Mr. Jones' question regarding the stability of the program.

I think -- you think December would work?

DEPUTY EXECUTIVE OFFICER PACHECO: Yeah. I think either month really, but certainly we can target for November, and, if not, December.

CHAIRPERSON MATHUR: Okay. I think that's reasonable. Thank you.

COMMITTEE MEMBER GILLIHAN: Thank you.

HEALTH PLAN ADMINISTRATION DIVISION CHIEF DONNESON: I would like to address the growth, because we present a program -- program statistics every six months. And so when we presented our LTC4 application statistics in March, just to refresh your memories, we actually had 1,035 applications. So we've nearly doubled in six months in terms of the applications. We had 479 policies issued at that time, and we're now over 1,200. The statistics reported were as of set date.

The underwriting approval, at that time, was approximately 60 percent, so the thoroughness of the application, the quality of the pool appears to be increasing. And even though the growth may not look like it is, considering we opened with a soft launch in December 2013, and a hard launch in February, I think that the statistics show that there is interest in this program. And it's continuing. If you look at the chart, it's almost a straight line increase.

CHAIRPERSON MATHUR: Thank you.

Mr. Slaton.

BOARD MEMBER SLATON: Thank you, Madam Chair. I want to just talk for a moment with you about the LTC4 open application activity, which is page six of the presentation. It's the graph.

And, you know, the early stages of this program, as I recall it being told to me, that one of our challenges was the underwriting in the original program. So I'm looking at this chart, and the second bullet says, "Increasingly more applications are approved than declined due to applicant successfully passing underwriting". That's just a mathematical calculation. But what I'm wondering is why are we seeing more people pass underwriting as a percentage of those that apply? I want to make sure that we don't have a weakening underwriting system.

HEALTH PLAN ADMINISTRATION DIVISION CHIEF DONNESON: Actually, in terms of LTC4, we have a very strong medical and pharmacy questionnaire, and the underwriting guidelines were strengthened for this program. Every applicant gets a telephone interview, in which a nurse goes over the medical and the pharmacy history. In some -- if necessary, a face-to-face interview is done. So if something comes up in the phone interview and based on some age criteria, then you may have a nurse sent out to do a face-to-face interview. So that's one of the differences in terms of underwriting for this application versus prior applications.

BOARD MEMBER SLATON: But why is not -- why is it the spread increasing? That I -- that's what I don't understand. It seems like if you have a strict underwriting criteria, that spread would stay somewhat consistent.

HEALTH PLAN ADMINISTRATION DIVISION ASSISTANT CHIEF ESPINOZA: Mr. Slaton, I can -- I can speculate as to why you're seeing the increases. I would imagine that when folks take a look at the application when they're applying, and they're seeing the medical questionnaire, which is quite extensive compared to prior generations --

BOARD MEMBER SLATON: So they're self-selecting out?

HEALTH PLAN ADMINISTRATION DIVISION ASSISTANT CHIEF ESPINOZA: -- that they are probably looking and gauging whether or not what the likelihood would be of passing underwriting.

BOARD MEMBER SLATON: Okay. All right. Thank you.

CHAIRPERSON MATHUR: Thank you. I see no further requests to speak, so thank you for this update.

And we'll move on to Agenda Item number 9, Long-Term Care Program Expanded Eligibility.

Before we do, I just want to note for the record that Mr. Costigan and Ms. Hollinger have also joined us.

Please proceed.

HEALTH PLAN ADMINISTRATION DIVISION CHIEF DONNESON: Thank you, Madam Chair, and members of the Committee.

CHAIRPERSON MATHUR: Microphone

HEALTH PLAN ADMINISTRATION DIVISION CHIEF DONNESON: Thank you, Madam Chair, and members of the Pension and Health Benefits Committee.

Agenda Item 9 brings forward a request that the Board consider expanding eligibility for new applicants in the Long-Term Care Program. Government Code Section 21661(f) grants the California Public Employees' Retirement System, Board of Administration the authority to expand eligibility for the if CalPERS Long-Term Care Program.

