

MEETING
STATE OF CALIFORNIA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
FINANCE & ADMINISTRATION COMMITTEE

ROBERT F. CARLSON AUDITORIUM
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10:15 A.M.

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

COMMITTEE MEMBERS:

Mr. Richard Costigan, Chairperson

Ms. Dana Hollinger, Vice Chairperson

Mr. Richard Gillihan, represented by Ms. Katie Hagen

Mr. J.J. Jelincic

Mr. Henry Jones

Mr. Bill Slaton

Ms. Betty Yee, represented by Ms. Lynn Paquin

BOARD MEMBERS:

Mr. Michael Bilbrey

Mr. John Chiang, represented by Mr. Grant Boyken

Mr. Ron Lind

STAFF:

Ms. Anne Stausboll, Chief Executive Officer

Ms. Cheryl Eason, Chief Financial Officer

Mr. Ted Eliopoulos, Chief Investment Officer

Mr. Doug Hoffner, Deputy Executive Officer

Ms. Donna Lum, Deputy Executive Officer

Mr. Doug McKeever, Deputy Executive Officer

Mr. Brad Pacheco, Deputy Executive Officer

Mr. Matthew Jacobs, General Counsel

Mr. Alan Milligan, Chief Actuary

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

STAFF:

Ms. Mary Anne Ashley, Chief, Legislative Affairs Division

Ms. Tanya Black, Committee Secretary

Mr. Anthony Suine, Chief, Benefit Services Division

ALSO PRESENT:

Mr. Neal Johnson, Service Employees' International Union,
Local 1000

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

2 CHAIRPERSON COSTIGAN: All right. Good morning.
3 We're going to call the order the December 15th meeting of
4 the CalPERS Finance and Administration Committee meeting.
5 Would we please start with the roll.

6 COMMITTEE SECRETARY BLACK: Richard Costigan?

7 CHAIRPERSON COSTIGAN: Here.

8 COMMITTEE SECRETARY BLACK: Dana Hollinger?

9 VICE CHAIRPERSON HOLLINGER: Here.

10 COMMITTEE SECRETARY BLACK: Katie Hagen for
11 Richard Gillihan?

12 ACTING COMMITTEE MEMBER HAGEN: Here.

13 COMMITTEE SECRETARY BLACK: J.J. Jelincic?

14 COMMITTEE MEMBER JELINCIC: Here.

15 COMMITTEE SECRETARY BLACK: Henry Jones?

16 COMMITTEE MEMBER JONES: Here.

17 COMMITTEE SECRETARY BLACK: Bill Slaton?

18 COMMITTEE MEMBER SLATON: Here.

19 COMMITTEE SECRETARY BLACK: Lynn Paquin for Betty
20 Yee?

21 ACTING COMMITTEE MEMBER PAQUIN: Here.

22 CHAIRPERSON COSTIGAN: All right. Well, good
23 morning. Before we get started, I just have a couple
24 remarks. I just really want to say congratulations. A
25 lot of credit to Cheryl Eason and her staff. As you may

1 know, and it unfortunately came out right after
2 Thanksgiving, and so it was a little bit of a dead period,
3 but CalPERS was awarded by the Government Finance Officers
4 Association, in national organization, an excellence in
5 budget reporting for the second year in a row.

6 So I just want to say, Cheryl, congratulations to
7 you and your team. It is remarkable as to where we have
8 come over the last four years on transparency and on
9 budgeting. And it's great for our organization to be
10 honored with such an award. So again, I, first of all,
11 appreciate you and your staff having put up with all of
12 our tinkering and talking about the budget over the last
13 couple years. But clearly, what you have done and what
14 you and Ms. Stausboll and Mr. Hoffner have done have just
15 been excellent and truly appreciate it. So thank you very
16 much.

17 And with that, I'd like to turn it over to you
18 for the executive report.

19 CHIEF FINANCIAL OFFICER EASON: Well, thank you
20 very much. And on behalf of the staff who work hard on
21 that budget, I appreciate your acknowledgement and kind
22 words.

23 Good morning, Mr. Chair and Committee members.
24 Cheryl Eason, CalPERS staff. I would like to take just a
25 moment to look back to last month and the adoption of the

1 Funding Risk Mitigation Policy. And I'm pleased to inform
2 you that CalPERS staff and the ALM team are already busy
3 at work developing and implementing procedures in
4 readiness for the upcoming fiscal year-end.

5 Moving to today's agenda, there are two action
6 item before you, the second reading of the 2015-16
7 mid-year budget revisions, and the State legislative
8 proposal policy and technical amendments to the Public
9 Employees' Retirement Law.

10 The information items in front of the Committee
11 today are the strategic measures affirmed by the Board.
12 And we ask the Committee for their validation and
13 affirmation on first -- the first of the two measures
14 being presented with the Committee today, that being the
15 funded status related to the funding of the system with an
16 acceptable level of risk. And secondly, the evaluation of
17 CalPERS perception in the media and perception among
18 stakeholders providing you with an update of the progress
19 of these measures.

20 The next Finance and Administration Committee
21 scheduled -- is scheduled for February 17th, 2016, and
22 will cover several important planning items, including the
23 2015-17 business plan mid-year update, and the first
24 reading of the CalPERS 2016-18 business plan.

25 As part of our ongoing risk mitigation efforts,

1 the agenda will also include a review of the actuarial
2 policies framework and an update on the exploration of a
3 proposed voluntary pension pre-funding trust program for
4 participating CalPERS public agency employers.

5 Additional items include the review of the Board
6 of Administration election voting process changes and the
7 first reading of the CalPERS budget policy.

8 Thank you, Mr. Chair. This concludes my report.
9 I'd be happy to take any questions.

10 CHAIRPERSON COSTIGAN: Any questions?

11 Seeing none.

12 We are going to be removing item 3b from consent
13 and we're going to move that to right before we take up
14 Item 5 for the action item. So first, we'll take up item
15 3a, a consent item, which was the approval of the November
16 17, 2015 minutes.

17 VICE CHAIRPERSON HOLLINGER: So moved.

18 COMMITTEE MEMBER JONES: Second.

19 CHAIRPERSON COSTIGAN: Moved by Hollinger,
20 seconded by Jones.

21 Any questions?

22 All those in favor?

23 (Ayes.)

24 CHAIRPERSON COSTIGAN: Opposed?

25 Motion carries.

1 Item 4 is again just informational consent. Any
2 concerns, questions?

3 Seeing none. All right. On item 3b now, which
4 is the semiannual contracting prospective report, our
5 first -- Ms. Eason, any comments? We do have one member
6 of the audience that wants to speak.

7 CHIEF FINANCIAL OFFICER EASON: Yeah, nothing.

8 CHAIRPERSON COSTIGAN: Nothing. Okay. Mr.
9 Johnson. Neal Johnson.

10 Mr. Jelincic, would you like to ask now?

11 COMMITTEE MEMBER JELINCIC: Sure.

12 CHAIRPERSON COSTIGAN: Okay. As Mr. Johnson is
13 getting settled.

14 All right. Mr. Jelincic.

15 COMMITTEE MEMBER JELINCIC: I'll give Neal a
16 change to get seated. Kim would be disappointed if I
17 didn't say that I believe that a number of these contracts
18 could actually be done in-house. And so I will be voting
19 against the report, as I have consistently every six
20 months. But on the other hand, it is really up to SEIU
21 and CASE to defend their own work.

22 Thank you.

23 CHAIRPERSON COSTIGAN: All right. Mr. Johnson,
24 you'll have three minutes.

25 MR. JOHNSON: Yes. Thank you. Neal Johnson,

1 SEIU Local 1000.

2 Not to sound like a broken record, but once again
3 we're seeing a continuation of contracts for, in this
4 case, actuarial services when, you know, we understand
5 there needs to -- you have a requirement for an
6 independent actuary. And we understand that the State's
7 pay scale, which is not particularly satisfactory across
8 the board, but particularly underpays actuaries, makes it
9 very difficult to recruit. Although this agency has done
10 a fairly good job of training -- bringing people at low
11 levels and training them, but it still begs the question
12 of why do you need to contract so many of the services of
13 that -- of the actuaries to other parties when, in fact,
14 these are duties that easily could be brought in-house,
15 and really you need to really develop a process to stop
16 contracting out and bring it in-house.

17 Also, the State really needs to consider how to
18 appropriately compensate these valued professionals that
19 the current pay scale is so far under the industry
20 standard that it's almost humorous. So while we're not
21 particularly objecting to any specific one of the
22 contracts, we're really concerned with this continuing
23 process of contracting out these services.

