

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

ROBERT F. CARLSON AUDITORIUM
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SACRAMENTO, CALIFORNIA

TUESDAY, MARCH 15, 2016
2:15 P.M.

JAMES F. PETERS, CSR
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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. Ralph Cobb

Mr. J.J. Jelincic

Mr. Henry Jones

Mr. Bill Slaton

Ms. Betty Yee, represented by Ms. Lynn Paquin

BOARD MEMBERS:

Mr. John Chiang, represented by Mr. Grant Boyken

Mr. Rob Feckner, President

Ms. Priya Mathur

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. Donna Lum, Deputy Executive Officer

Mr. Doug McKeever, Deputy Executive Officer

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. Tanya Black, Committee Secretary

Ms. Rose McAuliffe, Chief, Financial Planning and Policy Division

Ms. Kim Malm, Chief, Operations Support Services Division

Ms. Lori McGartland, Chief, Customer Service and Outreach Division

Mr. Anthony Suine, Chief, Benefit Services Division

Mr. Scott Terando, Interim Deputy Chief Actuary

Mr. Wylie Tollette, Chief Operating Investment Officer

ALSO PRESENT:

Ms. Cathy Jeppson, California Teachers' Association

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

Mr. James McRitchie

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

2 CHAIRPERSON COSTIGAN: Alrighty. Good afternoon.
3 We're going to call to order the March meeting of the
4 Finance and Administration Committee meeting.

5 First item is please call 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: Ralph Cobb for
11 Richard Gillihan?

12 ACTING COMMITTEE MEMBER COBB: 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: Okay. Everybody is
23 present. And then Mr. Feckner has also joined along with
24 Mr. Boyken and Ms. Mathur.

25 Ms. Eason, good to see you. You're up, please.

1 CHIEF FINANCIAL OFFICER EASON: Thank you. Good
2 afternoon, Mr. Chair and Committee members. Cheryl Eason,
3 CalPERS staff. We have a very full agenda this afternoon,
4 including five action items. So I'll quickly go through
5 my report.

6 We have the review of the Finance and
7 Administration Committee meeting delegation for approval
8 by the CalPERS Board next month in April, the Board of
9 Administration election voting process and regulatory
10 changes, and the second readings of the CalPERS Budget
11 Policy and 2016-17 business plan, and finally, the first
12 reading of the fiscal year 2016-17 annual budget proposal.

13 The staff have been in discussions with the
14 Department of Finance regarding some new trailer bill
15 language. And as result, we will be bringing back further
16 considerations for second reading with potential cost
17 reductions related to the Health Care Fund. It's not
18 reflected in the item, but I will be covering that when I
19 get to the annual budget.

20 There's also several important information items
21 presented today, that includes the strategic planning
22 overview, the first treasury analysis and liquidity status
23 report, and the first readings of the review of actuarial
24 cost method policy, amortization policy, and Treasury
25 Management Policy review.

1 2016-17 CalPERS business plan is being heard
2 today as a second reading, building on the progress that
3 we've made over the past several years, and aligning with
4 our 2012-17 strategic plan. The proposal of the 2016-17
5 annual budget will highlight an overall net decrease of
6 19.6 million or 1.1 percent from the 2015-16 CalPERS total
7 budget, the third year in a row that the total overall
8 budget has shown a decrease.

9 The next Finance and Administration Committee
10 meeting is scheduled for April 19th, 2016, and will
11 include, among others agenda items, the second readings of
12 the 2016-17 annual budget proposal, the Treasury
13 Management Policy, the actuarial cost methods policy and
14 amortization policy, the annual actuarial valuation for
15 the terminated agency pool will be for first reading, and
16 the actuarial valuation and employer contribution rates
17 for State and schools.

18 Thank you, Mr. Chair. This concludes my report,
19 and I'd pleased to take any questions.

20 CHAIRPERSON COSTIGAN: Okay. So I do know it has
21 been a long day, but I do not want us to just lose the
22 fact of one of the items Ms. Eason just covered. For the
23 third year in a row, our Budget Office and our budget
24 staff have managed to reduce the overall cost for the
25 organization. I think that is a significant milestone,

1 and Ms. Eason, you and your staff really need to be
2 praised. Not only have we looked at increasing the
3 transparency and the discussion, we're going to have part
4 of that today. But the fact that for our year over year
5 we continue to reduce costs and increase the amount of
6 services. So Again, I know it's late in the afternoon,
7 but great work to you and your staff, so thank you very
8 much.

9 Our first item is an action consent item, which
10 is going to be the approval of the February 17th, 2016
11 Finance and Administration Committee minute meetings.

12 Anybody have concerns?

13 First of all, Mr. Jelincic.

14 COMMITTEE MEMBER JELINCIC: On the -- the only
15 thing in consent there is the minutes and I'll move it.

16 CHAIRPERSON COSTIGAN: All right. Moved by Mr.
17 Jelincic --

18 VICE CHAIRPERSON HOLLINGER: Second.

19 CHAIRPERSON COSTIGAN: -- seconded by Ms.
20 Hollinger.

21 All in favor?

22 (Ayes.)

23 CHAIRPERSON COSTIGAN: Opposed?

24 Motion carries. Thank you.

25 On the consent items, any questions on

1 information consent?

2 Mr. Jelincic. Hang on a second. There you go,
3 sir.

4 COMMITTEE MEMBER JELINCIC: Okay. I do not want
5 to pull it, but I think, at some point, we should have a
6 discussion about whether the semiannual budget and
7 expenditure report is treated as a consent item, since
8 this is, in fact, the Finance and Admin Committee. And it
9 may be something we don't want to just bury in consent.

10 CHAIRPERSON COSTIGAN: That's a good point.

11 COMMITTEE MEMBER JELINCIC: But I think that's a
12 discussion we should have.

13 CHAIRPERSON COSTIGAN: Thank you. Ms. Eason,
14 will you note that and we'll bring that up at the end.

15 All right. Bringing up to action items, we're
16 going to go to Item 5a, Program Administration. The
17 review of the Finance and Administration Committee
18 delegation.

19 Ms. Eason.

20 CHIEF FINANCIAL OFFICER EASON: Thank you.
21 Cheryl Eason, CalPERS staff. Agenda Item 5a is the annual
22 review of the Finance and Administration delegation that
23 includes updated language and some administrative changes.
24 There is an administrative change not reflected in your
25 documents, as it was discovered subsequently to releasing

1 the agenda item. The administrative change is the
2 reference to the State Peace Officers and Firefighters
3 defined contribution plan. As this plan no longer exists,
4 that should be taken off of the delegation.

5 Additionally, the Committee's delegation has been
6 updated to reflect the oversight of actuarial valuations,
7 reserve levels, and employer rate settings for contracting
8 public agencies, and approval of the same for all other
9 plans. This is an action item for the Committee to
10 recommend approval to the Board of Administration, with
11 approval by the Board to take place at the April 2016
12 Board meeting.

13 That's all I have to report. If there are any
14 questions, I'd be pleased to answer them.

15 CHAIRPERSON COSTIGAN: All right. Any
16 questions -- any questions on Item 5a?

17 Mr. Jelincic.

18 COMMITTEE MEMBER JELINCIC: Yeah. I actually
19 have a concern. Well, I had -- I still do. A concern
20 about 12 on whatever page -- two of four, which is the
21 federal representatives. I was at the meeting of the
22 Governance Committee, where we had a discussion about what
23 consultants had -- the Board had to keep, because of its
24 fiduciary duties, and these were not included in that.

25 But I do not remember the discussion really

1 getting to should we, in fact, just delegate it to staff.
2 And I'm not sure -- I think since those are really, in
3 many ways, policy positions, I'm not sure we should.

4 And the other problem I have was with 16. And I
5 raised this one on the conference call as well. "Approve
6 the actuarial policies and methods, and actuarial
7 assumptions (including discount rate other than the
8 terminated agency pool)". And it's -- when I read this,
9 and I'm still not clear that the, "...other than the
10 terminated agency pool", modifies only the discount rate.

11 And so I had suggested language that says that we
12 approve all the policies, et cetera, except for the
13 discount rate of the terminated agency pool. I just
14 thought it made it clearer.

15 CHAIRPERSON COSTIGAN: Okay. Ms. Eason, you want
16 to take those up in reverse. Did Mr. Milligan have
17 something or --

18 CHIEF FINANCIAL OFFICER EASON: No. Thank you,
19 Mr. Jelincic that -- you are correct that did come up in
20 the discussion about changing "other than" to "except
21 for". We can make that change.

22 CHAIRPERSON COSTIGAN: Okay. I guess back to the
23 first point on 12, I know we have had a discussion as it
24 related to Governance Committee. Would the removal of the
25 selection of the Board federal representative and

1 recommend the finalist to the Board, that authority will
2 transfer to the full Board, Mr. Jacobs, or to Governance?

3 GENERAL COUNSEL JACOBS: Matt Jacobs, CalPERS
4 General Counsel. No, I think the idea was that that would
5 transfer to staff. The discussion in the June 2015 Board
6 Governance Committee meeting was that the Committee -- the
7 consensus of the Committee as reported in the minutes of
8 that meeting was that the Board didn't need to retain the
9 authority for that selection. We went through a number of
10 Board consultants, and there was a discussion. And I
11 think this one and one other, or maybe two other, the
12 Board -- or excuse me, the Committee decided -- again not
13 decided in the sense of some kind of formal vote, but the
14 consensus was to -- to let that go to staff and let staff
15 handle that.

16 Now, that never came before the full Board, so it
17 remains something for -- that's fair for discussion by
18 this Committee or the Governance Committee or the Board.

19 CHAIRPERSON COSTIGAN: Don't go far.

20 Mr. Slaton.

21 COMMITTEE MEMBER SLATON: So, yeah, I have in
22 front of me the minutes from the June meeting. And it
23 said, "Going forward, the Board will delegate the
24 selection of the federal representative to staff. Given
25 the visibility of this function, the Board continues to

1 desire to receive periodic direct reports from the federal
2 representative. Based on..." -- and then I skipped down.
3 There's other bullets, but then it says, "Based on the
4 consensus reached, staff will prepare a revised delegation
5 and governance documents for the Board's consideration".

6 So that's what -- that came out of the June --
7 that's the minutes of the June meeting. So this is
8 consistent with what the those minutes said.

9 CHAIRPERSON COSTIGAN: And just as we pointed out
10 in our earlier discussions, no action was actually taken
11 by the Governance Committee. It was a recommendation for
12 this Committee to visit the issue.

13 Ms. Mathur.

14 GENERAL COUNSEL JACOBS: Well, it was a -- just
15 to make a slight correction, it was a recommendation to
16 the Board.

17 CHAIRPERSON COSTIGAN: Through this Committee,
18 because the jurisdiction is currently -- without -- I just
19 want to make -- process is important. Without this
20 action, how do you get it to the Committee? I'm sorry.
21 Without this action of the Committee, how do you get it to
22 the full board?

23 GENERAL COUNSEL JACOBS: I don't know.

24 CHAIRPERSON MATHUR: Ms. Mathur.

25 BOARD MEMBER MATHUR: That reflects my

1 recollection. And I think it's very appropriate for the
2 legislative representatives to be selected by the staff,
3 particularly since the staff does -- I mean, it's
4 really -- they're really working with the staff to
5 implement the Board's direction and strategy. So I think
6 it's appropriate. I hope the Committee passes it. If
7 not, it comes back to the Board next month, and I suppose
8 the Board could also look at it again, at that point.

9 CHIEF EXECUTIVE OFFICER STAUSBOLL: Mr. Chair?

10 CHAIRPERSON COSTIGAN: Ms. Stausboll.

11 CHIEF EXECUTIVE OFFICER STAUSBOLL: Thank you.

12 Just to clarify. So yeah, the minutes said that
13 the Committee directed staff to prepare revised delegation
14 and governance documents. So in the complex world of
15 CalPERS, there are actually three documents that need to
16 be revised in order to effectuate this. There's this one,
17 there's the delegation from the Board to the CEO, because
18 that document currently accepts the federal representation
19 from contracting authority. So that needs to be brought
20 back, and then the governance policy as a whole as well
21 addresses this issue.

22 And the Board to CEO delegation was actually on
23 the agenda for the meeting yesterday that was postponed.
24 So we were hoping to bring it all at once, but -- so now,
25 it's slightly out of sequence, but they're really just

1 three versions of the same thing.

2 CHAIRPERSON COSTIGAN: Well, the governance
3 documents or the governance discussion was sort of a
4 governance policy, what is sort of best practice.
5 Currently, this policy rests with finance and Admin.
6 Finance and Admin taking a position, it would then trigger
7 the delegating document to be corrected as well.

8 And then that would be -- does that document come
9 forth to either Governance or Finance and Admin?

10 CHIEF EXECUTIVE OFFICER STAUSBOLL: It was
11 scheduled to come to the Governance Committee yesterday,
12 and now it would come next month --

13 CHAIRPERSON COSTIGAN: So next month. Okay.

14 CHIEF EXECUTIVE OFFICER STAUSBOLL: Yes.

15 CHAIRPERSON COSTIGAN: -- since we postponed
16 yesterday's meeting. Yes.

17 CHAIRPERSON COSTIGAN: Okay. Thank you.

18 Mr. Jelincic.

19 COMMITTEE MEMBER JELINCIC: And I want to
20 acknowledge that Mr. Jacobs and Bill are right in that
21 that's what the minutes said. So what I'm saying is that
22 I -- my recollection of the conversation and my speeding
23 through the thing on-line, that wasn't the discussion.
24 The discussion was whether the Board needed to do it as
25 part of -- as a fiduciary necessity. So I think we took a

1 step beyond that. Although, I will, you know, acknowledge
2 that that's what the minutes said, but I still think the
3 Board ought to be -- this Committee and the Board ought to
4 be involved

5 CHAIRPERSON COSTIGAN: Because again, at least
6 from where I see it -- or see this, is the federal
7 representative is the representative of the System. It's
8 not the same as Wilshire or PCA is to the Board. They're
9 not actually the -- you want to answer -- respond? I'll
10 call on one of you. Light it up. Mr. Jacobs.

