MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

PENSION & HEALTH BENEFITS COMMITTEE

OPEN SESSION

ROBERT F. CARLSON AUDITORIUM

LINCOLN PLAZA NORTH

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TUESDAY, NOVEMBER 17, 2015

1:30 P.M.

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:

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Mr. Bill Slaton

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Mr. Doug McKeever, Deputy Executive Officer

Mr. Brad Pacheco, Deputy Executive Officer

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

STAFF:

Mr. Matt Jacobs, General Counsel

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

Ms. Jennifer Jimenez, Committee Secretary

Ms. Renee Ostrander, Chief, Employer Account Management Division

Mr. Anthony Suine, Chief, Benefit Services Division

ALSO PRESENT:

Ms. Yvette Fontenot, Avenue Solutions
(via teleconference)

Mr. Chris Jennings, Jennings Policy Strategies
(via teleconference)

Mr. Chris Little

Mr. Tom Lussier, The Lussier Group, Inc.
(via teleconference)

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

I N D E X

P R O C E E D I N G S

CHAIRPERSON MATHUR: All right. I'm going to call the Pension and Health Benefits Committee meeting to order.

First order of business is roll call.

COMMITTEE SECRETARY JIMENEZ: Priya Mathur?

CHAIRPERSON MATHUR: Good afternoon.

COMMITTEE SECRETARY JIMENEZ: Michael Bilbrey?

VICE CHAIRPERSON BILBREY: Good afternoon.

COMMITTEE SECRETARY JIMENEZ: Grant Boyken for John Chiang?

ACTING COMMITTEE MEMBER BOYKEN: Here.

COMMITTEE SECRETARY JIMENEZ: Rob Feckner?

COMMITTEE MEMBER FECKNER: Good afternoon.

COMMITTEE SECRETARY JIMENEZ: Richard Gillihan?

COMMITTEE MEMBER GILLIHAN: Here.

COMMITTEE SECRETARY JIMENEZ: J.J. Jelincic?

COMMITTEE MEMBER JELINCIC: Here.

COMMITTEE SECRETARY JIMENEZ: Henry Jones?

CHAIRPERSON MATHUR: I'm sure he'll be here.

COMMITTEE SECRETARY JIMENEZ: Theresa Taylor?

CHAIRPERSON MATHUR: Her too.

COMMITTEE SECRETARY JIMENEZ: Alan Lofaso for Betty Yee?

ACTING COMMITTEE MEMBER LOFASO: Here.

CHAIRPERSON MATHUR: And please also note for the record that we have Mr. Slaton and Ms. Hollinger in attendance as well.

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. Three items to share with you on the report today. One is just kind of a update from last month when we mentioned to you that when we submitted a letter to the Treasury on the excise tax, we had also talked about our potential support of a letter that's coming out of the National Coalition of Health Care on the naming conventions for biosimilars. So I just wanted to update the Committee that we, in fact, did sign on to that letter. That was submitted to Treasury back in the end of October.

And that one, as a reminder, essentially we support what the Food and Drug Administration is doing about us opposing the FDA's proposed guidance on their naming of biosimilars. The way that they want to name it we think will take away from the ability for those biosimilars to be more effectively administered and used, and on the cost side as well. So that letter went out at the end of October.

Today, there is an agenda item before you. It's an action item. It's number 5 related to a wellness platform. And I just to want make a quick comment on this before we get to that. And Ms. Falzarano will present that item herself. I just wanted to note, frankly, my disappointment and somewhat frustration with the fact that the action item before you today is really going to ask you to punt on us pursuing a wellness platform.

And the primary reason behind that, as Jan will get into in more detail, are the potential impacts that the excise tax will have on us as a purchaser in developing a wellness platform and putting that into our current plan design. So because of that, Jan will run through the agenda item itself, let you know where we are as an update, as you had requested back in August. But at the end of the day, we'll be seeking you to defer us pursuing that until further guidance is provided to us by the federal government.

And then lastly, as a takeaway from my discussions with meeting with each of the individual Board members, since I've assumed my role, I began to realize that it would be helpful for me to take each one of these opportunities before you to just present one item of interest to you that may not necessarily always reach to the level of an agenda item per se, so that you kind of understand and are aware of what it is that we're doing outside of just our normal Board business.

So this month I wanted to cover a statewide work group on reducing overuse. And Covered California is a co-chair along with the Department of Health Care Services and CalPERS. And this group is looking at three specific areas in which we can collectively collaborate with the carriers that we do business with and the provider community in which they then serve our members on three areas that we're going to focus on.

One is reducing the use of opioid dependence. The one is primarily going to focus on areas of safe prescribing and avoiding what is called new starts. And for those of you who may not be aware, opioids right now is a significant national issue that's facing many individuals. The number of individuals who are addicted to these narcotics is significant, and it's causing a great deal of issues, not only for those individuals addicted, but for the health care community as a whole.

The other one is reducing inappropriate imaging in the treatment of lower back pain without what is referred to as red flags. And that would be whether the doctor identified a red flag that would require that individual to have an image completed.

And then the third is promoting appropriate use of cesarean sections for low risk and first-time births. This is also an issue that has received national attention, where the C-section rates have steadily climbed over the last decade. And so we are collaborating with Covered California and the Department of Health Care Services to achieve the national standard of 23.9 percent as the national rate for C-sections by 2020. So we're going to be collaborating with those partners to encourage and motivate our hospital partners to all achieve that by the year 2020.

So I wanted to share that this month relative to what else we are engaged in. And with that, that concludes my report.

CHAIRPERSON MATHUR: Thank you. And speaking of wellness, we had a wellness fair today, didn't we?

All right. Well, let's move on to agenda item -- I don't see any requests to speak, so we will move on to Agenda Item number 3, which is the action consent items, approval of the October meeting minutes.

VICE CHAIRPERSON BILBREY: Move approval.

ACTING COMMITTEE MEMBER BOYKEN: Second.

CHAIRPERSON MATHUR: Moved by Bilbrey, seconded by Boyken.

Any discussion on the motion?

Seeing none.

All those in favor say aye?

(Ayes.)

CHAIRPERSON MATHUR: All opposed?

Motion passes.

I had no requests to remove anything from consent.

So we'll move on to Agenda Item number 5, Health and Wellness Strategy Report. Ms. Falzarano.

(Thereupon an overhead presentation was presented as follows.)

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

And so at the August Committee meeting, we presented an update of the activities surrounding the adoption of a health and wellness platform. And the Committee, at that time, asked us to come back and return with three items.

The first item is an analysis of carving out the wellness for existing health benefits as a potential excise tax avoidance strategy. The second thing was an analysis of the three wellness solutions of the lean, moderate, and deluxe solutions. And then the third item was a clarification about the CalPERS role as a wellness purchaser.

So I will be providing some more analysis on these items. And because this is an action item, we will be asking the Committee to approve staff's recommendation. But first before we proceed, I'd like to just provide a quick update about the BART wellness pilot project.

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HEALTH POLICY RESEARCH DIVISION ACTING CHIEF FALZARANO: So back in August when I presented an item on the wellness, I talked about the BART employees beginning their on-line WeightWatchers Mobile Plus product that began on August 15th, 2015.

So they began enrolling in August. And their enrollment period went until the first week of October. And as of October 15th, they have reported a total weight loss of over 500 pounds, and they also had six members that met their ideal goal wet, with a total of also additional 24 members that lost between five and 10 percent of their initial body weight.

So, in general, the BART pilot participant progress has been meeting the expectation of WeightWatchers, which encourages clients to focus on steady, small, weekly increments of one to two pounds of loss per week. And so the pilot is scheduled to go until April 30th of 2016, and we will update the Committee as a result of this pilot becomes available.