Should the Board choose to exercise its authority to expand eligibility, staff proposes to extend eligibility to all classes of persons eligible under 26 Internal Revenue Code Section 7702B(f)(2), titled Treatment of Qualified Long-Term Care Insurance, and by extension, 26 IRC Section 152(2)(A-G) titled Dependents Defined. The actual citations for these two sections of the Internal Revenue Code are found in Attachment 1.

The classes of persons which can be found that are not yet qualified to participate in our program include former employees, members' grandchildren or adult children, non-adult children, members' grandparents, members' nephews or nieces, members' aunts or uncles, members' son-in-laws, daughter-in-laws, brother-in-laws and sister-in-laws.

We would like to expand eligibility to these six classes for the following reasons:

First the LTC fund is stabilizing. And I know that there was concern in the prior agenda item that will be addressed in the November valuation, but it is stabilizing. And we're seeing steady new enrollment growth since reopening the program in December of 2013. The Long-Term Care Fund has achieved a better financial position as a result of the stabilization and restructuring efforts over the last five years. The current status of financial stabilization will be provided next month as part of the Finance Committee.

Second, expanding eligibility would continue to build upon the LTC4 risk pool and spread that risk to more pool participants, further strengthening the already stabilizing fund. Presently, the program applies a very robust application medical questionnaire and underwriting process that helps to lessen against unfavorable risks from entering the program and the population. This is applied to all applicants regardless of their eligibility classification.

Third, demand exists for the CalPERS long-term care insurance, but under our current eligibility criteria, for example, a sister of a member qualifies, but that sister's husband does not meet current program eligibility. As a result, access to some of the benefits for married couples don't apply, such as the marital discount or survivorship benefit. This same holds true for sons- and daughters-in-law.

Finally, the program has received interest from stakeholders to make the program widely available to all classes of persons who would be eligible under the Internal Revenue Code.

This Board has expended considerable energy over the past five years to bring financial stability to the Long-Term Care Program and to reopen the program to new business. If the Board chooses to exercise its authority under Government Code section 21661(f), staff will expand the pool of potential applicants eligible to enroll in the CalPERS Long-Term Care Program to include all categories of eligible classes under 26 IRC section 7702B(f)(2) for membership in its tax qualified Long-Term Care Program.

This concludes my presentation. I'm happy to answer any questions.

CHAIRPERSON MATHUR: Thank you. We do have a few questions. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: In the agenda item you talk about increasing the size of the fund, getting greater economies of scale. At one point, we were the ninth largest seller of this product in the U.S. How do we rank today?

HEALTH PLAN ADMINISTRATION DIVISION ASSISTANT CHIEF ESPINOZA: That's a good question, Mr. Jelincic. Back in 2012, we did a market study, but we have not refreshed that study as of yet. So that is one that we'd have to take back and do some research and come back to you with that with a response.

COMMITTEE MEMBER JELINCIC: Okay. Because, I mean, if we're growing market share, I think we need to at least think about why are we growing the market share?

Thank you.

CHAIRPERSON MATHUR: Thank you.

Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Madam Chair. Yeah, a couple of questions. Just a note on the report itself. You -- when you were citing who is now eligible, you mentioned six. And on the -- in the report it's only five. And I think the one that's left out on the report itself is the former employees. So when you bring it back make sure you include that, if that's the intent.

Then the other question is we just talked about the current program. And I raised the concern about the benefit payments versus the receipts. And so how then are you going to make sure that that analysis is factored into this program as you look at going forward, so that, you know, if we've got a concern going forward, then how is this new program going to affect those issues that are raised in the previous report?

HEALTH PLAN ADMINISTRATION DIVISION CHIEF DONNESON: Well, first of all, we do have now our own CalPERS Long-Term Care Actuary who works very closely with the program as -- and will be presenting the valuation next month. And so our internal actuary assisted in the actual development of LTC4. And it's based on the actuarial sciences that exist today versus where it was back in 1995.