11 GENERAL COUNSEL JACOBS: Yes, that's my
12 understanding, Mr. Costigan.

13 (Laughter)

14 CHAIRPERSON COSTIGAN: Thank you. All right.
15 Any other questions? Although Mr. Jelincic and Mr.
16 Slaton, your microphones are still on. You need to turn
17 them off.

18 Nothing else?

19 All right. Any other on 5A?

20 Okay. So this is an action item. I need a
21 motion.

22 COMMITTEE MEMBER SLATON: Moved.

23 CHAIRPERSON COSTIGAN: Moved by Slaton?

24 VICE CHAIRPERSON HOLLINGER: Second.

25 CHAIRPERSON COSTIGAN: Second by Hollinger.

1 All those in favor?

2 (Ayes.)

3 CHAIRPERSON COSTIGAN: Opposed?

4 (No.)

5 CHAIRPERSON COSTIGAN: Please note Mr. Jelincic
6 was opposed. Thank you.

7 Moving on -- sorry, Mr. Jelincic.

8 COMMITTEE MEMBER JELINCIC: Yeah. And I just
9 want to make it clear that the rest of it I am supportive
10 of. It's just that one section.

11 CHAIRPERSON COSTIGAN: Thank you, sir.

12 Okay. Item 5b is also an action item. And this
13 is on the issue of elections.

14 Ms. Malm.

15 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

16 Thank you. Good afternoon, Mr. Chair, members of
17 the Finance Committee. Kim Malm, CalPERS staff. This is
18 an action item regarding the CalPERS Board election
19 modifications we've been discussing for a few years now,
20 and the necessary regulatory changes. To be clear, the
21 formal rule-making process has not started. This agenda
22 item is for the Committee to give approval for staff to
23 initiate the formal rule-making process. This is not to
24 approve every word in Attachment 1.

25 We need the Committee to approve the concepts in

1 Attachment 1, and then we will begin the formal
2 rule-making process. During that -- with the Office of
3 Administrative Law. During the 45-day public comment
4 period, any member of the public is able to make comments
5 on the items in Attachment 1. We will work with the
6 Office of Administrative Law to either make those changes
7 or respond to the changes if we choose not to make them.
8 Anyone from the public can request a hearing in front of
9 the Board on these changes.

10 I will then come back in front of the Committee
11 again with the final recommendation prior to the
12 implementation. So you'll be seeing this at least one, if
13 not two more times.

14 So with that, let's get into some of the
15 information listed in your item. As you're aware, we
16 received feedback from the constituents and have had some
17 lessons learned over the last few years in regards to how
18 to hopefully increase voter participation.

19 We've -- I've been in front of you a few
20 different times discussing some ways that we have been
21 looking at increasing voter participation. One of the
22 items was to streamline the voting process and go to a
23 blended method of voting, which includes Internet,
24 telephone, as well as mailed ballots.

25 We received approval from the Committee in

1 February 2014 to pursue this blended method. We began
2 back in 2001 with a little over 20 percent voter
3 participation. In our last election for the State and
4 public agency, we have dropped down to approximately 9.6
5 and 6.8 percent participation. So we need to do
6 something.

7 We have expanded various marketing outreach and
8 we've done a number of other items with Public Affairs,
9 and with the Board in order to try and increase the voter
10 participation. We've worked with the Secretary of State,
11 and they have agreed to continue to certify this -- our --
12 the CalPERS Board election, even though we will be using
13 the blended method.

14 We have -- to support some of these voting
15 changes, we will be issuing a Request for Proposal in
16 April, in order to hire a vendor that can do this blended
17 voting method. We will then come back to the Committee
18 after we award this RFP with some additional regulatory
19 changes.

20 In addition to the voting method, staff took the
21 opportunity to update some of the existing regulations.
22 And those are some of the recommendations that are in
23 front of you. They include modifying the statement of
24 majority of votes from 50 percent of votes cast, plus one
25 vote, to the words majority of all valid votes cast. That

1 has been brought up in the past with the Committee.

2 We were adding language that encourages
3 candidates to answer five questions. These are questions
4 that we've heard over and over from our constituents, that
5 they would like to see since standardization into the
6 candidate statement. These are not required questions.

7 They are just simply some recommendations of
8 questions to be answered. If you've ever seen some of the
9 candidate statements in the past, which I'm sure you have.
10 They all vary differently. There could be a list of those
11 that are supporting the candidate, sometimes it's just the
12 background of the candidate. And so we are hoping that
13 these lists of questions help some of the newer candidates
14 understand the questions that the voters are looking for
15 in order to cast their votes, and hopefully answer those
16 questions.

17 We've added the campaign guidelines governing the
18 conduct of candidates running for CalPERS Board of
19 Administration. We currently send these to the
20 candidates. However, we feel putting them in regulation
21 creates some transparency to the voters. We are removing
22 the agency election officer's role in the regulation.
23 What we have found is that the agencies aren't assigning
24 that role necessarily. And so instead what we plan on
25 doing is just distributing the information to the

1 employers and expecting and requiring the employers to
2 send them out to the -- to their staff.

3 We are allowing candidates to bring complaints of
4 workplace election violations to the attention of the
5 employers, where the violation is being -- is held. So if
6 something is hanging up in an employers's area, they can
7 contact the employer directly. CalPERS will still see
8 these as part of the protest process. And we are removing
9 the forms out of the regulation.

10 We're the only people that have forms in -- or
11 Board election is the only forms in regulation. We are
12 still going to have a very detailed description of what's
13 in the forms, but the forms themselves are being removed.
14 Based upon some feedback that we have received recently,
15 we removed the arbitration process from the candidate's
16 statement originally in your very first Attachment 1, and
17 said that the Board election coordinator would handle
18 that.

19 We received some input stating that it would be
20 more appropriate to go ahead and follow the formal
21 arbitration process for candidate statement. So you
22 received an updated Attachment 1 today. And that is back
23 in there. It's on page 12. That is put back into your
24 packet.

25 Again, a second round of regulations will be

1 required after the award of the RFP. We need to have the
2 awarded proposals information in order to specifically
3 State how the internet and telephone voting will work.

4 For example, CalSTRS currently uses this process:
5 They have a six digit pin, and they also utilize the last
6 four digits of the Social Security number.

7 However, I don't know if that's what the award
8 winning vendor is going to do. So we're waiting for that
9 specificity in order to update the regulation process. We
10 are also adding strong security language into the RFP.
11 And I'd like to again point out, CalSTRS is currently
12 using this voting method. New York STRS, New York PERS,
13 County of L.A. just started using it, and other high
14 profile items, such as the Emmys? This concludes my, Mr.
15 Chair, and I'm happy to answer any question.

16 CHAIRPERSON COSTIGAN. We have a few. Mr.
17 Jelincic.

18 COMMITTEE MEMBER JELINCIC: I have a couple of
19 observations and comments. On page three, we're now
20 going -- we're not going to send out hard copies of the
21 election notice. We're going to send off only electronic
22 notices?

23 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM,
24 To the employers.

25 BOARD MEMBER JELINCIC: To the employers.

1 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

2 The hard copies would go to the retirees still.

3 COMMITTEE MEMBER JELINCIC: I'll let the process
4 work through, but I'm wondering if we ought to send at
5 least some hard copies. And then on page 14, because I
6 can't let you get away without a will or a shall. On 6B,
7 page 14 of the revised document, "Valid ballots shall
8 be...". It should be will, because, you know, the ballots
9 don't have the ability to open themselves. So it should
10 be will. And at the bottom of the page, "The certified
11 results will be publicized", rather than shall, because
12 the certified results are not a person who can be
13 empowered and mandated to publish itself.

14 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

15 I'd like to use Wylie's answer yesterday in
16 response to will/shall. Yes, sir. Thank you.

17 COMMITTEE MEMBER JELINCIC: And with that, I'll
18 move the recommendation -- recommended action.

19 CHAIRPERSON COSTIGAN: Okay. We have a few more.
20 I just -- not that I want to have an English lesson today,
21 but I do believe the word shall applies to the agent not
22 to the ballot.

23 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

24 I'm sorry?

25 CHAIRPERSON COSTIGAN: Applies to the use of the

1 word agent, not to the use of the word ballot, because
2 what it is is, "Valid ballot shall be opened, inspected
3 and counted publicly by an independent neutral agent".
4 But we're not going to have an English lesson on today,
5 but that is the -- but it's not -- I don't think it
6 relates to the ballot. I think it relates the agent.

7 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
8 Thank you.

9 CHAIRPERSON COSTIGAN: Mr. Boyken.

10 ACTING BOARD MEMBER BOYKEN: Thank you.

11 Just a couple of comments. Thank you, Mr. Chair.
12 The Treasurer is not a member of this Committee, but thank
13 you for the opportunity to chime in. So on the agenda
14 item memo under the risks, all the risks that are listed
15 are risks for not passing this item, the blended voting.
16 And what I wondered is about the risks of the on-line and
17 telephone voting. I'm sure the technology has evolved,
18 but periodically there have been concerns about it. And I
19 understand, you told us lots of other systems that are
20 moving in that direction, but if you could -- and you're
21 building security into the procurement process, but if you
22 could update us on that.

23 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
24 I think that there's always an opportunity for
25 risk for voters to -- or for people in general to hack

1 into all systems, including a voting system. I'm hoping
2 that all of the precautions that we're taking will, at
3 least at a minimum, minimize that risk. So we're doing
4 everything we can to minimize the risk, but I understand
5 that there are some concerns.

6 ACTING BOARD MEMBER BOYKEN: And I notice we're
7 not moving toward instant runoff voting, so --

8 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
9 We might hear about that soon.

10 CHAIRPERSON COSTIGAN: Anything else, Mr. Boyken?
11 Mr. Jones.

12 COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.
13 Chair. Ms. Malm, I was just wondering why are we removing
14 the nomination forms?

15 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
16 I'm sorry?

17 COMMITTEE MEMBER JONES: The nomination forms, it
18 says remove for the candidates, the nomination petition.

19 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
20 Can you give me a page number, sir?

21 COMMITTEE MEMBER JONES: Okay. It's 6 of 18 of
22 your pages, and the iPad number is 42 of 202. And in the
23 handout you gave us, it's 6 of 17.

24 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
25 Oh, why am I removing the forms?

1 COMMITTEE MEMBER JONES: Yes.

2 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

3 Oh, I'm sorry. The forms currently that are in
4 the regulation, they're the only forms that are in
5 regulation. So if we need to make any minor modification
6 that Office of Administrative Law would allow us to make,
7 we have to go through the regulatory process for the form.
8 We detail out what's in the form, so we are not allowed to
9 change any of the items that are detailed in regulation,
10 but allows us to make some minor modifications to the form
11 or the format of the form without having to go through the
12 formal regulation process.

13 COMMITTEE MEMBER JONES: Okay. So the form will
14 continue to exist, it's just it's not in the regulation?

15 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

16 That's correct, but the detailed description of
17 what's in the form is in regulation.

18 COMMITTEE MEMBER JONES: Okay. Thank you.

19 CHAIRPERSON COSTIGAN: Mr. Slaton.

20 COMMITTEE MEMBER SLATON: Thank you, Mr. Chair.
21 Help me understand just page one of 18, "Board member
22 elections shall be conducted by the election coordinator
23 designated by the Executive Officer...", I assume that's
24 CEO. I don't -- is that right? That's what that word
25 executive officer means, CEO?

1 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

2 Yes.

3 COMMITTEE MEMBER SLATON: Okay, "...in accordance
4 with procedures adopted by the Board". What are those
5 procedures?

6 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

7 The procedures that are in regulation where the
8 Board -- or -- holds the election. That the Board
9 identifies the election. So if the Board directs, which
10 you have, that we will do a blended method, then that's --
11 that that's the method we use. So these are the Board's
12 procedures for their election. This is not an election of
13 the electorate, it's an election of the membership, and
14 it's directed by the Board.

15 COMMITTEE MEMBER SLATON: Okay. So in accordance
16 with the procedures adopted by the Board, means this
17 process. It's not procedures to select the election
18 coordinator, that's what I'm trying to make sure?

19 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

20 That's correct.

21 COMMITTEE MEMBER SLATON: Okay. So that's just
22 the sole responsibility of the CEO. And is that typically
23 you or an employee of CalPERS, I assume?

24 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

25 The board election coordinator works for me.

1 COMMITTEE MEMBER SLATON: Works for you. Okay.

2 All right. And is that one person or a group?

3 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

4 That's a -- it's a village of a small one person
5 with some fantastic management above them.

6 COMMITTEE MEMBER SLATON: Okay. All right.

7 Thank you.

8 CHAIRPERSON COSTIGAN: So with what Mr. Slaton
9 raised, do we need to make or note the change the
10 executive officer is Chief Executive Officer or is it
11 clear enough, just from a definitional standpoint?

12 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

13 I will --

14 CHAIRPERSON COSTIGAN: I mean we're still going
15 to go through the reg process for this. Just something --

16 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

17 I'll take a look at that. Thank you.

18 CHAIRPERSON COSTIGAN: Okay. Any other Board
19 comment before we take public comment? I know you want to
20 speak.

21 Mr. Jones.

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

23 Chair. Just one more. Under campaign guidelines, I'm
24 looking at this 554.2. And it talks about -- and it's the
25 campaign guidelines section. It talks about the candidate

1 shall not use public resources for campaign purposes,
2 including but not limited to the use of government
3 telephone, computer, mailing address, land, and buildings.

4 But some agencies identify a place at their
5 location that can be used for campaigns. So how do you
6 get around that?

