

MEETING
STATE OF CALIFORNIA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
RISK AND AUDIT COMMITTEE
OPEN SESSION

ROBERT F. CARLSON AUDITORIUM
LINCOLN PLAZA NORTH
400 Q STREET
SACRAMENTO, CALIFORNIA

TUESDAY, NOVEMBER 17, 2015

10:25 A.M.

JAMES F. PETERS, CSR
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A P P E A R A N C E S

COMMITTEE MEMBERS:

Mr. Ron Lind, Chairperson

Mr. J.J. Jelincic, Vice Chairperson

Mr. Rob Feckner

Ms. Priya Mathur

Mr. Bill Slaton

Ms. Theresa Taylor

Ms. Betty Yee, represented by Alan Lofaso

BOARD MEMBERS:

Mr. John Chiang, represented by Ms. Christina Elliott

Mr. Richard Gillihan, represented by Ms. Katie Hagen

Ms. Dana Hollinger

Mr. Henry Jones, Vice President

STAFF:

Ms. Anne Stausboll, Chief Executive Officer

Ms. Cheryl Eason, Chief Financial Officer

Mr. Doug Hoffner, Deputy Executive Officer

Mr. Matthew Jacobs, General Counsel

Ms. Beliz Chappuie, Chief Auditor

Ms. Carrie Lewis, Committee Secretary

Ms. Kimberly Malm, Chief, Operations Support Services
Division

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

ALSO PRESENT:

Mr. Paul Angelo, Segal Consulting

Ms. Debbie Chan, Macias, Gini & O'Connell

Mr. David Driscoll, Buck Consultants

Mr. Rick Green, Macias, Gini & O'Connell

Mr. Bill Hallmark, Cheiron

Ms. Anne Harper, Cheiron

Ms. Tonya Manning, Buck Consultants

Mr. Bob McCrory, Cheiron

Mr. Aaron Shapiro, Buck Consultants

Mr. Matt Strom, Segal Consulting

Mr. Marek Tyszkiewicz, Buck Consultants

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1 P R O C E E D I N G S

2 CHAIRPERSON LIND: Good morning, everybody. I'm
3 going to call the meeting to order of the Risk and Audit
4 Committee. Please take the roll.

5 COMMITTEE SECRETARY LEWIS: Ron Lind?

6 CHAIRPERSON LIND: Here.

7 COMMITTEE SECRETARY LEWIS: J.J. Jelincic?

8 VICE CHAIRPERSON JELINCIC: Here.

9 COMMITTEE SECRETARY LEWIS: Rob Feckner?

10 COMMITTEE MEMBER FECKNER: Good morning.

11 COMMITTEE SECRETARY LEWIS: Priya Mathur?

12 COMMITTEE MEMBER MATHUR: Good morning.

13 COMMITTEE SECRETARY LEWIS: Bill Slaton?

14 COMMITTEE MEMBER SLATON: Here.

15 COMMITTEE SECRETARY LEWIS: Theresa Taylor?

16 COMMITTEE MEMBER TAYLOR: Here.

17 COMMITTEE SECRETARY LEWIS: Alan Lofaso for Betty
18 Yee?

19 ACTING COMMITTEE MEMBER LOFASO: Here.

20 CHAIRPERSON LIND: Thank you.

21 We're on to the Executive Report. Cheryl Eason.

22 CHIEF FINANCIAL OFFICER EASON: Good morning, Mr.
23 Chair and Committee members. Cheryl Eason, CalPERS staff.
24 This morning's agenda focuses on three key items, the
25 Request for Proposal for the selection of the independent

1 financial statement auditor for audit years 2017 to '21;
2 the finalist interviews for actuarial parallel valuation
3 and certification services; and the independent auditor's
4 reports for fiscal years 2014-15.

5 Staff asks the Board -- the Committee consider
6 that we move the action item 5c, the independent auditor's
7 report fiscal year 2014-15, to the -- to be the first
8 action item heard in the interests of time. And then that
9 would become 5c and then A and B in that order.

10 CHAIRPERSON LIND: Absent any objective that will
11 be the order -- any objection, that will be the order.
12 Thanks.

13 CHIEF FINANCIAL OFFICER EASON: Thank you.

14 And then we will -- we do have one information
15 agenda item, after the action items, the review of the
16 semiannual enterprise risk management plan update and
17 report, or as we know it as the dashboard.

18 For -- at the March 2016 Risk and Audit Committee
19 meeting, we have an agenda which includes the review of
20 the Risk and Audit Committee delegation, presentation of
21 the independent auditor's management letter for the fiscal
22 year ending June 30th, 2015, and the third-party valuation
23 and certification of the Judges' Retirement System,
24 Judges' Retirement System II, Legislators' Retirement
25 System and 1959 Survivor Benefit Program, as well as the

1 semiannual compliance plan update.

2 Mr. Chair, this concludes my report and I would
3 be happy to take any questions.

4 CHAIRPERSON LIND: I don't see any. Thank you
5 very much, Cheryl.

6 So we're on to action consent items. Is there a
7 motion to approve the minutes from September 16th?

8 COMMITTEE MEMBER SLATON: So Moved.

9 COMMITTEE MEMBER MATHUR: Second.

10 CHAIRPERSON LIND: Okay. I had a motion from
11 Feckner, I think and a second --

12 COMMITTEE MEMBER FECKNER: Not me.

13 COMMITTEE MEMBER MATHUR: Slaton.

14 CHAIRPERSON LIND: No. Okay. Slaton. Second by
15 Mathur.

16 All in favor?

17 COMMITTEE MEMBER JELINCIC: I've got --

18 CHAIRPERSON LIND: Oh, wait. I've got a -- I see
19 a name on my screen here, there must be a correction.

20 Mr. Jelincic.

21 VICE CHAIRPERSON JELINCIC: Yeah. In item 4, we
22 pointed out that I had asked that it be removed. I think
23 that we should add that it was then discussed, and just so
24 that it closes that loop.

25 CHAIRPERSON LIND: Okay. Everybody is okay with

1 that?

2 All right. Now, on the motion. All in favor say
3 aye?

4 (Ayes.)

5 CHAIRPERSON LIND: Any opposed?

6 That motion carries.

7 I have no requests to remove any consent items.

8 So we are not going to move to Item 5c, the
9 External Auditor's Report for Fiscal Year 2014-15.

10 (Thereupon an overhead presentation was
11 presented as follows.)

12 CHIEF AUDITOR CHAPPUIE: Good morning, Mr. Chair
13 and members of the Committee. Beliz Chappuie CalPERS
14 staff.

15 Agenda Item 5c is an action item. Staff is
16 requesting Risk and Audit Committee to approve independent
17 auditor's report on the basic financial statements for the
18 fiscal year ended June 30, 2015, and the auditor's report
19 on required communications.

20 CalPERS engages Macias, Gini & O'Connell, MGO, to
21 audit the financial statements that are prepared by
22 CalPERS management. Presenting with me today is Rick
23 Green, the engagement partner with MGO, as well as Debbie
24 Chan, the director from the same firm.

25 With that said, I'd like to turn it over to Rick

1 and Debbie to provide us the results of the financial
2 statement audit.

3 MR. GREEN: Thank you. I'd like to thank
4 everyone for the opportunity to present the results of our
5 work for June 30th, 2015.

6 My name is Richard Green. I'm the partner on the
7 engagement, and again Debbie Chan, the director to my
8 right.

9 --o0o--

10 MR. GREEN: I'd like to begin with talking about
11 the scope of work. We were engaged to perform an audit
12 again of CalPERS financial statements for the fiscal year
13 ending June 30th, 2015. Under that responsibility or
14 scope of work, we issue three documents. The first is the
15 independent auditor's report, which is contained in the
16 basic financial statements. The second is the report to
17 the Risk And Audit Committee. That's again a separate
18 document from the basic financial statement. And this
19 report has certain required communications -- or
20 communications required by the audit standards promulgated
21 by the AICPA. And then finally, the report on management
22 comments and recommendations. The third report on the
23 comments and recommendations will be presented to you in
24 March.

25 --o0o--

1 MR. GREEN: I'd like to always provide an
2 overview of management's responsibility versus the
3 independent auditor's whenever you perform an independent
4 audit. Management is responsible for the preparation of
5 the financial statements in accordance with the underlying
6 accounting standards. Management is also responsible for
7 designing, implementing, and monitoring a set of internal
8 controls over the financial reporting process that ensures
9 that the financial statements are free of material
10 misstatement.

11 Our responsibility on the other hand is to audit
12 those financial statements. It is to plan and perform the
13 audit to obtain reasonable audit assurance that those
14 financial statements are fairly stated in all material
15 respects. Now, during the course of our audit, we also
16 obtain an understanding of the internal control structure
17 solely for the purpose of planning our procedures to the
18 risk assessment process. Should we decide to test certain
19 internal controls, we'll do so. But at the end of the
20 day, we provide no assurance on those internal controls.

21 However, with that said, during the course of our
22 work, if we identify material weaknesses and/or
23 significant deficiencies within that internal control
24 structure, we are required by our audit standards to
25 report those to you as part of those charged with

1 governance.

2 Finally, our primary -- one of our primary
3 responsibilities is to express an opinion on the financial
4 statements based on the results of the underlying work or
5 audit procedures performed.

6 --o0o--

7 MR. GREEN: The audit process is in three -- is
8 three phases. There's the planning, execution, and
9 completion phase. We are currently at the end of the
10 completion phase where we report the results of our work.
11 One of the more critical parts of the audit process is the
12 performing the procedures to obtain audit evidence. When
13 we perform our procedures to obtain audit evidence, we're
14 looking at audit evidence that is sufficient and
15 appropriate in relation to the area of the financial
16 statements in which we're auditing. And what is also
17 important about the audit procedure process is really that
18 the audit procedures are a byproduct of a risk assessment
19 that we perform in the planning stage.

20 I'd like to now talk a little bit about the audit
21 or the risk assessment process. At the end of the day,
22 again, we are responsible for rendering an opinion on
23 whether the financial statements are free of material
24 misstatement. And in order to do so, we have designed our
25 audit procedures to obtain a low level of audit risk.

1 Audit risk is the risk that the audit process
2 fails to identify or detect a material error in the
3 financial statements. And in order to achieve a low level
4 of audit risk, you go through a mathematical equation
5 where you identify areas within the financial reporting
6 process that have high inherent risk. And you reduce that
7 risk, either through control -- internal control
8 procedures and/or tests of substantive procedures, which
9 is a reduction of your detection risk.

10 What I want to focus in -- or on right now is the
11 concept of identifying areas within the financial
12 statement reporting process that have high inherent risk,
13 because again that is -- those are the areas that could
14 ultimately lead to a risk of material misstatement in the
15 financial statements. And we design our procedures to
16 mitigate that risk.

17 And so when you look at a set of financial
18 statements in a financial environment, what you do is you
19 look for indicators again of that risk. And I have four
20 bullet points here that identify some of the key or
21 primary indicators. There are many more, but these are
22 the primary ones. And those include the size and volume
23 of items comprised in an account balance, the extent of
24 judgment or estimates that are involved in determining
25 account balances. We have quite a few of those here in

1 as alternative. And in parentheses what I did is I
2 described which of the risk indicators it met to meet this
3 qualification and threshold.

4 And then the next are benefit payments, the
5 health and long-term care liabilities, the actuarial
6 disclosures for pension and OPEB plans, and finally the
7 investment disclosures.

8 --o0o--

9 MR. GREEN: So the next slide just summarizes in
10 general how do we approach these areas from an audit
11 perspective. The traditional investments we're looking to
12 get comfortable with the management assertions of
13 ownership and valuations. So we perform confirmations
14 with third parties, and also third-party testing of
15 pricing. In the investment -- the alternative investment
16 area, specifically in real assets and private equity, we
17 look at independent appraisals predominantly in the real
18 estate area for the directly held.

19 And in the other areas of real assets and private
20 equity we look at the general partner's audited financial
21 statements. And then we get confirmations from the
22 investment managers and roll these numbers forward through
23 the cash activity to derive a fair value at year-end. So
24 we do a lot of testing in this area as well.

25 And then in the benefit payments area, we test

1 internal controls significantly to get comfortable in that
2 area. And then finally, in the last two areas, the health
3 and long-term care liabilities and net pension liability
4 and assets, we engage our actuaries. And in the case of
5 health and long-term care, we have a health care
6 specialist that reviews the health care and long-term
7 liabilities. And the actuary determines whether or not
8 the methodology for deriving these estimates are in
9 compliance with actuarial assumptions and also the
10 underlying accounting standards.

11 In the net pension liability area, there are some
12 significant areas in your footnotes that relate to PERF B
13 and PERF C, your cost sharing plan, as well as your single
14 employer plans, where the -- we have an actuary that will
15 come in and ensure that the actuarial calculations that
16 are included in these footnotes have been again performed
17 in accordance with the actuarial standards of practice, as
18 well as the accounting standards. They run parallel
19 valuations. They do a tremendous amount of work in this
20 area to get comfortable because of the significance of the
21 net pension liabilities in this case that are reported in
22 this area of the financial statements.

23 So that gives you a little -- an overview of some
24 of the more significant areas. Again, the other areas
25 that I did not speak to within the financial reporting

1 process are subject to the audit process, but they are
2 more of an analytical and lighter type of procedures that
3 we perform.

4 --o0o--

5 MR. GREEN: At the end of the day, as I spoke
6 about earlier, we performed our procedures and were able
7 to get the appropriate and sufficient audit evidence that
8 is necessary to ultimately issue an unmodified -- or
9 unmodified opinions. There are two opinion units within
10 the statement -- basic financial statements, which means
11 that it's a clean opinion.