24 Thank you.

25 CHAIRPERSON COSTIGAN: Okay. Thank you, Mr.

1 Johnson.

2 Mr. Jelincic.

3 COMMITTEE MEMBER JELINCIC: Yeah. The failure to
4 pay a competitive rate really should not be the basis for
5 contracting out. It's not cost effective. We need to
6 step up and pay the skills -- pay for the skills that we
7 need. And a lot of this can in fact be done in-house. So
8 I will get off that particular soap box for now.

9 CHAIRPERSON COSTIGAN: Thank you.

10 Mr. Slaton.

11 COMMITTEE MEMBER SLATON: Well, I'd like to put
12 Mr. Jelincic back on the soap box for a moment, because I
13 want to understand better what we're talking about. If
14 we're talking about independent actuarial work, the
15 operative word is independent. So I'm not sure I quite
16 understand how you would bring that service in-house, if
17 it has to be independent. We're required to do it.

18 But are there other areas in this list that you
19 would suggest could be done in-house? I'd like to better
20 understand that.

21 CHAIRPERSON COSTIGAN: We'll let Mr. Jelincic
22 respond.

23 COMMITTEE MEMBER JELINCIC: Yeah, there are --
24 not all of the actuarial contracts are for independent.
25 Some of it is just the valuation of the OPEB obligations,

1 which could be done in-house. There is much legal work
2 that I think we could actually bring in-house. One of the
3 areas that we do -- use a lot of the legal work is in
4 private equity. That's not a program that's going away.
5 We should be able to hire that skill set and bring it
6 in-house. A lot of the management contracts we contract
7 out because we're not paying competitive salaries, and we
8 can't get the skill sets we need. That could be brought
9 in-house.

10 I agree to the extent that it requires an
11 independent viewpoint, and by definition it almost has to
12 be outside. But there's lots of these that we actually
13 could bring in-house if we were willing to hire the skill
14 sets we need.

15 COMMITTEE MEMBER SLATON: So is the blocking
16 factor inertia, is it that we don't have the authority to
17 pay high enough salaries? What's the -- what's blocking
18 us from doing that?

19 COMMITTEE MEMBER JELINCIC: In some -- for the
20 investment classes, the PMS and above, we have the
21 authority to pay whatever we need to pay. The legal and
22 actuarial, most of that is controlled by DPA's pay scales
23 that we the authority to do. Although, I think we
24 certainly should be leaning on DPA saying, hey, this is
25 not sound business practice for this system to have to

1 contract this out, if we could hire the skill set
2 internally for significantly less.

3 But we don't have control on that, but we
4 certainly should be talking to DPA and the people who
5 appoint you.

6 COMMITTEE MEMBER SLATON: So I guess my last
7 question is so what would the -- if there's any interest
8 beyond the discussion that Mr. Jelincic and I are having
9 by the committee, what's the -- what would be the next
10 step if we felt that there is progress that could be made
11 on taking -- that it would be good business to bring
12 certain tasks in-house that are not in-house today. How
13 would we advance that?

14 COMMITTEE MEMBER JELINCIC: Are you asking me?

15 COMMITTEE MEMBER SLATON: And that's -- it's more
16 of a rhetorical questions. Maybe the Chair has some
17 thoughts.

18 CHAIRPERSON COSTIGAN: Well, I will say -- I
19 should turn on my microphone. I will be recusing on this
20 issue because of some of the issues raised because of the
21 other board I sit on. And that other board may or may not
22 be able to address this question as it relates to what's a
23 contracting out matter or not under 19130.

24 COMMITTEE MEMBER SLATON: So maybe the
25 compensation --

1 CHAIRPERSON COSTIGAN: So I don't want to give an
2 guidance, because I don't want to be prejudge as to where
3 should an issue come before my other board that I've
4 already made a decision. So I will be recusing.

5 COMMITTEE MEMBER SLATON: I see. So I could
6 raise this issue at Perf and Comp Committee would be an
7 appropriate place to do that.

8 CHAIRPERSON COSTIGAN: Correct.

9 COMMITTEE MEMBER JELINCIC: May I?

10 CHAIRPERSON COSTIGAN: Go ahead, J.J.

11 COMMITTEE MEMBER JELINCIC: Yeah. I think one of
12 the things we should ask staff to do is look at those
13 things that we are contracting out that are going to be
14 continuous ongoing programs and ask them to identify what
15 are the constraints. And I think it will tend to be
16 salary, but -- so I think that's another question of
17 action that's available to us.

18 CHAIRPERSON COSTIGAN: And I will just say --

19 COMMITTEE MEMBER JELINCIC: And we could
20 encourage SEIU and CASE to go visit Richard's other board
21 and talk about it.

22 CHAIRPERSON COSTIGAN: I just would point out for
23 Mr. Slaton, there is a process under 19130 on contracting
24 out. And Ms. Malm is very familiar with it. And just --
25 it's out of an abundance of caution because some of the

1 issues that have been raised as to my recusal. It's no
2 predetermination about anything on the contracts. I just
3 want to make that clear. Because when we look at the
4 contracts, there is a process which is followed, and there
5 is an appeal process in which to question it.

6 So Ms. Hollinger.

7 VICE CHAIRPERSON HOLLINGER: Yeah, I guess two
8 things. Number one in following up on J.J., to the extent
9 that there wouldn't be constraints or, as Mr. Slaton said,
10 that we need independent actuaries. But if, in fact, we
11 didn't, I would like to see that. I'm not sure of the
12 process, maybe you can speak to that, but that we could
13 bring those things in-house or at least pay the
14 appropriate salaries to be able to do that in-house rather
15 than contracting out.

16 And then I had a question on a particular
17 contract, and it's the Steptoe contract, Matt. I saw over
18 the five-year period, and I was wondering what that was
19 for?

20 GENERAL COUNSEL JACOBS: That's for primarily tax
21 advice. We've got a lot of tax issues, very high
22 sophistication level, involve a lot of contacts with the
23 IRS and other taxing authorities, and we need to make sure
24 that all our plans comply with all of the tax regulations.
25 And so that's kind of a projection based on historical

1 spend over the next five years.

2 VICE CHAIRPERSON HOLLINGER: Got it. Okay.
3 Thank you.

4 GENERAL COUNSEL JACOBS: You're welcome.

5 DEPUTY EXECUTIVE OFFICER HOFFNER: Doug Hoffner,
6 CalPERS staff. If I could maybe address the underlying
7 issue that was raised, particularly with the actuarial
8 staff. In terms of what's identified here is actually a
9 pool of potential folks that we could use to provide that
10 service to us. I want to be fully clear with the Board
11 and the Committee that we've been supportive of and put
12 forth pay differentials for the actuarial staff that have
13 not currently been approved, but we've done that. It's at
14 least six to eight months of that process right now.

15 Fully supportive of the consolidation of five or
16 six departments' actuarial staff classifications across
17 both us the, the Department of Insurance, the State
18 Compensation Insurance Fund, Department of Health Care
19 Services and others that meets the -- really the direction
20 of what the administration has proposed in terms of the
21 consolidation of classifications across the State of
22 California's systems.

23 Again, that has not been finalized and/or
24 concluded yet. My understanding those items will be going
25 forth basically to main table bargaining in the spring of

1 next year. But we, as an organization, have been fully
2 supportive of making modifications to help pay for that
3 staff at a higher rate than they currently are paid today.

4 In addition to that, we've modified an actual
5 study program for the staff to gear them up for and have
6 the opportunity and time to study for the upcoming courses
7 to bring them up in terms of in-house -- sort of scaling
8 them up within the organization for internal development.

9 We could talk about more of these things, but I
10 did want to at least not leave you with a belief that we
11 have not been supportive of pushing these items forward
12 and can have a further discussion at the Performance and
13 Comp Committee this afternoon, if that's what comes up.

14 CHAIRPERSON COSTIGAN: And before I call on Ms.
15 Hagen, I do want to say Mr. Hoffner, we are very aware of
16 the class changes. And I think as you know at the State
17 Personnel Board, as we're moving forward with CalHR, I
18 know folks are worried about their area and their -- the
19 changes in classifications, both CalHR and SPB are taking
20 a global approach across all the State. And I know
21 sometimes it seems like we're moving very slowly.

22 I can tell you, on behalf of our board, these
23 issues are all taken very seriously, but we're looking
24 across -- you can actually ask another agency that came
25 forward with a request for a new classification which was

1 rejected because it was going in the wrong direction.

2 And so I do understand, and we do get the
3 concerns that this may not be moving fast enough, but
4 understand it is part of a global concept.

5 And with that, Ms. Hagen.

6 ACTING COMMITTEE MEMBER HAGEN: Thank you. So I
7 think it's been covered, but I just want to indicate that
8 there is a process for DPA, also known as CalHR --

9 (Laughter.)