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HEALTH POLICY RESEARCH DIVISION ACTING CHIEF FALZARANO: So moving forward to the excise tax. So also in August we presented a high level review of the excise tax. In general, we know that this excise tax is a 40 percent tax that applies to all applicable employer sponsored health coverage that exceeds the specified threshold. Each coverage provider must pay their pro rata share based on the total cost of applicable coverage. And CalPERS health plan will be liable for their proportionate share of the tax, regardless of whether the health plan premiums are below the excise tax threshold.

So initially, we were hopeful that we could carve out certain benefits from the health plans, such as wellness, in an effort to remain below the tax threshold, and we would call these carve-outs accepted benefits.

However, proposed tax regulations right now are still pending, and the current IRS regulation that governs EAP programs state that wellness benefits cannot be treated as excepted benefits because doing so would circumvent consumer protections contained in the ACA wellness program statutory standards.

Therefore, it is very possible that wellness benefits will be included in the aggregate cost of employer sponsored health benefits subject to the tax, regardless of however they are purchased or administered.

I'd like to note that the inclusion of the wellness in the aggregate cost of health care should not impact CalPERS ability to continue with our wellness pilots or an employer's ability to utilize the existing wellness benefit that is offered by our health plans. These costs currently are already included in the premiums.

So given that the wellness may likely be subject to the excise tax, we expanded the analysis that we presented to the Committee back in August to illustrate the impact of adding a wellness platform to the -- and the potential excise tax liability by adding the wellness platform.

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HEALTH POLICY RESEARCH DIVISION ACTING CHIEF FALZARANO: So staff took a traditionally higher priced region compared to the rest of the State, which is, in this case, the Bay Area. And we focused on the plan which had the lowest excise tax liability for 2016 to see how adding the wellness platform could accelerate that tax liability.

So the numbers that we pulled here from 2016 and 2018 for the estimated tax was from the August agenda item. And so, as you can see for 2016, we selected this plan because the 2016 single-party premium right now barely breaks that excise tax threshold by $65.04.

Multiply that by the 40 percent excise tax and the number of subscribers in a single party plan, it would be effective of $24,000 in the excise tax starting in '16. So we did the forecasting, as you remember, back in August of the three percent for 2017 and 2018. And this plan that did not hit the excise tax in 2016 would be hit with -- on the family plan of $622,000.

So this is the piece I really wanted to focus my attention on is adding the deluxe wellness option for 2018. If we were to add a wellness component, it would increase our tax liability by another $245,000. So the plan that we illustrated -- that we used for this illustration actually only has a very small population of only 2,500 people that are enrolled in this plan. So the total cost impact to the entire CalPERS population, as you can see, would be significantly greater.

So this additional liability will result in higher rates for all of our members and employers, as CalPERS health plan would bill their proportionate share of the excise tax into the future health rates.

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HEALTH POLICY RESEARCH DIVISION ACTING CHIEF FALZARANO: So now that I delivered the unpleasant news of the excise tax, I want to go over the vendor responses that we received from the RFI release on June 1st of 2015. We had 13 vendors and companies that responded to the RFI, many of which offered a full suite of wellness solutions.

So for the lean option, it was basically a mobile or web-based solution to engage our members and for them to track their own participation. There might be some group communication integrated with the wearable fitness trackers that they purchase on their own, and maybe some providing of some reporting.

However, there were very few vendors that offered these products as a stand-alone solution. There are not designed to be decoupled from other wellness products and services, and the majority of the vendors recommend a more comprehensive approach to ensure optimal wellness results.

The moderate platform contains the web-based solutions, but also in conjunction they would offer health risk assessments customized health challenges, educational and marketing materials, limited account management, and administration services, coaching services and probably more robust reporting.

The deluxe version includes all those elements plus biometric screening, which are typically outsourced, disease management programs, coaching and the case management.

The level of effort in implementing these various solutions also greatly varies. The implementation of the lean solution would place a burden of administrative and communication work on us the purchaser as well as the users. The roll-out and implementation of the moderate and deluxe solution would be very lengthy and would create a reliance on the vendor for administration and communication. Some of the vendors have experience implementing their solutions for government employees, but most, if not all, have not managed participant pool that is as large as CalPERS.

It is unclear how scalable each vendor's product and services are without obtaining additional case study information, and many vendors did not make any claims or guarantees regarding their ability to provide efficient customer service for our group.

So let's move on to the pricing.

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HEALTH POLICY RESEARCH DIVISION ACTING CHIEF FALZARANO: So the prices that you see here are projected annual costs for each of the services by the solution type, and it's derived from the maximum per member per month estimated by the vendor.

We selected the maximum amount because they allow for the most conservative estimating. So for the lean option, it's approximately $3.50 per member per month, the moderate would be $4 per member per month, and the deluxe is up to $25 per member per month. And you can see the total annual costs on the slide. So I hope this gives you a sense of the potential costs of adding a wellness platform.

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HEALTH POLICY RESEARCH DIVISION ACTING CHIEF FALZARANO: And so now I'd like to come talk a little bit about CalPERS as a role -- as the purchaser, which you asked us to do. And so our agenda item really did the analysis to look at the estimated costs and risk of implementing a wellness platform, from our perspective as a health benefits purchaser and not as an employer.

So as a purchaser, we can include the cost of health and wellness platform into our premiums. CalPERS has a long history of responsible efficient purchasing of health benefits in contracting with health plans in order to provide quality care for members and their beneficiaries. Part of CalPERS stated mission is to promote wellness for members and beneficiaries. However, wellness promotion does not necessarily require purchasing or administering additional wellness products.

Our participating employers have a different and perhaps more vital role as wellness implementers. Various CalPERS work site wellness pilots have shown us that employer and labor collaboration is essential for any health and wellness strategy to be successful. Employers are ideally positioned to implement wellness programs. And for them to engage in sustained employee participation, they are the ones that create and maintain the culture of wellness within their organization.

We expect employers will have different opportunities and restrictions on wellness programs that they offer to their employees. CalPERS plans on engaging with employers regarding the excise tax and wellness to educate them on IRS rules, and will provide information as it becomes available.

Ultimately, any health benefits, product, or services CalPERS considers purchasing should not -- should complement and not compete or distract from the CalPERS already purchased benefits, such as wellness benefits already provided by our health plans. So one of those wellness benefits that is already underway is a population health management initiative.

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HEALTH POLICY RESEARCH DIVISION ACTING CHIEF FALZARANO: So in 2013, CalPERS staff launched an initiative to standardize health plan approaches to population health management across the continuum of care for active and retired members. The concept of the population health management focuses on the health outcome of groups of individuals as opposed to the treatment of the individuals.

CalPERS staff produced a population health management model concept that emphasizes maintaining wellness, and preventing diseases. And the future objective is to align health and wellness benefits to encourage our members to live healthy lifestyles and to use their benefits wisely.

CalPERS staff will be presenting an update of this initiative at the December 2015 Pension and Health Benefits Committee, and at that time, we will provide additional details.

With that, we would like to present what staff sees as a path forward and asks the Committee to adopt staff's recommendation. At the direction of the Committee, staff is prepared to defer implementation of a wellness platform, refrain from adding health and wellness benefits that could potentially be subject to future excise taxes.

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HEALTH POLICY RESEARCH DIVISION ACTING CHIEF FALZARANO: We will continue to monitor federal rule-making and tax provisions, and then reassess the feasibility of implementing new wellness benefits. We will continue to communicate and educate our employers who obtain CalPERS health coverage for their employees to avoid independently embarking on wellness benefit implementation whose cost could be subject to the excise tax, review any wellness initiatives currently offered to ensure they are complying with the ACA regulations regardless the wellness non-discrimination. And we will utilize the population health management initiative, our health plan contracts and partnership with employers and stakeholder groups to communicate the availability of the existing wellness benefits and promote their utilization.

Therefore, staff recommends to defer further development of a statewide wellness platform due to risk associated with exceeding the excise tax threshold, and endorse the continuation of CalPERS population health management initiative.