7 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

8 Public areas of buildings are able to be used,
9 where any member of the public could come in. However,
10 restricted areas are not able to be used. You can't
11 poster your fliers all over the CalPERS building.

12 COMMITTEE MEMBER JONES: Okay. And I was just
13 reading this literally, and it didn't say restricted, so I
14 was just reading it literally, and it said cannot use
15 public buildings, but you can if they're designated by the
16 agency, like CalSTRS designates a public area for
17 distribution of campaign material.

18 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

19 Let me make sure that we make that more clear.

20 COMMITTEE MEMBER JONES: Okay. Thanks.

21 CHAIRPERSON COSTIGAN: Okay. Any other board.

22 Okay. We do have public comment from Mr.
23 McRitchie. Why don't you have a seat next to Ms. Malm.
24 You'll have three minutes once you turn the microphone on.

25 Okay. The microphone is already on. They'll

1 turn it on for you. You're good to go.

2 MR. McRITCHIE: Thank you. I'm James McRitchie,
3 retired member of the system. Just by way of background,
4 I used to head legislation and rule-making for my
5 department.

6 The only incident -- okay. Starting with page
7 one, Section 554, election of Board members, the only
8 incident I know where a CalPERS staff used their position
9 to favor one candidate over another was where a former
10 chief counsel and a former CEO allowed a former President
11 to rewrite his position statement in violation of CalPERS
12 regulations in order to respond to statements I made in my
13 candidate statement. Were the chief counsel or CEO
14 involved in quote conducting an election? I'm not sure
15 that most would assume so.

16 In fact, the Board's response to the incident was
17 to ban any discussion of other candidates or any
18 substantive issues in the candidate statements.
19 Fortunately, public outrage reflected in a Sacramento Bee
20 editorial, which I've handed to you, led the Board to
21 rescind the regulations.

22 You now have the opportunity to ensure the ban on
23 interference with regulations applies to all employees,
24 and to add penalties for wrong doing. It shouldn't matter
25 if someone is involved in conducting elections. No one

1 should use their official position to sway an election.

2 Now, I'm going to -- because of limited time, I'm
3 going to skip through some of the typos and other things
4 down to page eight, nomination acceptance form. Here, you
5 have a statement, "Such other information as determined by
6 the Board...", that provision doesn't meet the clarity
7 standard required by the APA and appears to sanction an
8 underground regulation by the Department, or by CalPERS.

9 Page 11, candidate statements, 554.6(d), I would
10 get rid of the proposed advice on what should go into a
11 candidate statement. All rules must meet the APA's
12 necessity standard. What substantial evidence supports
13 the need for this advice?

14 It seems to me that this is a back-door way of
15 getting candidates to avoid criticisms of each other,
16 similar to the rules criticized by the Sacramento Bee
17 editorial. Notice none of the candidate questions urged
18 candidates to compare themselves with their competition.
19 Candidates have 300 words. Let them prioritize the
20 subject matter of their statements without CalPERS urging
21 them in a different direction.

22 And ballot designation -- well, basically the
23 other items that I've listed here are also issues where
24 the clarity standard has not been met and CalPERS Board is
25 using underground regs --

1 CHAIRPERSON COSTIGAN: All right, Mr. McRitchie,
2 thank you for your testimony. We've got your comments.
3 And as Ms. Malm said, we will be having another hearing on
4 this matter. I do appreciate the clarification. Thank
5 you for putting it in in this format. Anybody else wish
6 to comment on 5B?

7 Okay. Mr. Jones, your microphone is on, but you
8 have no question?

9 COMMITTEE MEMBER JONES: No.

10 CHAIRPERSON COSTIGAN: Okay. Thank you. Okay.
11 This is an action item, right, Ms. Malm, so can I get a
12 motion, please?

13 COMMITTEE MEMBER SLATON: Moved.

14 VICE CHAIRPERSON HOLLINGER: Second.

15 CHAIRPERSON COSTIGAN: Moved by Slaton -- oh, I'm
16 sorry. It's been moved by Jelincic, seconded by slaton
17 with the noted changes, the will and shall, is that okay,
18 Ms. Malm?

19 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
20 Are we able to do the will and shall during our
21 45-day comment period, Mr. Jelincic?

22 COMMITTEE MEMBER JELINCIC: (Nods heard.)

23 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
24 Thank you.

25 CHAIRPERSON COSTIGAN: Thank you.

1 So it's been moved and seconded.

2 All those in favor?

3 (Ayes.)

4 CHAIRPERSON COSTIGAN: Opposed?

5 Motion carries. Thank you, Ms. Malm.

6 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

7 Thank you.

8 CHAIRPERSON COSTIGAN: Alrighty. Next item.

9 Back to my agenda here.

10 Ms. Eason, you're back up.

11 CHIEF FINANCIAL OFFICER EASON: Thank you.

12 Cheryl Eason, CalPERS staff. Agenda Item 6a, we are
13 bringing back to you today the CalPERS budget policy with
14 suggested improvements based on your feedback from the
15 first reading last month. As a result of those comments,
16 wording has been added to the policy to reflect the
17 constitutional authority for the contingency reserve fund
18 portion of the CalPERS health program, financial
19 forecasting reporting by the Financial Office, and the
20 addition of criteria used by the organization to
21 prioritize resources as part of the annual budget process.

22 There were two additional suggestions that were
23 provided recently for consideration. One was to add to
24 the criteria regarding, in accordance with applicable
25 regulatory requirements to include vacancy rate

1 considerations as part of the criteria, and to provide
2 wording in the financial reporting about the reporting
3 that staff provides to the Committee for financial
4 forecasting purposes.

5 These comments would require additional changes
6 to the policy. And I seek direction from the Committee as
7 this is a second reading and action item, or whether you'd
8 like us to bring this back for a -- with those changes for
9 next month?

10 CHAIRPERSON COSTIGAN: Mr. Jelincic.

11 COMMITTEE MEMBER JELINCIC: In the criteria
12 section, we had talked about the -- in the first -- the
13 first paragraph, establish through the PERS budget, and
14 yet in the process just below we struck the PERS. I
15 assume that correction was accepted and will be made?

16 CHIEF FINANCIAL OFFICER EASON: Yes, that's
17 correct.

18 COMMITTEE MEMBER JELINCIC: And that's all I
19 wanted to raise at this point.

20 Oh, yes, I did have one other thing. And this is
21 just for future reference. In the attachments on -- in
22 the Agenda Item, you list Attachment 1, which is the red
23 line version. And I'd just like to recommend that in the
24 future you identify the red line version from what.

25 Thank you.

1 CHIEF FINANCIAL OFFICER EASON: Thank you. We
2 will.

3 CHAIRPERSON COSTIGAN: Mr. Jones.

4 COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.
5 Chair. Yeah, I just want to congratulate you on coming to
6 this point of this budget policy. And also, I noted that
7 we have financial forecasting as part of our workstream
8 now, which is very good. And the suggestions that we had
9 talked about, I would move this -- this is an action,
10 right?

11 CHAIRPERSON COSTIGAN: Yes, sir.

12 COMMITTEE MEMBER JONES: And with those changes
13 that she mentioned about the vacancy rate, because that
14 corresponds to a constant question, and we are recognizing
15 the vacancy in the budget development process by putting
16 in a credit into budget to recognize that all -- those --
17 all positions in the budget will not be filled all year,
18 so that has already been recognized. So I would include
19 that. And also the comment about in the requirements of,
20 including a statement by meeting legal requirements of
21 this budget development process.

22 So, Mr. Chair, I don't know if you want to just
23 have that change -- direct staff to change it or whether
24 or not you want to have it come back for --

25 CHAIRPERSON COSTIGAN: Ms. Eason, with those

1 changes, plus we have to bring one item back next month,
2 should we take it all up this month or wait till next?

3 CHIEF FINANCIAL OFFICER EASON: We can certainly
4 make the suggested changes this month on the policy, and
5 then -- or come back. It's really...

6 CHAIRPERSON COSTIGAN: But we can move forward
7 and just bring the one remaining clarification back next
8 month?

9 CHIEF FINANCIAL OFFICER EASON: Yes, we can.
10 Certainly.

11 CHAIRPERSON COSTIGAN: So it has been moved by
12 Jones.

13 VICE CHAIRPERSON HOLLINGER: Second.

14 CHAIRPERSON COSTIGAN: Sorry. Mr. Jones

15 COMMITTEE MEMBER JONES: Now go ahead with the
16 second. Seconded.

17 CHAIRPERSON COSTIGAN: It's going to be seconded
18 by Hollinger.

19 COMMITTEE MEMBER JONES: Okay. Yeah, just one
20 other comment. It's not necessary to make the change in
21 this document, but in the report itself, I also had
22 suggested that we include a column for the expenditures of
23 the -- projected expenditures on the summary page, rather
24 than just looking at budget to budget, because it becomes
25 more meaningful to see. A budget is a plan of where

1 you're going, and expenditures is where your ended up.
2 And I think that's an appropriate comparator. See how
3 well the policies surrounding the budget has been
4 accomplished.

5 And matter of fact, that was one of the things we
6 discussed earlier today, about budget performance. So
7 with -- but I don't necessarily believe that it has to be
8 done in this report, but I'm just saying in the future it
9 should be included.

10 COMMITTEE MEMBER JELINCIC: Are you on the budget
11 or the budget policy?

12 COMMITTEE MEMBER JONES: This is --

13 CHAIRPERSON COSTIGAN: He's on the budget policy
14 Item 6a.

15 COMMITTEE MEMBER JONES: Budget policy, but it's
16 attachment here. I'm sorry. Okay. My pages were mixed
17 up.

18 CHAIRPERSON COSTIGAN: But we understood you were
19 making the motion on 6a.

20 COMMITTEE MEMBER JONES: Yes.

21 CHAIRPERSON COSTIGAN: Ms. Eason, do you need any
22 further direction or --

23 CHIEF FINANCIAL OFFICER EASON: No, I've got it.

24 CHAIRPERSON COSTIGAN: Okay. So it's been moved
25 by Jones, seconded by Hollinger.

1 All those in favor?

2 (Ayes.)

3 CHAIRPERSON COSTIGAN: Opposed?

4 Motion carries. Thank you.

5 Item 6b. Now, we're on to the budget -- business
6 plan.

7 Mr. Hoffner.

8 DEPUTY EXECUTIVE OFFICER HOFFNER: Good
9 afternoon. This is the second reading of our 16-17
10 business plan. There have been two modifications since
11 last month I want to bring to your attention, and then
12 happy to answer questions.

13 The first relates to the removal of the CPPT,
14 it's the pre-funding trust we discussed last month at
15 length, and we were unable to get to a conclusion on that
16 this legislative cycle. So having that in the business
17 plan seemed like it was inconsistent with the current
18 policy we're going forward with.

19 The second one was an addition of promoting
20 access to high value health care services that Mr.
21 McKeever spoke to at the Health Benefits Committee this
22 morning. And the idea there would be to explore the
23 feasibility to introduce incentives that promote access to
24 quality and preventive services, increase treatment
25 adherence and adopt healthy behaviors.

1 This is something we would add to the business
2 plan for this next cycle. And so there would be a net
3 difference of zero, based upon the removal of one the
4 addition of another. I did also want to highlight the
5 fact that last month, as part of the 15-17 business plan
6 discussion at the mid-year report, we had the discussion
7 about the deferral of several other items, and that was --
8 I just want to further remind the Committee of that, based
9 upon direction from the Board that occurred last month.

10 So other than that, those are the two items that
11 have changed related to the business plan and happy to
12 answer questions related to it.

13 CHAIRPERSON COSTIGAN: Thank you, Mr. Hoffner.
14 Mr. Slaton.

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

16 On the pension prefunding trust, I understand
17 that this has been a difficult issue and the parties --
18 you know, staff, you guys have worked very hard to try to
19 see if you could come to a reasonable agreement on it. It
20 does not mean that the concept is bad. In fact, it's a
21 great concept. It's something that I think that agencies
22 should have an ability to do. I understand the need to
23 try to have agreement on it. I think there are other
24 potential strategies for how to get this same thing
25 accomplished.

1 So I would propose that it be left in and explore
2 alternatives, explore what's possible. I don't -- I don't
3 think we should drop it conceptually. So I think I'd like
4 to see staff continue to work. There's some private
5 sector alternatives that are out there. Maybe there are
6 other ways to do it. Perhaps, the organizations, the
7 employer organizations, want to take this up.

8 So, you know, we have a lot of expertise in this
9 area. And I just would like to see it continue and maybe
10 eventually come in with something that does work between
11 the stakeholders. But I hate to just drop it. I'd rather
12 have you continue, as part of the workplan, to explore
13 what alternatives might be out there.

14 So with that, I'd -- so if it's appropriate, I'd
15 like to move the action item with that change.

16 CHAIRPERSON COSTIGAN: So it's been moved by
17 Slaton. Before there's a second, Mr. Hoffner, Mr.
18 Stausboll, I know as Mr. Slaton said, we are going to
19 continue to move forward with the discussions on the item,
20 even though we have pulled for the time being, is that
21 correct?