12 And there were no material weaknesses in internal
13 controls, nor were there any significant deficiencies in
14 internal control. And finally, we had no disagreements
15 with management concerning accounting, financial
16 reporting, or audit matters.

17 So this audit this year, and this is the 9th year
18 in which we've performed this financial audit. This year
19 was the smoothest year that we have had with respect to
20 the quality of the work that we received, the quality of
21 the underlying audit evidence, the quality of the
22 financial reporting was very good. And as you know from
23 my report from last year, the material weaknesses and
24 significant deficiencies that we had noted in prior year
25 were addressed.

1 The internal control structure and the processes
2 surrounding the financial reporting have continued to
3 improve. And again, I want to congratulate Ms. Cheryl
4 Eason and Ms. Kristin Montgomery, as well as her staff.
5 They've done an outstanding job in this area.

6 So with that said, I would be happy to answer any
7 questions that you may have on the audit process.

8 CHAIRPERSON LIND: We have a couple.

9 Mr. Jelincic.

10 VICE CHAIRPERSON JELINCIC: In an earlier report
11 that we had, the quarterly status report, we reviewed the
12 observations from last time. And there's a number of them
13 that are still open. I assume we will hear about those
14 when we get the report later.

15 But one of them in particular I wanted to call
16 out, and that was the significant observation about the
17 discount rate.

18 MR. GREEN: Yes.

19 VICE CHAIRPERSON JELINCIC: And the report that
20 we received from management says we're going to just live
21 with it. And I've subsequently learned from you that
22 we're not going to just live with it, and can you comment
23 on that?

24 MR. GREEN: Yes. It relates to the fact that it
25 was done under the administrative expenses. And so it was

1 just not in conformity with the accounting standards. And
2 management did work with the actuarial group to address
3 that issue. And the correct discount rate, at least as
4 prescribed by the underlying accounting standards, has
5 been used in the measurement of those amounts within the
6 financial statements for this year, ending June 30th,
7 2015.

8 VICE CHAIRPERSON JELINCIC: Okay. And the other
9 observations are labeled as opened, as far as you're
10 concerned are still open?

11 MR. GREEN: No, I believe -- we're still working
12 through the process. Okay. What I will tell you for
13 sure, no material weaknesses, no significant deficiencies.
14 I believe most of the other comments -- general comments
15 will be resolved, with the exception of maybe some census
16 data testing on the active member side, not the employer
17 side. But we're still going through that process right
18 now.

19 VICE CHAIRPERSON JELINCIC: Okay. Thank you.

20 CHAIRPERSON LIND: Ms. Mathur.

21 COMMITTEE MEMBER MATHUR: Well, I don't have a
22 question, but I'm very pleased to hear your comments about
23 the quality of our staff. And I think we have seen a real
24 evolution in the enterprise and in the enterprise's
25 approach to finance and audits. And so I'm just -- I

1 myself am very pleased. I just wanted to add my two cents
2 around the quality of our staff and just how much progress
3 we've made. Because if you look a couple years ago, we
4 did have some not material weaknesses, but we did have
5 some -- I'm sorry. I'm drawing a blank on the phrasing.

6 MR. GREEN: There material and significant
7 deficiencies.

8 COMMITTEE MEMBER MATHUR: Were there material
9 weaknesses?

10 MR. GREEN: Yeah, there were material and
11 significant --

12 COMMITTEE MEMBER MATHUR: Yeah, a couple years.

13 MR. GREEN: Yes, it was two years ago.

14 COMMITTEE MEMBER MATHUR: And significant
15 deficiencies.

16 MR. GREEN: Yes, yes.

17 COMMITTEE MEMBER MATHUR: So it is really
18 heartening to see that kind of progress. So thanks very
19 much.

20 MR. GREEN: Can I make one more comment?

21 I also want to thank the folks in the Actuarial
22 Department. There has been a tremendous amount of work
23 that has been put on those folks, not with -- not only
24 because of the new standard on GASB 67, which was
25 implemented last year, but also with the employer

1 reporting under GASB 68. It is -- even though the GASB 68
2 is not part of this audit, we have been participating to
3 do audit work on that information for the employer's side,
4 and it is a tremendous undertaking that has just occurred
5 here. And so you know, Alan Milligan and his group, I
6 just want to acknowledge that, from my perspective, have
7 done a very good job.

8 CHAIRPERSON LIND: Thank you.

9 Mr. Jelincic.

10 VICE CHAIRPERSON JELINCIC: I will move to accept
11 the independent auditor's draft audit report on the basic
12 financial statements and the accompanying required
13 communications for the year-ended June 30th, 2015.

14 COMMITTEE MEMBER MATHUR: Second.

15 CHAIRPERSON LIND: That was a motion by Jelincic
16 and a second by Mathur.

17 Anything on the question?

18 All in favor say aye?

19 (Ayes.)

20 CHAIRPERSON LIND: Any opposed?

21 That motion carries. On behalf of the Committee,
22 I also want to thank, Rick, you and Betty for your
23 outstanding and thorough work once again. You mentioned
24 nine years you've been doing this?

25 MR. GREEN: Yeah. We have ONE more year on our

1 contract --

2 CHAIRPERSON LIND: You've finally passed the
3 probation period.

4 MR. GREEN: -- and it's been a great run.
5 Learned a lot.

6 CHAIRPERSON LIND: And thanks for all the kind
7 words about our staff.

8 MR. GREEN: They're we'll deserved.

9 CHAIRPERSON LIND: We know that. It was a real
10 love fest here this morning. So we appreciate it. And
11 it's -- this is good news. So thank you every very much.

12 MR. GREEN: Thank you.

13 CHAIRPERSON LIND: So that brings us back up to
14 5a agenda item. This is an RFP for the selection of
15 independent financial statement auditor for audit years
16 2017 to 2021.

17 CHIEF AUDITOR CHAPPUIE: Thank you. Beliz
18 Chappuie, CalPERS staff again.

19 Agenda Item 5a is an action item. Staff is
20 requesting Committee's approval to release a Request for
21 Proposal for the selection of independent financial
22 statement auditor for audit years 2017 through 2021.
23 Staff is also requesting Committee's approval and
24 recommendation to the Board to approve the proposed five
25 and a half year contract duration.

1 As background, Government Code section 2228
2 requires the CalPERS Board of Administration to annually
3 employ a Certified Public Accountant to audit the
4 financial statements of the system. The Board has
5 delegated to the Risk and Audit Committee the authority to
6 conduct the RFP process for selection of the Board's
7 independent auditor and to recommend the finalist to the
8 Board.

9 The term of the current Board's independent
10 financial statement auditor, Macias, Gini & O'Connell,
11 MGO, will expire with the conclusion of the fiscal year
12 2015-16 financial statement audit in June 2017.

13 The anticipated RFP release date is spring 2016,
14 and the contract start date is January 2017. The
15 recommended contract duration of five and a half years,
16 instead of the standard five year maximum, is similar to
17 the current MGO contract. The proposed six-month
18 extension allows the audit firms sufficient time to
19 complete the audit and the various audit activities needed
20 to conclude the audit engagement. The audit firm selected
21 will still only audit five years of activity.

22 The proposed RFP selection process is consistent
23 with the past process. First, proposals will be reviewed
24 to determine whether they satisfy the minimum
25 qualification requirements. The proposals that satisfy

1 the minimum qualifications will be reviewed by a team of
2 CalPERS staff for technical proposal evaluation.

3 Staff may receive guidance and oversight from up
4 to two members of the Risk and Audit Committee. The
5 proposers that pass the technical proposal evaluation will
6 have their fee proposals opened and can score up to 300
7 points. The Risk and Audit Committee will recommend the
8 finalists to the Board, conduct the interviews, and
9 determine a score for each finalist with a maximum 700
10 points.

11 The interview score will then be combined with
12 the fee proposal score and any applicable preference and
13 incentive points for a total score. The Board will award
14 the contract to the firm receiving the highest overall
15 score.

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

18 CHAIRPERSON LIND: Thank you, Beliz.

19 Ms. Mathur.

20 COMMITTEE MEMBER MATHUR: Thank you, Mr. Chair.
21 So under Sarbanes-Oxley, there is -- I don't know if it's
22 a requirement or a strong encouragement to rotate auditors
23 to not have the same auditor too prolonged a period of
24 time. Is that -- is that, in your opinion, best practice
25 in the public sector as well, and how does that factor

1 into the RFP process?

2 CHIEF AUDITOR CHAPPUIE: The Government Code
3 doesn't have any restrictions on whether we can employ the
4 same firm for the next -- a second term or the third term,
5 but ideally best practice is, yes, it will be great to
6 have another set of eyes reviewing the financial
7 statements. However, the firm will have to go through
8 their own learning experience, which will be probably a
9 year or two and then pick up efficiency and efficiencies
10 at that point.

11 COMMITTEE MEMBER MATHUR: Sure. So I can
12 appreciate -- I mean, we've had, I think, a very good
13 experience with MGO. They have certainly been
14 extraordinarily thorough and attentive to detail, and also
15 helped us to work through issues, et cetera. So I think
16 they've been a very good auditor for us.

17 The question is, you know, is the value of --
18 there's the value of independent -- of sort of maintaining
19 independence by having a separation, right, and having
20 somebody -- some fresh eyes, a new firm come in. Is there
21 a way to integrate that as a criteria into the RFP or a
22 desire -- apply some points to that?

23 CHIEF AUDITOR CHAPPUIE: We can certainly take
24 that into consideration.

25 COMMITTEE MEMBER MATHUR: Because I think --

1 otherwise, I think the existing auditor obviously has a
2 bit of an advantage. They know our business very well.
3 They can articulate exactly how the process will work with
4 us in a way that is very compelling and not to
5 predetermine whatever the outcome is, but I think perhaps
6 we do want to have -- we do want to encourage a set of
7 fresh thinking and fresh look at our financials.

8 CHIEF AUDITOR CHAPPUIE: Yes. Thank you for
9 that.

10 COMMITTEE MEMBER MATHUR: Thank you. With that,
11 I will move to approve the issuance of the RFP, taking
12 into account those -- maybe adding some components for
13 that for independence or for new look, the proposed
14 contract duration, and RFP selection process for the
15 Board's independent auditor, as well as recommend approval
16 of the proposed contract duration to the Board of
17 Administration.

18 COMMITTEE MEMBER TAYLOR: Second.

19 CHAIRPERSON LIND: Okay. So that's a motion by
20 Mathur, second by Taylor.

21 I've got a couple speakers.

22 Mr. Jelincic.

23 VICE CHAIRPERSON JELINCIC: I'm less concerned
24 about the firm rotating as that the partners rotate it,
25 because you can get a fresh set of eyes by having

1 different people within that firm without giving up a lot
2 of the educational costs we've already absorbed.

3 But my question goes to the technical proposal.
4 And as this is set out, it's pass/fail. And I don't have
5 a problem with that. I think it's appropriate.

6 But one of the things that fails to come up that
7 way is the -- the staff when they review it makes certain
8 observations. And does this allow us to get those
9 observations other than the two people who are sitting in
10 the room, even though it's a -- I mean, yes, these are
11 acceptable people. They all meet the technicals, but
12 these have these relative strengths and weaknesses that
13 we discovered. Do we -- is there a way to get that
14 information --

15 CHIEF AUDITOR CHAPPUIE: To the Board members?

16 VICE CHAIRPERSON JELINCIC: -- because it --
17 yeah, to the whole Committee, so that it informs our
18 questions as we do the -- and evaluate the answers we get.

19 CHIEF AUDITOR CHAPPUIE: The group that evaluates
20 the technical proposal evaluation comes up with the
21 criteria. And they establish it before they go into the
22 evaluation. So those we would like to be more visible, is
23 that -- am I understanding that correctly?

24 VICE CHAIRPERSON JELINCIC: Yeah, I would like
25 there -- not just their criteria career, but their

1 evaluations to be more visible, so that it influences how
2 we, you know, consider answers. It gives a context.

3 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

4 Mr. Jelincic, Kim Malm, CalPERS staff. That can
5 be part of the proposal that staff brings back to the
6 Committee when you select the finalists. So staff
7 would -- after the valuation, the staff bring the
8 finalists back to the Committee and you select the -- or
9 you select the finalists, that information could be part
10 of staff's presentation.

11 VICE CHAIRPERSON JELINCIC: Okay. I would
12 encourage that.

13 CHAIRPERSON LIND: Ms. Taylor.

14 COMMITTEE MEMBER TAYLOR: Yes, I wanted to kind
15 of piggy-back on what Ms. Mathur said, in that I think
16 it's important as a fiduciary on the Board that we look us
17 transparent as possible. And I think that maybe we should
18 look at assigning points to folks that are knew and
19 haven't, because otherwise there's a disadvantage for the
20 new folks that are applying for this.

21 And the reason I say that is I'm currently on
22 another board, and we always change. Every five years, we
23 change simply because it looks better to the public. So I
24 am also for maybe looking at how we incorporate that into
25 the RFP.

1 So thank you.

2 CHIEF AUDITOR CHAPPUIE: Thank you.

3 CHAIRPERSON LIND: Ms. Elliott.

4 ACTING BOARD MEMBER ELLIOTT: So not to continue
5 the subject longer, but the Treasurer's office isn't a
6 voting member of the Committee, but would support Ms.
7 Mathur's comments on rotation. I just wanted to make that
8 comment.

9 CHIEF AUDITOR CHAPPUIE: Thank you.

10 CHAIRPERSON LIND: Thank you. All right. We
11 have a motion before us.

12 All in favor say aye?

13 (Ayes.)