Speaking to the stability of the fund, we did that back in 2011/2012 implement a variety of different reengineering of the program to ensure stability of the fund as you go through the future 20 or 30 years.

So we continued to look at not just LTC4, and we've believe we built a very strong LTC4 application and program, but also to look at LTC1, 2, and 3 and how it's performing, which is what is also in those statistics that we have prevented -- presented.

So we have continued to look at where we were, in terms of the activities that we implemented, the, you know, 3-, 6-, and 10-year policies to move people out of that lifetime inflation protection into an equivalent policy. We will continue to evaluate those older policies and to make opportunities available for members to continue to convert to those 3- and 6-year and 10-year policies.

All of those activities have served to virtually bring us to a stable fund. And I think when you see the report next month and the actuaries present, it will -- I think it will bring some comfort to you that we're still on a very good path and that the program is stabilizing.

COMMITTEE MEMBER JONES: Thank you.

CHAIRPERSON MATHUR: Thank you.

Mr. Slaton.

BOARD MEMBER SLATON: Thank you again. The -- we bear costs in this program when people are going into care, because we have a validation process that has to go on, is that correct?

HEALTH PLAN ADMINISTRATION DIVISION CHIEF DONNESON: I'm sorry, could you repeat the question, Mr. Slaton?

BOARD MEMBER SLATON: When someone is going to go into care -- into long-term care, in other words start getting benefits -- be in benefit status, there's a process of validation that, in fact, they're qualified, right, and that's a cost that is born by the program?

HEALTH PLAN ADMINISTRATION DIVISION CHIEF DONNESON: That's correct. Yes, that's correct.

BOARD MEMBER SLATON: So if we do this expansion, it seems to me that it's also going to expand the geography of -- potentially expand the geography quite a bit, just because of where people live. Does that have any significant cost implication to us going forward?

HEALTH PLAN ADMINISTRATION DIVISION CHIEF DONNESON: Well, that's an interesting question. We -- this is a national program -- our membership mostly lives in California, but they do live in other parts of the United States and we know where they are. And so geography -- we deal with geography already. In terms of -- let's -- if you just talk about California and where the bulk of our population is, we do see that -- if you look at the statistics in Agenda Item 8 that attachment, the nursing homes are flat. So there's not a lot of growth in care being done in skilled nursing.

Those with those comprehensive policies, most of them want to stay at home. And we've strengthened the program not just for LTC4, but all of the LTC products to encourage members to stay at home, because that's really more personal attendant care versus skilled nursing or other licensed nursing care. So we've done some work in that area, so that they can stay at home. They can have an independent caregiver.

In terms of being able to go into claim, they have -- there's a 90-day elimination period. So they have to have demonstrated two or more ADLs, activities of daily living, necessary in order for them to, once that 90 days is over, to be able to start having those benefits paid.

DEPUTY EXECUTIVE OFFICER McKEEVER: And, Kathy, is it correct -- to get to Mr. Slaton's question directly, relative to the geography and the expansion thereof where some of these new enrollees may live outside of California, given this is a national product we already deal with that particular issue, so there should not be any adverse impacts relative to opening this up?

HEALTH PLAN ADMINISTRATION DIVISION CHIEF DONNESON: That's correct.

BOARD MEMBER SLATON: Okay. Thank you.

CHAIRPERSON MATHUR: Thank you.

Ms. Hollinger.

BOARD MEMBER HOLLINGER: Thank you. I've always had serious concerns about us staying -- going off our course and getting into the insurance industry and being a monoline, just having one product with concentration and exposure.

So what I would like to know is the end goal? Is the end goal to create -- to actually, in a few years, by maybe increasing our base to ultimately offset this risk to a carrier, because I do have serious concerns about us being in this business?