That concludes my presentation and I'm happy to address any questions.

CHAIRPERSON MATHUR: Thank you. We do have a couple questions from the Committee.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah, I agree with staff's recommendation to defer development. But one of the things that you pointed out in the presentation, and it was also in the agenda item, bothers me, and that is having CalPERS advise employers to avoid offering wellness programs. I think it's more appropriate for us to advise employers the risk of doing so, and the potential costs, but that's very different than advising them not to do it.

DEPUTY EXECUTIVE OFFICER McKEEVER: Yeah, Mr. Jelincic, that's a point well taken. And in the agenda item itself, the term advise was not intended to provide advice, but to provide the communication on the potential impacts to them as employers. So duly noted. Thank you.

COMMITTEE MEMBER JELINCIC: And given that, I'll move staff's recommendation.

CHAIRPERSON MATHUR: Okay. Thank you.

VICE CHAIRPERSON BILBREY: Second.

COMMITTEE MEMBER JONES: I'll second it.

CHAIRPERSON MATHUR: Motion made by Jelincic, seconded by Bilbrey.

Mr. Jones.

COMMITTEE MEMBER JONES: Wow.

(Laughter.)

CHAIRPERSON MATHUR: Or Jones. I heard him first and then I heard you.

(Laughter.)

COMMITTEE MEMBER JELINCIC: He's closer. He sounds louder.

(Laughter.)

COMMITTEE MEMBER JONES: Is that right?

CHAIRPERSON MATHUR: Mr. Jones, on the motion.

COMMITTEE MEMBER JONES: Oh, no, I had a question.

COMMITTEE MEMBER JONES: You turned mine off.

COMMITTEE MEMBER JELINCIC: I turned mine off.

COMMITTEE MEMBER JONES: You turned mine off.

(Laughter.)

CHAIRPERSON MATHUR: Okay, gentlemen.

COMMITTEE MEMBER JONES: Okay. Thank you, Madam Chair. I only had a question about the UnitedHealthcare wellness program, the SilverSneakers, how is that -- does that impact this tax issue at all, because we just moved to that plan?

DEPUTY EXECUTIVE OFFICER McKEEVER: Yeah, Mr. Jones, that's a Medicare product, and Medicare is not impacted by the excise tax.

COMMITTEE MEMBER JONES: Thank you.

CHAIRPERSON MATHUR: Okay. I see no further requests to speak. So on the motion that's before you, all those in favor say aye?

(Ayes.)

CHAIRPERSON MATHUR: All those opposed?

Motion passes.

Thank you very much for your report. It is disappointing news, but we'll see if we can make progress on the Cadillac tax.

Agenda Item number 6, Federal Health Care Policy Representative Update.

DEPUTY EXECUTIVE OFFICER McKEEVER: Thank you, Madam Chair. Doug McKeever.

For this federal health care policy representative update I believe we have both Chris Jennings And Yvette Fontenot on the line to provide you with a verbal update via the phone.

CHAIRPERSON MATHUR: Welcome, Mr. Jennings?

MR. JENNINGS: Thank you so much. It's a pleasure to be here on phone again, and Yvette will join me -- is joining me and will be available for Q&A as you desire.

As Doug and Jan's report really indicate, there's many, many things moving on the health care front, and we don't have time to go through everything. But with your permission, I would like to focus on four primary issues pretty much in chronological and -- or immediate issue area context.

One is the very recently enacted bipartisan two-year budget deal and its implications with regard to CalPERS, and its members; the excise, or so called Cadillac tax, and an update on that federally; an update on prescription drug prices, responses, and positioning; and time allowing, we'd like to give you a quick overview of the health care issue as it relates to political positioning and policy of relevance to -- potential relevance to CalPERS.

And if you -- if it's getting a little bit too long, I will do this very, very quickly and efficiently, but please interrupt me along the way.

CHAIRPERSON MATHUR: That sounds good. Proceed.

MR. JENNINGS: So first, I'll start off with the bipartisan two-year budget deal. It was bipartisan. It was passed by broad majorities in the House and Senate and signed into law by President Obama earlier this month. A number of health care provisions of interest were included. Very quickly one was the Medicare hospital cuts extension, a new generic Medicaid drug rebate, a new policy related to site of care overpayments in physicians offices in hospital settings, something that CalPERS has been on top of.

And fourthly, a actual repeal of a Affordable Care Act provision dealing with large employers requirement to automatically enroll new full-time employees into one of the employer's health benefit plans.

I mentioned that one in particular, because of recent, sort of behind the scenes, there have been two notable bipartisan and passed and enacted provisions that amend and reform the Affordable Care Act. Something you don't hear much out of Washington. The other one dealt with small businesses, those between 50 and 100, and the rating reforms. And I mentioned it just so you can see that on occasion Congress can work on a bipartisan basis actually to amend the ACA without necessarily fundamentally undermining some of its pillars, and that is an interesting and new development.

But probably of most interest to CalPERS and some of its retirees in particular, there was a very important provision to substantially reduce what would have been a 52 percent increase in the part B premiums, as well as for almost all Medicare, but -- and that was for 30 percent of the beneficiaries in the program.

And in addition, there would have been another 52 percent increase for almost all Medicare beneficiaries for the deductible, all except those in Medicare Advantage plans.

As a result of this legislation, the reduction was held to just 16 percent, both for the premiums and for the deductible. So rather than a increase from 105 to a hundred and almost sixty dollars, the premium will be limited increase up to $122 roughly. And in terms of the deductible, rather than going from $147 to $223, it will be going up to $166.

This was good news and was embraced and supported by AARP, and we felt it was important to notify you of that particular policy and its impact.

Secondly, I'll go quickly to I think the hottest issue relative to CalPERS, which is the excise tax, which both Doug and Jan did reference in many, many different ways. Here is the most recent activities in this area. Both the business community and the labor community is substantially increasing their efforts to oppose the eventual implementation of this law in supporting its repeal. And certainly many of them raising it as a reason why cost sharing is increasing, as well as some of the other concerns raised by Jan and Doug. This -- to recall, this law does go -- does not go into full effect before 2018, but many employers seem to be already preparing for it and modifying their benefit packages accordingly.

Having said that, while there is broad, and I would suggest, bipartisan opposition to this provision and the ACA, economists across party lines still favor the policy or some version of it as a necessary external pressure to constrain health care cost increases.

Now I only mention that because you'll read about this in editorial pages, and by respected health economists throughout this policy debate, and it's important for you to know that. Having said that, broad polling, Republican, Democrat, Independents does suggest broad based opposition to the policy. There's broad and more public opposition from many key Democrats in the Congress with one very notable exception who happens to reside in the White House. Republicans oppose the policy generally not as a stand-alone repeal provision, but in the context of broader reforms, and in particular a comprehensive repeal of the Affordable Care Act.

And most recently, some have started targeting legislative vehicles to begin the process to repeal the law. There are not many legislative vehicles available, but one that is, is the so-called tax extenders policy, and that's something to be watching very, very closely.

Having said, the smart betting is that this law will not be repealed in the near term for the following three reasons:

First, if it was to be passed, it would almost inevitably be vetoed by the President, and there is likely insufficient support for an override. Secondly, most Republicans who wish to repeal it, wish to repeal it in the context of a broad array of policies repealing most of the rest of the law, which would then make it even more difficult for -- to get an override vote.

And then many members of Congress who support repeal believe that the loss of the $91 billion in revenue and savings should be paid for and not increase the deficit.

So for all those reasons, it will be a challenge in the short term. Still, there is a likelihood that the Cadillac tax will be delayed, reformed or repealed by 2017, and that is because of all the concerns, the indexing provisions, the geographical provisions. It feels -- at least from your federal representatives, it's very difficult to maintain the current law much beyond 2017 without at least some changes or delay and maybe repeal.