10 ACTING COMMITTEE MEMBER HAGEN: -- has a process.
11 And just last week, they sent out a solicitation to labor
12 relations personnel and the State's 150 departments asking
13 for feedback that will be used, you know, on potential
14 proposals that could be discussed in bargaining. So that
15 is coming up. There's a process for that, and I think Mr.
16 Hoffner covered the other points. Thank you.

17 CHAIRPERSON COSTIGAN: All right. Mr. Jelincic.

18 COMMITTEE MEMBER JELINCIC: And DPA will also be
19 DPA --

20 CHAIRPERSON COSTIGAN: CalHR.

21 COMMITTEE MEMBER JELINCIC: -- to me. But I
22 recognize they're part of a bigger Department that is
23 CalHR. But, you know what, they're going to be DPA for a
24 long time.

25 Thank you.

1 CHAIRPERSON COSTIGAN: Okay. Any further
2 questions or comments?

3 So this is an action item now. So I need a
4 motion to approve.

5 VICE CHAIRPERSON HOLLINGER: Motion to approve.

6 CHAIRPERSON COSTIGAN: Moved by Hollinger.

7 ACTING COMMITTEE MEMBER PAQUIN: Second.

8 CHAIRPERSON COSTIGAN: Seconded by Paquin.

9 All in favor?

10 (Ayes.)

11 CHAIRPERSON COSTIGAN: Opposed?

12 (No.)

13 CHAIRPERSON COSTIGAN: And please not I recused.
14 Did you get all of that?

15 THE COURT REPORTER: (Nods head.)

16 CHAIRPERSON COSTIGAN: Thank you.

17 Next item, Item 4 -- 5. Item 5a, mid-year budget
18 revisions.

19 CHIEF FINANCIAL OFFICER EASON: Thank you.

20 Cheryl Eason, CalPERS staff.

21 Agenda Item 5a is an action item. And it
22 represents the second reading of the 2015-16 mid-year
23 budget revisions to the annual 2015-16 budget.

24 Last month, on first reading, as you may recall,
25 this item was presented as an information item. And as a

1 result of that review by this Committee, no changes were
2 requested. Therefore, on second reading, and as an action
3 item, the Board is requesting approval of the mid-year
4 budget of \$1 billion 808 million, which represents a
5 decrease of 12.1 million, or 0.7 percent, from the
6 previously approved 2015-16 annual budget. The total
7 number of authorized positions at CalPERS remains
8 unchanged at 2,765.

9 I would be happy to answer any questions.

10 CHAIRPERSON COSTIGAN: Rose, do you have
11 anything?

12 You don't have to.

13 Kim?

14 Any questions?

15 Mr. Jelincic.

16 COMMITTEE MEMBER JELINCIC: I will move staff's
17 recommendation and I -- but I do have one question.

18 COMMITTEE MEMBER JONES: Second.

19 COMMITTEE MEMBER JELINCIC: And this is something
20 I'd asked on the briefing, but wanted to put it out in the
21 public record as well. The submissions that were not
22 included in this request were either deferred to the
23 annual budget process or they didn't meet the criteria.
24 Can you tell me what those requests were and how they all
25 got handled?

1 CHIEF FINANCIAL OFFICER EASON: We -- as I
2 recall, there were three requests. Two requests were
3 satisfied with existing funding within the current budget,
4 and one request was for an additional two positions that
5 did not meet the criteria. However, we were able to use
6 those current vacancies to be able to provide those two
7 staffing positions.

8 COMMITTEE MEMBER JELINCIC: Thank you.

9 CHAIRPERSON COSTIGAN: All right. Any other
10 questions?

11 COMMITTEE MEMBER JELINCIC: Did anybody second my
12 motion?

13 CHAIRPERSON COSTIGAN: I'm sorry?

14 COMMITTEE MEMBER JELINCIC: Did anybody second my
15 motion?

16 CHAIRPERSON COSTIGAN: No, I was going to say
17 it's been moved by Jelincic and seconded by Jones. I do
18 keep notes.

19 All those in favor?

20 (Ayes.)

21 CHAIRPERSON COSTIGAN: Opposed?

22 Motion carries. Thank you.

23 Next item, Item 6, Legislation. Oh, first time
24 here. We'll have a few questions.

25 (Laughter.)

1 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Oh
2 great. I look forward to it.

3 CHAIRPERSON COSTIGAN: Good morning.

4 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Good
5 morning, Chair Costigan and members of the Committee.
6 Mary Anne Ashley, CalPERS staff.

7 Staff is recommending that the Board sponsor
8 legislation that would make four changes to the Public
9 Employees' Retirement Law that would clarify and simplify
10 how the law is applied.

11 The first proposal is interest on delayed
12 payments of death benefits. And it would fix the rate of
13 interest on member account balances paid to survivors when
14 there is a delay in the payment of the death benefits.
15 Currently, the rate is a variable rate based on CalPERS
16 most recent rate of return on investments or six percent,
17 whichever is higher. This proposal would change that rate
18 to a flat 7 percent in order to simplify administration of
19 this function and treat beneficiaries consistently.

20 The second proposal is interest and penalty
21 assessments for nonpayment. This would clarify the
22 interest payment owed to CalPERS when contracting agencies
23 do not pay their contributions in a timely manner. It
24 would specify that the interest rate on late payments is
25 the higher of 10 percent or the investment rate of return

1 for the prior fiscal year, with an additional 10 percent
2 penalty if the penalty -- if the payment is more than
3 three months delinquent.

4 And the third proposal, which is the terminated
5 agency pool process, would clarify the timing and process
6 by which CalPERS transfers assets from a contracting
7 agency's account to the terminated agency pool upon its
8 involuntary or voluntary termination. Existing law
9 contains two provisions that imply differing schedules for
10 the transfer of assets. And this proposal clarifies that
11 the assets will be transferred to the terminated agency
12 pool before CalPERS attempts to recover any delinquent
13 payments or reduce member benefits.

14 And the last proposal is the replacement benefit
15 plan administrative costs. And this will make employers
16 responsible for the costs associated with CalPERS
17 administration of the replacement benefits program. In
18 the past, CalPERS has covered these administrative costs
19 from the interest earned on employer contributions, but
20 with enrollment growth and recent operational changes, the
21 fund no longer generates sufficient earnings on deposits
22 to offset the program administration -- administrative
23 costs. Therefore, this change is necessary to ensure
24 sufficient funding of administrative costs and to allow
25 participants to continue to receive their full benefits.

1 Finally, I'd like to note that staff is currently
2 working on another legislative proposal that may be
3 brought back to the Board in February. Staff is looking
4 at establishing a pension pre-funding trust. Staff is
5 vetting the idea and engaging with stakeholders. And more
6 information will be brought back to the Board in February.

7 Staff will obtain a spot bill to make sure that
8 we're able to be timely in case the Board does decide to
9 move forward with this as a legislative proposal.

10 And that concludes my presentation. And I'm
11 happy to answer any questions.

12 CHAIRPERSON COSTIGAN: Thank you. I have a
13 couple.

14 Mr. Jelincic.

15 COMMITTEE MEMBER JELINCIC: I notice on the first
16 one, the delay on death benefits, we want to do fixed
17 rate, so we don't have to go in and adjust the program in
18 my|CalPERS. And then we get to the next proposal, which
19 says we want to do 10 or adjust the programming on
20 my|CalPERS. So I just saw a bit of a contradiction
21 between saying we're doing one to avoid program changes,
22 and then we're proposing one that adds a program change.
23 I'm not sure exactly what I think of that, but it was a
24 contradiction, so I'd kind of like your comments on it.

25 And then on the terminated agency pools, who

1 bears the cost of the delay of moving assets to the
2 terminated agency pool? And, you know, how long does it
3 take to move those and --

4 CHIEF ACTUARY MILLIGAN: So the -- the way the
5 law is structured right now, there's actually two
6 different processes effectively embedded in the law. One
7 is that the transfers occur promptly, which is the better
8 alternative, and because that -- that means that we can
9 immunize those members benefits and minimize the
10 possibility of a benefit reduction should there be a stock
11 market fall or interest rates rise in the -- or fall in
12 the intervening period.

13 The second process that's embedded in the law is
14 to wait until all efforts to collect the -- any shortfall
15 are made. The problem with that process is that it leaves
16 the members at risk for longer than they need to be at
17 risk, or at least some of their -- more of their benefits
18 at risk for longer.

19 And so what the proposal is is to remove the
20 contradictory language that says that it should be
21 trans -- that you have to wait until the later
22 term -- later period, all efforts have been made to
23 collect before you move it into the terminated agency
24 pool.