DEPUTY EXECUTIVE OFFICER McKEEVER: Thank you, Ms. Hollinger. I think it's premature to answer that question today, relative to what we plan on doing in a couple three years. I think what we would like to do is get through the valuation report next month, to demonstrate the stability of this program, open it up to members to see if we can get some of the younger folks to join long-term care. And then over the course of the next couple of years evaluate where we are at with the program. And then if a question like that is appropriate, certainly have a conversation with this Committee at that point in time.

CHAIRPERSON MATHUR: Thank you. So I think, at this time, I have no further requests to speak. Staff does need a little direction about whether the Board -- the Committee would like to exercise the Board's authority to expand the pool of potential candidates. I haven't heard anything to the contrary. So unless I hear something otherwise, then that is the direction that we are interested in expanding the eligibility for the pool of eligible candidates.

HEALTH PLAN ADMINISTRATION DIVISION CHIEF DONNESON: Thank you.

CHAIRPERSON MATHUR: Thank you.

So now we can move on to Agenda Item number 10, the Pharmacy Benefit Manager Procurement Strategy.

HEALTH PLAN ADMINISTRATION DIVISION CHIEF DONNESON: Kathy Donneson, CalPERS staff.

Agenda Item number 10 updates the Pension and Health Benefits Committee on the status of the pharmacy benefit management solicitation.

On July 2nd, 2015, CalPERS released phase 1 of the solicitation, which set forth the minimum qualifications each firm was required to meet in order to move to phase 2 of the solicitation. Established to meet the pharmacy benefit management needs of CalPERS and its members, the minimum qualifications applied equally to all firms. CalPERS staff members were available during each step of the phase 1 minimum qualifications submittal process to assist firms and answer any questions.

If a firm failed to demonstrate that any of the above minimum qualifications were met, that firm did not move on to phase 2 of the solicitation.

On September 10th, 2015, CalPERS commenced with phase 2 of the solicitation. In the phase 2 submissions, firms were instructed to complete specific plan worksheets, such as firm's capabilities, workplan, management plan, and staffing plans.

Firms were provided tools with which to understand CalPERS technical and administrative service requirements. Firms were asked to include any innovate or alternative methods that may more efficiently and cost effectively achieve CalPERS required goals and objectives for its pharmacy benefit management program.

The financial plan in phase 2 requires firms to provide all estimated pricing and/or percent of guarantee amounts, as prescribed in the solicitation. And they were asked to do so for the five years of the contracted period.

Certain pricing methods are required in order to standardize dollar-for-dollar comparisons, and alternative pricing may also be submitted. Any alternative pricing method must demonstrate transparency, methodology, and cost savings benefits. Phase 2 submissions are due November 13th, 2015. CalPERS will evaluate phase 2 submissions and anticipates completing its valuation by late winter 2016.

CalPERS will enlist the use of subject matter experts from across the enterprise, as well as evaluation team representation from the State Controller's office. The evaluation will also include on-site visits that will verify the firm's ability to assure compliance with the requirements based on responses regarding that firm's capabilities, as well as all of the work management staffing plans and the financial plan.

This competitive negotiation process considers price, technical experience, operational performance and management in selecting the highest quality cost effective submissions to present to the CalPERS Pension and Health Benefits Committee.

Staff will enter into negotiations with the most qualified firms for which these performance standards and other criteria will be discussed in order to secure the firm's best that meets the needs of CalPERS and its members. In order for a firm submission to move forward to the Board of Administration for consideration, the firm must sign a letter agreeing to inter into the contract that has been negotiated during this phase of the negotiation.

The solicitation process concludes with a presentation by staff to the CalPERS Pension and Health Benefits Committee of the submissions that have met the requirements of the solicitation. However, a presentation of a firm's submission to the Pension and Health Benefits Committee may not be construed as an award of a contract. The awarding of the contract lies solely with the CalPERS Board.