In the interim, your representatives and working with staff have been engaging on a three-pronged approach to this issue. First, as Jan and Doug indicated, we have been submitting comments about the implementation of the policy. And we've been very, very specific about structural concerns and operational concerns. There is relatively limited flexibility in the implementation of this law, but I think that the comments have been very specific and very substantive, and should have an impact, but probably not a sufficient impact.

Secondly, we are conducting analytical impact analysis for both internal and external uses. And your staff has done an excellent job in that regard, and we'll be working with them more in the weeks to come.

And finally, in preparation for your offsite, we are preparing not just that analysis, but also possible positioning options for the Board to consider during that meeting.

Now, thirdly, I'm going to shift to prescription drug pricing and responses, which is, I would say, an equally hot issue these days. First, is it is widely perceived now that prescription drug costs are driving overall premium increases, as it makes up a greater percent of overall health care expenditures. This has been affirmed by not only CalPERS data, but by the Medicare actuary.

There has been, however, very aggressive pharmaceutical manufacturing defense and attempt to shift the debate away from pricing to coverage restrictions and with a real push to lower cost sharing burdens on consumers, so that they don't feel those price increases so much. And that's something to follow very closely.

Purchasers though, including health plans, pharmacy benefit managers, businesses, labor, consumers are pushing back, both individually and collectively. And this has been happening for some time. But perhaps the most interesting developments is so too are the health care providers and physicians, in particular.

And interestingly today, this very day that you're meeting, the AMA just voted on a policy, an AMA endorsed policy, to rebuke pricing practices, but in particular to ban direct consumer marketing altogether, because they have concluded it inappropriately is driving prescription drug costs up.

That is a very significant development and something that is getting some attention here in Washington. And Republicans, as well as Democrats, are raising major concerns. For example, Senator Rubio has been very explicit about raising his concerns about pharmaceutical drug pricing practices. And Democrats, both Congressional and Presidential, are also raising major concerns and are embracing policy interventions.

Particularly focus is being targeted on specialty drug products and on pricing practices, as well as pharmacy relationships that are attempting to bypass drug management techniques, such as formularies, designed to moderate cost. This has gotten a lot of exposure in recent days.

And interestingly, while there is Republican discomfort with some regulatory approaches, such as reimportation of Medicare direct negotiation, there is definitely increasing bipartisan openness to finding ways to accelerating getting more prescription drugs into the marketplace to use as leverage against other drugs, so to increase competition.

And again, this very day, Chairman Alexander during the confirmation process of the FDA Commissioner explicitly asked him to expedite the generic drug approval process as a specific example.

And as Doug mentioned at the very beginning of his presentation, CalPERS has been very, very aggressive at advocating for other policies, both at the CMS Medicare level, as well as at FDA to promote the use of biosimilar and other generic competitors to help lower overall drug costs.

Now with that, I could continue on with my last presentation -- my last item, which is sort of the overall health care environment and political positioning, but I'm afraid -- I've been talking so long, I want to make sure that I've still captured your attention.

CHAIRPERSON MATHUR: Thank you very much. You know, we do have a question, so maybe we'll take a quick pause for a question and then we'll continue on.

MR. JENNINGS: Sure.

CHAIRPERSON MATHUR: All right. Thanks. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: On page three you talked about the Medicare rebate. Can you expand on that a little bit, and then this by --

MR. JENNINGS: Absolutely. That was an offset for -- to help pay for some of the costs of the bipartisan budget deal. That was a -- in the Medicaid program, there is a explicit -- there is -- there is an explicit increase in the generic Medicaid drug rebate that is linked to ensuring that generic drug prices do not increase over the general inflation rate.

So in the past, it's never been a problem to see generic drugs stay under inflation rate. There were so many competitors out there, that there was no need to have an indexing provision, such as the one that was proposed in this budget. But in recent years, we have seen example after example of generic drugs increasing well over the general inflation rate, particularly when there is insufficient competition for those generic drug products.

So to ensure that that did not impact on Medicaid expenditures, this -- there was a cap placed in the Medicaid law of generic drug prices not increasing over the consumer price index.

COMMITTEE MEMBER JELINCIC: And one other question. I think you touched on reimportation, I assume that means the ability to buy drugs from Canada and elsewhere?

MR. JENNINGS: Correct.

COMMITTEE MEMBER JELINCIC: Any progress on that? This became a little personal.

MR. JENNINGS: Well, on that front, the -- I would say in short, no. In fact, today, the FDA Commissioner designee going through his confirmation process was explicitly asked that question, and he said that he would oppose that, primarily because he's concerned about the inability of FDA to ensure that the products being imported meet the quality standards that FDA would be required to supervise over.

This has been a debate within the FDA agency for years and years and years. I would tell you that in many ways the policy that raises -- it raises an important point, the reimportation policy, which is we are paying the highest prices in the world, and we are, in effect, subsidizing them for the rest of the world. And if we can't find a way to constrain those drug prices, we should look elsewhere. But it also sort of inadvertently gives us an impression that we're incapable of doing it ourselves.

And so there is a difference of opinion in the Congress. I think largely you would find not insufficient -- you would fine insufficient support in the Congress for that policy as we speak.

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON MATHUR: Okay. So why don't you take just a couple more minutes to give some of the broader context around what's happening around health care.

MR. JENNINGS: Absolutely. I'd be happy to.

I think the reason why we just wanted to say this is that obviously we are in a period where we're engaged in and a race for the next President of the United States. And although health care has been secondary to both economy and foreign policy, most definitely, this issue continues to get raised over and over again, in particular to repeal the Affordable Care Act.

But what's been maybe worthy of reporting is that while the House has successfully voted to repeal this law many, many times, the Senate has not and they are working, as we speak, to utilize what are called reconciliation instruction protections to attempt to repeal all or most of the law. They are having problems in doing that, but the -- but what I wanted to raise it is embedded in this policy is a repeal of the device tax and the Cadillac tax, as well as, it was confirmed today, a elimination of funding for Planned Parenthood and a number of other provisions.

This policy is therefore -- it is possible that we could see action after Thanksgiving where the Senate could pass something. It may or may not succeed in doing that or going through conference and going to the President, and then the President would inevitably veto and it couldn't be overridden. But I think it's important to mention to you that that is an environment, both because of the Presidential raise and congressional actions that you may see more and more coverage. And because of your interest in the Cadillac tax, it might be interesting to see what people are debating and how they're taking about that policy.

I would also say that you're seeing both candidates on both sides looking at different policies. On the Republican side, it's generally focused around State bases approaches to health reform and tax credits with a cap linked to an individual account approach or some combination thereof.

Democrats are generally supporting the ACA, though Senator Sanders is promoting a single payer approach that interestingly Secretary Clinton is raising questions about the policy and political viability of. And all of which is to say that health care will continue to be a political football throughout the campaign and beyond.

And the last development I just wanted to mention, because of CalPERS' interest is, again today -- it's a very busy day today -- the California based SCAN

Foundation released a very, very detailed report in conjunction with AARP, LeadingAge, Urban Institute and Milliman that unveiled a new long-term care modeling tool that can be used for scoring alternative approaches to dealing with the long-term care issues, as well as a treasure trove of statistics about the likelihood of older Americans requiring assistance.

And embedded in this report is data that shows that over half of older Americans turning 65 this year will eventually require high level of long-term care assistance, and 15 percent of them will incur lifetime expenses in excess of a quarter of a million dollars. And because of CalPERS interest in long-term care I thought I'd mention it.

With that, I'll conclude our report and Yvette and I would be happy to take any other questions.

CHAIRPERSON MATHUR: Thank you very much, Mr. Jennings.

Any questions from the Committee?

I see none. I think you gave a very thorough report, so we're going move to. Take care.

MR. JENNINGS: Thank you very much.