22 CHIEF EXECUTIVE OFFICER STAUSBOLL: Yes, if
23 that's the direction, that's fine. I would just suggest
24 changing the language a little bit, because as written
25 now, it says -- I'm trying to find -- oh, "Develop and

1 administer a funding mechanism for employers to invest in
2 a pension prefunding trust". So I think we should change
3 it to something --

4 COMMITTEE MEMBER SLATON: Just, "Continue to
5 explore alternatives."

6 CHIEF EXECUTIVE OFFICER STAUSBOLL: "Explore
7 alternatives and make recommendations", something like
8 that.

9 COMMITTEE MEMBER SLATON: Yeah, Exactly. That's
10 what I'm looking for.

11 CHAIRPERSON COSTIGAN: Mr. Hoffner.

12 DEPUTY EXECUTIVE OFFICER HOFFNER: We're fine
13 with that language.

14 CHAIRPERSON COSTIGAN: Great.

15 CHIEF EXECUTIVE OFFICER STAUSBOLL: Cheryl. I'm
16 just going to check with Cheryl, she's really the lead on
17 this.

18 CHIEF FINANCIAL OFFICER EASON: Yes, we make that
19 change.

20 CHAIRPERSON COSTIGAN: Okay. It has been --
21 motion made by Mr. Slaton with a slight revision, is there
22 a second?

23 VICE CHAIRPERSON HOLLINGER: Second.

24 CHAIRPERSON COSTIGAN: Any further discussion?
25 Mr. Jelincic.

1 COMMITTEE MEMBER JELINCIC: I got lost in the
2 transition. Bill, where is this change that you were
3 talking about?

4 COMMITTEE MEMBER SLATON: This is on page two of
5 six in Attachment B. This is -- because staff has
6 suggested deleting CalPERS pension prefunding trust as one
7 of the initiative descriptions. And I'm suggesting it not
8 be dropped, but be reworded to be, "To explore
9 alternatives", during this time frame, alternatives for a
10 pension prefunding trust.

11 COMMITTEE MEMBER JELINCIC: You're in attachment?

12 COMMITTEE MEMBER SLATON: Attachment 1, page two
13 of six on item 6B.

14 COMMITTEE MEMBER JELINCIC: Okay. Now, it shrunk
15 down on me, so I can't see it.

16 Attachment 1, two of six. And --

17 COMMITTEE MEMBER SLATON: It's the top one in the
18 second grouping. And by the way, the other point I would
19 make is that I think this one really should be in the
20 first grouping. This is not about Ed -- well, I guess the
21 way when it's reworded, it is about educating other
22 stakeholders, but -- so maybe with the rewording it does
23 fit in this category, for the time being.

24 COMMITTEE MEMBER JELINCIC: And your proposal is
25 that they continue to work on it.

1 COMMITTEE MEMBER SLATON: Yeah, continue to work
2 on alternatives for creating a pension prefunding trust.

3 VICE CHAIRPERSON HOLLINGER: I think you said
4 explore. COMMITTEE MEMBER SLATON: Yeah, explore
5 alternatives.

6 CHIEF EXECUTIVE OFFICER BOYKEN: You said explore
7 alternatives and make recommendations.

8 COMMITTEE MEMBER SLATON: Right.

9 COMMITTEE MEMBER JELINCIC: Okay. I kind of see
10 it as a difference between without distinction, but...

11 COMMITTEE MEMBER SLATON: Well, this says do it.
12 This says create one, and we've had some discussions with
13 stakeholders regarding creating one, and there's a level
14 of disagreement. So that's why I'm suggesting to continue
15 the study, but Ms. Stausboll has a comment about that.

16 CHIEF EXECUTIVE OFFICER STAUSBOLL: Yes, that's
17 rights. I think it's important for our stakeholders that
18 they know we're not proceeding with the legislation in
19 this year.

20 COMMITTEE MEMBER SLATON: Exactly.

21 CHAIRPERSON COSTIGAN: Mr. Jelincic, does that
22 answer your question?

23 COMMITTEE MEMBER JELINCIC: Yeah.

24 CHAIRPERSON COSTIGAN: And again --

25 COMMITTEE MEMBER JELINCIC: I'm still not sure

1 that it's all that much of a difference, but we do want
2 them to work on it.

3 CHAIRPERSON COSTIGAN: Right. Well, I think the
4 direction was, as Ms. Stausboll said, was that for -- at
5 least for the 2016 legislative session, we are not going
6 to be pursuing a legislative solution. That does not mean
7 that we are not going to give up on the issue, which is
8 what Mr. Slaton's point is, because we'd like to see this
9 issue revisited next year.

10 And I think the signal we want to send is just
11 because we're not pursuing the legislation does not mean
12 that the idea does not go forward with a discussion. I
13 think that's what Mr. Slaton was trying to get further
14 clarification on.

15 COMMITTEE MEMBER SLATON: Correct.

16 CHIEF EXECUTIVE OFFICER STAUSBOLL: Well, and
17 perhaps, we'll find or, you know, work out a resolution,
18 such that we could do legislation in a future year.

19 COMMITTEE MEMBER SLATON: Right.

20 CHAIRPERSON COSTIGAN: Four weeks, legislative
21 deadline.

22 (Laughter.)

23 CHAIRPERSON COSTIGAN: All right. So it's been
24 moved by Slaton, seconded by Hollinger.

25 Any further discussion?

1 All right. All those in favor?

2 (Ayes.)

3 CHAIRPERSON COSTIGAN: Opposed?

4 Motion carries. Thank you very much.

5 Item 6c, Ms. Eason. It's another action item and
6 this is the system budget.

7 CHIEF FINANCIAL OFFICER EASON: Yes, it is.
8 Thank you. Cheryl Eason, CalPERS staff.

9 This is an action item and it is the first
10 reading of the annual budget proposal. You do have
11 handouts that are included in your package.

12 (Thereupon an overhead presentation was
13 Presented as follows.)

14 CHIEF FINANCIAL OFFICER EASON: I want to do a
15 high level view of the budget. But I thought it was
16 appropriate and it is something that this Committee has
17 asked staff to come back with is talk a little bit about
18 some context and where we've come from in the last 10
19 years, including accomplishments, and then take a look at
20 the current year's forecast of the estimates that we
21 believe will be at -- that the expenditures will be at on
22 June 30th, and then a deeper dive into the actual item
23 itself for the 2016-17 budget.

24 --o0o--

25 CHIEF FINANCIAL OFFICER EASON: Over the past 10

1 years the budget has grown approximately five percent a
2 year with the last three years showing budget reductions
3 as was pointed out earlier. This particular graph
4 excludes investment performance fees, because those are
5 driven by market returns. And really what I wanted to
6 illustrate here is those expenses controlled by the
7 organization, but I will get to show you why I've
8 specifically kept these out of the investment -- the
9 investment performance fees out of this particular graph.

10 And you can also see from this chart that when
11 you look at the approved budgets versus the actual
12 expenditures, the performance has been slightly lower,
13 actual expenditures, to the budget.

14 --o0o--

15 CHIEF FINANCIAL OFFICER EASON: But for those of
16 you that do want to see what the numbers look like with
17 the actual investment performance fees, this is the same
18 graph but with the fees included. And as you can see
19 here, the total budget does not change in terms of its
20 trajectory, but what it does show, is it does show that
21 those total expenditures actually cross that budget line
22 because again it's anticipated -- it's the -- it's just
23 the increase in those high market return years that would
24 not have been anticipated in the budget.

25 --o0o--

1 CHIEF FINANCIAL OFFICER EASON: This slide
2 represents the impact of cost efficiencies implemented
3 over the past several years. And what you see here is the
4 accumulative savings due to many of the activities such as
5 the insourcing of the investment management functions, the
6 reduction on the allowance -- on the reliance on IT
7 consultants, and other cost efficiencies that illustrates
8 that without those cost saving measures, today's budget
9 that we'd be talking about would be much closer to \$2.3
10 billion level rather than the \$1.8 billion that is
11 currently being proposed today.

12 So this shows that there would have been an
13 increase of over \$500 million in savings or a 30 percent
14 increase had we not affected cost savings. And I'll talk
15 a little bit more about that as we go through each of the
16 areas in the budget.

17 --o0o--

18 CHIEF FINANCIAL OFFICER EASON: But one item --
19 or one area of the budget that has grown is the
20 administrative costs. So what we've done here is we've
21 given you a slice of, over the last 10 years, of we've
22 taken the projects, we've taken third-party administrator
23 fees, and we've taken the administrative costs, again
24 excluding investment costs -- and I'm going to talk about
25 that in the next slide, and you'll see why we moved that

1 out.

2 So that blue line that you see here, the
3 administrative operating costs, which also includes the
4 headquarters costs, that's increased approximately three
5 percent annually, if you average that out over the last 10
6 years. And that's mainly due to staff salaries and
7 benefit costs, as well as the pro rata costs paid to the
8 State of California. And then we actually have all other
9 costs increased -- increases have been offset by cost
10 efficiencies, such as reducing our consulting and some of
11 our operating costs.

12 And then you'll also see that did red line
13 increases in the third-party administrator fees for
14 '13-'14 that reflects really two things. It's the result
15 of the five newly implemented flex funded health plans.
16 And then based on that, we will, for the first time, be
17 able to show the total costs of the administration. So
18 prior to 2012-'13, we were unable to actually capture all
19 of the administrative costs. They were embedded directly
20 into the premiums. So it just -- it's -- this is helpful
21 in that these the last few budget cycles we've actually
22 been able to show you what that cost is, and we've been
23 able to pull that out of the actual premiums.

24 And then the project line reflects mainly
25 investments in our IT systems. And that tends to be more

1 variable and has more volatility, just depending on which
2 projects we happen to be taking on that current year.

3 --o0o--

4 CHAIRPERSON COSTIGAN: Before move on, we have a
5 question.

6 Mr. Jelincic.

7 COMMITTEE MEMBER JELINCIC: Yeah, I actually --
8 back on page -- slide 4, the investment costs, including
9 performance fees, I assume that that has -- that for
10 private equity it's a net performance fees, not what we're
11 actually paying. And I just want to make sure that
12 assumptions is correct.

13 CHIEF FINANCIAL OFFICER EASON: Yes. There are
14 still net, because we're not able to capture all those
15 costs.

16 COMMITTEE MEMBER JELINCIC: I'm not sure we
17 can't, but -- and then on page six, I actually found
18 that -- slide 6, I found this interesting, but I will tell
19 you my first glance at it says -- you know, it looks like
20 the pro forma incomes that we're seeing from more and more
21 companies when they do their quarterly reports, it is
22 accurate and it is helpful, but I've just got to tell you
23 that was my first reaction. This is what it would be,
24 except for. So thank you.

25 --o0o--

1 CHIEF FINANCIAL OFFICER EASON: So I mentioned
2 that I was going to talk about the investment costs and
3 this -- these two lines make up the remaining costs of the
4 total year's budget. But when you look at the top line,
5 the base and performance fees, these are dependent upon
6 market returns and the fund balance. And the -- you'll
7 note that 2016-17 proposed budget is at its second lowest
8 level in the past 10 years. The administrative and
9 operating costs for the Investment Office have increased
10 from 59.3 million to 161.8 million, which reflects the
11 insourcing of investment functions.

12 And later on in the presentation, I will look at
13 each of the budgets separately, and you'll be able to see
14 how we've been able to bring down those costs as a result
15 of -- net, as a result of insourcing of the investment
16 functions.

17 But I think what's important, and while we
18 haven't included it on this particular slide, but it is in
19 your budget book on page 29, the proposed budget for the
20 Investment Office is, on basis points, is 55 basis points
21 compared to the approved budget for '15-'16 of 65 basis
22 points, so a decrease of 10 basis points, or 15 percent.

23 So I think again although our internal costs may
24 be increasing as a result of bringing those functions
25 in-house, they are increasing at a lesser rate than the

1 decrease overall in terms of the investment fees, when you
2 look at it on a basis point average.

3 --o0o--

4 CHIEF FINANCIAL OFFICER EASON: So I mentioned
5 earlier that much of what's driving our costs are those
6 costs related to staffing. And this shows the position
7 trends over the last 10 years. We've grown an average of
8 three percent per year. You can see that during the
9 fiscal years 2009-10 through 2010-11, the effects of the
10 recession and the budget crisis was being felt, and that
11 we had very low growth in that period of time.

12 The ramp up of growth in recent years is
13 attributed mostly to the launch of the new my|CalPERS
14 system, and the insourcing of investment portfolio
15 management and IT functions.

16 --o0o--

17 CHIEF FINANCIAL OFFICER EASON: Taking that same
18 10-year period and looking at what the actual growth is on
19 a year-by-year basis, you can see that it fluctuates. And
20 what we thought would be interesting to look at would be
21 the distribution of the growth as a percentage of the
22 total. So, as you see, we showed the 2007-08 where we
23 were at 2,217 PYs versus the current proposed 2016-17 of
24 2,872.

25 And you can see though it distributed -- the

1 distribution as a percentage of the total that we continue
2 to provide a commitment to our customer services, our
3 insourcing investments, our technology functions, the
4 support of the my|CalPERS system, compliance and risk
5 oversight, financial and treasury management, just a few
6 of the areas that we've increased our staffing
7 requirements. And along with those functions -- that new
8 functionality to the organization, the support functions
9 that also play an important role in the achievements of
10 CalPERS.

11 --o0o--

12 CHIEF FINANCIAL OFFICER EASON: So this is all to
13 really say that those increase in costs that are driven by
14 positions, there's been many milestones and
15 accomplishments. And this is just a very short list of
16 what's, over the years, those milestones and
17 accomplishments for the organization. And I won't read
18 all of them, but you can see that there's significant work
19 that's being done and accomplishments achieved to enhance
20 and grow the quality of the pension and health care
21 administrative services to our members, all taking cost
22 into consideration.

23 --o0o--

24 CHIEF FINANCIAL OFFICER EASON: And that journey
25 has taken us, over the 10 years, from fragmented legacy IT

1 systems to an integrated system with on-line service
2 capabilities that all of our members expect, the enhanced
3 functionality, strong internal controls. We have enhanced
4 compliance and risk management systems. We have less
5 reliance on external management investments and IT
6 systems, and we have strong data security. All that, we
7 go from the journey from systems that today are much
8 stronger and have greater controls.

9 --o0o--

10 CHIEF FINANCIAL OFFICER EASON: And I think the
11 results of all of those efforts speak for themselves.
12 Again, I won't go through this, but I think it's what I
13 just talked about always looking at improving our customer
14 service, ensuring that we're leveraging our technology and
15 improving our controls and oversight, as well as looking
16 at ways to always be cost efficient in these services that
17 we deliver.