14 CHAIRPERSON LIND: Any opposed?

15 That motion carries. Thank you very much.

16 And we are now on to Item 5b. And so today our
17 Committee is interviewing finalists for the actuarial
18 parallel valuation and certification services request for
19 proposal number 2015-7649.

20 And in accordance with that RFP we as a Committee
21 will determine an interview score for each finalist and
22 hopefully agree on a motion around those interview scores
23 with a maximum of 700 points.

24 I'm going to ask Beliz to kind of walk us through
25 where we've been so far and how the process is going to

1 work.

2 CHIEF AUDITOR CHAPPUIE: Thank you, Mr. Chair.
3 The CalPERS Board of Administration has delegated to this
4 Committee the authority to approve and oversee actuarial
5 audits and reinsurance. On March 18, 2015, staff obtained
6 approval to issue the RFP which solicited bids from
7 qualified firms to perform actuarial parallel valuation
8 and certification services.

9 In July 2015, by the final filing date, four
10 firms submitted proposals. Staff with the oversight of
11 the Risk and Audit Committee Chair and Vice Chair
12 evaluated and scored proposals as outlined in the RFP and
13 presented all four qualified firms to the Board in
14 September 2015.

15 The Board selected three finalists, Segal
16 Consulting, Buck Consultants, and Cheiron to move forward
17 with the interviews as scheduled today.

18 I would like to quickly update the Committee on
19 the preliminary total scores of the firms. Buck
20 Consultants received 292 points for their fee proposal
21 score and 50 points for committing to participate in the
22 disabled veteran business enterprise preference program
23 for a preliminary total score of 342 points. Segal
24 Consulting received 300 points for their fee proposal
25 score and their preliminary total score is 300 points.

1 Cheiron received 287 points for their fee proposal score
2 and their preliminary total score is 287 points.

3 Each finalist will be allotted 25 minutes for the
4 interview, five minutes for presentation and 20 minutes
5 for questions and answers. All finalists should be asked
6 the same questions. At the conclusion of the interviews,
7 the Committee will determine an interview score for each
8 finalist. The interview scores will be combined with the
9 preliminary total scores to determine the final total
10 score for each finalist. The Committee will select the
11 finalist with the highest final total score and recommend
12 them to the Board.

13 Thank you.

14 CHAIRPERSON LIND: Thank you. And so we're going
15 to be doing these interviews in alphabetical order. I do
16 want to remind the Committee that once we start, you need
17 to stay through process. So if somebody real needs a
18 break, let me know after one set of interviews and we
19 certainly try to accommodate that.

20 I would ask that roll be taken again, so that the
21 record reflects that the Risk and Audit Committee members
22 present and participating in the interview and selection
23 process for this contract.

24 COMMITTEE SECRETARY LEWIS: Ron Lind?

25 CHAIRPERSON LIND: Here.

1 COMMITTEE SECRETARY LEWIS: J.J. Jelincic?

2 VICE CHAIRPERSON JELINCIC: Here.

3 COMMITTEE SECRETARY LEWIS: Rob Feckner?

4 COMMITTEE MEMBER FECKNER: Still here.

5 COMMITTEE SECRETARY LEWIS: Priya Mathur?

6 COMMITTEE MEMBER MATHUR: Here.

7 COMMITTEE SECRETARY LEWIS: Bill Slaton?

8 COMMITTEE MEMBER SLATON: Here.

9 COMMITTEE SECRETARY LEWIS: Theresa Taylor?

10 COMMITTEE MEMBER TAYLOR: Here.

11 COMMITTEE SECRETARY LEWIS: Alan Lofaso for Betty

12 Yee?

13 ACTING COMMITTEE MEMBER LOFASO: Here.

14 CHAIRPERSON LIND: Thank you. So again, Beliz
15 sort of outlined the process. Each finalist will have
16 five minutes for presentation, 20 minutes for question and
17 answer period. All of the groups are in the room right
18 now. You know, there will be a clock in front of you that
19 you will be able to see. The committee has questions that
20 they'll be asking. If there are no other questions at
21 this point, we're going to start at the process.

22 Any Committee members have any questions?

23 I don't see any. So I would invite the
24 representatives of Buck Consultants, LLC to come forward
25 and ask that the folks from Cheiron and from Segal leave

1 the auditorium.

2 CHAIRPERSON LIND: Okay. I'm seeing people
3 leaving. I'm not seeing anybody coming forward.

4 (Laughter.)

5 VICE CHAIRPERSON JELINCIC: Well, you didn't ask
6 them to.

7 CHAIRPERSON LIND: I did. I said Buck
8 Consultants please come forward.

9 Are they waiting in the wings?

10 Don't be shy folks. Come on down, Buck
11 Consultants.

12 Welcome. You are outside, did you hear the
13 description of the process and the timing and all of that?

14 So this is a 25-minute process. You're going to
15 have five minutes for a presentation, and then we'll have
16 20 minutes for questions and answers. You should see a
17 clock in front of you, and we will go from there. So if
18 we could start the clock at five minutes.

19 And Buck, please begin your presentation.

20 MS. MANNING: All right. Oh, there's the clock.
21 Thank you.

22 Hi. Good morning. I'm Tonya Manning, Chief
23 Actuary for Buck Consultants. I want to thank you for
24 this opportunity to come and meet with you and to help you
25 learn a little bit more about our team, and learn a little

1 bit more about Buck Consultants as well.

2 Just a little bit about Buck Consultants. We are
3 the oldest actuarial firm. We've been in the actuarial
4 business with public plans longer than any other firm
5 that's still around. We started out in 1916, so we'll
6 have our 100th anniversary next year working with the City
7 of New York who remains our client to this day, as well as
8 many other public plans that we work with in different
9 capacities.

10 A little bit about myself. I'm the Chief Actuary
11 for Buck Consultants. I've been in the business for over
12 25 years. I've been heavily involved in the actuarial
13 profession in many capacities, including president of the
14 Society of Actuaries. And I've also been involved with
15 the professional standards for the practice involved in
16 writing them, commenting on them, looking at the direction
17 overall for the profession standards.

18 Within Buck Consultants. I oversee the Office of
19 Chief Actuary. And we are basically the risk and quality
20 group for our practice where we make sure our actuaries
21 understand and adhere to our professionalism standards,
22 both outside the practice and within Buck Consultants.
23 And we make sure we have all the right resources,
24 knowledge, guidance, et cetera to make sure they do all of
25 that.

1 We have a team of 15 people, and two of those are
2 with me today, and I'll let them introduce themselves at
3 this time.

4 MR. DRISCOLL: Thank you, Tonya. I'm David
5 Driscoll. I'm a fellow of the Society of Actuaries and
6 have over 30 years of actuarial experience. The vast
7 majority of that time has been spent heavily concentrated
8 in service to public retirement systems. And at Buck, I
9 serve as the head of our public sector consulting group.
10 We recognize the uniqueness of many aspects of service to
11 the public sector. And for that reason, we have a
12 dedicated group of people who specialize in public sector
13 work performing it.

14 In addition to my day job, I spend a lot of time
15 working on issues related to the development of actuarial
16 standards. I'm a past member of the pension committee of
17 the Actuarial Standards Board and a present member of the
18 general committee of the Actuarial Standards Board, and I
19 serve on the California Actuarial Advisory Panel.

20 As I mentioned, I'm -- I oversee a group of
21 people at Buck who specialize heavily in provision of
22 services to the public sector retirement systems, and one
23 of them, Aaron Shapiro is with me today.

24 MR. SHAPIRO: Thanks, David. I'm name is Aaron
25 Shapiro. As a member of Buck's public plan practice, I

1 work closely with David and Marek as well in that space.
2 And as member of the Office of the Chief Actuary, I work
3 closely with Tonya and David and the work we do within the
4 company within the Office of the Chief Actuary.

5 I'm also the leader of Buck's church plan
6 practice. And while both church plans and public plans
7 are unique in their own regard, I find there's strong
8 similarity across those two types of retirement programs,
9 and that both are exempt from ERISA funding policies, and
10 both have a long and proud history of providing benefits
11 to the participants, and a desire to manage their plans in
12 such a way that that legacy continues into the future for
13 many years to come.

14 I am the lead actuary for the State of New
15 Jersey's retirement programs overseeing six retirement
16 systems for the State with over \$80 billion in liabilities
17 and over half a million participants. My role in this
18 engagement as a support actuary would be to work closely
19 with David and the team in overseeing all the parallel
20 valuation work being performed.

21 MR. TYSZKIEWICZ: Thanks. My name is Marek
22 Tyszkiewicz. And I'm excited to be back in Sacramento and
23 to be back with the opportunity to work with CalPERS
24 again. I've actually worked with CalPERS a lot in my
25 career, most of it's been in the 1990s. For one project,

1 I actually moved out here, married my wife in Lake Tahoe
2 and had my oldest son in Roseville. So I have to thank
3 CalPERS for my beautiful family.

4 (Laughter.)

5 MR. TYSZKIEWICZ: So it's good to be back. I've
6 worked a lot with the actuarial staff. In particular, I
7 know how the valuation system works, and how it interacts
8 with your Oracle relational database. I've also done a
9 lot of work with other multiple employer public sector
10 retirement systems doing actuarial audits, replication
11 valuations, parallel valuations.

12 My role for this project is to be the account
13 executive, which also includes project management. So
14 I'll make sure the contract, everything works properly
15 with that, that we'll incorporate our disabled veteran
16 subcontractors as needed, and all the data and
17 deliverables between our two organizations move smoothly,
18 and basically that the contract kind of get -- the
19 engagement gets executed flawlessly in the next five
20 years.

21 So we're looking forward to answering your
22 questions, and I'll yield the remainder of my time.

23 CHAIRPERSON LIND: Thank you. You're yielding
24 three seconds, so --

25 (Laughter.)

1 CHAIRPERSON LIND: So we're now going to start
2 the question and answer period. And we have a series of
3 six questions we're going to be asking all three of the
4 companies. And we have 20 minutes for this process, so
5 hopefully you guys are good enough at math to figure out
6 that's about three minutes per question.

7 So I have the first question, which is what
8 unique advantages do you feel your firm has over your
9 competitors in providing the services that are outlined in
10 the RFP?

11 MS. MANNING: We feel that Buck Consultants --
12 first of all, we feel that we distinguish ourselves in
13 three ways. First of all, we have a very technically
14 strong team for you. We have two FSAs, and we have David
15 Driscoll who has a very long strength -- long history of
16 working with public plans. He is known as an expert
17 within the professional actuarial community of his work
18 with the public plans, as well as Aaron's work in working
19 with them, the State of New Jersey.

20 We also bring to you a different way of doing the
21 audit process. We're able to take not just looking at the
22 overall tolerance level of the five percent, but we -- if
23 you would provide us the availability of your individual
24 results, we'll be able to go in and dig deeper into that
25 and also make sure that we're looking at it on that

1 granular level to give you a further comfort and assurance
2 that the quality of the audit and the quality of the work
3 is what it needs to be.

4 The third part is transparency. We would be
5 working with this plan coding it through the ProVal
6 system. And if we work an appropriate agreement with you,
7 we would be willing to share that information back to you
8 so you can learn from that and we can improve the overall
9 quality of the results of as well. So again, we feel we
10 have a very technically strong team and we have a lot of
11 experience in doing this type of work. We'll bring you
12 that transparency as well.

13 Thank you.

14 CHAIRPERSON LIND: Thank you. Alan, you have the
15 second question.

16 ACTING COMMITTEE MEMBER LOFASO: Thank you.

17 CHAIRPERSON LIND: Hold on. Just a second.

18 Okay.

19 ACTING COMMITTEE MEMBER LOFASO: There we go.

20 Thank you Mr. Chairman.

21 Actuarial parallel valuation and certification
22 also includes a review of assumptions, methods, and
23 procedures. How would your firm assess the assumptions,
24 methods, and procedures to establish the actuarial methods
25 and assumptions utilized by CalPERS are within acceptable

1 standards of actuarial practice.

2 MS. MANNING: David.

3 MR. DRISCOLL: Yeah. Well, again, more than one
4 of us, but I, in particular, have been involved in the
5 development of actuarial standards of practice. Actuarial
6 standards of practice, of course, set forth the
7 requirements for an actuary practicing in the pension
8 field to select or recommend actuarial assumptions. Two
9 standards in particular, standard number 27, which
10 pertains to the selection of economic assumptions, and
11 standard number 35, which pertains to the selection of
12 demographic assumptions offer a great deal of guidance to
13 the actuary in following a process that considers many,
14 many aspects of assumption selection, not simply what the
15 historic experience of the system is, but in particular
16 what is likely to be the experience of the system in the
17 future and how best it might be anticipated, and also
18 places a great deal of emphasis and consideration of the
19 purpose of a measurement in selecting assumptions.

20 We find that assumptions could be reasonably
21 selected for one purpose, but might not be the best or
22 might not even be appropriate for some other type of
23 measurement. So we bring to bear all of that kind of
24 professionalism and professional thinking of actuaries in
25 looking at the assumptions that are in use.

1 Additionally, we, as a company, have some great
2 tools for assessing particular kinds of assumptions. In
3 particular, we have an excellent capital market modeling
4 system that is informed by a lot of good historic
5 information, and by some of the most sophisticated capital
6 market modeling programming in the business. This is
7 particularly helpful, for example, in assessing the
8 reasonableness of an assumed future rate of return.

9 CHAIRPERSON LIND: Thank you.

10 The next question is Priya.

11 COMMITTEE MEMBER MATHUR: Hi. Welcome.

12 You mentioned earlier the five percent variance
13 threshold. If the contractor's parallel valuation results
14 fall outside of the five percent of CalPERS actuarial
15 staff's results, you would be required to reconcile that
16 difference. So what steps would your firm take to
17 reconcile the difference and what type of documentation
18 would your firm provide CalPERS actuarial staff?