CHAIRPERSON MATHUR: So we'll move on to Agenda Item number 7, Federal Retirement Policy Representative Update.

DEPUTY EXECUTIVE OFFICER McKEEVER: Thank you, Madam Chair. And on the phone, we should have for that both Tom and Tony. So Tom and Tony, do you want to take it away please?

MR. LUSSIER: Absolutely. This is Tom and going afternoon. I'm going to start and Tony is going to follow. There are three issues that I'd like to touch on briefly with you today that relate fairly specifically to the preservation of public employee retirement benefits. And then Tony is going to talk a little bit about a couple of other current issues as they relate to the larger retirement security discussion.

So first, as you know, the issue of mandatory Social Security for State and local government employees surfaces from time to time in a variety of ways. Most recently, the issue has been raised by the Brookings Institution. It's been raised in a research paper that argues the merits of mandatory coverage, and in policy forum which was intended to advocate for that report.

Because of this activity and because our goal is to always keep this issue off the table from Congress as best we can, we have been in touch with relevant congressional staff and allies on this issue to assess whether there are risks associated with this new advocacy effort, and what would be the most appropriate way to respond to the issues that Brookings has raised.

As you know, CalPERS is a founding member of a national coalition called the Coalition to Preserve Retirement Security, which is a coalition of public plans like yourselves, but also retiree groups, and employee groups, and public employer groups that is specifically committed to fighting this issue.

It's our understanding that the coalition will be very shortly responding in a very specific way to the Brookings paper in a way that will establish a record as to the weaknesses of the report and the strengths of the argument that we've always made that mandatory coverage is an inappropriate public policy discussion.

What that response is final, obviously, we'll make sure that copies are provided to the appropriate CalPERS staff. But we also are individually going to specifically continue to monitor the issue, and we'll alert your staff and Board should any specific CalPERS action be necessary.

Second, I wanted to touch on a slightly related issue, which is the ongoing effort to advance HR 711, which is the legislation which would repeal the Windfall Elimination Provision of the Social Security act, and replace it with a new formula that more fairly reflects a public employee's actual Social Security earnings.

Perhaps the most significant event that's occurred since we've discussed this issue is the election of Congressman Kevin Brady of Chairman of the House Committee on Ways and Means.

As many of you will remember, we've been working with Mr. Brady on this issue for several years. And Mr. Brady is a prime sponsor of HR 711. So we're optimistic that his new leadership role in the Ways and Means Committee will perfectly position him to move this legislation forward when he deems it most appropriate.

In an effort to perhaps help create that opportunity, perhaps even before the end of this year, we're currently working with a broad range of interested groups, retirement systems that have endorsed HR 711 like you have, retiree groups from several of the largest most affected states, and several employee organizations -- national employee organizations to develop a group letter, which will go to members of Congress in all of the affected states that have yet to co-sponsor the legislation with an effort to build some momentum.

We're still waiting for responses from several organizations, but we expect that effort to go forward within the next few days, either the end of this week or earlier next. We're doing that obviously in close collaboration with Mr. Brady and his staff.

Finally, the two issues I've touched on are very specific, very narrow Social Security issues, but we have been thinking about, and we do believe that it's appropriate, to start doing background work for CalPERS to start thinking about how you might ultimately want to engage in a broader Social Security discussion when that ultimately occurs. And instinctively, obviously there would be a lot of political noise about it from now through the election. But instinctively we do believe that particularly, perhaps with the election of Paul Ryan as Speaker, that there could very well be an opportunity for meaningful Social Security discussion in the new Congress.

And so we've had some very preliminary conversations with your staff, and expect to start providing background information over the course of the next few months so that we will be able to lay the groundwork for you to think about and to consider what engagement alternatives you might wish to advance when and if that discussion becomes real, which we again believe it will in the not too distant future.

With that, I think Tony is going to pick up and address a couple of the larger retirement security discussion topics.

MR. RODA: Yes, I will. Thank you, Tom. And good afternoon, everybody.

CHAIRPERSON MATHUR: Good afternoon.

MR. RODA: This is Tony Roda with Williams & Jensen. And I will add to -- you know, Tom really talked about both defending and promoting retirement and defined benefit plans, Social Security being a primary defined benefit plan in our country.

Also on that front, we have not seen any major tax reform or pension legislation thus far in this session of Congress. That could be problematic inasmuch as attracting some of the items that we've worked against over the years and becoming part of a larger bill.

For instance, the legislation introduced by Congressmen Nunes for three successive Congresses on public pension plan transparency. A misnomer clearly, but that legislation was going to ask CalPERS and other State and local funds to do was to recalculate their funded status based on a very low bond yield, and exploding any unfunded liabilities.

So that legislation we have not seen it. We introduced and we've not seen the larger bill that could carry it. And likewise, Senator Hatch's legislation on the annuity accumulation plan, which is also problematic, and being positioned as a replacement to state and local DB plans, we have not seen that reintroduced.

But, of course, Senator Hatch being the Chairman of the Senate Finance Committee, you know, it remains a real issue out there for us, and we have to be vigilant.

I'm going to shift from kind of a defensive posture to talk a little bit about one of CalPERS priorities, which is advancing retirement savings, and retirement security.

And there are two, you know, major areas that you have talked about, and that we have talked about with your staff. And you've been involved in the first quite demonstrably and that's the fiduciary rule that the Department of Labor has promulgated, and is still accepting -- although, the formal comment period is closed, they're certainly still accepting comments. CalPERS did comment early in support. Somewhat of a broad scope comment letter that was submitted on CalPERS behalf.

The fiduciary rule remains a real partisan hot spot, but there are also a number of Democrats who have, you know, raised concerns about its breadth and it's scope, and what it means for the industry.

So DOL is reworking it. They're looking at it. Congress remains -- the House Republican Congress in particular has passed legislation saying that DOL should not proceed or cannot proceed, unless SEC acts first. There are lots of discussions as to whether in an appropriations bill in the end-of-year omnibus whether a rider could be attached to withhold funds from DOL for any further work on the fiduciary rule. We have not seen that in any tangible way yet, but there's still discussion of it.

So you've been involved in that issue. We continue to monitor it. I don't believe certainly with President Obama that any of this legislation would be signed, but it continues to be a real touch down for partisanship.

The other development just yesterday on State based retirement plans for private sector workers. So this is not your public employees, but it's the Secure Choice like plans that California has embarked on. And yesterday, meeting what they said they would do, DOL said they were going to put out a proposed rule before the end of the year. They did that yesterday. It creates a safe harbor for payroll deduction IRA plans. It essentially says that if structured in this certain way with a lot of bells and whistles attached to it, that such a plan would not be an ERISA plan and would not be preempted by ERISA.

So I know that's an important issue for California moving forward. And the comment period will extend for some 60 days. I recommend -- I will get that to staff, and we'll have some discussions about that. I don't know if it's something CalPERS would want to weigh in. But in the -- under the umbrella of advancing retirement security, it's certainly a major development.

I will say it's a development that is not going without notice. And at the House Ways and Means Committee during the hearing on the fiduciary rule, oversight subcommittee chairman Pete Roskam from Illinois had lots to say about Secure Choice type plans and DOL's efforts in this regard. And I think he probably will hold another hearing on it. Illinois is moving down this path as well. Congressman Roskam did have some concerns about it.

The third point on your priority list is the implementation of the section 414(d), the definition of governmental plan. I know you're going to hear about that later with regard to the subset issue of charter schools, so I'm not really going to go into that, except to say that that's of course fundamentally important to State and local plans that you're able to meet this definition in all ways. And we do not expect a proposed rule to be out in this calendar year, but it's something that we're watching very closely.

So with that, I will turn it over to you, Priya, and Board members for any questions.

CHAIRPERSON MATHUR: Thank you, Mr. Lussier and Mr. Roda for your comments. We do have a couple of questions from the Committee.