25 And so right now, the members remain at risk for

1 the whole of their benefit really until the -- all efforts
2 have been made to collect and you transfer the funds into
3 the terminated agency pool. By doing an earlier transfer,
4 you at least immunize a portion of the member's benefit
5 earlier, and put them -- and the members will not be as
6 much at risk.

7 COMMITTEE MEMBER JELINCIC: Well, market
8 volatility moves both ways. So if we move it early, we
9 have -- unless it is fully funded - and if it were fully
10 funded, we probably wouldn't be moving it there - we kind
11 of have to cut the benefit. Now, we're going to try and
12 keep getting more money in so that we didn't, but
13 we've -- by moving it to the terminated agency pool, we
14 have guaranteed a lower return. Well, on average, we have
15 guaranteed a lower return, which actually may put more of
16 their benefit at risk.

17 CHIEF ACTUARY MILLIGAN: That is possible, but
18 remember that the risk to the members is not two-sided.
19 It's a one-sided risk. And so the real concern is if we
20 say this is how much we need based on today's market
21 rates, et cetera, to fully fund these benefits, but we
22 don't immunize at that point, three months, six months, a
23 year later, the market is different. And if the market
24 has gone against the members, there's no way to recover
25 that. The members can't get more. So if the market goes

1 up, it doesn't matter. It doesn't help the members. If
2 the market goes down, the members get hurt. The employer
3 just has to pay the amount that's at risk.

4 So normally risk is two sided. But in this case,
5 to the members, the risk is really just one sided, and we
6 want to protect against that risk.

7 COMMITTEE MEMBER JELINCIC: If we move them into
8 the terminated agency pool, and we immunize their -- we
9 could actually only immunize the part of their benefit
10 that is their assets to immunize.

11 CHIEF ACTUARY MILLIGAN: Yes.

12 COMMITTEE MEMBER JELINCIC: So we wouldn't be
13 moving them there if there was -- all the assets were
14 there. So doesn't that kind of force us to cut benefits
15 early?

16 CHIEF ACTUARY MILLIGAN: No, because the
17 determination as to whether or not we cut benefits only
18 occurs after we've made all reasonable efforts to collect
19 anything that we can. And so it doesn't force a
20 terminate -- a reduction in benefits. Right now, yes,
21 because the way the law is structured, the trigger of
22 reducing the benefits is when the assets are transferred.
23 It should not be. It should be when we determine that we
24 have made all efforts to collect, and there is no
25 reasonable chance of us getting any additional

1 contributions from the employer.

2 The concern I have is not will the benefits be
3 cut because the employer can't pay. I'm worried about the
4 situation where the benefits may end up getting cut when
5 the employer has paid. And that is a -- for me, a --
6 something that I would -- I just can't imagine it, but I
7 really don't want us to ever be in that position.

8 COMMITTEE MEMBER JELINCIC: Okay. You know, as
9 with most legislation, the devil is in the details. And
10 you've heard my concern, and we will look at the details
11 when they're available. Thank you.

12 CHAIRPERSON COSTIGAN: Ms. Hollinger.

13 VICE CHAIRPERSON HOLLINGER: I just want to
14 understand this a little better on the terminated agency
15 pool. So can the benefits then get recalibrated or --

16 CHIEF ACTUARY MILLIGAN: So the --

17 VICE CHAIRPERSON HOLLINGER: -- could you just
18 explain a little bit the --

19 CHIEF ACTUARY MILLIGAN: Right. So at the time
20 of termination, what -- the way we have it -- the way we
21 are proposing -- the legislation already is set up this
22 way, but there's this other contradictory provision that
23 kind of blocks it from happening this way, is that at the
24 time that the employer terminates the plan, we determine
25 these are the assets that we have on hand, and this is how

1 much additional assets we need to collect from the
2 employer. We're proposing to -- at that point, we would
3 take the assets that we have on hand, use that -- those
4 assets to immunize the benefits to the extent possible,
5 then we go out and try to collect the missing piece from
6 the employer. And it's only that portion of the member's
7 benefits that is at risk at that point, because the
8 immunized portion has now been secured.

9 If we collect the money, we then take that money
10 and go back and put it into the terminated agency pool as
11 well, use it to immunize the rest of the member's
12 benefits. Of course, there's been a time lag, and the
13 cost of immunizing those benefits may have changed.

14 VICE CHAIRPERSON HOLLINGER: Correct.

15 CHIEF ACTUARY MILLIGAN: And so there is -- there
16 is -- it is true that the member's benefits are at risk
17 for that, but we've minimized the amount of the benefits
18 that are at risk because we -- because we immunized the
19 portion that was fully funded up front.

20 VICE CHAIRPERSON HOLLINGER: When you say
21 immunize, you're putting it all in fixed income or --

22 CHIEF ACTUARY MILLIGAN: Yes. Fixed income with
23 durations that match the benefit payments to the extent we
24 can, yes.

25 VICE CHAIRPERSON HOLLINGER: Okay. Thank you. I

1 understand.

2 CHAIRPERSON COSTIGAN: Okay. So I've just got a
3 couple questions. Just remind me how did we land on a
4 fixed rate of 7 percent as the interest rate?

5 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: I
6 believe that's a default rate that's stated in statute,
7 but...

8 BENEFIT SERVICES DIVISION CHIEF SUINE: Good
9 morning, Mr. Chair --

10 CHAIRPERSON COSTIGAN: Good morning.

11 BENEFIT SERVICES DIVISION CHIEF SUINE: --
12 members of the Committee. Anthony Suine, CalPERS staff.

13 The 7 percent is the prejudgment rate of
14 interest. And it's the one we're using in the regulations
15 as well, and that's the basis of moving the 7 percent not
16 the my|CalPERS system changes. We want it to be
17 consistent.

18 CHAIRPERSON COSTIGAN: Okay. And then -- don't
19 go far, because this may -- on the replacement benefit
20 plan administrative costs.

21 BENEFIT SERVICES DIVISION CHIEF SUINE: Yes.

22 CHAIRPERSON COSTIGAN: Your area as well?

23 BENEFIT SERVICES DIVISION CHIEF SUINE: Yes.

24 CHAIRPERSON COSTIGAN: So I am just curious, in
25 the write-up, it talks participants pay from a few

1 hundred -- a few dollars to thousands of dollars. And
2 this is going to be a shift to the employer. So we have
3 spoken with the Department of Finance and/or CSAC and the
4 League, I mean, because this is a transfer to them,
5 correct?

6 BENEFIT SERVICES DIVISION CHIEF SUINE: We have
7 not. We -- it's not necessarily a transfer right now. We
8 haven't been billing either parties, either the member or
9 the employer.

10 CHAIRPERSON COSTIGAN: So okay. That's
11 interest -- so this -- maybe you should have sat down.

12 (Laughter.)

13 CHAIRPERSON COSTIGAN: So this has been going on
14 for three years. So how long have we not been collecting
15 it?

16 BENEFIT SERVICES DIVISION CHIEF SUINE: Well,
17 we -- in previous years, we've generated investment
18 earnings off of the employer contributions that have
19 been -- that we bill annually for. And so those earnings
20 were used to fund the administrative costs of the
21 replacement benefit fund.

22 CHAIRPERSON COSTIGAN: So just asking -- so these
23 are for folks who make more than \$210,000 in their
24 benefit?

25 BENEFIT SERVICES DIVISION CHIEF SUINE: Correct.

1 CHAIRPERSON COSTIGAN: Okay. So I imagine that's
2 not all -- so I am just curious asking why for folks that
3 are making 210 -- whose benefit is a minimum of 210,
4 because this is in addition to this program, why would we
5 be shifting from those folks back to the employer? That's
6 what this proposal will do.

7 BENEFIT SERVICES DIVISION CHIEF SUINE: Sure. So
8 they're not all making over 210, right? The limit is
9 adjusted based on the age at retirement. So you could
10 have a correctional officer who is not deemed safety,
11 therefore they're still subject to the lower -- so they
12 could be making \$90,000 in a benefit, and be subject to
13 the RBF.

14 Some recipients may receive \$50 a month from the
15 replacement benefit plan while others may receive \$2,000
16 or \$3,000 a month from the replacement benefit plan.

17 CHAIRPERSON COSTIGAN: So when this contract was
18 entered into, and this -- different -- who -- how was --
19 who -- how was it structured as to who would pay it or was
20 it left open?

21 BENEFIT SERVICES DIVISION CHIEF SUINE: It was
22 left open. So the regulations -- there are regulations
23 and there's statutes related to the replacement benefit
24 fund, right? It's an IRS rule, and then we just codified
25 some of our administration. And there is some ambiguity

1 between the regulation that seems to suggest an employer
2 may be subject to pay those fees, and then the statute
3 looks like the member must pay those fees.