18 --o0o--

19 CHIEF FINANCIAL OFFICER EASON: So that was the
20 background I wanted to provide to you in terms of a
21 look-back over the last 10 years.

22 So let's look at what that looks like today and
23 where we think we're going to be at the end of 2015-16.

24 --o0o--

25 CHIEF FINANCIAL OFFICER EASON: This is a

1 forecast that's estimated to be at 1. -- just under 1.8
2 billion, a decrease of 20.4 million, or about one percent
3 from our 2015-16 approved budget of 1.807 billion.

4 As mentioned at the mid-year, this is unchanged.
5 Contributing to the decrease are the administrative
6 operating cost savings of almost 14 million. That's made
7 up of savings from position vacancies of almost nine
8 million. So while we target in our budget for a five
9 percent vacancy rate, we're currently at about a 6.7
10 percent vacancy rate. So again, we've removed that --
11 earlier comments of Mr. Jones, we removed that from the
12 forecast, because we haven't been able to achieve that
13 targeted rate. So we want to make sure that it's removed
14 from our forecast.

15 And then the lower than anticipated use of
16 outside counsel was about three million, temporary
17 staffing has been reduced by almost a million, and as well
18 as consulting expenses of a million dollars as well.

19 The enterprise project costs are forecast to be
20 underspent by about 1.9 million. Those are -- that's
21 primarily due to delays in the actuarial valuation system
22 redesign project, most of which is of the 1.9. And there
23 will be -- we anticipate savings in the headquarters
24 building account of about two million, also anticipated
25 based on just the current expenditure trends, so we're

1 expending at a lesser rate than we would normally at this
2 time of year, as well as third-party administrator fees
3 are anticipated to be down three million, again due to
4 health and long-term care enrollment changes savings in
5 that area.

6 So we always -- we do quarterly forecasts
7 internally, and these areas have given -- been able to
8 provide those types of decreases for us that we can then
9 show as part of our decrease in our budget.

10 --o0o--

11 CHIEF FINANCIAL OFFICER EASON: So that's where
12 we've come from. That's where we're heading. And let's
13 look at what 2016-17 will look. And as was just -- we
14 just talked about the 2016-17 business plan, the budget is
15 in alignment with that plan. We work very closely with
16 the business planning staff to ensure that this reflects
17 the anticipated resources that is required to implement
18 the current business plan, as well as maintain current
19 operating service levels.

20 --o0o--

21 CHIEF FINANCIAL OFFICER EASON: So let me quickly
22 go through the -- the next part of the presentation will
23 be to be able to walk through with you the actual budget
24 that's being presented.

25 The proposed budget for 2016-17 is one billion

1 seven hundred and eighty-eight million, and 2,872
2 positions representing a decrease of 19.6 million or about
3 1.1 percent. I will note that we are looking at
4 reducing -- further reducing costs that are not included
5 in this particular reading, but we do anticipate that in
6 second reading we will come back with costs associated --
7 currently associated with our Health Care Fund.

8 The decrease of 19.6 million is made up of a
9 reduction of 34 million in our investment external manager
10 fees, and our -- and 6.8 million in third-party
11 administrator fees. We do have increases that are being
12 reflected in this budget, and that is 11.1 million in our
13 administrative operating costs, 7.6 million in investment
14 operating costs, 3.4 million in our project costs, and
15 just under one million in our headquarters building costs,
16 but I will go through each one of those areas in a little
17 bit more detail.

18 --o0o--

19 CHIEF FINANCIAL OFFICER EASON: These are the --
20 what we consider to be the five budgets that make up the
21 total budget. And really the cost drivers really come
22 from personnel costs, the my|CalPERS optimization, which
23 you'll find in the project budget, the actuarial
24 requirements related to the AVS system, so again IT costs
25 in our project budget. We have data security increase in

1 expenditures for 2016-17 over 2015-16, as well as asking
2 for 39 positions in the current budget due to an increase
3 in our core workload and complexity.

4 --o0o--

5 CHIEF FINANCIAL OFFICER EASON: I mentioned
6 earlier, this is just a reconciliation. The total savings
7 of 19.6 million in this year's budget compared to the
8 current budget of '15-'16. It just shows the decreases
9 offset by the increases that I just mentioned.

10 --o0o--

11 CHIEF FINANCIAL OFFICER EASON: So let's go
12 through each one of those sub-budgets, if you will. So
13 the operating cost for the proposed budget of 546.3
14 million, that's an increase of 18.7 or 3.75 percent. So
15 as I mentioned earlier, historically that is an area
16 within the budget that is continuing to grow.

17 The salary savings factor of five percent, or
18 about 17 million, has been taken out of that number.
19 That's been applied to the salaries and benefits to
20 reflect the cost savings of the target vacancy rate of
21 five percent.

22 And that's really -- we do that for budgeting
23 purposes, because it's a better reflection of the current
24 vacancy due to staff turnover.

25 The increase of 13.2 million in the operating

1 expenses and equipment is attributed to increases in our
2 trading and portfolio management systems. So we have
3 about \$9 million of the 13 million increase attributed to
4 that. We have appraisal fees and tax advisory services of
5 three million included, as well as data processing and
6 maintenance for systems of seven million.

7 CHAIRPERSON COSTIGAN: A question on that. Why
8 did we see a 50.6 percent increase in appraisal and tax
9 service fees?

10 I'll have the Investment Office talk specifically
11 like their increases.

12 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

13 Wylie Tollette, CalPERS staff.

14 We went to a modified appraisal approach in this
15 past year, where we now have split the appraisals. Rather
16 than having them -- 100 percent of them take place in
17 March, we now have 25 percent of the appraisals take place
18 each quarter. In addition, we've asked and started to use
19 the -- our external managers valuations or estimates of
20 value. And we've hired Altus, which has historically been
21 our appraisal coordinating firm to review those manager
22 valuation estimates. And there was a small increase, both
23 in the appraisal process and costs for moving from an
24 annual to a quarterly appraisal cycle, as well as for the
25 review of the manager's valuations.

1 The core goal of both of those activities was
2 really to be able to produce a quarterly performance and
3 valuation estimate for the Real Assets Program. You may
4 recall that in prior years, we only really had one
5 accurate cut of performance for the Real Assets Program
6 every March.

7 In the new process, we now have quarterly
8 refreshed valuations. So we're able to -- we don't have
9 to basically try to do the math in our heads on the other
10 quarters. We actually now have quarterly valuations we
11 can use, primarily for portfolio management purposes, and
12 to see where shifts in the marketplace in the real estate
13 marketplace are taking place, but also for reporting to
14 our Investment Committee and to the Board.

15 CHAIRPERSON COSTIGAN: Except -- I'm just
16 curious, this is a \$3.1 million increase.

17 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
18 That's right.

19 CHAIRPERSON COSTIGAN: Fifty percent -- that's
20 more than a small increase. It's a 50 percent increase.
21 Is this -- are we going to -- when you say you're changing
22 the reporting, is this an ongoing -- will this be an
23 ongoing cost of the 9.4 million annual increasing?

24 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
25 Yes, that's right.

1 CHAIRPERSON COSTIGAN: Because that's a --

2 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: But
3 it's not an increase every year of that amount. We think
4 this is the new run-rate effectively for that amount.

5 CHAIRPERSON COSTIGAN: The new baseline.

6 Ms. Eason, I have other questions on this. Do
7 you want to finish your presentation or you want to go --
8 we can take questions and do you want to keep going?

9 CHIEF FINANCIAL OFFICER EASON: I've got about
10 six slides. I can quickly go through them.

11 CHAIRPERSON COSTIGAN: I'll hold. Okay. Thank
12 you.

13 CHIEF FINANCIAL OFFICER EASON: Also included is
14 a lift in the budget for the request for 107 positions. I
15 will note that 68 of those positions are cost neutral, in
16 that they currently represent limited-term staff, and
17 therefore there would -- from a budget-to-budget
18 year-over-year increase does not create an increase in the
19 budget.

20 But due to the conversion of the temporary help
21 staff cost to permanent in the customer contact center,
22 it's to maintain the CalPERS established service levels
23 for call wait times and electronic inquiry responses.
24 This does shift in the budget from the temporary helpline
25 to the salaries and wages line, but it's just a shift from

1 one to the other.

2 The other remaining 39 positions where we're --
3 are being requested based on new workload, increased --
4 and increased workload. So when we did the budget review
5 with each of the areas, there were nine positions of new
6 workload, six in compliance, two in opportunistic
7 investment program, and one in succession planning that
8 indicated this was new workload for the organization.

9 The remaining 30 new positions were identified as
10 increased workload. We have nine in the investment
11 office, seven as part of our audit resolution. We have
12 death benefit processing of seven, GASB 68 positions of
13 three, the Public Affairs of two, pharmacy operations of
14 one, and long-term care actuarial work of one.

15 --o0o--

16 CHIEF FINANCIAL OFFICER EASON: The next budget
17 area are the investment administrative costs, operating
18 costs, and base fees. So here, you can see that over the
19 past four years from 2013-14 actual to 2016-17 proposed
20 budget, we've -- when you put into consideration the
21 management base fees and a reduction of 167.9 million, and
22 the increase of administrative operating costs of 30.5
23 million, you do see that there is a decrease overall in
24 the administrative and operating and base fee costs of the
25 Investment Office. And this is, again, in line with the

1 strategy to bring more investment functions in-house.

2 --o0o--

3 CHIEF FINANCIAL OFFICER EASON: The enterprise
4 projects budget is at 40.9 million, just under 41 million.
5 That's an increase of nine percent, or 3.4 million, from
6 the '15-'16 approved budget, and a slightly higher
7 increase, \$5.3 million increase, if you compare that to
8 the current '15-'16 forecast.

9 The main reason for those increases reflect the
10 reengineering of the Actuarial Valuation System of almost
11 five million, that's to provide capabilities to keep
12 current with evolving practices and comply with GASB 68
13 requirements. We also have a Security Roadmap Project of
14 also five million to ensure our CalPERS -- my|CalPERS
15 technology and member data will remain secure against
16 constantly changing threats in the environment.

17 And we also have an IT infrastructure
18 modernization project at four million, and that's to
19 replace the pre-engineered system with open architecture
20 standard, which is now what we use commonly throughout the
21 my|CalPERS systems.

22 --o0o--

23 CHIEF FINANCIAL OFFICER EASON: And then
24 Headquarters budget. We -- this has remained quite stable
25 over the past few years. We do have an increase of almost

1 a million from 2015-16 and -- budget. When you compare
2 that to the '15-'16 forecast, it is higher. It's closer
3 to three million. That's -- these increases are all
4 primarily due to general building improvements. And the
5 reason for the larger increase, the \$3 million increase
6 from the forecast the proposed budget is, as I mentioned
7 earlier in the forecast, we're just anticipating that our
8 '15-'16 forecast will be lower just due to the spend rate
9 currently. So you can see that the '15-'16 proposed budget
10 is being proposed at closer to the approved budget number
11 of '15-'16.

12 --o0o--

13 CHIEF FINANCIAL OFFICER EASON: I think I've
14 covered this with the other slide, but this really just
15 points out the -- just the external management fees
16 portion of the budget. That's where you can see that our
17 base fees we anticipate will be a decrease from our
18 '15-'16 approved budget. The base fees continue to come
19 down, in this case 70 -- just almost 71 million. That is
20 offset by performance fees, where we anticipate to
21 increase to almost 37 million. That's due in part to the
22 projection that's included in the budget of positive
23 market returns in the global equity and real assets,
24 offset by some reduction in our activist fees due to the
25 wind down of that particular program.

1 --o0o--

2 CHIEF FINANCIAL OFFICER EASON: And then finally,
3 we have our third-party administrator fees. Again, we
4 anticipate that we're going to see a decrease from our
5 '16-'17 -- from '16-'17 -- I'm sorry, from our '15-'16
6 approved budget and forecast to our '16-'17 approved
7 budget -- or proposed budget that we're asking for today.

8 The self-funded health program represents \$7
9 million of that decrease, mainly driven by changes in the
10 healthcare enrollment of the Blue Shield health plan. And
11 we've been able to provide some cost avoidance through
12 increasing competition and actively maintaining the PPO
13 and the flex-funded health programs.

14 We also have a decrease in our Long-Term Care
15 Program, about 1.3 million, again attributable to our
16 reduction in our proposed enrollment. And we continue to
17 see associated savings in our related administrative
18 costs.

19 And then finally, the Supplemental Income Program
20 or Plan essentially -- will essentially remain the same
21 and has remained the same over the last four or five
22 years.

23 So with that, again to conclude, this is an
24 action item. It is first reading. We will come back with
25 changes, but I am happy to take any questions on any

1 specifics.

2 CHAIRPERSON COSTIGAN: All right. Mr. Jelincic,
3 you're up first.

4 COMMITTEE MEMBER JELINCIC: Okay. Before we get
5 into the actual budget, if I can go back to page 21 of
6 your slide deck. One of the things I notice is from
7 '16-'17 to '17-'18, we're not projecting to continue the
8 trend of bringing more in-house and less with external
9 managers.

10 CHIEF FINANCIAL OFFICER EASON: I would not draw
11 that conclusion. We still have work to do in terms of our
12 '17-'18 projection. We do try and show where we can,
13 particularly on the projects, we have a better handle on
14 our multi-year projects. But for '17-'18, we've just --
15 we just remain flat on that. We've made no assumptions in
16 terms of that continued decrease at this point. We
17 continue to try and refine our projections going forward.

18 COMMITTEE MEMBER JELINCIC: Okay. But going
19 forward, we should expect to see the trend continue of
20 bringing more in-house and less outside managers, even if
21 we're not showing it in this project?

22 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

23 Yes. Wylie Tollette, CalPERS staff.

24 That's right. We continue to make efforts to
25 bring other asset classes in-house. The effort to

1 estimate both base and performance fees in advance in this
2 space is a challenging exercise, because essentially we
3 have to make assumptions around the size of the fund, the
4 size of the asset classes, and the rates of return prior
5 to the year taking place.