Mr. Boyken.

ACTING COMMITTEE MEMBER BOYKEN: Thank you. Thank you, Tony for the update on the State retirement initiatives and the Department of Labor's rule-making. We've been tracking that closely those of us who work at the Treasurer's Office with the Secure Choice Program. But we view the proposed rules and the second safe harbor that would allow State plans to operate outside of ERISA is very positive news. And, you know, I think now the effort will be working with other states to make sure that the proposed rules, you know, stay on track and allow the states to experiment with these plans.

And so we'll be working at the Treasure's Office and with the Secure Choice board, some of whom who are on the dais today, to make sure that we coordinate with other states. But I think based on our retirement beliefs here at CalPERS, I would think it would be great if CalPERS could weigh in and support.

Thanks.

CHAIRPERSON MATHUR: Thank you.

MR. RODA: Very good. Thank you.

CHAIRPERSON MATHUR: Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Hi, Tony. Thank you very much for your report. There's a lot of stuff in here.

I was also going to chime in with Mr. Boyken about Secure Choice, but I heard you say that one of the congressman had concerns about the Department of Labor's ruling on Secure Choice type plans. What's the concern? I mean, is it -- go

MR. RODA: Go ahead.

COMMITTEE MEMBER TAYLOR: I was going to say is it looking like they're going to turn it into overturning it through legislation like they did the Department of Labor stance on the -- I'm eyeing to think of what that was real quick.

MR. RODA: The fiduciary rule.

COMMITTEE MEMBER TAYLOR: The fiduciary duty, yeah.

MR. RODA: It's unclear that they'll go to that extent. They may work to have an oversight hearing try to shape the rule, comment on the rule. Certainly, Congressman Roskam coming from Illinois I believe has -- is playing a large role in his concern. And he kept repeatedly saying, well, I look at the Illinois public pension plan, and if the private sector plans under Secure Choice are being run in the same manner, it is not a secure retirement option. So I do think his home State of Illinois is -- is kind of the impetus for his concerns right now.

COMMITTEE MEMBER TAYLOR: Right. Okay. And then my other question was around the Department of Labor stance on the SEC ruling where they over -- well they made their own law that basically said that the SEC has to rule first on the fiduciary duty thing. And what I'm trying to figure out is that went through the House, did it go through the Senate?

MR. RODA: No, it did not. And it's unlikely too. It's unlikely too, given the numbers in the Senate, and the way the issue will shake out there, but it's -- they're staking out a very tough position in the House on the fiduciary rule.

COMMITTEE MEMBER TAYLOR: Right. It's based on their idea that that shouldn't be taken down to that level, right, which is the --

MR. RODA: Correct. They do. The rule itself is very complicated, and I don't think anyone, pro or con, would argue with that. And, you know, many of the members, and even some Democrats have been saying, you know, this really should be slowed down to the point where everybody understands it's simplified. And I think even Tom has had some discussions or been privy to some discussions with some leading Democrats in the Ways and Means Committee where, you know, basically the message is we have to get this right. This is a big deal. And that's all correct.

COMMITTEE MEMBER TAYLOR: I get that. And maybe I don't understand the Department of Labor's expansion of ERISA. Maybe that's what I'm not getting. It seemed like it was pretty broad on one hand, but on the other hand, it sounded like when I read the articles around it, they were talking about that it would -- that they -- they were able to -- Congress would be able to implement it, that they would be responsible for implementing it, so that they could fix those rules, but it sounds like they don't even want to touch that.

MR. RODA: Well, there have been pieces of legislation introduce to kind of go in a different direction than the Department of Labor has. A bill that was just introduced would create a best interest of the client standard. So there are other approaches to this.

That's my phone and I apologize for that.

COMMITTEE MEMBER TAYLOR: Those okay. All right. Thank you.

CHAIRPERSON MATHUR: Well, thank you both very much. I see no further requests to speak, toe thanks for being with us today.

MR. RODA: Thank you.

MR. LUSSIER That you.

CHAIRPERSON MATHUR: Anne, did you want to say --
Oh, I'm sorry, DID we lose them already?

MR. RODA: No.

MR. LUSSIER: No.

CHAIRPERSON MATHUR: They're still there.
Go ahead, Anne

CHIEF EXECUTIVE OFFICER STAUSBOLL: Hi Tom and Tony. It's Anne Stausboll. I just wanted to follow up on the Treasurer's office request. We'd be -- I think we'd be happy to weigh in on the rule about the proposed reg about the non-government retirement plans. I don't think we have the four, so I just want to make sure that's the direction of the Committee.

CHAIRPERSON MATHUR: Thank you for asking for the clarification. I think that would be -- that's consistent with our Pension Beliefs.

CHIEF EXECUTIVE OFFICER STAUSBOLL: Definitely.

CHAIRPERSON MATHUR: And I think that would be the direction of the Committee. I see nodding heads.

MR. RODA: Very good.

CHAIRPERSON MATHUR: Okay. Well that concludes this item, we'll move on to agenda item number 8, customer service and support performance update. Ms. Lum -- Mr. Suine.

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

Agenda Item 8 is our quarterly customer service and support update. And today, I'm joined with Anthony Suine. We have a few items of interest that we'd like to discuss with you today.

And so first, I will be covering the customer services and support first quarter performance, which I am pleased to say continues to be very high. And then following my presentation, I'll turn it over to Mr. Suine who will also talk about our strategic measures 10 and 11.

So let's just begin by touching on our first quarter performance. During the first quarter, we met or exceeded all of our performance targets in the vast majority of our core service areas. And we continue to keep in focus all of our efforts to enhance customer service and our customer experience.

We did, however, have one area that did not meet our service levels, and I'd like to just share some perspectives with you on that area. And it was centered around our call center and our call center wait times. At the beginning of the quarter in July, we were at service levels, meeting our service levels. However, in August, we began to experience an increase in the call volumes, and that was primarily due to the information that was sent out regarding the Medicare health plan options for 2016 as well as the health plan statements.

And the increased call volume continued through mid-October as we were proceeding through open enrollment. Now, that's not unusual for us. And, in fact, every time this time of the year when we're going through open enrollment, we do have contingency plans in place, and we have to execute upon them.

But unknowingly, the call volumes this year were extraordinarily higher and they were the highest set of call volumes that we had during this period of time.

We believe again that that was attributed to the amount of time that our staff had to also spend with explaining some of the different complexity centered around the Medicare changes. And so when you increase the call handle time, you increase the call wait time.

That being said, in September, again it was our busiest month. We had over 97,000 calls offered into the contact center. And again, it did increase the call wait time.

As far as the open enrollment itself, we did see a 13 percent overall increase above last year in terms of the call volumes. But as always, the contract center staff pulled together, executed upon their contingency plan. We brought in all available resources that had experience and knowledge in the areas that are typically calls that we receive in the contact center. And we were able to get through open enrollment. I am pleased to say that once we got through the open enrollment period by the end of October, we were back at reaching our normal -- our service level performance. And so that was the exception reporting that I wanted to share with you for our first quarter performance.

Now, switching gears a little, I want to also tee up a discussion on our strategic measures. In December, we will be bringing back to this Committee, a more robust discussion as planned related to the strategic measures. Our two strategic measures are related to benefit payments, the timeliness of benefit payments and customer satisfaction.

And we believe that these are very important components when we're assessing the overall performance of our services to our members and employers.

Measure 10 and 11, metrics again, are significant to our members. And so I'm going to go ahead and turn this over to Mr. Suine and he's going to share some additional information, some changes that we're making to our measures and some proposals that you'll see come before you in December.

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

Attachment 1 in the agenda item outlines strategic measures 10 and 11 that focus on our performance in paying benefits timely, and how satisfied our customers are with our business processes. Strategic measure 10 identifies our four benefit payments and the targets we have set for each. These targets are revised from the last time I presented, based on feedback we heard from you, based on further analysis of the industry standards, and also based on feedback from our customer surveys that we've been reviewing.