In summary, this solicitation is intended to allow CalPERS the opportunity to have a completed contract at the end of the solicitation process prior to the conclusion of the 2017 rate setting process.

This concludes my presentation, and I'm happy to answer any questions.

CHAIRPERSON MATHUR: Thank you. Are there any questions from the Committee?

I don't see any. Thank you for your report.

We -- I did promise to go back to Agenda Item 4c, which is the federal health care policy representatives update. So let's do that now. And that was Mr. Jelincic had a question.

COMMITTEE MEMBER JELINCIC: The report generated a number of questions. There was the section about hospital readmissions, and the allegation that part of the reason it's not saving as much money is hospitals are cheating. And then the American Hospital Association says, well, it's not -- it's not as severe as the report says. But we have our own database, have we come to any conclusions about how we have been able to reduce readmissions based on our data?

DEPUTY EXECUTIVE OFFICER McKEEVER: Thank you, Mr. Jelincic. I think the most immediate exercise that we undertook was in our partnership here in Sacramento through the Blue Shield, Hill, and Dignity project, where we did, in fact, share with this Committee readmission rates that had gone down as a result of that collaborative partnership. So that was one example of where we've looked at that data.

I can't tell you today whether we've done the same across all of our carriers, but certainly would be willing to use that as a takeaway.

COMMITTEE MEMBER JELINCIC: Okay. And then there was, in the delivery reform, next steps. They offered a number of options. Are we pursuing any of those, if so, which ones? It's page two of that report down near the bottom.

DEPUTY EXECUTIVE OFFICER McKEEVER: Yeah. Mr. Jelincic, some of these that are listed in here would be something that CalPERS will need to look at in more depth, and then determine whether or not it's something that we want to pursue in the near future.

COMMITTEE MEMBER JELINCIC: Okay. And then on prescription drug price, near the bottom of page three they talk about next steps, joining the coalition. My understanding is from your report is that we are, in fact, doing that. And that gets to the question, did you have enough direction to be able to move forward? So I assume the answer is yes.

DEPUTY EXECUTIVE OFFICER McKEEVER: That is correct.

COMMITTEE MEMBER JELINCIC: And those were the issues I had in the report. So thank you.

CHAIRPERSON MATHUR: Thank you.

Okay. Moving on to Agenda Item 11, which is a new item that -- a standing item on our agenda. It's a summary of the direction from the meeting so try to ensure that nothing gets lost in translation.

So I'm going to take a stab at -- or unless you've already taken -- have a list. I can take a stab at the list. What would you prefer?

DEPUTY EXECUTIVE OFFICER McKEEVER: Madam Chair, I'm willing to give it my stab to see whether or not our stabs lineup.

(Laughter.)

CHAIRPERSON MATHUR: Go ahead.

DEPUTY EXECUTIVE OFFICER McKEEVER: So looking at specifically what I would couch to be as direction provided by the Chair to the staff would be on Item number 9, which is asking us to move forward with the expanded eligibility for the Long-Term Care Program.

CHAIRPERSON MATHUR: That's right. I would just add to that on Agenda Item number 8, we asked for an update on marketing effectiveness to come in conjunction with the -- with the agenda in either November or December on long-term care.

DEPUTY EXECUTIVE OFFICER McKEEVER: And that would also include estimated savings, I believe, was the request?

CHAIRPERSON MATHUR: As well as estimated savings exactly, or the -- yeah, basically, the cost per new member.

DEPUTY EXECUTIVE OFFICER McKEEVER: Correct.

And then if the Chair agrees, I would like to put that in the December report.

CHAIRPERSON MATHUR: That's fine. And then with respect to Agenda Item number 6, which is the risk item, is to add a little bit more verbiage around mitigation efforts in writing as opposed to just verbally.

DEPUTY EXECUTIVE OFFICER McKEEVER: And then I also believe you were looking at having us look at the Committee calendar to see when those items may be coming up and then tie it to that as well.