6 So it's probably more accurate to call these
7 expense projections than a budget. Our expense
8 projections include assumptions for rates of return in
9 each of the asset classes. So that's what you see
10 reflected here. That's difficult enough looking out one
11 year in the future, you need a crystal ball to do that.
12 But looking out two years in the future, it's particularly
13 challenging.

14 So I think we and the Finance Office agree that
15 looking out and trying to make projections of the rates of
16 return and the assets looking out that far into that
17 fiscal year, those numbers are absolutely going to be
18 different when they come back in reality. But we do
19 expect, as a business strategy, to continue to insource
20 investment functions wherever possible.

21 COMMITTEE MEMBER JELINCIC: And if you bring them
22 all in-house, then it becomes much easier to estimate the
23 external manager fees.

24 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

25 That is true.

1 COMMITTEE MEMBER JELINCIC: Okay. I have some
2 questions on the individual programs, but I'll wait as we
3 go through.

4 CHAIRPERSON COSTIGAN: Go ahead. Now is the
5 time.

6 COMMITTEE MEMBER JELINCIC: The -- I wasn't quite
7 ready for them yet.

8 CHAIRPERSON COSTIGAN: All right. I'll come
9 back.

10 COMMITTEE MEMBER JELINCIC: Okay. Let's come
11 back.

12 CHAIRPERSON COSTIGAN: Ms. Hagen.

13 ACTING COMMITTEE MEMBER HAGEN: Thank you, Mr.
14 Chair. The -- some -- when I -- I got advice once to
15 treat the PERF as my grandmother's trust fund. So my
16 question is in that vein, just looking at some of your
17 slides. I was looking at slide 4 in particular. So
18 although the total budget shows a net decrease, the total
19 expenditures appear on this slide to continue to rise,
20 year for year. And I was just wondering if you could
21 comment on whether you anticipate this to continue to
22 increase?

23 CHIEF FINANCIAL OFFICER EASON: As I mentioned,
24 and I think it's really on slide 6 that really tells the
25 story, we -- you know, as we continue to insource, that's

1 going to put more pressure on the administrative budget,
2 as we bring more in. You know, I think -- but we're also
3 offsetting in other areas in the budget, where we're
4 offsetting with efficiencies.

5 So I think the difficulty, when we start to
6 parcel out one line over another, is there will be some
7 lines, like the administrative budget, and -- that we'll
8 continue to increase, but that may be -- overall that may
9 be as a result of finding greater efficiencies.

10 So I guess the short answer is if you look at the
11 10 year trending, I think that it's quite possible that
12 that will continue. I think it's going to be dependent on
13 whether we continue to find savings -- greater savings in
14 our reliance on IT consultants, our reliance on external
15 managers. So I caution, I guess, your grandmother to make
16 sure that when she's looking at these line items, that
17 you're looking at not only the individual line items, but
18 also what impact that might have on other line items where
19 you have -- where you do have savings that are being
20 reflected. So I think that was really the moral of the
21 story that I was trying to get at today.

22 ACTING COMMITTEE MEMBER HAGEN: Sure. I
23 recognize that, but I also recognize that the PYs being
24 requested are not all in the Investment Office. In fact,
25 the vast majority of them are in other parts of the

1 organization.

2 CHIEF FINANCIAL OFFICER EASON: Absolutely. And
3 as I also mentioned, you know, we need to be careful that
4 we also ensure that we have functionality and support
5 systems that will be able to support other areas of the
6 organization, not just the -- sort of the business areas,
7 but the support areas as well.

8 I think the other thing I would add is, you know,
9 we really are in the last year of our strategic plan. I
10 know that we're going to talk about sort of that timeline,
11 but I think the strategic plan and the discussions that
12 we'll go -- we'll have with the Board and at the -- as
13 well as at the organizational level will help us to really
14 look out over the next five years to see what we believe
15 what that trend will look like for the organization.

16 ACTING COMMITTEE MEMBER HAGEN: I had a couple
17 more questions. On page -- or slide 19, the personnel
18 services costs, 5.5 million. Are those -- does that
19 reflect new PYs or is that a reflection of both increases
20 for the new investment classification or a combination of
21 both?

22 CHIEF FINANCIAL OFFICER EASON: I'm sorry, which
23 slide are you looking at?

24 ACTING COMMITTEE MEMBER HAGEN: Slide 19, the
25 total administrative and investment operating costs. And

1 there's a bullet off to the right that says personnel
2 services costs 5.5 million.

3 FINANCIAL PLANNING & POLICY DIVISION CHIEF

4 McAULIFFE: Rose McAuliff, CalPERS staff.

5 The 5.5 million is attributed to the 39 new
6 positions of the 107. The 68 are cost neutral as those
7 costs are already in the budget.

8 ACTING COMMITTEE MEMBER HAGEN: They're blanket
9 positions?

10 FINANCIAL PLANNING & POLICY DIVISION CHIEF

11 McAULIFFE: They're the temporary positions.

12 ACTING COMMITTEE MEMBER HAGEN: Right.

13 Okay. And then one last question. Oh, I had
14 that question answered. That's it. Thank you.

15 CHAIRPERSON COSTIGAN: All right. So I've got a
16 few while we're waiting for Mr. Jelincic.

17 So it's the two-edged sword, as the budget
18 becomes more transparent and you show mere detail, it
19 raises more questions. And, Mr. Hoffner, there may be a
20 couple in here for you. I am curious why did data
21 processing jump by 75.7 percent? I mean, we have some
22 very significant increases. I don't know if, Cheryl or
23 Mr. Hoffner, if that's you.

24 I mean, here are the questions -- I've got that
25 one. I'd also like to know why did the medical exam and

1 disability travel increase by 48 percent. Mr. Jacobs, on
2 the federal lobbyist, did I -- do our contracts have built
3 in escalators on costs, because I see there's \$100,000
4 increase in those three contracts. And then on audits or
5 administrative hearings, we have an increase also of 52
6 percent. So why significant increases if all of those
7 areas?

8 DEPUTY EXECUTIVE OFFICER HOFFNER: Mr. Chair, can
9 I go back to your first question. You said data
10 processing fees.

11 CHAIRPERSON COSTIGAN: Um-hmm.

12 DEPUTY EXECUTIVE OFFICER HOFFNER: Is that
13 specific to a particular page or item number?

14 CHAIRPERSON COSTIGAN: I'm sorry, it's on page 16
15 of 17.

16 DEPUTY EXECUTIVE OFFICER HOFFNER: Related to the
17 material that's on the screen or in the material on the --

18 CHAIRPERSON COSTIGAN: No, it's in our -- it's
19 actually in the materials. It's in the operating cost.
20 I'm sorry.

21 DEPUTY EXECUTIVE OFFICER HOFFNER: No, that's
22 fine. I just want to make sure I'm tracking it.

23 CHAIRPERSON COSTIGAN: And so when you outline
24 operating expense and equipment, for example, and data
25 processing, the actual cost in '14-'15 was 13 million 375,

1 or 13,375. The approved budget was 9,728, you're
2 requesting 17,094 this year, which is reflective -- is an
3 increase of 75.7 percent. It's number one, two, three,
4 four, five, six, seven.

5 DEPUTY EXECUTIVE OFFICER HOFFNER: I got it, the
6 2.5. Okay.

7 BOARD MEMBER MATHUR: Page 99 of the iPad.

8 DEPUTY EXECUTIVE OFFICER HOFFNER: No, no. I've
9 got it here. I just -- I was looking at the wrong
10 section.

11 CHAIRPERSON COSTIGAN: It's 17 of 46.

12 CHIEF FINANCIAL OFFICER EASON: So maybe I can --
13 so each of those line items that has a number beside it
14 actually is referenced then in the next -- in the next
15 section. So, for example, 2.5, the data processing
16 services, and Mr. Hoffner could add more detail. But the
17 -- that is -- appear to be increasing. The current year
18 budget has not been updated to reflect the anticipated
19 costs. So the '16-'17 budget is more in line with the --
20 with the -- what we anticipate will be spent, but maybe
21 you have more detail on that.

22 DEPUTY EXECUTIVE OFFICER HOFFNER: I was going to
23 say, so I talked to Christian just to refresh my memory,
24 we actually pre-funded some of that in the prior year, so
25 it -- that's why the costs looked a little different

1 between the two different years. So I think to Cheryl's
2 point that what is projected here is more consistent with
3 what an annual cost would be versus what we pay in the
4 prior year.

5 CHAIRPERSON COSTIGAN: Okay. And I guess then
6 some of the questions, why -- and I get, for example, that
7 we're seeing an increased cost with DGS on administrative
8 hearings. Is there some triggering -- is there something
9 that's triggering these -- where we see the increase in
10 administrative, and also the increase in travel for
11 medical and disability. Are we seeing more cases? And
12 maybe this may be too granular for this discussion. But I
13 am curious as to why we're seeing increased costs from
14 DGS, just for administrative hearings.

15 DEPUTY EXECUTIVE OFFICER HOFFNER: That's not my
16 area, so I'll let Donna Lum to follow up on that.

17 DEPUTY EXECUTIVE OFFICER LUM: With regards -- or
18 Donna Lum, CalPERS staff. With regards to the increase in
19 the medical disability travel, what this reflects is not
20 necessarily a new increase, but in prior years that line
21 item within the benefit services budget had not been made
22 whole. And so year after year, there was an overrun of
23 that. And so going back to a baseline looking at prior
24 years and what the expenditures were in this budget, we
25 were going to make it whole to reflect what the actual

1 travel has been. I do not know about the administrative
2 hearings, the cost increases.

3 CHAIRPERSON COSTIGAN: That's fine. I was just
4 curious. I mean, overall -- I mean, the overall costs are
5 lower. It was just some that -- because as you start
6 putting in additional information, these jump out. The
7 only other one, and I assume that Mr. Jacobs or Mr.
8 McKeever, my apologies, I keep forgetting you now have the
9 federal lobbyist, why are we seeing an increase of 100,000
10 in our three lobbyists? And then what is the ultimate cap
11 on that -- on those contracts?

12 DEPUTY EXECUTIVE OFFICER MCKEEVER: Mr. Chairman,
13 members of the Committee, Doug McKeever, CalPERS staff.

14 For all three federal lobbyists, there's a
15 monthly retainer flat fee that's been put into the
16 contracts, with the exception of K&L Gates, which has a
17 monthly retainer increase each fiscal year. So every year
18 that that contract is in place, there is an increase to
19 their particular contract with CalPERS.

20 CHAIRPERSON COSTIGAN: Is that 100,000 a year?

21 DEPUTY EXECUTIVE OFFICER MCKEEVER: I don't have
22 that specific number in front of me. I'd have to get back
23 to you on that.

24 CHAIRPERSON COSTIGAN: I'd like that at the next
25 Committee meeting, please, just from a cost standpoint, to

1 what that -- because it's reflected here as though it's
2 100 -- if they're the only one that sees an annual
3 increase.

4 DEPUTY EXECUTIVE OFFICER MCKEEVER: That is
5 correct. I'll validate for that you.

6 CHAIRPERSON COSTIGAN: Okay. All right. Mr.
7 Jones.

8 COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.
9 Chair. First of all, I just want to congratulate Ms.
10 Eason on taking a very complex, almost \$2 billion budget
11 and reducing it to a very informative document. So I
12 think it's well done. Do you have the capacity to
13 identify, other than positions, because you make reference
14 to the contract -- contact center staffing that they were
15 one-time positions in the budget, and then you made them
16 ongoing, so that I understand. Do you have the capacity
17 to identify other one-time items in this budget, so that
18 that may eliminate some of this up and down as you go
19 forward. If you could identify those items that are one
20 time and the reason the budget is going up, because now
21 you're funding them on an ongoing basis, where they were
22 not in the original budget perhaps at the previous year.

23 CHIEF FINANCIAL OFFICER EASON: Yes. Actually,
24 as part of the work that the budget staff do, we do
25 identify in our internal documents, it's just -- it's part

1 of the budget process that we follow, we can certainly
2 bring that back to the Committee to show how much of the
3 budget is one time versus how much is ongoing. And, you
4 know, I'm sure we have some trending as to whether that's
5 increasing or not --

6 COMMITTEE MEMBER JONES: Yeah, and I'm just
7 thinking that may add to the informative discussion about
8 why the changes are going up and down, so -- and the only
9 other comment I have is on the report itself, and you
10 mentioned that you would make the adjustments going
11 forward, and that is to drop those expenditures in your
12 actual report, so that you're not looking at just budget
13 to budget, but you're looking at budget expenditures in
14 the budget, and that would also be informative, I think,
15 to describe some of the changes.

16 CHIEF FINANCIAL OFFICER EASON: Yes. We'd be
17 happy to add that to the agenda item itself. We -- I
18 think we did include it in the budget attachments, but
19 we'll certainly do that.

20 COMMITTEE MEMBER JONES: Okay. Thanks.

21 CHAIRPERSON COSTIGAN: Mr. Jelincic.

22 COMMITTEE MEMBER JELINCIC: Yeah. On --
23 actually, I have a series, and I noted them out
24 sequentially, so we can -- but on 19 -- I'm sorry, 18 of
25 46, 100 of the iPad, the personnel services, that's staff

1 costs, that's not including personnel services contracts,
2 that's just staff?

3 CHIEF FINANCIAL OFFICER EASON: Yes, that's
4 correct

5 COMMITTEE MEMBER JELINCIC: And on the -- and I
6 saw -- I guess the -- he can't record the nod, but I saw a
7 nod, yes.

8 Okay. On the next page, the 86 conversions from
9 limited term to permanent. One of the questions I have
10 is, you know, two years ago, we decided these were
11 temporary positions and we could fill them with limited
12 term. Now, we're deciding that it's part of the core base
13 work. And my question is what did we anticipate that
14 didn't happen or what happened that we didn't anticipate
15 that we missed it by that much?