What we heard from you last time we have incorporated by eliminating the dependency receiving additional documentation from our customers, and are measuring instead from the benefit date or the point of notification date in the case of death benefits.

We have chosen a time frame of 45 days for retirement and survivor benefit payments based on industry standards, which are focused on ensuring that our customers have no interruption of ongoing benefit payments between the time from their active to their retirement or survivor payments.

We've also based our time frames based on the feedback received from our customer's surveys. Our satisfaction surveys have indicated that the timeliness of their payments for our customers are highly acceptable.

We've set our targets at 98 percent to account for minimal constraints and to provide stretch targets for us to achieve based on our resources. We believe our current resources allow us to continually achieve between a 90 to 98 percent success rate, accounting for fluctuations in our staffing levels and increased volumes throughout the year.

Through technology and process improvements, we can more consistently stay in the high ninety percentile and increase our ability to meet our stretch goal of 98 percent. We are also proposing a 90 percent threshold to report to the Board when any of our benefit payment strategic I measures drop below that threshold.

Overall, we feel we've taken an aggressive approach to paying our benefits in a timely manner, that are acceptable to our customers, and also hold ourselves accountable when we do not meet those expectations set forth.

Moving to strategic measures 11, this identifies our customer satisfaction based on our universe of surveys. While we distribute dozens of surveys to our customers, we've decided to roll their scores up under fore major categories.

The first one being benefit payments, which mimics the satisfaction with those strategic benefit payment measures. Service delivery, which measures satisfaction on all our other member business processes that are not strictly devoted to paying benefits.

Employer interaction satisfaction, which measures the processes and functionalities we have for our business partners. And then lastly, member self-service, which member -- which measures our member satisfaction with our online tools.

As our inventory of surveys continue to grow we'll roll those surveys up under one of those four major categories. And those will be factored in the aggregate score.

We have set our target satisfaction at 95 percent, which is high above any industry standard. But based on our historical results on these surveys, we felt setting it any lower would not be striving for optimal performance.

We're also proposing to report to the Board when any individual survey within any of those four categories falls below 85 percent. This will allow transparency into an individual business process that may need improvement, even though our overall aggregate score still exceeds 85 percent.

Hopefully, this preview of our strategic measures will lead to a more focused discussion at the December committee meeting when we present these strategic measures more formally.

I'm going to turn it back over to Donna and to discussion the next steps.

DEPUTY EXECUTIVE OFFICER LUM: Thank you, Anthony. So as you've heard in Anthony's presentation, we've established the targets of each of these individual metrics that make up measures -- strategic measures 10 and 11. In December, we're looking forward to bringing back to you the strategic measures for final validation of our targets and threshold, we anticipate with the information that we provide to you, any other information that you may request of us, that we're hopeful that at the meeting we can have a good robust discussion around the targets and thresholds and validate them, so that we can continue to move forward and report.

At this time, we're also going to provide some information on the measures via trend graphs. We did hear feedback from this Committee previously that not only do you want to see one data point and how we're performing within a quarter, but you would like to see quarter over quarter and year over year as back -- as we have information.

And again, a lot of the data collection that we're doing is relatively new in some areas. So some specific measures will have more information than others. And then we'll also further discuss our exception reporting process to ensure that it's clear what we would call out if there are any particular processing areas that are not meeting performance.

We feel that we've set these targets and thresholds for the two measures at the appropriate level that will give you insight into the overall processing of these key measures, and feel that they are very relevant to our strategic plan, our objectives, and the overall goals and the vision of CalPERS.

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

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

Mr. Slaton.

BOARD MEMBER SLATON: Thank you, Madam Chair. This is good work and you know I'm the metric person, so I like what I see. I didn't quite understand though on the benefit payment side. On the customer satisfaction side you had a -- you had a floor target of 85 percent, that if -- which I love, because you govern by exception rather than have to review everything at the level of the Board.

But I didn't see one on the benefit payment side. Is there a minimum target on that side as well?

BENEFIT SERVICES DIVISION CHIEF SUINE: Yes, I briefly mentioned that anything that falls below 90 percent, we would report on.

BOARD MEMBER SLATON: On that side.

Okay. And then the 85 on the other side?

BENEFIT SERVICES DIVISION CHIEF SUINE: Yes.

BOARD MEMBER SLATON: So we're trying to create a situation where our target -- our overall target might be one number, but we want to make sure no individual area falls below. On the customer satisfaction side, so when you say you got 90 percent, tell me what that means? Does that mean in the survey people said in a one to five rating, they either gave us a four or a five or how does that work?

BENEFIT SERVICES DIVISION CHIEF SUINE: Yeah. We have a four scale rating system, so it's very dissatisfied, dissatisfied, satisfied, or very satisfied.

BOARD MEMBER SLATON: Or thrilled.

(Laughter.)

BENEFIT SERVICES DIVISION CHIEF SUINE: Yeah. So some of the surveys vary a bit with that rating system. We do have some call center ones that are a little more historical where there was a neutral I believe in there as well. But for our process surveys, we tried to steer away from the neutral. We want them to tell us really how they're feeling. So that would be they're satisfied or very satisfied in those ratings.

BOARD MEMBER SLATON: Okay. Very good.

DEPUTY EXECUTIVE OFFICER LUM: I would also add as we have developed the surveys, we developed a lot of questions that are related to what we call our touchpoints. And so not only are we asking our members did you receive your benefit payment timely, but we are asking was the communication clear, were the materials clear to you, how was the service that you received by any agents or individuals that you had contact with CalPERS? So we're trying to measure the end-to-end process not just the final payment -- or the final outcome.

BOARD MEMBER SLATON: So that means that in the service -- are you talking about in the benefit payment side or are you talking about the customer satisfaction?

DEPUTY EXECUTIVE OFFICER LUM: In the customer satisfaction side.

BOARD MEMBER SLATON: Okay. So there's more questions that go into each of these. It's not a single question.

DEPUTY EXECUTIVE OFFICER LUM: That's correct.

BOARD MEMBER SLATON: Okay. Very good. Thank you.

CHAIRPERSON MATHUR: Thank you.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: On the call center, I want to acknowledge and tell you I appreciate the fact that you offered an explanation as to why you had fallen short. And you didn't fall so short that I got lots of phone calls. So that's my own personal satisfaction rating.

On the strategic measures, one of the things you've done is you've set weights. How did you come to those weights, and you know --

BENEFIT SERVICES DIVISION CHIEF SUINE: So we use a -- we have several criteria to set those weights. For example, the volumes, the risk of not making those payments or having success in that particular area, how many members it's affecting. So that's how we weighted it. Those more critical items are weighted a bit heavier.

I will point out that if adjusting the weights in any fashion really does not skew the aggregate score much at all. In fact, our lower benefits are -- our lower percentages are weighted lower. So if we actually raised those, our aggregate score would increase in these areas. So we feel we've weighted them fairly, but we're happy to get any feedback from you as well, if you feel they should be different.

COMMITTEE MEMBER JELINCIC: You know, I look at them and I -- you know, I see 30, 25, 25, 20 in both cases, and I really have no basis to say that makes sense, that doesn't make sense. What I was trying to get was some sort of sense on, well, why did we pick those?

BENEFIT SERVICES DIVISION CHIEF SUINE: So next month, too, we'll be able to provide you -- we'll be able to provide you the components of how we weighted them, the criteria.

COMMITTEE MEMBER JELINCIC: Okay. And part of what I'm looking for is not just how you weighted them, but why you weighted them.

DEPUTY EXECUTIVE OFFICER LUM: Um-hmm.

BENEFIT SERVICES DIVISION CHIEF SUINE: Yep.

COMMITTEE MEMBER JELINCIC: Okay. Thank you.