CHAIRPERSON MATHUR: Exactly. Thank you. And then Item 5, obviously, there was a motion around having seven options, but then continuing to provide -- to have further stakeholder dialogue before bringing back the actual legislative package in February.

DEPUTY EXECUTIVE OFFICER McKEEVER: Correct.

CHAIRPERSON MATHUR: Okay. Thank you.

Anything else that I missed?

Mr. Slaton.

BOARD MEMBER SLATON: Yeah, I think Mr. Jelincic raised the issue of where we rank in long-term care. And so we didn't -- what's the Chair's position on that?

CHAIRPERSON MATHUR: Well, I don't know if we have any plans to do a market study at this time. Was that somewhere on the calendar moving forward?

DEPUTY EXECUTIVE OFFICER McKEEVER: I don't have that in front of me as to whether or not that's an actual item moving forward. Kathy, do you know if we have something like that on the -- in the near term?

HEALTH PLAN ADMINISTRATION DIVISION CHIEF DONNESON: Actually, we can answer the question.

CHAIRPERSON MATHUR: Oh, great. Terrific.

DEPUTY EXECUTIVE OFFICER McKEEVER: Make it easier.

HEALTH PLAN ADMINISTRATION DIVISION CHIEF DONNESON: It's nice to have our actuary behind us.

We rank number six.

CHAIRPERSON MATHUR: Number six.

HEALTH PLAN ADMINISTRATION DIVISION CHIEF DONNESON: Yes.

CHAIRPERSON MATHUR: Okay. Thank you.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: So my only other thing was I think Mr. Jelincic brought up looking at the hospital readmissions.

CHAIRPERSON MATHUR: Yes.

COMMITTEE MEMBER TAYLOR: And, Mr. McKeever, I thought you said that you wanted -- that you would go ahead and take a look at that, because we had a pilot project before, and whether or not that's carried through. So I just think that would be --

DEPUTY EXECUTIVE OFFICER McKEEVER: Yeah. Ms. Taylor, we've already presented the Committee with information relative to that project on the readmission rates and how they actually went down. What I didn't have at my disposal is whether or not the other carriers in their efforts to create integrated health care models have seen similar type readmission rates going down.

So I'd leave it to the Chair as to whether or not that's direction that you want to provide to staff to look into and bring back at a further date -- at a future date.

CHAIRPERSON MATHUR: Let's talk. I think it would be instructive to have a sense of that, but let's talk about that in the context of sort of the greater strategic discussion that we're going to be embarking upon.

DEPUTY EXECUTIVE OFFICER McKEEVER: Okay. Agreed.

CHAIRPERSON MATHUR: And it probably makes sense within that context.

DEPUTY EXECUTIVE OFFICER McKEEVER: Thank you.

CHAIRPERSON MATHUR: Okay. Thank you. We do have several members of the public who wish to speak.

Mr. Larry Woodson, Chris Little and George Linn. So if you could please make your way down to the front, take one of these two seats here. The mic will be turned on for you. If you could identify yourself and your affiliation for the record, and you will have three minutes.

MR. WOODSON: Am I on?

CHAIRPERSON MATHUR: You are.

MR. WOODSON: Good morning. I'm Larry Woodson with California State Retirees.

And Stephanie Hueg, who is the chair of our health benefits committee asked me to read her article that's being posted this week on our website regarding the latest update on CalPERS accommodation of combo families and their health plan choices.

So here it is.

"CSR was contacted by CalPERS October 8th in response to our letter requesting an extension to open enrollment for Medicare combo households. These are households that have a CalPERS member who is Medicare eligible and members of the household who are not. If members take no action or elect UnitedHealthcare, the Medicare member will have UHC Medicare Advantage PPO, and the non-Medicare household member, who's not Medicare eligible, will have the SignatureValue Alliance basic HMO. They may have different doctors or providers, perhaps different clinics, hospitals, labs and pharmacies than what they had under their canceled plans.