4 So now as we've reviewed the admin costs to
5 administer the replacement benefit fund, we've kind of
6 revisited those legislations and proposed this new
7 legislation to bill the employer.

8 CHAIRPERSON COSTIGAN: So we don't have -- I just
9 want to make sure that -- you know, we don't have the
10 authority as the Board, or as CalPERS, to impose it on
11 either party. It will be up to the legislature to make
12 this final policy determination as to who is responsible
13 for the cost.

14 BENEFIT SERVICES DIVISION CHIEF SUINE: Is that
15 correct?

16 CHAIRPERSON COSTIGAN: Well, that's what the
17 proposal says. Don't be looking at Michael Bowman over
18 there.

19 (Laughter.)

20 BENEFIT SERVICES DIVISION CHIEF SUINE: I need a
21 little legal advice.

22 (Laughter.)

23 GENERAL COUNSEL JACOBS: What was the question?

24 CHAIRPERSON COSTIGAN: No, I just -- we're
25 proposing legislation that looks as though this is a --

1 requires the employer to pay, correct?

2 BENEFIT SERVICES DIVISION CHIEF SUINE: That is
3 to clarify the employer to --

4 CHAIRPERSON COSTIGAN: So it's as ambiguous as
5 right now. We haven't been collecting it.

6 BENEFIT SERVICES DIVISION CHIEF SUINE: Yeah, the
7 statute clearly looks like the member should be covering
8 the cost of the admin fees, and then the regulations look
9 like it could point towards the employer covering the
10 admin fees.

11 CHAIRPERSON COSTIGAN: What I'm saying is we
12 don't have the authority to make that determination. We
13 need a statutory change.

14 BENEFIT SERVICES DIVISION CHIEF SUINE: We
15 believe the statute -- we believe need the statutory
16 change to shift the cost to the employer, although we --

17 GENERAL COUNSEL JACOBS: I would agree with what
18 Mr. Suine just said, from a legal perspective.

19 CHAIRPERSON COSTIGAN: I would guess, as we move
20 forward with this, this will be one of the issues that
21 could come up as part of collective bargaining. I mean,
22 we're trying to make a statutory change that some thinks
23 is between an employee and the employer, is what this
24 proposal does.

25 BENEFIT SERVICES DIVISION CHIEF SUINE: I don't

1 know if it could --

2 CHAIRPERSON COSTIGAN: Okay. I'm just -- because
3 we're shifting right here, because the -- well, I'll ask
4 the question, how many people are in this universe?

5 BENEFIT SERVICES DIVISION CHIEF SUINE: 720
6 approximately. And there's about 360 employers who cover
7 those 720 people.

8 CHAIRPERSON COSTIGAN: Mr. Jelincic.

9 COMMITTEE MEMBER JELINCIC: I would just point
10 out that there's not a lot of people covered by collective
11 bargaining who fall under this. I mean, it tends to be a
12 management --

13 CHAIRPERSON COSTIGAN: Well, his first example
14 was. A very large bargaining group.

15 COMMITTEE MEMBER JELINCIC: And there aren't many
16 people who fall under it, so it tends to be a management
17 prerogative.

18 CHAIRPERSON COSTIGAN: That's -- well, that's
19 exactly the point I was getting at. At 210, I would be
20 curious to see who this group is. All right. Any other
21 questions?

22 So you need for all four proposals, is that
23 correct?

24 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Yes.

25 CHAIRPERSON COSTIGAN: And I heard there will be

1 a fifth one that you'll be bringing back?

2 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:

3 There's potentially a fifth one that will be
4 brought back in February. And yes, we do need approval to
5 move forward with these four.

6 CHAIRPERSON COSTIGAN: Okay. And I just want to
7 note that CalHR will be abstaining, which is the general
8 practice for the administration on legislation not
9 proposed by them. So can I have a motion?

10 COMMITTEE MEMBER JELINCIC: I'll move.

11 CHAIRPERSON COSTIGAN: Moved by Jelincic

12 VICE CHAIRPERSON HOLLINGER: Second.

13 CHAIRPERSON COSTIGAN: Seconded by Hollinger.

14 All those in favor?

15 (Ayes.)

16 CHAIRPERSON COSTIGAN: Opposed?

17 Motion carries. Thank you very much.

18 The next item, funded status. This is an
19 informational item.

20 Ms. Eason.

21 CHIEF FINANCIAL OFFICER EASON: Thank you. I'll
22 have Mr. Hoffner start us off. And then Alan and I have
23 the presentation to give to the Committee.

24 CHAIRPERSON COSTIGAN: Thank you, Mr. Hoffner.

25 DEPUTY EXECUTIVE OFFICER HOFFNER: Thank you.

1 (Thereupon an overhead presentation was
2 presented as follows.)

3 DEPUTY EXECUTIVE OFFICER HOFFNER: Good morning,
4 Mr. Chair and members of the Committee. Doug Hoffner,
5 CalPERS staff. I'm just going to introduce the strategic
6 measure items today and the presenters. I'll turn it over
7 to -- for them for their actual presentations on the two
8 items today.

9 As you recall, this is the final report out on
10 strategic measures for the 2015 year. In effect, what
11 we're doing is having the funded status reported out,
12 again, which is consistent with our strategic plan. And
13 this aligns with that work that we've been doing for the
14 last year or so there.

15 We also have Agenda Item 7b, which is an update
16 on two strategic measures related to the perception of
17 CalPERS in the media, and among our stakeholders
18 respectively. So with that, I'll turn it over to Cheryl
19 Eason and Alan Milligan for the first item, and that will
20 transition to Brad Pacheco for the final two measures.
21 Thank you, Mr. Chair.

22 CHIEF FINANCIAL OFFICER EASON: Thank you, Doug.
23 Cheryl Eason, CalPERS staff.

24 You'll find an updated version of the
25 presentation slides that I'll be covering this morning.

1 The funded status measure is being presented today
2 following the approval of the risk mitigation policy and
3 the information item last month of the annual levels and
4 risk report presented to this Committee.

5 In July 2014, the Board affirmed funded status as
6 one of its strategic enterprise-wide measures. Measuring
7 the strategic -- funding status, pardon me, is necessary
8 to the understanding, maintaining and improving the
9 long-term sustainability of the pension system.

10 And although today's presentation will focus on
11 the overall status of the fund, this is an interactive
12 tool and we have embedded the information on the funded
13 status of various plans such as public agencies, State and
14 schools, which is included in the updated version that you
15 have been presented.

16 So the first -- if we just go to the 10-year
17 look-back of the funded status, it illustrates the change
18 in funded status and its relative sensitivity to actual
19 investment returns over the same period. And this is
20 clearly illustrated in this graph in the 2009 fiscal year
21 with the financial crisis in the drop in the funded status
22 from over 100 percent to 60 percent.

23 Since that time, there has been a gradual
24 increase and improvement in the funded status. And in
25 2014, with the actual investment return of 18.4 percent,

1 the funded status recorded an improvement to 76.3 percent.
2 As a result of the latest 2.3 percent investment return in
3 2015, the funded status is an estimated 73 percent.

4 And as I mentioned, we have included information
5 on the funded status for public agency, State and school
6 plans as part of this tool. Their funded status varies
7 from plan to plan. On an individual plan basis, the
8 funded status is generally between 70 percent and 90
9 percent as of June 2014. This, of course, will be an
10 increase when you look at the 2015 results based on those
11 lower investment returns.

12 So some of the detail and analysis that we
13 provide in when we assess the funded status trend, we are
14 reminded of what factors impact potential changes in the
15 funded status. So what we've provided to you is the
16 interpretation of the results you can see there. We have
17 factors such as the actual versus the expected investment
18 returns, which I just talked about, payments on unfunded
19 liability, changes in actuarial methods and assumptions,
20 benefit changes and actuarial experiences all have an
21 impact on the funded status.

22 We've also included as part of the interpretation
23 of the results is information on the current volatility,
24 just under 12 percent, and the average annualized
25 investment return among other public pension funds as

1 identified by the National Association of State Retirement
2 Administrators, or NASRA, survey.

3 CalPERS current assumed investment return of 7.5
4 percent is below the 7.68 percent average annualized
5 investment return among other public pension funds.

6 And then finally, we are reminded under the
7 challenges and mitigation section that of the several
8 important considerations related to funded status. Again,
9 as I mentioned, it's sensitivity to investment returns and
10 any improvements to pension sustainability, such as
11 mortality assumptions, and the lowering of the assumed
12 rate of return, which will also lower the funded status.