19 MS. MANNING: David, would you like to take that
20 as well?

21 MR. DRISCOLL: Sure. Obviously, what we would
22 have to do is compare in great detail our calculation,
23 which of course would have been originated as an effort at
24 reproducing your original calculation, and then take a
25 look in as much detail as we can obtain as the way in

1 which you do things. And in following this kind of
2 process, we find that we can inevitably track down the
3 reasons for a difference in results. Very often, there
4 are sort of modeling kinds of parameters that vary between
5 one valuation system and another.

6 For example, in averaging somebody's salary
7 during the final average pay averaging period, there are
8 different approaches that can be used to the averaging of
9 projected future pays. And something like that can often
10 trigger a difference at a level that requires exploration.
11 And usually the exploration results in a perfectly good
12 and acceptable reason for the difference.

13 MS. MANNING: Marek, would you like to follow up
14 on that?

15 MR. TYSZKIEWICZ: Yeah. So one of the things we
16 added in our proposal too is our enhanced reconciliation
17 technique. And I think it's fairly unique in the
18 industry, which typical is the five percent threshold
19 where you're looking at averages. You know the joke about
20 the average -- the actuary who drowned crossing a river of
21 an average depth of two feet. You know, it's not the
22 average. It's the volatility, you know, the big dips in
23 it. And so if you focus on just the averages, you may
24 miss something under the layer there.

25 Because of, you know, our experience with CalPERS

1 in the past, we know that when you store all your results
2 in an Oracle table based on a key, when you provide us the
3 participant data and we do our evaluation in ProVal, we'll
4 also evaluate person by person. So it's relatively easy
5 to take your data, take our data, combine and joint it on
6 the key and actually see where the outliers are.

7 So we can quickly, if we're not matching, we can
8 quickly figure out what's the group of people we disagree
9 with -- disagree on, and focus on just that group of
10 people. So it's extremely efficient. I've done this
11 technique before with other multiple employer valuations.
12 And it just -- you get right to the answer pretty quickly
13 or right to the discrepancy pretty quickly.

14 MS. MANNING: And I think we're running ahead, so
15 I'm going to pile on to that answer, if you don't mind.
16 Through my career, I've had, you could say, the
17 opportunity or the curse of working through several system
18 conversions. And system conversions are a little bit
19 similar, right, where you're trying to replicate or verify
20 results from one system to the other. So I've seen a lot
21 of the variations and I understand how one system can do
22 actually what David described in taking something that
23 looks pretty straight forward in the same benefit and
24 assumptions and apply in very different and nuanced ways.
25 So I would be available to help bring that type of history

1 and consultation to the process.

2 CHAIRPERSON LIND: All right. Thank you. Next
3 question is Bill.

4 COMMITTEE MEMBER SLATON: Thank you, Mr. Chair.
5 Good morning, nice to have you here.

6 This question deals with public agency plans.
7 When performing an actuarial parallel valuation of public
8 agency plans, the contractor will be required to perform a
9 parallel valuation of the 10 largest public agency plans,
10 plus a minimum of 10 other public agency plans chosen by
11 an acceptable random sample technique. What methodology
12 would your firm use in selecting the sample?

13 MS. MANNING: Marek, would you like to the answer
14 that?

15 MR. TYSZKIEWICZ: Sure. One of -- in software
16 testing, and this is what we're really doing is testing
17 software, there's a concept called equivalence classes,
18 where you want to break up the data in a group of things
19 that are -- have the same programming logic. So it
20 doesn't do any good to randomly check the same programming
21 logic. What you want to do is figure out where all the
22 different types of programming logic are and then randomly
23 pick one case from that equivalence class.

24 So what we would do is, first, we'd examine the
25 participant data, and we'd look at things in the

1 participant data that caused the valuation system to break
2 and have different logical coding, whether it's, you know,
3 with a category miscellaneous or safety, or whether it's a
4 particular benefit provision.

5 So we'd identify the public agencies into the
6 groups of equivalent classes. Then you'd just use some
7 random generating technique to pick one from that group.
8 That way we want to cover as much different programming
9 logic as possible, still pick randomly, but not pick
10 randomly often in the same pot, if you know what I mean.

11 CHAIRPERSON LIND: Thank you.

12 All right. J.J. has question number 5.

13 Press your button for me, would you, please?

14 VICE CHAIRPERSON JELINCIC: Okay. If you were to
15 identify areas in which the methods, assumptions,
16 procedures, or computations could be improved, could the
17 impact as such -- of such change on the liabilities that
18 the cost falls within the five percent tolerance level,
19 would you include the observations and recommendations in
20 the reports submitted to us, both why and why not?

21 MS. MANNING: Dave, would you like to take that?

22 MR. DRISCOLL: Yes, I think we would. The fact
23 that a practice that we thought was less than ideal
24 generated a small difference, does not necessarily mean,
25 for example, that that -- that the continuation of that

1 practice would result in definitely in the production of
2 only a very small difference.

3 So we think it's appropriate to call out areas of
4 improvement wherever we find them. We do recognize that
5 there are some areas of difference that will occur any
6 time two actuaries try to measure the same liability. And
7 some of them are really truly quite trivial. And we have
8 a lot of experience in doing this type of work. And as a
9 result, I think we're pretty good at distinguishing what
10 is trivial and unlikely to result in any kind of
11 meaningful long-term difference in the measurement of a
12 liability, and something that should be fixed, either
13 because it no longer represents a best or perhaps even an
14 acceptable practice within the profession or because if
15 left unchecked, it could produce greater distortions if
16 left in place over time.

17 VICE CHAIRPERSON JELINCIC: Thank you.

18 CHAIRPERSON LIND: And, Rob, you have question
19 number 6.

20 COMMITTEE MEMBER FECKNER: Yes. Thank you.

21 There you go. Thank you.

22 So have you or your firm ever performed work for
23 any entity that has expressed opposition to CalPERS or any
24 defined benefit plans in general.

25 MS. MANNING: David, do you -- I'm not aware of

1 any.

2 MR. DRISCOLL: Yeah, to the best of my knowledge,
3 no. I mean, we work -- our clients, in most cases, are
4 defined benefit public sector retirement systems that have
5 a very strong interest in the preservation of defined
6 benefit as the dominant paradigm for the delivery of
7 retirement benefits to their members.

8 COMMITTEE MEMBER FECKNER: Thank you.

9 MS. MANNING: I would say -- you know, I had
10 mentioned earlier that Buck Consultants, we are the firm
11 that's been around the longest and stayed committed to
12 serving public plans. We're very committed to the defined
13 benefit program and that's where we stand strongly.

14 CHAIRPERSON LIND: Thank you. Mr. Jelincic has a
15 clarification question to ask you regarding your
16 questionnaire. So I'm going to call on him.

17 VICE CHAIRPERSON JELINCIC: During the background
18 and reference checks, staff identified potential
19 litigation for Buck Consulting. This was not disclosed in
20 your proposal in the proposal questionnaire Attachment F,
21 question J. Your response stated that Buck's parent
22 company, Xerox Corporation, discloses material business
23 litigation or regulatory proceedings in its publicly
24 available SEC filed reports, and you had a link attached.
25 The potential litigation that staff found during the

1 background checks was not listed in the SEC filed reports.
2 Can you please describe any recent litigation for Buck
3 Consulting as requested in the questionnaire?

4 MS. MANNING: Sure. David, I think you -- would
5 you like to answer that or Marek.

6 MR. TYSZKIEWICZ: Well, I mean, you can add to
7 it. Let me just do a quick response.

8 MS. MANNING: Why don't you start, Marek.

9 MR. TYSZKIEWICZ: So when we responded to
10 Attachment F, I mean, the -- one of the -- the second
11 question follows up right after that one. It says is
12 there any litigation that impacts your ability to perform
13 this work?

14 And the emphatic answer is no. There is no
15 litigation that impacts us financially to the point where
16 we wouldn't be able to do any work for CalPERS or
17 endangers this project. So I think we're accurate in that
18 response. But if you want to add anything else, you
19 might.

20 MR. DRISCOLL: Well, if -- obviously, a firm of
21 our size, we are involved, as I think we mentioned in our
22 RFP response, in litigation from time to time, former
23 employees over business deliverables, et cetera, et
24 cetera. We do note that one entity that had, in fact,
25 filed a suit against Buck has had the suit rejected as of

1 last Friday by a federal court. Buck's motion for summary
2 judgment on the matter was, in fact, granted by the court.

3 So, in general, I would say that our litigation
4 history compares favorably with those of other firms that
5 are in our business. And it's one of the reasons why we
6 are still in the business. Most of the major firms that
7 have left the service of the public sector in the
8 actuarial business have done so because, quite frankly, of
9 unfortunate litigation histories. And we've been good
10 enough at delivering and also at controlling our risk, so
11 that that has not been our situation. And we continue to
12 believe we manage our risks well on a number of levels in
13 this business. And for this reason, as Marek said, our
14 ability to deliver services to you is in no way affected
15 by any litigation that we've been involved with.

16 VICE CHAIRPERSON JELINCIC: Can you describe some
17 of the litigation you have been involved recently?

18 MS. MANNING: I don't know if we --

19 MR. DRISCOLL: We probably can't, because in
20 general we can't comment on specifics of legal matters,
21 due to legal considerations.

22 MS. MANNING: But you understand the nature of a
23 lot of the litigation that we get involved in. Can you
24 comment on that from a public plan perspective?

25 MR. DRISCOLL: Well, yeah, the people will

1 allege, for example, that a calculation was performed
2 improperly or that they were not advised about a matter
3 that they deemed to have been within the scope of the
4 areas upon which they relied on us for service. We will
5 obviously take issue with that. And as I say in general,
6 our experience in the courts has been relatively good for
7 a firm in our business.

8 MS. MANNING: I'll have to say Buck Consultants,
9 again we are committed to serving our public plan clients.
10 And the reason we stay committed and feel like it makes
11 business sense for us is because we do feel like there is
12 a risk. There's a risk in every business, but we have
13 very good qualities and structure to address those risks
14 and to still bring high quality work, so we remain
15 committed to this business.

16 I mentioned the Office of Chief Actuary, which I
17 oversee. We have 15 actuaries that are part of that
18 group. We take our best and brightest out of all of our
19 practices and put them in that group. And our whole job
20 is to make sure that we have high quality of work. We
21 have a central peer review team that looks at every piece
22 of work before it goes out, and we have standards of
23 practice not just that are imposed by the profession, but
24 internally as well, and we make sure those are adhered to.
25 We're very careful about that. We understand

1 every business has a risk, but we think we have taken very
2 strong, and I think above industry standards to make sure
3 we have high quality of work.

4 CHAIRPERSON LIND: Great. Thank you for that
5 answer. And thank you very much for your presentation
6 today. We now invite you to leave the room.

7 MS. MANNING: All right. Thank you very much for
8 your time today. I do appreciate it.

9 CHAIRPERSON LIND: And someone could grab the
10 folks from Cheiron, I would appreciate it.

11 (Thereupon Buck Consultants left the auditorium.)

12 (Thereupon Cheiron entered the auditorium.)

13 CHAIRPERSON LIND: Welcome to the folks from
14 Cheiron. I think you were in the room when I talked about
15 the process.

16 So we have a five minute presentation time for
17 you and then we'll have 20 minutes for questions and
18 answers. So please start the clock for Cheiron at five
19 minutes.

20 (Thereupon an overhead presentation was
21 presented as follows.)

22 MS. HARPER: Good morning, it's a pleasure to be
23 here --

24 CHAIRPERSON LIND: Hold on just a second. We
25 have to mic you up.

1 Okay. Start the clock again, please.

2 MS. HARPER: Good morning. It's a pleasure to be
3 here. My name is Anne Harper, and I'm a consulting
4 actuary with Cheiron. I have with me Bill Harper[sic] on
5 my right-hand side and Bob McCrory on my left-hand side.

6 And we want to thank you for the opportunity to
7 present today. And we're going to be going over a brief
8 overview of Cheiron the proposed team and Cheiron's
9 advantage when it comes to public sector auditing. And
10 now I'll turn it over to Bill.

11 MR. HALLMARK: Thank you and good morning. We've
12 put together a proposal that we think gives you --
13 highlights some of the unique advantages that we bring.
14 We have -- through the Cheiron/EFI merger, we have been
15 your auditor for a while, but we've put together a fresh
16 team to give a fresh perspective to combine with that
17 experience.

18 --o0o--

19 MR. HALLMARK: So keep that in mind as we go
20 through this.

21 Auditing has been one of our key lines of
22 business. We have audited a variety of plans across the
23 country, significant statewide plans including in the west
24 the State of Washington, CalSTRS, a variety of California
25 plans, but others that show different situations across

1 the country.

2 And so we really take pride in our auditing
3 experience, and we have a strong internal audit team that
4 you'll hear about shortly.

5 --o0o--

6 MR. HALLMARK: We also, as I mentioned, have
7 significant experience with CalPERS. So we have an
8 in-depth understanding of some of your programs.
9 Obviously, Bob McCrory here has worked with you
10 extensively and knows that information. And that gives us
11 a leg up to understand areas that we need to look into
12 that require some additional special attention, and how to
13 look for things that may be of interest in the audit
14 process.

15 --o0o--

16 MR. HALLMARK: I also want to point out in
17 particular we know with the public agency audit, there are
18 a lot of different plans involved there. And so it calls
19 for auditing the 10 largest and then a sampling of the
20 other 10. And we do think that process for selecting that
21 additional sample of 10 is critical, and knowledge of the
22 system and where issues may be is critical in that
23 selection process.