"Members have been struggling to find lists of possible doctors and other providers and calling them to see if they are accepting new plans..." -- or, "...new patients". The web pages and letters initially served to confuse many people, as the provider lists were not completely accurate and website was not a straight line to the health plan list of providers. Some got stuck on the new retiree dropdown that includes options for active employees and thought that they could still have Blue Shield.

"Our members have been working cooperatively with CalPERS and UnitedHealthcare staff to make the computer trail up-to-date, informative, and easier to follow, and with some good results, just late in the game.

"We requested that a short extension to the open enrollment be given to allow combo members to make informed decisions due to late arriving and complex information. We also suggested that CalPERS send out a clarifying letter to these members using their zip codes listing only those plans they are eligible to participate in. Both of these suggestions were rejected by CalPERS for the following reasons:

"One, they had not seen the pushback from members that we had reported; and two, many members had already made their decisions regarding health plan choices.

"CalPERS felt that a letter was not necessary, but said they would accommodate combination families on a case-by-case basis by allowing them to change their plan selection up

through October 30th, but they wanted the
stakeholder groups to get the word out. They
would not do it directly..." --

CHAIRPERSON MATHUR: I'm sorry your time -- I'm so sorry, but your time has expired.

COMMITTEE MEMBER JELINCIC: Can we give him another 30 seconds?

CHAIRPERSON MATHUR: Okay. We'll give you -- yes, we'll give you another 30 seconds.

MR. WOODSON: Members --

CHAIRPERSON MATHUR: Just wait one moment.

MR. WOODSON: Okay. Thank you. Appreciate it.

"Members who are confused or feel they made
the wrong choice should call Member Services and
let them know they are a Medicare member combo
household, and that you need assistance in
selecting or changing your health care plan.
Tell them where you live and what steps you took
to try to find the information you needed to make
your decision, and why you feel your health plan
choice was incorrect".

That's the article. Thank you.

CHAIRPERSON MATHUR: Thank you very much.

Okay. Mr. Little, please come forward. And then, Mr. Linn, you will follow Mr. Little.

Please identify yourself and your affiliation for the record, and you'll have three minutes.

MR. LITTLE: All right. Thank you, Madam Chair, members of the Board. My name is Chris Little. I'm here with the Butte County Human Resources Department. Thank you for giving me the opportunity to be here this morning. It's much appreciated.

As you well know, the health insurance rate increases for the past several years have been significantly high. And from our perspective, they have had a disastrous impact on our employees.

So to that end, we are requesting two items for your consideration. First, we are specifically requesting that our area be included with the Sacramento area region, as opposed to the NorCal group. As evaluating the composition of those two groups, we do feel like our area is a better fit more applicably in the Sacramento area, as opposed to the NorCal group.

And additionally, as you well know, the CalPERS plan design options have a very rich benefit offering. And many of our employees do appreciate the richness of those benefits, and also realize, however, that that richness comes with a high price as far as the premiums are concerned.

So the feedback that we are receiving from our employee groups is that they would like additional flexibility in that plan design, and perhaps offering some other options that do not have quite as rich of a benefit, in order to achieve some relative savings in the premium arena.

And additionally, on a separate topic, we are looking forward to the CalPERS educational event coming up late this month. It would -- it would be nice if that could be scheduled a little farther from open enrollment, so that our staff are able to key all of the changes and get their, because we do want to get as many people there as we can. So the timing there can be an issue for us.

With that being said, those are -- those are my comments. Thank you very much, and appreciate the opportunity to be here today.

CHAIRPERSON MATHUR: Thank you.

Mr. Linn. Again, please identify yourself and your affiliation for the record, and you'll have three minutes.

MR. LINN: George Linn, President of RPEA.

Committee Chair, Committee members, I'm going to talk about generic drugs for half a second. I think that CalPERS in -- with their strength and their position in the industry needs to take a very strong position on controlling the cost of generic drugs. These things are hitting, of course, our retirees. And we all know that drugs are all going up. But in particular, since we have generic step therapy, and all of these things that shove everybody down to generics, the generics are also increasing. And I think that there needs to be some good strong lobby to see about controlling those.