16 DEPUTY EXECUTIVE OFFICER LUM: So with regards
17 to -- excuse me, Donna Lum, CalPERS staff. So you're
18 referencing the 68 positions, not 86 positions, correct?

19 COMMITTEE MEMBER JELINCIC: I'm sorry, you're
20 right.

21 DEPUTY EXECUTIVE OFFICER LUM: Okay. So back in
22 August of 2014, when we brought to the Pension and Health
23 Committee a new service level, which was to answer our
24 phones, 80 percent of the calls in 60 seconds, we had
25 indicated that we had a number of limited term or

1 temporary staff that we had received right at the
2 post-launch of my|CalPERS to address the issues that we
3 had with performance within the contact center. When we
4 brought forward the service level, we indicated that in a
5 future year we would be assessing whether or not we would
6 need the full complement of temporary staff that we had on
7 hand at that time to be able to reach that service level.

8 So in 2014, we didn't bring forward those
9 requests because we spent the vast majority of the time
10 assessing the performance of the contact center,
11 implementing a vast number of changes that we put in place
12 to streamline processes, which were -- which was part of a
13 efficiency project that we engaged in. And we needed time
14 to review that and implement the changes to determine what
15 complement of staff were going to be needed current and
16 ongoing to be able to provide the service level that's
17 been expected of the contact center.

18 And so now that that work has been completed, we
19 have determined that the number 68 is the actual number
20 that is needed, not only to perform at the level that we
21 are now, but it also takes into consideration other
22 efficiencies that we anticipate gaining going forward.

23 COMMITTEE MEMBER JELINCIC: So the biggest
24 unanticipated change was the change in performance or in
25 how quickly we answer the phone?

1 DEPUTY EXECUTIVE OFFICER LUM: Part of it was
2 that. Part of what we also got from the study that was
3 done is that prior to my|CalPERS, we were understaffed.
4 So if those of you that are on the Committee, you will
5 probably remember that for quite some time we kept
6 reporting that we were unable to meet service levels in
7 the contact center. And that was even before the launch
8 of my|CalPERS.

9 And so as the study was done, not only did it
10 take into consideration the changes in the expectations of
11 service levels, but it looked back in terms of how we were
12 staffed, and determined whether we were adequately staffed
13 to begin with, and then the staffing resources that would
14 be needed going forward.

15 COMMITTEE MEMBER JELINCIC: Okay. I want to --
16 what I'm trying to get to is we created, I think
17 initially, something like 90 new positions in limited
18 term. And we said, you know, we think that these are
19 serving needs that are going to go away. And now we're
20 saying over half of them -- you know, that needs didn't go
21 away. And I'm just trying -- for future reference, I'm
22 just trying to figure out what did we miss, why didn't we
23 say, you know, 68 of these need to be permanent, and, you
24 know, the others we think are limited terms.

25 And, you know, I will also use the example of DMV

1 a few years ago who decided that they needed 600 field
2 reps to handle the surge in licenses. And for some reason
3 thought that that surge was going to go away in two years,
4 which amazingly didn't. So that's what I'm trying to get
5 to.

6 CUSTOMER SERVICE AND OUTREACH DIVISION CHIEF
7 MCGARTLAND: Good afternoon, Lori McGartland, CalPERS
8 staff.

9 COMMITTEE MEMBER JELINCIC: And congratulations,
10 by the way.

11 CUSTOMER SERVICE AND OUTREACH DIVISION CHIEF
12 MCGARTLAND: Thank you. Thank you very much.

13 You know, if you recall before we launched, we
14 were really struggling with our service levels. And we
15 were hearing complaints from our customers that we weren't
16 answering the phones fast enough. When we did have
17 my|CalPERS launch, the volumes spiked tremendously, and we
18 were not able to handle that demand. And so the -- we
19 received a 109 temporary positions at that time, because
20 of the huge increase.

21 And that number was to stem -- to stop the
22 bleeding and basically get us able to answer the calls,
23 help our customers as they're going through the
24 transition. So at that point, the 109 was what we needed
25 based on the operations and the efficiencies of the staff

1 at that time.

2 So it wasn't until after that point that we
3 launched the efficiencies project. We did an assessment
4 against best practices. We created a 100 item action plan
5 to get those efficiencies down. And so it was only
6 through going through that effort were we able to
7 determine, okay, we have 109. We actually only need the
8 68 on a permanent basis.

9 And we wanted to make sure we weren't jumping too
10 soon to ask for a number too large while we were still
11 working on these efficiencies. We wanted to make sure we
12 were going to accomplish them. And we did see that pan
13 out. And so that's kind of how the tide has changed, you
14 know, through the course of time.

15 COMMITTEE MEMBER JELINCIC: Okay. And then on
16 page 20, the following page, Actuarial Office, I noticed
17 we're asking for one actuary in the long-term care. We
18 just recently approved a bunch of actuarial contracts,
19 because we didn't have the staff to deal with the new
20 regulations. And yet, I don't see a proposal to increase
21 staff, so we can throw yet another batch of contractors
22 out here.

23 CHIEF ACTUARY MILLIGAN: The one additional
24 position for the long-term care, that's actually the
25 analytical support staff for the long-term care actuary.

1 We are not having any difficulty hiring at that level.
2 We're -- I think we're down one at the moment, but that's
3 because of somebody leaving us recently. This is not an
4 actuary. It's support for the actuary, analytical support

5 COMMITTEE MEMBER JELINCIC: Okay. And -- but if
6 we just had to let a bunch of contracts for actuarial
7 services, how come we haven't gotten a proposal to
8 increase the number of actuaries who are actually
9 actuaries probably in the Actuarial Office?

10 CHIEF ACTUARY MILLIGAN: Sorry, I missed that.

11 COMMITTEE MEMBER JELINCIC: We just let a
12 contract for actuarial services to do the new GASB
13 whatever number that was, and yet -- because we didn't
14 have the staff to do it, and yet there's no proposal here
15 to increase staff so that we can actually bring that work
16 in-house. And so the question is where's the missing
17 bodies?

18 CHIEF ACTUARY MILLIGAN: So we did have a bunch
19 of additional work with -- in the implementation of the
20 first year of GASB 68. We did come to the Board a couple
21 years ago in anticipation of the additional workload, and
22 we did ask for some additional staff -- actuarial staff to
23 help handle that.

24 But the first year was over and above that. We
25 needed additional support that first year. We've already

1 effectively completed the second year of GASB 68 reports,
2 and we did not need additional resources. So that -- the
3 second year has already been completed. And yes, we've
4 been able to do it with our existing staff. They're
5 stretched. The staff are stretched. We got the
6 additional positions, but we have been chronically unable
7 to fill all of our actuarial positions, so we are -- you
8 know, the staff are stretched, but it's something that
9 they are able to do at this point in time. We really need
10 to get those extra bodies on board, which we're still
11 recruiting for as best we can.

12 COMMITTEE MEMBER JELINCIC: So the actuarial
13 contracts we let, they're out of here. We're done with
14 them.

15 CHIEF ACTUARY MILLIGAN: They are out of here.
16 Actually, one of those individuals is still here, but
17 that's because we brought him on board as staff. And so
18 that's one of our bright spots in our recruiting recently.

19 COMMITTEE MEMBER JELINCIC: Thank you. Seven new
20 people on the death unit. I don't -- obviously, we're
21 getting older, and -- but I don't really have enough
22 context. Is that seven new people in a position -- in a
23 unit of 14 or is it seven new people in a unit of 100?
24 And, you know, so what's going on that we suddenly need
25 more death people?

1 BENEFIT SERVICES DIVISION CHIEF SUINE: Good
2 afternoon. Anthony Suine, CalPERS staff.

3 So we had 44 staff who process death benefits,
4 and 11 of those were the permanent blanket positions,
5 which we worked to eliminate, so we're down to 33 staff in
6 that area. And then we've been assessing the workload,
7 and those things that we can't get to, and that we're
8 paying interest on that exceed the statutory requirements.
9 So that seven is in addition to the 33 we currently have.
10 And we've had a 25 percent increase in deaths over the
11 last -- over the last three years, up to 21,000 per year.

12 And even to give you some perspective, just in
13 the month of January, we had our highest number of deaths
14 reported ever of 1,900. So it's even exceeding the trend
15 that we have now.

16 COMMITTEE MEMBER JELINCIC: And if you're going
17 to not give 45 percent of them COLAs, you may have more of
18 them.

19 (Laughter.)

20 COMMITTEE MEMBER JELINCIC: But on page 25, the
21 master custodian fees, there's an increase there in
22 830,000, I thought we had a deal where we were getting a
23 whole bunch of those services free for prior activities.

24 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: We
25 do have that deal. And that increase relates specifically

1 to a partnership accounting service that State Street Bank
2 provides to us for our Emerging Managers Program. As the
3 number of emerging managers has actually increased, the
4 cost of that program and the types of accounting services
5 and distribution services that are paid in our fund of
6 funds and advisory strategies in the Emerging Managers
7 Program have -- the costs have increased.

8 So some of those costs were offset by some of the
9 savings that we received in other areas of the custody
10 program. So that's the net increase we expect for next
11 year.

12 COMMITTEE MEMBER JELINCIC: Okay. And I only had
13 a couple more. On page 27, I just want to point to the
14 footnote, which drives me nuts, because we really are not
15 reporting the total performance fees, but we had that
16 discussion numerous times. But to say that we're going to
17 continue to report the entire fees in the CAFR when we're
18 not currently doing that drives me a little nuts.

19 In the enterprise, and I don't have a particular
20 page on it, but one of the things I noticed is we have no
21 small projects in the enterprise project budget, which
22 just kind of struck me as a bit of an anomaly. So you may
23 want to comment on that.

24 And the other question is you -- in your
25 reference, you said that we're going to see future

1 reductions in the Health Care Fund due to some budget
2 trailer bills. And I was just wondering if you could
3 enlighten us as to what you think is coming there?

4 CHIEF FINANCIAL OFFICER EASON: Cheryl Eason,
5 CalPERS staff. We've been discussing with the Department
6 of Finance the -- well, let me say, currently, the
7 contingency reserve fund, as part of the CalPERS budget,
8 does go through the legislative process. And so in
9 discussions with the Department of Finance, there are
10 discussions about the other fund that we have, the Health
11 Care Fund, that would also go through that same process.

12 So, in fact, we're -- we are in discussion with
13 Department of Finance and will be meeting with them Friday
14 to just get further clarification on that.

15 COMMITTEE MEMBER JELINCIC: Didn't we structure
16 part of that, so that the administrative fees that stayed
17 here and didn't have to go through the budget process or
18 did we get caught and they said, no, it's going through
19 the budget process anyhow?

20 CHIEF FINANCIAL OFFICER EASON: Well, that's
21 currently the discussion that's underway.

22 COMMITTEE MEMBER JELINCIC: Oh, Okay. And --

23 CHAIRPERSON COSTIGAN: Mr. Jelincic, I don't
24 think we got caught. That's actually a policy discussion
25 that we're having with the Department of Finance.

1 CHIEF FINANCIAL OFFICER EASON: Yes. When I --

2 COMMITTEE MEMBER JELINCIC: Okay. We took action
3 to avoid it and somebody says no, no, so I would -- okay.
4 Whether -- whether for policy reasons or -- and, Doug, I
5 guess you came up to talk about other projects. And I
6 found the page it's 112 of the iPad, and 30 of --

7 DEPUTY EXECUTIVE OFFICER HOFFNER: I was just
8 going to reference the fact you mentioned enterprise
9 projects. So within those, you've indicated none of them
10 are small. If we look at security road map, the number 2
11 project there, it's not a single project, it's
12 multi-projects. It's being rolled up into one sort of
13 stream of projects related to security of the systems.

14 The optimization of my|CalPERS is a significant
15 project. The actual redesign of the AVS project ia
16 significant, multi-year in nature. So business
17 intelligence is an individual project. And there's
18 component pieces for like our PeopleSoft upgrade or
19 financial systems. So there are component pieces, and
20 sometimes they get rolled up into a one reportable, but
21 they're not -- there are sometimes multi-projects projects
22 embedded there.

23 COMMITTEE MEMBER JELINCIC: It was the last line
24 that drew my attention, "Other projects individually less
25 than 200,000", and we have none of those.

1 DEPUTY EXECUTIVE OFFICER HOFFNER: So we're
2 actually working on methodology in the policy that looks
3 at what a project would be called and defined from a
4 policy perspective, and the amount of hours that would go
5 into it, and it wouldn't be a one-size-fits-all, but the
6 approach would be to sort of provide specificity and
7 uniformity around those, from a project perspective, so we
8 have the appropriate oversight and inputs and
9 transparency. That's something we're working on with the
10 IT shop to bring to the organization. And that would be,
11 I think, reflective of the dollars associated with that
12 200,000 limit you're talking about.

13 COMMITTEE MEMBER JELINCIC: Thank you. And those
14 were all my questions.

15 CHAIRPERSON COSTIGAN: All right. Thank you.
16 And again, Ms. Eason, I know, in reference to Mr.
17 Jelincic's point on page 27, we are reporting fees to the
18 extent we know what the fees are. We're going to continue
19 to increase transparency as we get additional information.

20 So I do want to say, Ms. Lum, I have some
21 concerns about the additional positions. I do appreciate
22 the discussion that we've had, both from a transparency
23 standpoint in taking them from temporary positions to
24 permanent positions. I know that one of the discussions
25 that we were going to have, and I know Ms. Mathur had this

1 in her committee, when the temporary positions were
2 originally created, is what is an appropriate response
3 time?