24 So as I said, we have a new team to bring a fresh
25 perspective and a fresh look at things, an experienced

1 team that has done audits for a lot of other systems. We
2 are using completely different valuation software that's
3 from the Cheiron heritage and instead of the EFI heritage.
4 And we have experience with some of the special situations
5 with your system combined with our deep background that we
6 can bring from other members of our staff.

7 --o0o--

8 MS. HARPER: Okay. So I'm going to quickly go
9 over the proposed team for the CalPERS audit, if we were
10 to win the audit. Co-lead actuaries would be myself and
11 Bill Hallmark. Bill is an industry leader with public
12 sector pension plans. And I have -- he has over about 30
13 years of experience. I have about 20, 10 with Cheiron.
14 And Bill and I, it's important to note, have been working
15 together for the last six years since Bill started with
16 Cheiron in 2009 on a lot of different retainer clients
17 we've worked together, and also on different audits with
18 the State of Washington and specifically San Luis Obispo.
19 So we have a successful history of working closely
20 together for the last six years.

21 Bob McCrory will be an additional resource, and
22 he has been the most recent auditing CalPERS actuary
23 through EFI and now with Cheiron. And what's really
24 important to point out that I think is very unique about
25 Cheiron and our internal structure, is that we have an

1 internal audit team that is independently responsible for
2 auditing all of our clients on a rotational basis. And
3 that team consists of Mike Moehle and Anne Glaser. And
4 together, they have about 50 years of experience, and they
5 have seen a wide variety of pension plans all over the
6 country. So they will be an integral part of the team as
7 well.

8 --o0o--

9 MS. HARPER: And to end with just to tell you
10 briefly about Cheiron. We were a spinoff from a national
11 firm. We're employee owned. We merged with EFI in 2013.
12 And our core business is public and jointly pension plans.
13 And just to end, since I only have 13 seconds, we are very
14 excited and looking forward to the opportunity of working
15 with you, if you so chose. And we welcome the challenge
16 to be the next CalPERS auditing actuary.

17 Thank you.

18 CHAIRPERSON LIND: Thank you very much for the
19 presentation. So we have six questions. We're asking all
20 three firms the same six questions. And we have a
21 20-minute time frame, so plan your answers accordingly.

22 So we're going to start the clock now. The first
23 question you've probably already answered, but we're going
24 to be consistent, what unique advantages do you feel your
25 firm has over your competitors in providing the services

1 that are outlined in the RFP?

2 MR. HALLMARK: So I think the key advantage that
3 we bring is the in-depth knowledge of the CalPERS system
4 that we are able to combine with a fresh perspective.
5 We're looking at having a team that's independent and new
6 do the majority of the audit, but have the resources of
7 the team that has been through it and understands the
8 system to provide support and background and resources to
9 us.

10 MR. McCRORY: If I could just add something to
11 it. Two things. Number one, you have a random sample of
12 the public agencies. It's not enough. If you have like
13 99 percent of the public agencies that are right, and a
14 random sample of 10, you have only a 10 percent chance of
15 finding an error.

16 So what you need to do is sampling with attitude.
17 You need to go through all of the list of the thousands
18 now of public agencies and look for funny things,
19 liabilities that aren't in the right relationship to the
20 total, pay the change while liability is different, all
21 the kinds of things we look for in our actuarial
22 valuations to spot a possible mistake.

23 So to some degree, it's that kind of knowledge
24 and also attitude that I'll be trying to teach these
25 guys --

1 (Laughter.)

2 MR. McCRORY: -- because if -- you've really got
3 to go at it with an attitude that there is something in
4 this report that can be improved. Maybe a mistake, but
5 something that can be improved. And that's where we bring
6 value is when we find those things and present them and
7 present them to you in context, so you see whether they're
8 huge or not so big.

9 CHAIRPERSON LIND: Great. Thank you.

10 On to question number 2, Alan.

11 ACTING COMMITTEE MEMBER LOFASO: Thank you. Good
12 morning.

13 Actuarial parallel valuation and certification
14 also includes a review of assumptions, methods, and
15 procedures. How would your firm assess the assumptions,
16 methods, and procedures to establish that the actuarial
17 methods and assumptions utilized by CalPERS are within
18 acceptable standards of actuarial practice?

19 MR. HALLMARK: So there are a couple things that
20 we do that are unique. You know, first, there is the
21 review related to the actuarial standards of practice and
22 the development of those assumptions to make sure that
23 that -- that process was followed.

24 One of the unique things though that we bring in
25 our assessments of valuations is our projection model.

1 And so we put all valuations into a projection model so
2 that you can see how those assumptions and methods, and in
3 particular this highlights the impact of methods over
4 time, and whether those are reasonable and lead to
5 reasonable long-term funding results.

6 MR. McCRORY: And I guess I would add, you guys
7 voted on a pretty interesting risk mitigation program. We
8 will at least look at the staff work on that and if we see
9 something that bothers us or some sort of a defect or
10 flaw, we'll point that out as part of our audit. I think
11 that unlikely based on the amount of work you've put into
12 it, but it's something that's on our radar.

13 CHAIRPERSON LIND: Thank you. On to question
14 number 3, Priya.

15 COMMITTEE MEMBER MATHUR: Thank you, Mr. Chair.
16 Thank you for being with us this morning. So if the
17 contractors -- if your parallel valuation results fall
18 outside the five percent margin with CalPERS actuarial
19 staff's results, you're, of course, required to reconcile
20 the difference. What steps would you take to reconcile
21 those differences and what types of documentation would
22 you provide to CalPERS actuarial staff?

23 MS. HARPER: Well, the first thing that we would
24 do to reconcile the difference is kind of an internal
25 review of that difference. And with our team, as strong

1 as it is, whoever finds the difference someone would be
2 reviewing it to make sure that they agree, so that we
3 don't bring anything to the CalPERS staff that's going to
4 be inefficient and waste their time.

5 So we have an internal -- really stringent
6 internal review process. But then we would request
7 probably some sample lives from the CalPERS staff, which
8 is basically individual people who run through the
9 valuation system from their -- you know, from their date
10 of -- their current date of hire to their retirement, and
11 we'd look at all the assumptions and the benefits that are
12 being projected, but we would ask CalPERS for that, and we
13 would -- so we could analyze what they're doing and
14 compare it to what we're doing.

15 And then after that process is done, then we
16 would come back and discuss it with, if it's appropriate,
17 the CalPERS staff and try to reconcile what we found with
18 them, and then also put that into the report that we would
19 issue to you as well.

20 COMMITTEE MEMBER MATHUR: Thank you.

21 CHAIRPERSON LIND: Great. Next is question
22 number 4 and that is Bill.

23 COMMITTEE MEMBER SLATON: Thank you, Mr. Chair.

24 Good morning. This question deals with the
25 public agency plans. And you answered this question, but

1 we're asking -- to make sure to ask every question, you
2 may want to embellish your prior answer regarding public
3 agency plans.

4 When performing an actuarial parallel valuation
5 of public agency plans, the contractor will be required to
6 perform the parallel valuation of the 10 largest public
7 agency plans, plus a minimum of 10 public agency plans
8 chosen by except able random sample technique. What
9 methodology would your firm use in selecting the sample?

10 MR. McCRORY: Yeah, I know -- random doesn't work
11 very well. I'll just say that try to go out and look for
12 trouble is what we're about in this area. And we have
13 some experience with the kinds of stuff that crops up.
14 And a lot of times too it's interesting that if you spot
15 something on one of those plans, there's something going
16 on in another plan as well that reminds you of that, and
17 oh, there's this other kind of semi-related thing.

18 And, you know, you just want to follow those
19 threads. Again, it's kind of an exploration as much as
20 anything else.

21 MR. HALLMARK: I think the one thing I would add
22 to that is we described it in our proposal as a stratified
23 random sample. And in addition to specifically looking at
24 changes and unique things that we see in the reports, we
25 want to make sure that we are covering all the key

1 differences between the systems of the public agencies.
2 So we would identify some of the key things that we want
3 to make sure we have covered in our sample and then make
4 sure those are covered.

5 CHAIRPERSON LIND: Great. J.J., you have
6 question number 5.

7 VICE CHAIRPERSON JELINCIC: If you identify areas
8 in which the methods, assumptions, procedures, or
9 computations could be improved, but the impact of such
10 changes on the liabilities and costs fall within the five
11 percent tolerance level, would you include the
12 observations and recommendations in your report submitted
13 to us, and why or why not?

14 MS. HARPER: I can start that question. I would
15 say that we would definitely include it in the report,
16 even if it's within the five percent tolerance level, with
17 the idea that sometimes there can be different offsetting
18 items that we may find within a -- an audit or within a
19 plan.

20 So that's one of the reasons. But another reason
21 is just also is that it's always a good thing to improve
22 upon your process and tighten it and to make it better.
23 So even if it's within that five percent, making it -- you
24 know, making the valuation better is definitely worth it.
25 And specifically, I've noticed that sometimes with certain

1 benefits, like disability and death, they can be very
2 small benefits.

3 But if you're going to go in and do a specific
4 study on those benefits, if you don't have them coded
5 correctly, it's not necessarily going to be a five percent
6 difference, but it will make a difference when you go to
7 look at a special study with those benefits.

8 MR. McCRORY: I think Anne is right. Special
9 studies are one example. You actually had another example
10 where it came up in an interesting way. It turns out that
11 there was one plan we stumbled across, you know, searching
12 for problems among the public agencies, where the
13 liability for survivors of members who had died on duty
14 seemed too low. And we found there that there -- in fact
15 that there was a coding error in the coding of that
16 benefit in the valuation software.

17 It didn't make a difference anywhere else, except
18 this one public agency that had a disproportionate share
19 of survivors of duty deaths.

20 So if it doesn't make a five percent difference
21 in one place, among 3,000 plans, there could be something
22 else, where it would make -- another plan where it would
23 make a difference.

24 MR. HALLMARK: Let me just kind of conclude that
25 section by saying I think the purpose of this process of

1 auditing is one of continuous improvement. And so if we
2 find a technical thing, no matter how small it is, I think
3 it doesn't behoove the process to let those accumulate
4 until they cross a threshold. We should be communicating
5 those so that they can be corrected as they go on. It's
6 also incumbent on us to put it in the right context, so
7 that you don't think this is a major deficiency or issue,
8 but that it's corrected going forward.

9 CHAIRPERSON LIND: Great. Thank you. We have
10 one final question.

11 Rob.

12 COMMITTEE MEMBER FECKNER: Thank you. Have
13 you -- any of you and -- or your firm ever performed work
14 for any entity that expressed opposition to defined
15 benefit plans?

16 MR. HALLMARK: For an entity that expressed
17 opposition, I'm not aware of specific instances. But what
18 I would say is through my consulting I've been a strong
19 advocate of defined benefit plans. And there have been
20 cases where there are representatives of my clients who
21 may not have been, but our work has most certainly been in
22 the promotion of defined benefit systems.

23 COMMITTEE MEMBER FECKNER: Thank you.

24 MS. HARPER: I definitely have not.

25 CHAIRPERSON LIND: Okay. Great. Thank you very

1 much. Well, thanks for your presentation, and for your
2 answers to the questions. And we would now invite you --
3 or ask you to leave the auditorium and we'll bring in our
4 final proposer.

5 (Thereupon Cheiron left the auditorium.)

6 CHAIRPERSON LIND: All right. If we could invite
7 Segal in, I'd appreciate it.

8 (Thereupon Segal entered the auditorium.)

9 CHAIRPERSON LIND: Can I convince you folks,
10 since there's just two of you, to move closer to the
11 middle, so we can all kind of see you.

12 So welcome, Segal. I think you were in the room
13 when I described the process. But just to review, we have
14 five minutes for you to make a presentation and then we're
15 going to have a 20-minute question and answer session. So
16 would we please set the clock at five minutes and Segal
17 you may begin your presentation.

18 (Thereupon an overhead presentation was
19 presented as follows.)

20 MR. ANGELO: Okay. Thank you very much. My name
21 is Paul Angelo from our San Francisco office. I'm joined
22 with Matt Strom from our Chicago office.

23 If we can have the org chart slide.

24 --o0o--

25 MR. ANGELO: The account will actually be managed

1 by Kim Nicholl. We believe in work/life balance at Segal,
2 and Kim is on vacation this week. So when we got the
3 notice of your meeting she asked me to stand in. I will
4 be working as a review actuary.

5 But again, the work will be centered in our
6 Chicago office. I'll let Matt talk a little bit about the
7 staff there.

8 MR. STROM: Yes. I'm Matt Strom. And the team
9 below -- everyone below me on the slide is in the Chicago
10 office. I would be serving as a support actuary in kind
11 of overseeing the day-to-day operations of the review and
12 the work.

13 We have a pretty deep team. You can see there's
14 six FSAs assigned to the team. Jim would be a resource
15 manager and a reviewer to make sure that he can plug in
16 the holes if any of the analysts are busy to meet
17 deadlines, and then we have some other FSA reviewers. And
18 then all the analysts on the bottom line, they're all very
19 familiar with public sector and very familiar with large
20 statewide plan audits.

21 MR. ANGELO: And then the next slide.

22 --o0o--

23 MR. ANGELO: Our background is described in
24 detail in our proposal. I just want to highlight that we
25 work primarily in public sector and multi-employer. Those

1 have something in common. They are run by boards and they
2 are also retirement systems independent of the employers,
3 which I think is a hallmark of CalPERS and all public
4 sector systems.

5 --o0o--

6 MR. ANGELO: I think a real good thing to focus
7 on is our experience with actuarial audits. And since
8 those have been done for our State systems clients by Matt
9 I'll let him mention some of those on the next slide.