CHAIRPERSON MATHUR: Thank you.

Well, that concludes questions on this item. Thank you very much for your presentation. Looking forward to next month's item on the strategic measures.

We'll move on to Agenda Item number 9, Implementation of the Interim Relief for Charter Schools issues, issued by the IRS and Treasury Department.

DEPUTY EXECUTIVE OFFICER LUM: It's a mouthful.

CHAIRPERSON MATHUR: It is.

DEPUTY EXECUTIVE OFFICER LUM: Hello again. Donna Lum, CalPERS staff. And joining me today is Renee Ostrander, CalPERS staff. Agenda Item number 9 is an information item. And we're bringing this item forward to you today to update you on the latest progress on charter schools and their participation in CalPERS.

As you're aware, the IRS and the Treasury Department released the Advance Notice of Proposed Rulemaking in late 2011, and it provided a comprehensive set of facts and circumstances to test for determining eligibility of an entity participating -- or that wish to participate in a governmental plan.

Response to that notice, especially from charter school community was quite extensive. And the main concern raised by the charter schools was that the notice didn't take into account the unique nature of charter schools. In early 2015, the IRS and the Treasury Department issued a notice to provide them interim relief -- to provide interim relief to the charter schools to participate in a governmental plan.

With me today again is Renee, and she is going to cover the details of the notice and the activities that we've undertaken to address the charter schools.

EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF OSTRANDER: Thank you, Donna. Good afternoon. Madam

Chair, members of the Committee. Renee Ostrander, CalPERS staff.

As outlined in the agenda item, notice 2015-07 the relief for certain participants in the 414(d) governmental plans provided five criteria qualifications to participate. And these criteria provided a means for these charter schools to participate, whereas in the previous notice that had been provided they didn't meet the qualifications most often.

In addition, Donna mentioned the ability for charter schools to immediately participate, but it also required that they did not have to meet those qualifications until the regulations were finalized.

With this new criteria in place, we worked with our stakeholders and our internal teams to incorporate those changes. So the first change that we made was that we developed a new questionnaire that's specific to charter schools, and our larger charter -- larger school community. This new questionnaire, which is Attachment 1 in your agenda item, is posted on our website for the school community to immediately access.

The second item was that we developed a certification form, included as Attachment A in your agenda item. Charter schools are required to sign the certification form before participation begins in our process. It allows the schools time to address any of the outstanding issues they have in meeting those five items before the finalization of the regulations. In the recent months, based on these changes that we've made and the work that we've had with our stakeholders, we've been able to successfully process or are in the final stages of processing about 30 charter schools, and so bringing them in, providing them the information that they need to begin reporting to us. We have another two dozen that are currently in the pipeline that we hope to process in the next 30 to 45 days.

So we'll continue obviously to watch this. I think, as you heard earlier, that they are hoping to releases those -- the final regulations shortly. And so we're continuing to watch those. We're continuing to work with our charter schools to ensure that they are working towards a full compliance to the final package once it's released.

And with that, that concludes my presentation, and I'd be happy to answer any questions that you have

CHAIRPERSON MATHUR: Thank you. Good news.

Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Madam Chair. Yes, it is good news. It's been a long time to get to this point. And you mentioned that 30 charter schools have been approved, and 24 were in the pipeline. So -- and I don't remember what that number was two years ago when this issue surfaced. So how many are beyond the 54 that you've identified that will not get in?

EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF OSTRANDER: So there are -- at this time, we do not have any that are not coming in. So all of the ones that we are working with, some of them don't yet meet all five criteria, and so we're working with them in meeting that five criteria. But by signing the certification form, they're allowed to participate now, and then work towards meeting that by the time they're finalized.

And, at this time, they're signing the certification form fully intending to meet those -- that final criteria.

COMMITTEE MEMBER JONES: Okay. Thank very much.

EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF OSTRANDER: You're welcome.

CHAIRPERSON MATHUR: Thank you.

I see no further requests to speak. I think you covered it all in your item.

EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF OSTRANDER: Okay. Thank you.

CHAIRPERSON MATHUR: Thanks.

So we'll now move on to Agenda Item number 10, which is a summary of Committee direction. And I think the only direction was really around the Secure Choice -- the State based retirement programs legislation and -- or sorry, DOL guidelines, right?

DEPUTY EXECUTIVE OFFICER McKEEVER: Proposed -- weighing in on the proposed rules withe the DOL.

CHAIRPERSON MATHUR: Thank you. Proposed rules by the Department of Labor. And, yeah, weighing in as part of our advocacy efforts around retirement security for all.

Okay. We will now move on to agenda item number 11. And we do have a member of the public who wishes to speak. Chris Little will you please come forward.

If you could take a seat over here on my left, and identify yourself and your affiliation for the record. And you will have three minutes in which to speak.

MR. LITTLE: Good afternoon, Madam Chair, members of the Committee. That's a long walk from the back there.

(Laughter.)

MR. LITTLE: Thank you very much for having me today. I really do appreciate it. I was here last month, and continue to be here today with a very similar request. Last month, I had brought up about the unsustainability of the rate increases for our employees at the local government level, and also requesting increased flexibility in the plan design.

I'm here today with a similar request along those same lines. We would like to see, and I'm wondering how to get that discussion agendized inclusion of, as I mentioned, increased flexibility and plan design, possibly including a high deductible health plan.

The increases have been significant for our employees. And just to give you some context here in the open enrollment, literature distributed by CalPERS by way of an example. The PERS Choice plan was reflected as increasing by 11.75 percent. The impact of our employees is actually closer to 74 percent. So you can see it has a significant increase.

And over the past approximately five years, we have seen the opt-out rate of our employees increase by roughly 50 percent. So the plan designs while they are rich, and many of our folks do appreciate those, are simply not tenable for many of our employees. So I'm wondering what the steps would be to get that discussion agendized.

Secondly, we would also like to see a discussion around the regionalization of those health rates so that we can have a better understanding of how those regions are indeed derived. Looking at the counties that are in those regions, we feel in Butte County that we are more closely related to and comparable to counties in the Sacramento area region. We feel like we're more comparable probably with Yolo County, possibly El Dorado County than with others in the Nor Cal group, such as Alpine, Modoc, and San Benito.

So those are the two requests before you today, along with clarification as to what it would take from us to get those discussions agendized for further consideration.

Thank you.

CHAIRPERSON MATHUR: Thank you, Mr. Little.

As you know, we have had conversations about the regional pricing from time to time. The last time we had, it was in the spring or last --

DEPUTY EXECUTIVE OFFICER McKEEVER: It was at the beginning of last year.

CHAIRPERSON MATHUR: Beginning of last year. And, of course, our regional rates are based not on the cost of living in those areas, but the cost of health care in those areas. And so that is unfortunately one of the challenging factors here.

We've also talked about increasing flexibility in our plan design, and have not proceeded with that. So both of those items have been before the Committee previously. Mr. McKeever, do we have any current plans to further discuss those?

DEPUTY EXECUTIVE OFFICER McKEEVER: Not at this time, Madam Chair, but I think -- and I don't know if this is going to help Chris out totally, but I have already made a commitment to come up to Butte County, I believe it's in January. There's a -- there was a request made for me to come up and speak to them on these particular issues, and I have planned and continue to plan on doing that. And so I'll work with Chris directly to find out what other areas of interest they have to ensure that I fulfill and meet whatever needs that they have when I go up there in January.

CHAIRPERSON MATHUR: Thank you. Thanks again for being with us.

MR. LITTLE: Thank you.

CHAIRPERSON MATHUR: Okay. So that brings us to the end of our open session. Are there any other members of the public who wish to speak?

Seeing none.

We are adjourned.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Pension & Health Benefits Committee open session meeting adjourned at 2:56 p.m.)

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

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

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 23rd day of November, 2015.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
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