13 But with the goal of 100 percent funded with an
14 acceptable level of risk, it is important to note that
15 there have been a number of mitigation efforts already
16 implemented and we've listed there. More recently, the
17 adoption of new amortization and smoothing methods for
18 retirement funds, trust funds, and the adoption of the
19 asset allocation in 2014 with its lower volatility. And,
20 of course, the most recently adopted risk mitigation
21 policy.

22 All of the graphs and information provided today
23 are also found in the 2015 annual review of funding levels
24 and risk report that was presented to you last month.
25 Staff will continue to provide funding information as part

1 of the ALM process, as well as align this strategic
2 measure reporting to the next year's annual funding levels
3 and risk report in November 2016.

4 This concludes the review of the strategic
5 measure on funded status, and Alan and I would be happy to
6 take any questions and feedback.

7 CHAIRPERSON COSTIGAN: Thank you. Mr. Slaton.

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

9 I didn't see you put up on the screen, but in the
10 current version we have, I want to go to the one that's
11 the graph funded status market value of assets pool public
12 agency plans excluding PEPRA plans. And is that all
13 public agency?

14 COMMITTEE MEMBER JELINCIC: Which page are you
15 on?

16 COMMITTEE MEMBER SLATON: Well, I'm -- in this
17 handout, it's page three.

18 COMMITTEE MEMBER JELINCIC: Thank you.

19 COMMITTEE MEMBER SLATON: Page three in the
20 handout. So is that all -- that's not all public agency
21 plans, right?

22 CHIEF ACTUARY MILLIGAN: No, those are just the
23 pooled -- all of the plans in that are public agency
24 plans, but not all public agency plans are in that graph.
25 That is just the pooled ones, which are the ones that tend

1 to be smaller plans, fewer members -- fewer active
2 members.

3 COMMITTEE MEMBER SLATON: Okay. So we don't see
4 an equivalent chart for the larger ones on the -- in terms
5 of distribution. And one of my questions is, it's fine to
6 see it in terms of number of plans, but to me what would
7 be more important would be to see it as number of members,
8 rather than number of plans.

9 CHIEF ACTUARY MILLIGAN: So the -- on page four,
10 there's an equivalent graph, the funded status, market
11 value of assets basis, non-pooled.

12 COMMITTEE MEMBER SLATON: Oh, non-pooled. Okay.
13 So I see that one is there. But again, it's number of --
14 the distribution is by number of plans. And, to me,
15 understanding how big the issue is, one way to look at it
16 is number of plans, but really it's members.

17 CHIEF ACTUARY MILLIGAN: We could do that. I
18 don't think that it will be significantly different from
19 what you've seen currently. If we had combined the pooled
20 and non-pooled plans, it probably would be significantly
21 different, because the non-pooled plans have a lot more
22 members than the pooled plans. But because we've
23 segregated the plans that way, all of the plans in the
24 non-pooled group are larger plans. All the plans in the
25 pooled group are the smaller plans.

1 COMMITTEE MEMBER SLATON: So what's a typical
2 number of members that would be in a pooled plan maximum,
3 roughly?

4 CHIEF ACTUARY MILLIGAN: The maximum --
5 generally, all of the pooled plans have a maximum of 100
6 active members --

7 COMMITTEE MEMBER SLATON: Okay.

8 CHIEF ACTUARY MILLIGAN: -- going down to zero
9 members literally.

10 COMMITTEE MEMBER SLATON: So you're saying the
11 distribution that we're seeing here is probably reflective
12 either way we would look at it?

13 CHIEF ACTUARY MILLIGAN: It is probably
14 reflective either way you look at it.

15 COMMITTEE MEMBER SLATON: So it's enough of a
16 proxy to --

17 CHIEF ACTUARY MILLIGAN: Yes.

18 COMMITTEE MEMBER SLATON: -- be able to look at
19 it this way? Okay. Thank you.

20 CHAIRPERSON COSTIGAN: All right. There are no
21 other questions, so thank you for that informational item.

22 Next item, Mr. Hoffner -- or no, Mr. Pacheco.

23 (Thereupon an overhead presentation was
24 presented as follows.)

25 CHAIRPERSON COSTIGAN: You only have one slide,

1 is that correct?

2 DEPUTY EXECUTIVE OFFICER PACHECO: Actually, I
3 think six.

4 CHAIRPERSON COSTIGAN: Oh, sorry. It wasn't in
5 the PowerPoint. Your -- it's in your folder.

6 DEPUTY EXECUTIVE OFFICER PACHECO: It should be
7 in your handouts.

8 CHAIRPERSON COSTIGAN: Okay.
9 You can start, Brad.

10 DEPUTY EXECUTIVE OFFICER PACHECO: Yeah. That's
11 fine. We'll just start walking through the slides.

12 Good morning, Mr. Chair and members of the
13 Committee. Brad Pacheco, CalPERS staff.

14 As Mr. Hoffner mentioned, I'll be presenting two
15 performance measures this morning in the areas of
16 communications and stakeholder outreach. The first is
17 CalPERS perception in the media, and the second is our
18 perception among stakeholders.

19 --o0o--

20 DEPUTY EXECUTIVE OFFICER PACHECO: By way of
21 background, CalPERS staff has been tracking the perception
22 of CalPERS in the media since 1996.

23 CHAIRPERSON COSTIGAN: Sorry. I thought it was
24 all off. The was my social media impression for the day.

25 (Laughter.)

1 CHAIRPERSON COSTIGAN: I'll pay you.

2 DEPUTY EXECUTIVE OFFICER PACHECO: We report
3 monthly on the tone of CalPERS media coverage as part of
4 our strategic communications report that you see in the --
5 you received in the full board meeting, and we chart our
6 progress throughout the year.

7 A year and a half ago, the Board asked us to take
8 a deeper dive into our media coverage as part of these
9 performance measures by tracking CalPERS news in three
10 specific categories. And those categories were
11 retirement, pension, and asset liability management
12 issues, health care and wellness, and investments and
13 corporate governance.

14 So what we're looking at here is data from last
15 fiscal year. And there were more than 8,000 original news
16 stories, columns, blogs and editorials that either
17 mentioned CalPERS or more directly featured CalPERS, our
18 decisions and our initiatives. And I use the term
19 original stories, because some, like those on wire
20 services, were carried by many outlets -- excuse me, media
21 outlets that essentially translated to more than 12,000
22 stories about CalPERS nationally, within the State, and
23 also internationally.

24 As you can see from the chart on page two in your
25 handouts, the large majority of the news falls into the

1 neutral category, where CalPERS is simply mentioned or
2 referenced or cited in a news story. But we did have
3 topics that generated positive press throughout the fiscal
4 year. Those included our strong investment returns of 18
5 percent, our work on environmental, social, and governance
6 initiatives, the reduction in cost and complexity in our
7 investment portfolio, and the recoveries we receive from
8 legal settlements stemming from the financial crisis.

9 The topics that contributed less than favorable
10 coverage included pension costs, pension reform
11 initiatives, municipal bankruptcies, pensionable
12 compensation, and ongoing legal developments related to
13 placement agents.

14 --o0o--

15 DEPUTY EXECUTIVE OFFICER PACHECO: I think it's
16 important on page three to point out that we have
17 developed a strong presence in the area of social media to
18 adopt to the changing news model.

19 Thank you, Pam.

20 And as you see on this slide, we've seen steady
21 growth since 2011.

22 --o0o--

23 DEPUTY EXECUTIVE OFFICER PACHECO: And in the
24 next slide, you also see that we've continued to see even
25 more growth since the end of the fiscal year.

1 --o0o--

2 DEPUTY EXECUTIVE OFFICER PACHECO: Now, I'd like
3 to turn to the second performance measure that assesses
4 CalPERS effectiveness in engaging with our stakeholders,
5 and our reputation and credibility amongst stakeholders.

6 The data that you see before you should look
7 familiar. It was actually reported to the Board in April
8 of this year when we last conducted the survey. As
9 reported earlier, the results showed a small upward trend
10 since the initial start of the project. The illustration
11 here are stakeholder views of our work as an effective
12 policy advocate that we've tracked over four phases of the
13 project.

14 In this next slide, we measured the views of our
15 stakeholders for the very first time in the most recent
16 phase of the project on our effectiveness in communicating
17 and engaging with them.

18 In looking at both of these performance measures,
19 we have a few observations, as well as opportunities that
20 we see going forward.

21 --o0o--

22 DEPUTY EXECUTIVE OFFICER PACHECO: We expect that
23 our work on ESG initiatives and the upcoming proxy season
24 will continue to drive favorable news coverage. We're
25 already seeing the impact of our participation and voice

1 in the news during the recent climate change discussions
2 in Paris. We also believe there are increased
3 opportunities for CalPERS to promote and share the
4 innovative work that we're doing in health care.