10 --o0o--

11 MR. STROM: Yeah, so on this slide 5, we're
12 showing, just within the last five years, the Chicago
13 based team we've done 12 actuarial audits. You can see
14 there's only 11 bullets here. We've actually done the
15 Wisconsin retirement system twice within the last five
16 years.

17 Several of these are recent. Actually, within
18 the last three months, we've worked on Kentucky retirement
19 systems, Kentucky teachers retirement system. And
20 Wisconsin we're just now finishing up and sent a report
21 out to the audit team and the actuary last week.

22 So we have a good listing of a limited scope of
23 audits as well as full scope replication audits. In
24 addition to this, we do have some work that is annual
25 review of the Illinois statewide systems, the teachers,

1 the university's plan and the State employees plan that we
2 do as well for the State.

3 --o0o--

4 MR. ANGELO: Now, this is not on the slide. You
5 may be wondering why -- you may know that Segal has a
6 large presence in public sector in California doing county
7 and city systems. That's what I do, but we do not -- we,
8 in San Francisco, focus on those municipal systems. State
9 systems are something of a specialty. And as you can see
10 from that last slide, it's our Chicago office. When we
11 have a statewide audit assignment, that's where we go.

12 I would be available. I'm familiar with Cal
13 PEPRA. I know some California practice, but we actually
14 have experience in our Chicago office about CalPERS in
15 particular, because of the work that we did related to the
16 Stockton bankruptcy.

17 And we'll just close with Matt making a couple
18 comments on that.

19 MR. STROM: Yeah. And so we've -- the City of
20 Stockton has been a Segal client in our San Francisco
21 office for health care when there was the bankruptcy issue
22 a couple years ago. They reached out to us to work with
23 them to review some calculations and do some long-term
24 projections and consulting related to that bankruptcy
25 filing.

1 So we actually have programmed and matched the
2 June 30, 2011 and the June 30, 2013 valuations for the
3 miscellaneous and safety plans already. And what that
4 means is that we're very familiar with the way that the --
5 the format of the benefits, the format of the assumptions,
6 the actuarial assumptions are very complicated. So I
7 think that is good, because we'll be able to hit the
8 ground running on the agency plans pretty quickly. And
9 we're familiar with other, you know, CalPERS specific
10 features as well as Paul mentioned with PEPRA on direct
11 rate smoothing and so forth.

12 MR. ANGELO: So finally, there's always a why
13 Segal question? Again, these are summarized in our
14 proposal. We are fiercely committed to public sector. A
15 lot of my work is actually on policy issues involving
16 public sector. Kim Nicholl is involved in that as well.
17 But we're also very careful never to take on work that
18 we're not ready to do.

19 And so that's again is why, looking at our
20 resources and our experience, we think our Chicago office
21 is a perfect fit for you. I will be hovering in a review
22 mode, and also a little bit of the California connection.
23 But the main plant, the main production will be out of our
24 Chicago office where you can see we've deny any number of
25 State audits comparable to yours.

1 And with that, Mr. Chairman, I'll give you back
2 18 seconds.

3 CHAIRPERSON LIND: Thank you very much.

4 So reset the clock for 20 minutes. We're going
5 to ask you six questions, the same six we asked the other
6 two firms, so you can plan your answers timing
7 accordingly.

8 So the first question is what unique advantages
9 do you feel your firm has over your competitors in
10 providing the services that are outlined in the RFP?

11 MR. ANGELO: Well, I think partly there's a
12 balance of national and local resources. You know, we
13 have the national resources that allow us to do the
14 research and maintain our systems, but we also are
15 governed locally, so we maintain our sort of project
16 control.

17 But I really think it's the -- it was the things
18 that Matt commented on about the experience we have doing
19 other State audits, and also just the capacity that we
20 have established in Chicago.

21 MR. STROM: Yeah, our process for -- we've
22 thoroughly gotten down with our process for doing the
23 audits that we dive in pretty deep and we find lots of
24 interesting things that we report back on. So I think
25 we're very well positioned in that regard.

1 MR. ANGELO: And then one other aspect is, you
2 know, CalPERS has some singular policies. You recently
3 moved to sort of a graded amortization approach. I think
4 I'm one of a handful of actuaries in the country that
5 understand how that works. So we hit the ground running
6 there.

7 We've also been tracking very much your risk
8 mitigation. I know you made some decisions on that today.
9 So we're at least alert to some of the innovative work
10 that CalPERS does. So that would be our answer to that
11 question.

12 CHAIRPERSON LIND: Thank you. We're on to
13 question number 2. Alan.

14 ACTING COMMITTEE MEMBER LOFASO: Thank you.
15 You're very fast, Mr. Chairman.

16 Good morning. It's still morning.

17 Actuarial parallel valuation and certification
18 also includes a review of assumptions, methods, and
19 procedures. How would your firm assess the assumptions,
20 methods, and procedures to establish that the actuarial
21 methods and assumptions utilized by CalPERS are within
22 acceptable standards of actuarial practice.

23 MR. ANGELO: I'm going to let Matt touch on the
24 assumptions, then I'll pick up on procedures.

25 MR. STROM: For the assumptions part, we would

1 take a look at the experience study that had been done --
2 the most recent actuarial experience study, and we would
3 take -- look at the information there as it's correct. So
4 we wouldn't try to replicate that information, but we
5 would assume that it was prepared -- the study was
6 prepared correctly. And then we would see if we would
7 reach the same conclusions that we would have had we done
8 the study.

9 So look at the supporting data, come up with
10 maybe what our recommendations would be and then compare
11 them to what was actually recommended. That's one part of
12 the process. And there are times where we have lots of
13 comments there. One in regard to, again, we've just
14 completed a study that the mortality table of a large
15 statewide plan was reported that it only had -- it was
16 said that it only had a five percent margin.

17 So all the data that was done was fine, except
18 for we have a policy that for margin for future
19 improvements, we like to see that to be a 10 percent
20 margin. So that was one thing that we commented on.

21 And we also would look for a review of other
22 large statewide plans and see if the assumptions are
23 within kind of the norm of the peer group. And also for
24 investment return, we would look to see if it's
25 supportable by long-term projections of capital asset

1 market projections.

2 MR. ANGELO: And as far as the methods, I've
3 touched on this already. You know, there -- I think we're
4 familiar with your methods already. And one thing that we
5 will do, you may be familiar with the California Actuarial
6 Advisory panel. One of you actuaries is on that. I sit
7 on that as well. There's also a national version of these
8 model funding policies.

9 CalPERS methods do not actually -- they don't
10 look quite like what's in either the CAPP or the CCA
11 document. But nevertheless, you can draw parallels. And
12 I think that actually your graded amortization, while it
13 doesn't strictly follow that model, it's helpful to show
14 how it compares and contrasts. So we would use that as
15 one of the benchmarks to compare your policies and
16 procedures to.

17 CHAIRPERSON LIND: Thank you. On to question
18 number 3, Priya.

19 COMMITTEE MEMBER MATHUR: Thank you, Mr. Chair,
20 and thanks for being us with this morning.

21 So as you noted when you perform an -- that
22 your -- we're looking at -- for a five percent margin
23 between the -- your results that you find and our
24 actuarial staff's results. And you are -- if you find --
25 if you do arrive at such a margin, then -- or if anything

1 falls outside of that margin, you're required to reconcile
2 the differences.

3 So what steps would your firm take to reconcile
4 any such differences and what type of documentation would
5 you provide to CalPERS actuarial staff.

6 MR. STROM: Well, yeah, I think what we would
7 like to do is get some -- not only we'll receive all the
8 documents and we'll program our valuation system the way
9 we think that how the benefit provisions should work,
10 looking at the assumptions as they're stated in the
11 report, and then we will try to -- so we'll do a first run
12 at coming up with how close we are. Lots of times we are
13 within a five percent limit.

14 To the extent that we're not, one thing that we
15 also like to do is receive some sample test life
16 information for a handful of actives, a handful of
17 inactive and retirees. So what happens is if we're
18 outside of that range, like let's say we're matching
19 everything very closely, but except for a death benefit
20 we're 10 percent too high, then we would like to go
21 through the test life information that we've received to
22 see what's different from that information compared to how
23 we're doing the calculation.

24 And a lot of times what happens is that there's
25 something that wasn't properly -- not totally disclosed

1 that makes sense and then we can -- then now we know okay
2 we know what to do now. We can bring our number down. Or
3 we'll find something that was stated incorrectly in the
4 valuation report that should -- that should be -- that
5 they're doing right, but that the report needs to be
6 changed a little bit. So we like to try to reconcile and
7 communicate, if possible with the actuaries to bring down
8 those tolerances.

9 And certainly, if something is outside of a five
10 percent range, if it's a small dollar amount, it's not as
11 big a deal as something like a retirement benefit. If
12 we're -- if we're more than five percent different on a
13 retirement benefit, that could be thousands of dollars per
14 person, and that would be a pretty big issue.

15 CHAIRPERSON LIND: Thank you. On to Bill for the
16 next question.

17 COMMITTEE MEMBER SLATON: Thank you, Mr. Chair.
18 When performing an actuarial parallel valuation of public
19 agency plans, the contractor will be required to perform a
20 parallel valuation of the 10 largest public agency plans,
21 plus a minimum of 10 other public agency plans chosen by
22 an acceptable random sample technique. What methodology
23 would your firm use in selecting the sample?

24 MR. STROM: So I had written this up. And I
25 remember this from the proposal, I remember writing this

1 in our proposal. What we would do is we would take
2 obviously the 10 largest. So we would assign a listing of
3 all the agencies. We'd assign a number from 1 to X. And
4 then we would take out from that the 10 largest. The
5 remaining ones we would use like a random number generated
6 to pop out a number. And then we would do another random
7 number.

8 If for some reason the same number comes up, we
9 discard it and go back. So then we would pick the next 10
10 randomly from that. When we go back to do this portion
11 again a couple years later, we would take off not only the
12 top but ones that we had already done a couple years
13 before and take those out of the bucket as well and then
14 just draw random numbers from the remaining pool that's
15 out there.

16 And I think that would give us a pretty good
17 random sampling of just whatever the computer tells us is
18 the random number is what we would go with.

19 CHAIRPERSON LIND: Okay. The next question
20 belongs to J.J.

21 Push your button, please.

22 VICE CHAIRPERSON JELINCIC: If you identify areas
23 in which methods, assumptions, procedures, or computations
24 could be improved, but the impact of such change is on the
25 liabilities and costs fall within the five percent

1 tolerance level, would you include the observations and
2 recommendations in your report; and if not, why not; and
3 if so, why?

4 MR. STROM: I'll start on this one, because I say
5 the answer would be yes. We're very -- I like to go into
6 these, and we've kind of trained our staff to go into
7 these that we're going to find something wrong, no matter
8 what -- how small it is. So we'll look really hard, very
9 detailed, and we will -- a lot of things that we do find
10 are refinements.

11 But we do note them in the report, but there is a
12 hierarchy of what's a big ticket item. You know, in plan
13 design terminology, we call these -- there's boulders,
14 rocks, pebbles, and sand. So if it's a big ticket item,
15 it gets a lot -- it gets brought out, and it's already
16 probably discussed with everyone before -- long before the
17 report comes out.

18 But there will be some little ticket items in
19 there that would be just good refinements of the process
20 or the calculations. One thing that we found for a plan
21 that had a new tier of benefits a few years ago was that
22 there was -- there was -- for new hires, that was post --
23 I think post-2011, there were -- there was something wrong
24 with their benefit calculation. So the liability for the
25 system was not off at all, because it was only affecting

1 people that -- like that had been hired in the past six
2 months. But this was an item that it would grow to be a
3 pretty big deal, had it not been pointed out and
4 addressed.

5 So it was -- and the valuation year it wasn't a
6 big deal, but over time if that mistake had been
7 perpetuated, it would have -- when everyone was a new
8 higher 15 years later, it would have been a much bigger
9 deal that we were able to catch right away.

10 MR. ANGELO: And I think actually even within the
11 question, there's sort of two areas. Matt has talked. He
12 used the word wrong. You know, Matt has taught that when
13 you're actually trying to come up with a number in the
14 software, you know, what are the actual details of how
15 those calculations are done?

16 There's also a more subjective consideration when
17 you're talking about your funding policies and methods,
18 not so much a computer code, but the policies that you
19 adopt. There, I think, we would identify what are the
20 things to consider, you know, what are the policy
21 ramifications. It may be that we're not recommending a
22 change. We just want to make sure that you're aware of
23 what those things are.

24 And so there you might have a situation where
25 we're not actually recommending a change, so there's no

1 actual cost impact per se, but we just want to make sure
2 that you have a full understanding of sort of what you're
3 doing and what your policies -- what they say explicitly,
4 but also what their sort of hidden consequences might be
5 from a policy perspective. So a little more subjective
6 than what Matt was talking about.

7 CHAIRPERSON LIND: Thank you. We have one final
8 question.

9 Rob.

10 COMMITTEE MEMBER FECKNER: Thank you. Have
11 either of you, or your firm, ever done any work for an
12 entity that expressed opposition to defined benefit
13 pension plans?

14 MR. ANGELO: No. We are -- in fact, if anything,
15 we are -- we are very much engaged in that discussion
16 on -- I mean, I've done more DB/DC debates that you can
17 count. Generally, you know, standing in -- you know,
18 across from someone from the Reason Foundation, one of
19 those folks.