And what I'm talking about is being out there up front, being out there first with this, and looking at the contracts that we're generating. This kind of goes along with what we just heard about those few people that had the problem with UnitedHealthcare and the fact that some of them were not retired, and some of them were, and so they were in that co-category. I think we need to be looking at all of the pitfalls when we're negotiating the contracts.

And I would encourage that when we look at the next health care program, that we anticipate these pitfalls, so that we don't have those few people out there that are screaming not knowing what to do.

Thank you.

CHAIRPERSON MATHUR: Thank you very much.

Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Madam Chair. Yeah, I have a couple questions for Doug on the Medicare combo issue. I understand it was a very small number that was presented to us that people were affected in this. And so if you could cite that number, I would like it?

And also, could you give us an update on this case-by-case process, because I haven't heard much about that. So what's the status of that?

DEPUTY EXECUTIVE OFFICER McKEEVER: Okay. Mr. Jones, I'll be happy to give you the number, and then I'm going to ask Carene to join me about the communication efforts that we have undertaken to work with our stakeholders.

So the number that has been referenced, of those who are in a combo situation is 1,500.

COMMITTEE MEMBER JONES: Okay. Thank you.

DEPUTY EXECUTIVE OFFICER McKEEVER: Carene.

MEMBER ACCOUNT MANAGEMENT DIVISION CHIEF CAROLAN:

Thanks. Carene Carolan, CalPERS staff.

Regarding the accommodation we've made is we understand that some of accommodation plan members have had some difficulty understanding how our new Medicare transition is going to impact them. And so to accommodate them, we've encouraged the leaders of the retiree stakeholder groups to Educate their membership that they can contact us, our Contact Center, identify themselves as combo plan members, or we can do that for them, and ask for help, if they need help in selecting the best health plan that's available to them, as well as their dependents who may be in the basic plan rather than the Medicare

To date, that has been quite successful. We have not heard from a lot of people needing assistance. As indicated previously I believe in Mr. Woodson's comments, a number of Medicare folks were able to enroll themselves using member self-service without any trouble.

But we are accommodating folks just to make sure that they understand the implications of making their health care plan selection for themselves, as well as their family members who may be in basic plans.

COMMITTEE MEMBER JONES: So with the -- those efforts, this 1,500 number could be down to some lower number, is that correct?

MEMBER ACCOUNT MANAGEMENT DIVISION CHIEF CAROLAN:

Well, the number -- you know we deal with subscribers. So there's about 1,500 or so subscribers, so CalPERS members who are retired who have dependents in basic health plans or perhaps the -- they are in a basic health plan, but they have a dependent who's on Medicare. So that is not just -- that's the number of subscribers. That are some additional dependents.

But those folks, for the most part, have been able to make plan selections. And those that were confused, or felt that they needed clarification, or more information are more than welcome to call us. And we are assisting them to make choices that are going to be best for their families.

DEPUTY EXECUTIVE OFFICER McKEEVER: Mr. Jones, I think to clarify also, that 1,500 there's some subsets of total numbers that we're dealing with. The 1,500 are those individuals that don't have an option, other than going into our self-funded PPO plans, because there is not a United product available to their basic dependent or them as a subscriber being in the basic program.

So there is some subsets of information on the combos. It's not -- the world is a little bit bigger than the 1,500. The 1,500 is specific to those that don't have that option.

COMMITTEE MEMBER JONES: Okay. Thank you.

CHAIRPERSON MATHUR: Okay. Thank you. Well, I think that brings us to the end of our agenda, so we are adjourn.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Pension & Health Benefits Committee open session meeting adjourned at 9:53 a.m.)

CERTIFICATE OF REPORTER

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

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 24th day of October, 2015.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
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