5 We've historically been seen as the bellwether in
6 this field. And we believe a greater emphasis on the
7 initiatives will help elevate our visibility and role in
8 the health care marketplace.

9 We do believe the perceptions of public pensions
10 and costs will remain challenging going forward, while
11 some local municipalities are recovering. The same can't
12 be said for all of our employers. And we expect the
13 coverage of pensions to also be influenced on the success
14 or failure of the pension reform ballot initiatives.

15 And finally, our last stakeholder assessment
16 report will be delivered to the Committee in April of next
17 year. We're hopeful to see an increase in stakeholder
18 views around our communication and engagement with them.
19 And we say this in large part, because of the work that we
20 did with our stakeholders around our risk mitigation
21 policy recently, and the appreciation that they expressed
22 for what they saw was a very collaborative process.

23 With that, Mr. Chair, I'll end there and take any
24 questions.

25 CHAIRPERSON COSTIGAN: Okay. We've got a few,

1 and then I'll make my comments grant.

2 Grant.

3 ACTING COMMITTEE MEMBER BOYKEN: Thank you. Just
4 a quick question on slide number 7. So what's the
5 distinction between employees and members? Is employees,
6 employee organizations? Does both include like the
7 employees just the active employees and members?

8 DEPUTY EXECUTIVE OFFICER PACHECO: Actually
9 employees is the CalPERS staff.

10 ACTING COMMITTEE MEMBER BOYKEN: Oh, got it.

11 DEPUTY EXECUTIVE OFFICER PACHECO: So we
12 measure -- historically, we've, always done satisfaction
13 surveys with our members and our employers. But at the
14 start of this project, we made a conscious effort to be
15 more inclusive, and so we look at both members, employers,
16 our internal employees, and then a broader subset of our
17 stakeholders that include the organizations that represent
18 our members, like SEIU, the organizations that represent
19 our employers, like the League of Cities. And we also
20 reach out to legislative staff and leaders, both State and
21 nationally.

22 ACTING COMMITTEE MEMBER BOYKEN: Thank you.

23 CHAIRPERSON COSTIGAN: Mr. Slaton.

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

25 Back on the perception in the media. And you and

1 I have had some conversations about this. And, you know,
2 obviously, with change in the media landscape, you know,
3 it strikes me as, you know, there's a difference between
4 an editorial in the Wall Street Journal and someone's
5 individual blog or Facebook post.

6 So I'm trying to understand, you know, we have
7 impressions that we're saying are mentioned in the story,
8 but how do we differentiate? That's my first.

9 The second question is, I understand why you're
10 looking at this, what are we gaining by -- as a Board from
11 a strategic measurements standpoint? And are we looking
12 for? And maybe it's -- that's more of a rhetorical
13 question for this group.

14 But first to the first issues of, you know, the
15 media is so fractured today. You know, I can write a blog
16 tomorrow and -- everybody can. So how do you address that
17 in terms of making this actually meaningful?

18 DEPUTY EXECUTIVE OFFICER PACHECO: Sure. So your
19 first question about differentiating. We've always
20 tracked CalPERS mentions in the media generally. And we
21 include everything from news stories, to blogs, to
22 columns, to editorials. We don't include Facebook posts
23 that you mentioned, but pretty much any other perception.

24 I think it's important that we capture everything
25 and not be selective. I think it's a slippery slope if we

1 try to pick one and not the other. I think we need to
2 capture everything.

3 We've never differentiated below that, except for
4 the buckets that the Board asked us to do, as part of this
5 performance measure. I think you're right. There are
6 certainly credible news sources out there. But as we
7 mentioned at the July off-site, you can hang your shingle
8 tomorrow, as you mentioned, and start writing about a
9 particular topic.

10 And I think you need to look deeper into the
11 author of those topics. So obviously, in our shop, we
12 tend to pay more attention to those people what are
13 credible news sources, like the Wall Street Journal. When
14 it comes to blogs -- I'll mentioned one like Cal Pensions.
15 That's written by a former reporter who is very credible
16 and respected in the industry.

17 And then we take lightly some of the other things
18 that we see in the news. I think there's opportunities
19 for us, if the Board wishes, that we could try to break
20 those out a little bit further, if that's of interest.
21 But for us, generally, we're just looking to track the
22 overall perception of CalPERS in general.

23 As far as whether the perception in the media
24 rises to a performance measure, you know, we deliver this
25 information to you on a monthly basis, as part of our

1 strategic communications report. It's helpful for us. It
2 may be helpful for you as information. Whether it rises
3 to a performance measure is probably more of a decision of
4 the Committee.

5 COMMITTEE MEMBER SLATON: Yeah, to me, it's not
6 a -- you know, we haven't decided, well, we want, you
7 know, 30 percent of the mentions to be positive. I mean,
8 we haven't done that. You're just reporting this is what
9 you see.

10 DEPUTY EXECUTIVE OFFICER PACHECO: Correct.

11 COMMITTEE MEMBER SLATON: So, to me, that's not a
12 strategic measure. That's just information, and it's good
13 to have. And you use it in your work. And it does give
14 us a window into what's going on. But, to me, strategic
15 measures are things that we want you to -- you're in
16 position A and we want you to get to B.

17 DEPUTY EXECUTIVE OFFICER PACHECO: Sure.

18 COMMITTEE MEMBER SLATON: And so I'm not sure I
19 see that this -- I'd be interested in other views of
20 committee members, but I don't see it as a strategic
21 measure rather an information item on how we're doing in
22 the media.

23 CHAIRPERSON COSTIGAN: Mr. Jelincic.

24 COMMITTEE MEMBER JELINCIC: Well, you must not
25 have turned it off last time.

1 CHAIRPERSON COSTIGAN: Yours is on.

2 COMMITTEE MEMBER SLATON: You're on.

3 COMMITTEE MEMBER JELINCIC: Well, actually I
4 didn't -- I hadn't requested it, but I will comment on
5 your --

6 (Laughter.)

7 CHAIRPERSON COSTIGAN: You were in the queue.
8 You were after Mr. Slaton.

9 (Laughter.)

10 CHAIRPERSON COSTIGAN: I can turn you off.

11 COMMITTEE MEMBER JELINCIC: You probably turned
12 me --

13 (Laughter.)

14 COMMITTEE MEMBER JELINCIC: You probably didn't
15 turn me off last time. So anyhow.

16 VICE CHAIRPERSON HOLLINGER: Please turn it off.

17 (Laughter.)

18 COMMITTEE MEMBER JELINCIC: In terms of Bill's
19 point, you know, I think I may agree with you. There is
20 not -- you know, they don't really have the ability to
21 control what anybody who has electrons or ink says. So I
22 think there is real value in being aware of what is out
23 there about us. But I'm not sure that it actually is a --
24 does really rise to the level of strategic measure.

25 And I will ask one other question of Brad. Do

1 you track Twitter?

2 DEPUTY EXECUTIVE OFFICER PACHECO: We do.

3 COMMITTEE MEMBER JELINCIC: You do. But that's
4 included in your mentions? Because you said you don't
5 track Facebook, but Twitter is included in your mentions.

6 DEPUTY EXECUTIVE OFFICER PACHECO: Yeah. Let me
7 clarify. So we monitor and track Twitter and Facebook,
8 but it's not included in these numbers. So these numbers
9 are actually news stories, columns, editorials, blogs, so
10 forth.

11 COMMITTEE MEMBER JELINCIC: Thank you.

12 CHAIRPERSON COSTIGAN: Mr. Lind.

13 BOARD MEMBER LIND: Thank you. Brad, you, I
14 think, correctly pointed out that as things start to swirl
15 around the possible pension reform initiatives, that
16 there's going to be an increasing level of publicity
17 around public tensions and defined benefit pension plans.
18 Most of it negative just because of the dynamics of things
19 and pension envy and so on.

20 Are we thinking about any sort of proactive
21 approach around this? And I'm not talking necessarily
22 about advocating one way or the other for possible
23 initiatives, but maybe advocating for our Pension Belief
24 around defined benefit pension plans?

25 DEPUTY EXECUTIVE OFFICER PACHECO: We are. We've

1 been talking internally about positioning ourselves in
2 preparation for the day that this starts to heat up even
3 more than just the title and summary that was released. I
4 think we've always taken the tack of being the honest
5 broker of information and in promoting the facts among
6 retirement and pensions in CalPERS, and also being a
7 defender of defined benefit plans and their role in
8 retirement security. So, yes, we are preparing for that.