20 Our investment consulting side, we do have a
21 group that will -- that if you have a defined contribution
22 plan, like a 457 Plan, they will assist in the operation
23 of that and the investment policies that go with that.
24 But we are very, very careful -- you know, and especially
25 in a battleground state like California, we're very, very

1 careful that, you know, supporting the operation of a DC
2 plan that complements a defined benefit base retirement
3 program, that's a service we will do.

4 But the moment it looks as though we are trying
5 to encourage a defined contribution as an alternative to
6 defined benefit, that's simply an area we don't go in.
7 In fact, we're fairly well known for carrying the torch
8 for the defined benefit side of the equation.

9 COMMITTEE MEMBER FECKNER: Great. Thank you.

10 CHAIRPERSON LIND: Thank you and thank you very
11 much for your presentation, gentlemen. We would ask you
12 to leave the auditorium at this time.

13 MR. STROM: Thank you very much.

14 (Thereupon Segal left the auditorium.)

15 CHAIRPERSON LIND: Okay. Does anybody need a
16 break before we start talking about scores?

17 Everybody is okay?

18 All right. Good. So, you know, we're doing this
19 process a little bit differently than we have in the past.
20 And as I've been told, we can do it one of two ways. We
21 can make individual motions for scores for the three firms
22 or somebody could make an overall motion for scores for
23 all three firms, and then we can sort of debate and try to
24 work through it.

25 Beliz or Cheryl or Doug, anybody want to add to

1 that any sort of advice about the process?

2 Maybe Doug.

3 DEPUTY EXECUTIVE OFFICER HOFFNER: I would just
4 make one quick comment. The subcommittee of the
5 Performance, Comp and Talent Management Committee just
6 went through a process very similar to this in the first
7 part of this month, and Priya Mathur was on that
8 Committee.

9 And the Committee then determined to do one
10 motion for scoring across, and then second to that, and
11 then deliberations and discussions ensued. I think that
12 seemed to work fairly effectively. So that was just my
13 two cents on that, but I'll let Priya maybe comment
14 otherwise.

15 CHAIRPERSON LIND: Thank you, Doug.

16 So I will recognize Ms. Mathur.

17 COMMITTEE MEMBER MATHUR: Yeah, I do think that
18 was a very effective process, and got us to a place where
19 I think the entire committee felt very comfortable with
20 the ultimate decision.

21 CHAIRPERSON LIND: All right. Well, then I would
22 entertain a motion to get us started, if anybody has one.

23 Back to you, Priya.

24 COMMITTEE MEMBER MATHUR: May I ask a question,
25 first? I just want to clarify that the Committee

1 interview is 700 points, is that correct?

2 CHIEF AUDITOR CHAPPUIE: (Nods head.)

3 COMMITTEE MEMBER MATHUR: Okay. Well, I first
4 just want to say that I think these are all very high
5 caliber firms. I think you brought to us three firms that
6 anyone of them could do a very excellent job for CalPERS.

7 However, given that, I still will, of course,
8 award -- recommend some points. So for Committee
9 interview points for Buck Consultants, I would give 600
10 points; for Cheiron, I would give 500 points; and for
11 Segal Consulting, 550 points. That is my motion.

12 COMMITTEE MEMBER FECKNER: Second.

13 CHAIRPERSON LIND: Okay. We have a motion by
14 Mathur and a --

15 VICE CHAIRPERSON JELINCIC: Can I hear those
16 number again?

17 CHAIRPERSON LIND: The motion was 600 for Buck,
18 500 for Cheiron and 550 Segal. It was moved by Mathur and
19 seconded by Feckner.

20 And now we're on to discussion. Mr. Slaton.

21 COMMITTEE MEMBER SLATON: Thank you Mr. Chair.
22 Actually, I had made my own notes on points and they were
23 very similar to Ms. Mathur's points, so I'm going to speak
24 in favor of the motion.

25 I do agree that all three firms are obviously

1 well qualified to do this work, but there are nuances,
2 differences we saw, and that's the purpose of doing the
3 interview process is so we can tease those out. And I
4 just found that I think Buck Consultants steps out just a
5 little ahead of the other firms in this particular case.
6 So I'll be supporting the motion.

7 Thank you.

8 CHAIRPERSON LIND: Mr. Jelincic.

9 VICE CHAIRPERSON JELINCIC: I actually put Segal
10 ahead of Buck. And the fact that Segal had worked with
11 Stockton I thought was really very positive, which means
12 they're aware of a lot of the nuances in PERS. And I
13 thought that was a real plus.

14 Buck, on the supplemental question, I thought
15 they were actually somewhat evasive. I mean, they had
16 failed to disclose a litigation. You know, they said well
17 go look at our parent company. Well, you know, the parent
18 company is really concerned with the parent company
19 litigations.

20 And, you know, I really didn't get an answer on
21 why they didn't disclose it or specifically what the cases
22 that our staff found that they hadn't disclosed were. I
23 can understand why they might not have wanted to talk
24 about their legal strategy. But to identify what the
25 cases were, I think was -- the failure to do so, I thought

1 was really disappointing.

2 CHAIRPERSON LIND: Ms. Taylor.

3 COMMITTEE MEMBER TAYLOR: I agree that all three
4 of them were really good. And I have never done this
5 before, so I was really impressed with the caliber of the
6 candidates. What I found -- I'm with J.J., I had thought
7 Segal was the best. Based on their answers, that they
8 seemed like they would be more in tune with us. They had
9 some very nuanced answers that really answered to us more
10 than I thought Buck did.

11 Buck was my second choice. I will agree I didn't
12 like the answer to J.J.'s question about the lawsuit. I
13 thought they avoided the question more than anything. And
14 however, I really like the fact that Buck -- their folks
15 are involved in developing standards for the actuarials.
16 So on that part, I think that's awesome.

17 So if we end up with Buck, I'm fine with that as
18 well, so -- but again, I had Segal Consulting as the best
19 and Buck as the second.

20 CHAIRPERSON LIND: Okay. I don't have any other
21 requests to speak. My take, I had Cheiron ranked number
22 one.

23 (Laughter.)

24 CHAIRPERSON LIND: You know, I thought kind of
25 the combination of the new faces and the, you know, plus

1 some experience. We had that discussion on, you know, the
2 previous agenda item. But I thought they had the
3 strongest team here.

4 So we do have a motion on the floor, which was --
5 I'll restate it -- from Ms. Mathur for 600 points for
6 Buck, 550 points for Segal, 500 points for Cheiron, is
7 that correct?

8 COMMITTEE MEMBER MATHUR: That's correct.

9 CHAIRPERSON LIND: All right. So that motion is
10 before us.

11 All in favor say aye?

12 (Ayes.)

13 CHAIRPERSON LIND: Any opposed?

14 (No.)

15 CHAIRPERSON LIND: Okay. That motion carries.

16 We can invite the three companies back in the
17 room while staff adds up the points.

18 Yeah, it will be a quick calculation.

19 But we do want to invite them in and then we'll
20 ask --

21 COMMITTEE MEMBER FECKNER: It took you that long,
22 Kim?

23 (Laughter.)

24 CHAIRPERSON LIND: -- we'll ask -- according to
25 my notes, Beliz is going to give us the final scores.

1 I guess they're going to let me read the results
2 because they gave me the numbers. All right.

3 No, we're going to let Beliz do it. Okay. I'm
4 just getting my own copy here. All right. Well, we
5 invited the other firms back in. Yeah, I guess they maybe
6 gone or whatever, but they'll get the news.

7 Okay. Let's just wait a couple minute. We'll
8 let folks come back in.

9 Come on. Anywhere you want to sit is fine.

10 Okay. I would go ahead and turn this over to
11 Beliz to read the total scoring results.

12 CHIEF AUDITOR CHAPPUIE: Thank you, Mr. Chair.

13 I will now read the interview scores for each
14 finalist in alphabetical order. Buck Consultants received
15 600 points for their interview score. Cheiron received
16 500 points for their interview score. Segal Consulting
17 received 550 points for their interview score.

18 Combined with their preliminary total scores,
19 Buck Consultants received a total score of 942 points.
20 Cheiron received a total score of 787 points. Segal
21 Consulting received a total score of 850 points.

22 Mr. Chair, the finalist with the highest total
23 score is Buck Consultants.

24 CHAIRPERSON LIND: Thank you very much, Beliz.
25 So we now need a motion to make a full recommendation to

1 the Board, and I have some suggested language here.

2 J.J. -- oh, I have Priya.

3 COMMITTEE MEMBER MATHUR: That's fine. That's
4 fine. J.J. can make the motion.

5 CHAIRPERSON LIND: Great.

6 COMMITTEE MEMBER MATHUR: Just turn his mic on
7 though.

8 VICE CHAIRPERSON JELINCIC: I move that the
9 Committee recommend to the Board that the Board awards a
10 contract to Buck Consultants as the highest ranking
11 finalist, subject to final negotiations and satisfaction
12 of all requirements, and direct staff to begin contract
13 negotiations for the contract with Buck Consultants. It's
14 staff -- if staff, in its discretion, concludes that
15 negotiations are unsuccessful, staff will begin contract
16 negotiations with Segal the next highest scoring finalist.

17 CHAIRPERSON LIND: Okay. Is there a second to
18 that motion.

19 COMMITTEE MEMBER MATHUR: Second.

20 CHAIRPERSON LIND: Seconded by Mathur.

21 Any discussion?

22 Okay. All in favor say aye?

23 (Ayes.)

24 CHAIRPERSON LIND: Any opposed?

25 Okay. That motion carries.

1 I want to thank all three of the films for your
2 presentations and we are on to the next agenda item.

3 CHAIRPERSON LIND: Okay. Yeah. I do need to
4 remind all members of the Committee and finalists of the
5 restricted contact policy under Government Code 20153, and
6 the interviews are adjourned.

7 And we are on to Item number 6a. This is the
8 Semi-Annual Enterprise Risk Management Plan Update.

9 (Thereupon an overhead presentation was
10 presented as follows.)

11 CHIEF FINANCIAL OFFICER EASON: Thank you, Mr.
12 Chair. Cheryl Eason, CalPERS staff. You have a
13 presentation that I'll be giving you. You have copies in
14 your handouts. And I just want to very quickly talk about
15 the update on the enterprise risk domains overseen by the
16 Risk and Audit Committee with the intent to inform the
17 Committee on the staff's assessment for each of the risk
18 and associated mitigation activities.

19 You'll recall that last month we had
20 conversations at the various board committees on the risk
21 domains relevant to their delegated authorities.

22 --o0o--

23 CHIEF FINANCIAL OFFICER EASON: Staff and
24 committee members engaged in a dialogue related to the
25 identified risks and resulting mitigation activities in

1 process. The feedback from these dialogues included the
2 need to further highlight the alignment of the Committees'
3 calendars with agenda items and reporting with the
4 management of its respective risk domains.

5 And these conversations help to inform and
6 enhance the recalibration of the enterprise risk
7 management dashboard that I'll be presenting today.

8 We -- also with this Committee, I want to ensure
9 that we review the compliance ethics risk summaries that
10 are assigned to the Risk and Audit Committee. And then I
11 will also touch on the changes to the dashboard as well as
12 some of the steps going forward and some of the lights for
13 the work that we're doing for 2016 around our risk
14 assessments

15 --o0o--

16 CHIEF FINANCIAL OFFICER EASON: So this slide 3
17 is just a snapshot of the assessment process. And I just
18 want to highlight the -- where the circle, just to again
19 reinforce that new to the process, and I think really a
20 great enhancement to the process, was the discussion last
21 month with the risks and the trends at each of the
22 respective board committees. And that really added a
23 dimension to the dashboard that I'll be presenting to you.

24 --o0o--

25 CHIEF FINANCIAL OFFICER EASON: This is the

1 enterprise risk report for the Risk and Audit Committee.
2 And there are four domains specifically under this
3 Committee's direct authority. They relate to the
4 compliance and ethics. And as you can see, all four are
5 based on staff's assessments and the discussions. There
6 has been no change from May to November in either of the
7 rankings or the trends, but that doesn't mean that there
8 hasn't been work that's been going on in each of those
9 areas.

10 And let me just highlight a few things that
11 are currently the risk mitigation activities that are
12 currently going on. So under the ethical conduct and
13 standards, the ongoing mitigation strategies include the
14 CalPERS ethics helpline, which provides confidential
15 reporting through a third party. And ECOM provides
16 ongoing oversight and monitoring of this process. And, of
17 course, you get -- you receive quarterly reporting on the
18 outcomes of that -- of those inquiries.

19 We also have mitigation strategies underway,
20 further development of an initiative focused on
21 compliance, education, training, and communications to be
22 led by the ECOM area.

23 Fraud detection and prevention. The mitigation
24 strategies include the development of an operating event
25 management process. And what that process will do is

1 identify, triage, and correct potential incidence of
2 non-compliance discovered during those day-to-day
3 operations, which we believe help to ensure fraud
4 detection and prevention.

5 There's also the laws, rules, and regulations, as
6 well as policies and procedures. The -- they are related
7 in that both these domains include ECOM's assumption of
8 responsibility for the enterprise policy management and
9 delegation of authority functions. What -- the work
10 currently going on in this area is that ECOM has partnered
11 with Human Resources and the Legal Office for input on the
12 establishment of standards and a framework for lifecycle
13 management around our processes and procedures that will
14 include the process review, definitions, and oversight.

15 So you will be receiving an update at the March
16 meeting from ECOM on all of the work on their semiannual
17 plan that the Board approved earlier in the year.

18 --o0o--

19 CHIEF FINANCIAL OFFICER EASON: Just moving on to
20 the 30 risks that are identified, the comprehensive view
21 for the organization. You'll note that we have
22 highlighted here the five top risks. They are the ones
23 with the stars. And the two risks that have changed in
24 ranking since the last report in June 2015, and you'll see
25 that those are information security and business

1 continuity management. Those two risks have been raised.
2 And I'll talk a little bit more about that on the next
3 slide.

4 The -- we just wanted to point out that in these
5 areas, the two elevated in both the strategic and
6 operational -- in fact, I'll go to the next slide.

7 --o0o--

8 CHIEF FINANCIAL OFFICER EASON: So this gives you
9 a -- just a summary of how we categorize the risks between
10 strategic, operational, financial, and compliance and
11 ethics. And I want to talk a little bit about an approach
12 that we are undertaking right now to look at that slightly
13 differently, and I'll just describe that to you.

14 --o0o--

15 CHIEF FINANCIAL OFFICER EASON: But let me just
16 first go through what has changed since you've last seen
17 the dashboard. So we have 28 of the risk domain levels,
18 the levels themselves, have remained unchanged, as I
19 mentioned. Two, the business continuity and the
20 information security have been elevated. And the -- of
21 the 30, we have 22 trend levels that have remained
22 unchanged. We have four that have moved upward and four
23 that have moved downward.

24 And I just want to point out that although we
25 said four have moved upwards, the one that's missing there

1 is the participating employer hardship. So although the
2 risk levels have not changed in those eight, we have
3 indicated that there are some trending over the next six
4 months that we believe, either environmentally
5 operationally, that may cause those to be either upward or
6 downward.

7 But I just want to point out the business
8 continuity and information security, because I think
9 that's a -- it's a lead in to the work that we're doing on
10 some key changes around how we want to start to engage and
11 look at risks. And it really came out of, as a result of,
12 the work that the organization has done, as well as the
13 conversations that we had last month with the Board.

14 We have this increased awareness in our
15 environment when it comes to information security. And
16 you've had presentations on our cybersecurity program. We
17 hear every day on cyber attacks, national security
18 threats. And that really focuses on those external
19 environmental issues that in preparing for that and
20 mitigating, it's really about being best prepared for
21 that.

22 In business continuity, those also impact the
23 ability for the organization to continue from a business
24 perspective. And we also need to look at business
25 continuity, not just from a information security

1 perspective, but of course we are sensitive to the fact
2 that there are natural disasters as well that can lead to
3 raising the risk level.

4 And so the difference that we see in our -- in
5 the discussions that we've had internally and we'll bring
6 back to the Board -- this Committee in March is that
7 business continuity is really an operational risk. It is
8 something that we should be prepared for and being able to
9 do the due diligence in order to be able to ensure, if not
10 avoid, at least certainly mitigate that risk.

11 --o0o--

12 CHIEF FINANCIAL OFFICER EASON: And I think that
13 leads to the risk categories that we'll be looking at when
14 we look at the -- when we do the review, and we do a deep
15 dive of the risks from now until March when we come back
16 with that review. And I wanted to just show you here that
17 looking at the current risks -- and those risks may change
18 as we look at them from these categories. But when you
19 look at the strategic -- so if risks fall into the
20 strategic area, which could be created by or affects
21 business strategy decisions, then your objective in your
22 mitigation is really to reduce the likelihood and impact
23 the cost effectively of that.

24 Operationally, those risks are those ones that
25 internally you would pay attention to, in terms of being

1 able to prevent or widely control what those risks are.
2 So again, your objective, when you look at mitigation
3 strategies, around operational risks would be to avoid or
4 eliminate those occurrence costs in a cost effective way.

5 So again, using that example, business
6 continuity, I think we would look to business continuity
7 as really more of an operational risk.

8 And then external, again using the example of the
9 information security, those are more around external
10 forces that could affect the ability for the organization
11 overall to meet its strategic objectives. And your
12 mitigation objective there is really to look at are you --
13 your initiatives to reduce the impact of cost
14 effectiveness should that risk event occur. And, of
15 course, we talk a great deal about a lot of the work
16 that's being done within the cybersecurity area and the
17 risk mitigation initiatives that we've taken on as part
18 of -- as part of the -- our security -- information
19 security roadmap, many of which are to really mitigate
20 those external forces.

21 So I wanted to just give you a preview of that,
22 because that is -- coming out of the discussions last
23 month, and being able to have those discussions, we feel
24 that that's -- aligns with a lot of the industry
25 terminology, how we look at it, and I think a better

1 approach in terms of being able to now categorize and
2 really enhance the risk mitigation initiatives that we'd
3 be looking at.

4 --o0o--

5 CHIEF FINANCIAL OFFICER EASON: So we will
6 continue to look at this and would welcome your feedback.
7 We'd like to bring that back to you in March. We will
8 continue to engage with our senior leadership as well as
9 this Committee and other committees, in terms of assessing
10 those risks. We take very seriously the comments about
11 ensuring that we're aligning the various agenda items that
12 we're bringing back to the Committee. So we definitely
13 will be heightening the alignment there, and as well as
14 ensuring that we have defined risks, looking at the
15 categorization and putting forward the prioritization of
16 resources and efforts.

17 And some of that, of course, you will also see as
18 part of our budget process coming forward in the spring
19 because we'll be doing a risk assessment, as well as part
20 of that process.

21 So with that, I'd welcome any questions.

22 CHAIRPERSON LIND: We have a few.

23 Mr. Jelincic.

24 VICE CHAIRPERSON JELINCIC: Well, thank you for
25 the report. I have expressed concern about ICOR reporting

1 through investments. Part of the reassurance I keep
2 getting is that, well, ECOM is going to be monitoring to
3 make sure ICOR is doing its job. When I look at the
4 analysis, I notice that that monitoring function is not
5 listed there. That doesn't necessarily mean it stoped,
6 but it's not listed, so it's -- I'm not sure, you know,
7 the emphasis being put on it.

8 The other issue I'd like to raise is we have lots
9 of different units within different programs who are
10 looking at compliance.

11 And ICOR pops up because it's probably the most
12 visible. But at some point, when you do this report, I'd
13 like to see what other units we have that are focusing on
14 compliance and risk within each of the programs, and again
15 some more expansion on how ECOM is, in fact, monitoring to
16 make sure that they do their job.

17 CHIEF FINANCIAL OFFICER EASON: Thank you very
18 much. We have on the agenda for March there's the
19 semiannual enterprise compliance plan that we'll be coming
20 back with. And we can certainly incorporate that as part
21 of the review that we'll be giving the Committee in March.

22 VICE CHAIRPERSON JELINCIC: Thank you.

23 CHAIRPERSON LIND: Mr. Slaton.

24 COMMITTEE MEMBER SLATON: Thank you, Mr. Chair.

25 And this is a subject we talked about during the

1 briefing, the differences between, and you've alluded to
2 this, between information security risk, and business
3 continuity risk.

4 And the information security is essentially an
5 external risk that is going to be probably elevated as
6 long as we're all here. I don't know how we're ever going
7 to get that to a green. If we get it to green, I'd be
8 worried that we're missing something.

9 But the business continuity is under our control.
10 Obviously, it's external forces, and it could overwhelm us
11 at some point, but a lot of that preparation is under our
12 control. So here we are in Sacramento, California with
13 predictions of El Niño this year. That's just one
14 particular risk of significant rainfall that will hit this
15 region.

16 And so that's one where I, for one member of the
17 Committee, am not totally comfortable with the next time
18 talking about this is March on that particular issue, just
19 because I think it's something we need to -- when that
20 gets to orange, I get very nervous. So I would ask you
21 and the Chair what can we do to track this a little bit
22 sooner on that particular item.

23 CHAIRPERSON LIND: Maybe you could do at least a
24 progress -- you know, a mini progress report along the
25 way, Ms. Eason.

1 CHIEF FINANCIAL OFFICER EASON: Yes, we'd be
2 happy to do that. And I think just to speak to the reason
3 for the elevation, I think there's a lot of good
4 mitigation work that's going on, a lot of planning. I
5 think the -- where the organization is focused is really
6 on the alignment of each of the individual business
7 continuity plans and recognizing, through -- probably
8 through tabletop type of exercises and reviewing the
9 perhaps, we need to be able to bring those closer
10 together.

11 So it was really an awareness from the staff to
12 say -- I think very much align to your comments, Mr.
13 Slaton, that really a plan isn't going to work. It needs
14 to work more than just on paper. It needs to work when
15 the event actually happens, but --

16 COMMITTEE MEMBER SLATON: So here's just a
17 follow-up question. And Matt, this might be something
18 that you might have to opine on. Some elements of this
19 work around the issue of security as well. And so
20 briefings on this, can that be in closed session and -- or
21 what does it have to encompass in order to be appropriate
22 for a closed session?

23 GENERAL COUNSEL JACOBS: Well, if we're starting
24 to address security issues, such as the ones about -- that
25 surround information technology, and the like, and we're

1 talking about specific threats and how our planned
2 response to those threats, those can be in closed session.

3 COMMITTEE MEMBER SLATON: Would that be --
4 include potential threats, not actual threats?

5 GENERAL COUNSEL JACOBS: Yes.

6 COMMITTEE MEMBER SLATON: Okay.

7 GENERAL COUNSEL JACOBS: I'm not sure that that
8 though is what this business continuity risk arena is
9 really getting at, is it?

10 COMMITTEE MEMBER SLATON: Well, I -- before you
11 answer, I would just suggest that given the news of what
12 happened in Paris that there potentially could be some
13 consideration of issues of threats that we might not
14 normally look at, but that we might want to include.

15 GENERAL COUNSEL JACOBS: Fair enough.

16 CHIEF FINANCIAL OFFICER EASON: Yeah, I would
17 agree. I think obviously it's not only natural disasters,
18 as I mentioned, but it's also -- it's also security risks
19 that could potentially cause the business to -- from a
20 continuity perspective to be impaired. So I think we --
21 it certainly would be part of what we address in our
22 business continuity plans as well.

23 GENERAL COUNSEL JACOBS: Okay. Well, security
24 risk, potential security risks is absolutely something
25 that we can review in closed session.

1 COMMITTEE MEMBER SLATON: Well, it sounds like
2 the two of you would collaborate on what would be
3 appropriate.

4 GENERAL COUNSEL JACOBS: Yes, absolutely.

5 COMMITTEE MEMBER SLATON: Thank you.

6 CHAIRPERSON LIND: Ms. Mathur.

7 COMMITTEE MEMBER MATHUR: Thank you, Mr. Chair.

8 So clearly when you're thinking about how to
9 mitigate some of these risks, part of the equation is what
10 is the cost to mitigate? And you have to make -- the
11 execute team, the Board has to make a sort of prudent
12 decision about -- or a judgment call about what -- how
13 much is it worth to spending in order to mitigate a given
14 risk.

15 Is there a formalized process within the staff --
16 I know the staff is doing a lot around risk mitigation and
17 consideration of the risks, but is there a formalized
18 process for evaluating that cost-benefit analysis, or is
19 it more of a sort of just discussion based judgment call?

20 CHIEF FINANCIAL OFFICER EASON: I would say
21 certainly there's discussion, but I would say we've
22 also -- there has been more a formalization of that within
23 our business planning process. So one of the -- in
24 looking at the initiatives as we start to plan for the
25 next fiscal year and into the two-year plan, one of the

1 assessments that we do is from a risk assessment
2 perspective.

3 So, I mean, the -- I guess the most obvious would
4 be looking at our security roadmap and determining whether
5 or not there are additional mitigation initiatives we
6 should be taking on. That's certainly then, based on
7 that, is costed out from a budget perspective, and then
8 included both as an initiative and the costs associated
9 with those initiatives.

10 So we are doing more work in that area in terms
11 of not only identifying what initiatives help to mitigate
12 risk, but what are the costs associated with that -- with
13 those initiatives as well.

14 COMMITTEE MEMBER MATHUR: And is there a role
15 that this Committee or other committees or the Board, as a
16 whole, should be playing in -- I mean, obviously a lot of
17 this is sort of at the operational level, so staff -- but
18 is there a role for this Committee or the Board as a whole
19 to be playing in making those judgment calls or those
20 determinations?

21 CHIEF FINANCIAL OFFICER EASON: I think -- and
22 one of the improvements that we've made to the agenda
23 items is to have to include both the risks within -- to
24 identify what those risks are within each of the agenda
25 items, but also any financial implications and -- as well

1 as budget implications. And I think that is a -- that is
2 certainly a way for each Committee to be able to look at
3 that when those agenda items come forward to determine
4 whether or not we've really addressed that adequately
5 within each of the agenda items, which I think then really
6 helps to roll up into that broader discussion that we have
7 around risks that we've now implemented based on last
8 month's discussion.

9 COMMITTEE MEMBER MATHUR: Thank you.

10 CHAIRPERSON LIND: Mr. Jelincic.

11 VICE CHAIRPERSON JELINCIC: And Bill, El Niño
12 could put us under 20 feet of water. But even without
13 that, that dike breaks, we're under 15 feet of water, and
14 I'm not sure it makes a significant difference.

15 CHAIRPERSON LIND: Okay. On that note, under
16 summary of Committee direction, I've got two items. One
17 is we're looking for a proposal around the RFP process for
18 outside auditor that includes some way to mitigate the
19 advantage of the incumbent. I think that was the one
20 direction. And the second is that we're looking for a
21 progress report or reports, prior to the full March
22 report, on security, business continuity, possibly in
23 closed session. Does that pretty much sum it up for
24 everybody?

25 Okay. I don't see any requests to speak from the

1 public.

2 This meeting is adjourned.

3 (Thereupon the California Public Employees'
4 Retirement System, Board of Administration,
5 Risk and Audit Committee open session
6 meeting adjourned at 12:31 p.m.)

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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, Risk and Audit Committee open session meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California, 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 22nd day of November, 2015.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
License Number 10063