9 BOARD MEMBER LIND: Great. Thank you.

10 CHAIRPERSON COSTIGAN: Mr. Jones.

11 COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.

12 Chair. Yeah, Bill, asked for us to respond to his
13 comments. And I think it is valuable, because in our
14 Investment Beliefs, we talk about a wider stakeholder
15 view. And in our Pension Beliefs, we also talk about
16 reaching our members to provide a better -- so getting
17 this information strategically helps inform me for making
18 a decision as we go forward, because I'm getting this
19 information. And pretty soon, it reaches a level, wait a
20 minute, this is really negative. We need to do something
21 about it.

22 So I think it does have a place in -- you know, a
23 discussion that we get it, because as Brad mentioned that
24 looking at those summaries, and -- you know, there's so
25 many. I don't get a chance to read them all, but there

1 are some that causes me to take a step back and talk about
2 how I'm going to ask questions to deal with the negative
3 publicity that we're getting, whether it be from the news
4 media, like the LA Times or Wall Street Journal or from
5 the blogs. Because I think we have to pay attention to
6 blogs, because people read them. And it's going to
7 have -- could have an effect on what people view and think
8 about CalPERS. So I think that's one reason, Bill, that
9 would be helpful.

10 CHAIRPERSON COSTIGAN: Mr. Slaton.

11 COMMITTEE MEMBER SLATON: Yeah, and maybe it's a
12 nomenclature issue. You know, I agree with Mr. Jones.
13 It's important for us to have a window into what's going
14 on in the world as it relates to CalPERS. It's very, very
15 important, but it's just -- we label it a strategic
16 measure, as if we were trying to hold you accountable for
17 accomplishing moving those needles.

18 And, yes, we do want to move the needle on
19 certain specific issues, as they come up, as Mr. Lind
20 said. But I just have trouble with the labeling of it.
21 However, that being said, you go to the next page where
22 it's follower growth, where we're saying are we connecting
23 with the more -- the general world out there, with
24 Facebook and Twitter and there's several other -- you
25 haven't mentioned other social media connections that are

1 here. But my son and daughter tell me there's a million
2 of them. But those connections and that growth and those
3 being strategic objectives to make sure that we are in the
4 thought process of people out there. That is important
5 and I view that as a strategic measure.

6 But the other one is just -- to me, maybe it's a
7 labeling issue.

8 Thank you.

9 DEPUTY EXECUTIVE OFFICER PACHECO: Good to know.

10 CHAIRPERSON COSTIGAN: Ms. Paquin.

11 ACTING COMMITTEE MEMBER PAQUIN: Thank you. I
12 agree with Mr. Jones' statements. And I think that this
13 is important. And maybe it is semantics. But I think as
14 we do move into some more controversial areas, that maybe
15 it guides your work in creating a strategy and measuring
16 to see if that helps or not.

17 Thank you.

18 CHAIRPERSON COSTIGAN: Ms. Hollinger.

19 VICE CHAIRPERSON HOLLINGER: Yeah, I agree while
20 initially getting the feedback or where we're mentioned in
21 publications may not exactly be a strategic measure, but
22 how we respond to certain inaccurate things that -- and
23 clear the record, because a lot of times we read things
24 that aren't entirely accurate. So that creates a strategy
25 or where we need to, let's just say, clear the record. So

1 thank you.

2 DEPUTY EXECUTIVE OFFICER PACHECO: Thank you

3 CHAIRPERSON COSTIGAN: So, Mr. Pacheco, just a
4 few items. First, I do want to give credit to you and
5 your team. It has been pretty phenomenal, as someone --
6 as Mr. Boyken was reminding me today about my use of
7 social media. You guys do a fantastic job.

8 And I think there are two ways, in response to
9 Mr. Slaton, to actually look at this. One on the
10 strategic growth, really is -- if you look at the growth
11 at Facebook or Twitter, over the last five years, you've
12 achieved over, you know, 100 percent each year. And I
13 think from a strategic goal with 1.4 million members, and
14 3,800 or 3,900 employers, it is part of an overall growth.
15 How do we get -- what's the -- what is the strategic plan
16 to get them in, because that becomes a form of
17 communication.

18 As Ms. Hagen and I were just commenting, exactly
19 what happened at L.A. Unified today, a thousand schools
20 closing, 65 -- or 650,000 kids impacted, and what were
21 they talking about? It was the use of social media was
22 getting most of the information out. No longer
23 traditional media. So I think from a strategic growth,
24 the more you show a Facebook, Twitter, Instagram and the
25 folks of those that are using it, the members are on that.

1 And I would also encourage the Board members to
2 amplify what staff is doing. I think the hardest thing
3 for Mr. Pacheco and his staff goes back to a little bit of
4 Mr. Jones' comments, it's hard to quantify in a strategic
5 measure media, because we're not driving an investment
6 because it gets a thousand impressions on Twitter. We're
7 driving it because Mr. Eliopoulos and his team believe
8 it's the right investment.

9 So your quantified measures. When we say we want
10 30 percent, I want 100 percent positive stories. I know
11 that's not going to happen, but it's -- the two go
12 hand-in-hand. One is, back to Mr. Lind's is, how do we
13 talk and message, and that's what you guys are doing about
14 the system and our members. The other is the strategic
15 growth, which is how are we connecting and what are the
16 goals that you've outlined. And the other is the defense
17 of the system, back to Ms. Hollinger's point.

18 I know in the last three days, you have responded
19 to three inaccurate articles, including, as we were
20 talking this morning, it seemed a story was written before
21 we even took a vote that the headline was wrong.

22 And so I think when you talk about what's
23 strategic, part of how you try to define that for us is
24 you're both offensive and defensive. You're promoting the
25 system and its members. What is that strategic goal?

1 And impressions and positive stories are an
2 element. But at the same time, it's within 24 hours are
3 we correcting an inaccurate story. That's a strategic
4 goal.

5 So I just want to give a lot of credit. I just
6 look at the phenomenal growth that you guys have seen just
7 in social media. And for what it is worth, it is, as
8 Grant and I were talking, we do watch all that you all do,
9 and as you put information out. And actually, it is more
10 of the go-to source. It's not the main page of the
11 website. It's what you guys are putting out, both on the
12 Twitter feed and the Facebook feed.

13 To blogs, I agree, that is one of the questions
14 is what's an accurate, with all due respect to Ed, great
15 piece that he's writing, what's the difference between a
16 blog and a traditional media piece?

17 And then on your impressions, when Judy Lin was
18 write for AP, for example, is that one story even though
19 if it's picked up in multiple papers or would that have
20 been a multiple impression?

21 DEPUTY EXECUTIVE OFFICER PACHECO: It would be
22 multiple Impressions. So we --

23 CHAIRPERSON COSTIGAN: And the same thing if the
24 Bee and Fresno Bee run the same story from John Ortiz,
25 we'd --

1 DEPUTY EXECUTIVE OFFICER PACHECO: We have been
2 counting those as multiple impressions, because they are
3 often read by different audiences.

4 CHAIRPERSON COSTIGAN: Okay. Great. You just
5 made the point, part of the whole strategy of this, even
6 as your amplification is many -- it's the Fresno Bee has a
7 different audience than the Sacramento Bee.

8 DEPUTY EXECUTIVE OFFICER PACHECO: Correct.

9 CHAIRPERSON COSTIGAN: We have members in Fresno,
10 and a different set of policymakers, and a different set
11 of employers and employees. So I just want to say just a
12 fantastic job all around. I do enjoy most of the stuff
13 that you guys push out, particularly Instagram stuff.

14 (Laughter.)

15 DEPUTY EXECUTIVE OFFICER PACHECO: Thank you.

16 CHAIRPERSON COSTIGAN: Mr. Bilbrey. I think we
17 are almost because this -- we are done. No further items.

18 DEPUTY EXECUTIVE OFFICER PACHECO: Yes, I'm done.
19 Thank you very much.

20 CHAIRPERSON COSTIGAN: We're on to public
21 comment. What time would you like to meet?

22 BOARD MEMBER BILBREY: 11:40. So performance and
23 Comp will meet at 11:40.

24 We have no one else who wishes to speak.

25 CHAIRPERSON COSTIGAN: Thank you all very much.

1 This meeting is adjourned.

2 (Thereupon the California Public Employees'
3 Retirement System, Board of Administration,
4 Finance & Administration Committee meeting
5 adjourned at 11:23 a.m.)

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

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

4 That I am a disinterested person herein; that the
5 foregoing California Public Employees' Retirement System,
6 Board of Administration, Finance & Administration
7 Committee meeting was reported in shorthand by me, James
8 F. Peters, a Certified Shorthand Reporter of the State of
9 California;

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

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

16 IN WITNESS WHEREOF, I have hereunto set my hand
17 this 19th day of November, 2015.

18
19
20
21 

22
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