4 I just have concerns from my standpoint that as
5 we add additional positions, I mean, losing site -- we're
6 in this mix -- kind of a mixed position. We want to be
7 responsive to our members, but at the same time, it's
8 member money we're spending. And we've got to strive that
9 balance. I think you've achieved the balance. You know,
10 this is one while we're moving them into permanent
11 positions, and I'm glad to see that it's half -- the 119
12 or the 100 positions is a goal. At some point, we -- or
13 as we move forward, it's continue to review and respond to
14 ensure that we have adequate funding. I believe we do
15 need to add the positions.

16 I'm just concerned again in long-term costs
17 taking a limited term to a permanent position adds cost in
18 the outyears. And so I think as I've raised with Ms.
19 Mathur before, I have concerns a little bit with our
20 external consultant telling us what time should be -- you
21 and I have had this conversation, as it relates to how
22 long I'll wait for Apple to respond to my phone call or
23 even the DMV when I was renewing the other day. I'm glad
24 to see that it's down, but we do have to be sensitive to
25 where this money comes from.

1 With that, I see no further discussion, comments.

2 Ms. Eason, anything else on this item, because
3 this an action item.

4 CHIEF FINANCIAL OFFICER EASON: No, I would
5 just -- if the Committee is prepared to --

6 CHAIRPERSON COSTIGAN: Oh, I'm sorry. There were
7 two people that wanted to speak. If the item is going to
8 move forward, Mr. Johnson and Ms. Jeppson, do you still
9 want to speak? Because I thought, at least with Ms.
10 Jeppson, it was only if you thought it was not going to go
11 forward, but you're welcome to please come down. Because
12 at least what my Post-It said -- no, you can come on up if
13 you want to speak.

14 Actually, just one minute. I'm sorry. We'll get
15 them both together

16 Mr. Johnson, I'm sorry, I'm making -- go ahead,
17 please, sir.

18 MR. JOHNSON: Neal Johnson, SEIU 1000. With
19 respect to the customer service, I remember Donna many
20 times during the 2011-12 coming to the Board talking about
21 response times and hearing from our members and other
22 people about how long it took to answer the calls. Those
23 have gone down. Whether being above the median -- or
24 above the median of the peer group is appropriate, I will
25 not comment on this this time. I do like permanent

1 positions over temporary positions.

2 But mainly I want to comment about moving the
3 nine Investment Officer IIIs into the Associate Investment
4 Manager. Here we have nine positions that are in the
5 civil service system now moved into the 20098 group, which
6 I think, Mr. Costigan, should give you a little concern

7 In Performance and Comp, Mr. Cobb asked a
8 question to the consultant about the compensation of the
9 mid-level IO people in collective bargaining, and was
10 explaining -- and was -- the response was these are
11 investment managers that are not rank and file and we want
12 to bring in talent from the outside. Here, we're changing
13 Civil service people, but keeping it inside and providing
14 a promotion pattern, which is good. But a year plus ago,
15 I came here on behalf of my union and talked about
16 creating an IO IV, which would have solved some of those
17 upward mobility problems for the IO III, which is a
18 difficult position to recruit for, because of, among other
19 things, compensation levels.

20 And this move of moving from IO IIIs into the
21 20098 Associate Managers, I don't think really solves
22 problems, and is probably inconsistent with where we want
23 to go in the future.

24 With that, I thank you.

25 CHAIRPERSON COSTIGAN: Thank you, Mr. Johnson.

1 Ms. Jeppson.

2 MS. JEPPSON: Good afternoon. I'm -- my name is
3 Cathy Jeppson. I am from California Teachers Association
4 and California Faculty Association. But I'm really
5 talking as an individual for a recently retired CalPERS
6 member, and thinking sincere thank you thoughts as a
7 retired member.

8 But I wanted to talk about the customer contact
9 centers, in the sense that I think that I know for me it
10 was the first time that I -- other than coming to the
11 Board meetings, of course, and I think for a lot of
12 people, regardless of whether you're retired or you're an
13 active member, your first contact, meaning your first
14 impression about CalPERS, will be through that contact at
15 the customer contact center.

16 And I know that the numbers have -- the
17 satisfaction has gone up, the wait time has gone down. I
18 think it is superb. I must have called because of the
19 problems that I had retiring. I have reciprocity with
20 PERS and STRS, and we were in contract negotiations. Of
21 course, we still are in contract negotiations, but I had a
22 lot of problems. And every time I called, not only did
23 they answer quickly, but the information was correct, they
24 allayed my fears. And with the economy getting better
25 right now, I think that the more that you could have them

1 into permanent positions, the better it is. And since it
2 does say that it is cost neutral, I think it's a win-win.

3 Thank you.

4 CHAIRPERSON COSTIGAN: Thank you.

5 Anything else?

6 All right. It's been moved by Jelincic.

7 Seconded by?

8 COMMITTEE MEMBER JONES: Second

9 CHAIRPERSON COSTIGAN: Mr. Jones. We'll give Mr.
10 Jones that one.

11 Any further discussion?

12 Hearing none.

13 All those in favor?

14 (Ayes.)

15 CHAIRPERSON COSTIGAN: Opposed?

16 Motion carries. Thank you.

17 Okay. So we've got to -- Cheryl, what do you
18 think, how much more time? I know that's what we're going
19 to look at real quick.

20 CHIEF FINANCIAL OFFICER EASON: You know, I think
21 we can move through the information items fairly quickly.

22 CHAIRPERSON COSTIGAN: Ten minutes, 15 minutes?

23 CHIEF FINANCIAL OFFICER EASON: Fifteen, I think
24 we can do that.

25 CHAIRPERSON COSTIGAN: Are you good?

1 THE COURT REPORTER: (Nods head.)

2 CHAIRPERSON COSTIGAN: Okay. Then we'll keep
3 going.

4 Mr. Milligan. We've read your information. It's
5 a great report.

6 (Laughter.)

7 CHAIRPERSON COSTIGAN: Is there anything else
8 you'd like to add?

9 (Laughter.)

10 CHIEF ACTUARY MILLIGAN: We'll be quick We
11 promise. Just wanted to -- this is an outgrowth of the
12 project to rationalize or actuarial policies. Very
13 pleased to have worked with the Enterprise Compliance
14 Office on this. You should know what's coming, because we
15 brought an agenda item to you last month. So with that,
16 I'm going to turn it over to Scott.

17 INTERIM DEPUTY CHIEF ACTUARY TERANDO: Good
18 afternoon. Scott Terando, CalPERS staff.

19 We'll go through this agenda item really quick.
20 This agenda item is a first reading of staff's
21 consolidation for the two actuarial policies, the
22 actuarial cost method policy, and the actuarial
23 amortization policy.

24 For the actuarial cost method policy, we've
25 consolidated two current Board policies, and there have

1 been some minor changes incorporated. They include
2 exceptions to the '59 Survivor Program, and the State
3 Group Term Life Insurance Program.

4 For the amortization policy, we've consolidated
5 four items, two board policies, a board approved guideline
6 and an Actuarial Office directive. For this policy, we
7 incorporated three changes. The first one we've added a
8 provision to coordinate the amortization of investment
9 gains with the funding risk mitigation policy. The second
10 we've made changes to permit the amortization of unfunded
11 liabilities for non-pooled plans to be expressed as a
12 dollar amount.

13 This is consistent with the existing pooled
14 plans, and we've discussed these changes with employers
15 numerous times, and it seems to be widely accepted.

16 And the final change, we've added some provisions
17 to permit changes to amortization schedules, if needed,
18 provided they don't result in any additional deferral of
19 contributions. An example of this would be when we
20 encourage -- or encounter small unfunded liabilities, and
21 we look to amortize those over a shorter amortization
22 period.

23 In April, we'll come back with a second reading
24 as an action item. And once approved, the existing
25 policies will be retired. At this point, I'll pass it

1 back to Alan.

2 CHIEF ACTUARY MILLIGAN: So just after we -- the
3 agenda item was finalized, we did discover that there was
4 a fourth substantive change, one that we had not intended
5 and so we will be -- having to do with the way that the
6 amendments would be amortized. So we will be making a
7 modification to the policy, so that that unintended and
8 undesired change is eliminated. So that will be a slight
9 change when we bring -- come back for a second -- for the
10 second reading.

11 With that, we'd be happy to take any questions.

12 CHAIRPERSON COSTIGAN: All right. Mr. Milligan,
13 I appreciate you bringing that to the Committee's
14 attention earlier. Thank you.

15 Mr. Jelincic.

16 COMMITTEE MEMBER JELINCIC: Alan, who gets hurt,
17 by the changes?

18 CHIEF ACTUARY MILLIGAN: I don't believe that
19 anyone gets hurt with those -- with any of these changes.

20 COMMITTEE MEMBER JELINCIC: Okay. Thank you.

21 CHAIRPERSON COSTIGAN: Anything else, Mr.
22 Jelincic?

23 COMMITTEE MEMBER JELINCIC: No.

24 CHAIRPERSON COSTIGAN: Thank you.

25 All right. Seeing no further, Mr. Milligan,

1 thank you very much.

2 Okay Item 8a, Treasury Management. This is an
3 informational item, first reading.

4 CHIEF FINANCIAL OFFICER EASON: Yeah. So this is
5 first reading. It's been a year since the policy was
6 originally approved by the Committee. There are two
7 changes that we're suggesting as a result of the February
8 2016 Investment Office operating guidelines for
9 implementing Board liquidity. That was discussed with the
10 Investment Committee last month.

11 So what we've reflected in the first reading of
12 this policy is the utilization of the borrowed liquidity
13 as an available option to pay member benefits and other
14 CalPERS obligations, and as well as, the recognition of
15 the borrowed liquidity. Also, we have provided a
16 provision that the enterprise treasury team would be
17 notified when the borrowed liquidity tool is utilized, and
18 the escalation process to this Committee, if the borrowed
19 liquidity period exceeds the frame -- the time frame that
20 was set out in the guidelines that were presented to the
21 Investment Office.

22 That's currently set at 90 days. We felt that it
23 was appropriate for the guidelines to speak to the -- to
24 what that time frame is. And we would just be -- in this
25 particular policy, just be letting the Committee know that

1 if it exceeded that, for whatever reasons, we'd bring this
2 back to the Committee.

3 The briefings they did note there were some small
4 administerial changes, a date change, and a reference to
5 FAC rather than the Committee. And we've also been asked
6 to provide greater clarity to the definition of stress
7 event, so we would like to bring that back on second
8 reading.

9 CHAIRPERSON COSTIGAN: May I ask -- I'm sorry,
10 just a quick question. On three, when it exceeds the time
11 frame -- and I'm probably -- where is that cross-reference
12 as to what the time frame is?

13 CHIEF FINANCIAL OFFICER EASON: It only
14 cross-references it in the sense that it cross-references
15 to the guideline itself. Then the guideline really
16 resides in the Investment Office, and that has the detail.
17 So we're not referencing the specific time, but we are
18 referencing the guideline.

19 CHAIRPERSON COSTIGAN: Well, I -- and I'm sorry,
20 because I just don't understand it as well. It says, "The
21 funding covered utilizing borrowed liquidity exceeds the
22 time frame". So we have two issues. One is the liquidity
23 issue that we need the cash, and now we're talking about a
24 reporting period. Should this be clear from the
25 standpoint that the ETT will notify Finance and

1 Administration in the immediate -- the immediate Committee
2 hearing. I'm just -- what's the time frame? So you
3 trigger -- you have a triggering mechanism based on
4 liquidity, but then there's a time frame that then you
5 bring it back to the Committee.

6 CHIEF FINANCIAL OFFICER EASON: Oh, so this time
7 frame that we're referring to is the 90-day time frame --

8 CHAIRPERSON COSTIGAN: Okay.

9 CHIEF FINANCIAL OFFICER EASON: -- which is
10 allowed for the -- in the guideline for the amount of --
11 maximum amount of time that the Board liquidity would be
12 used. But the time frame for bringing that back would be
13 at the next immediate Board hearing or, you know,
14 Committee time.

15 CHAIRPERSON COSTIGAN: At the next Finance and
16 Administration Committee.

17 CHIEF FINANCIAL OFFICER EASON: Yeah.

18 CHAIRPERSON COSTIGAN: Mr. Jelincic, do you have
19 a question?

20 COMMITTEE MEMBER JELINCIC: Yeah.

21 CHAIRPERSON COSTIGAN: Okay.

22 COMMITTEE MEMBER JELINCIC: On that point, I'm
23 just wondering if we ought to write the 90 day into the
24 policy, because what we've -- we're doing is we're
25 adopting a policy that says that if you exceed a time

1 frame, you'll report to us, but we haven't defined the
2 time frame. We have said it's in an operating guideline,
3 which is controlled by staff. So if we -- you know, if
4 for some -- although we have very honorable staff, at some
5 point we may not, and so they decide, well, we really --
6 really don't want to tell the Board about this, so we're
7 going to change the operating guidelines to 120 days, and
8 hope that it goes away over the next 30 days. So I'm
9 just wondering if we should specify the time frame.

10 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

11 One important qualification -- Wylie Tollette,
12 CalPERS Investment office staff. One important
13 qualification is the actual implementation of borrowed
14 liquidity -- or the use of borrowed liquidity is reported
15 in to the Investment Committee in its materials upon its
16 enactment, and then at each month end where it continues
17 to exist.

18 So I think the question here is how does the --
19 through the ETT and the Treasury Management Program, how
20 does this Committee become aware of it separately? And I
21 think the Investment Office has -- you know, would support
22 the idea of adding the 90-day deadline to the Treasury
23 Management Program, if that's what you'd prefer to do. I
24 think that's fine.

25 CHAIRPERSON COSTIGAN: Well, and the question you

1 just raised to Mr. Jones, so you report it on a monthly
2 basis then?

3 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

4 Yes.

5 CHAIRPERSON COSTIGAN: So I'm just curious, why
6 would we not just -- if it's reported to the Investment
7 Committee, just trigger the same reporting to Finance and
8 Administration?

9 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

10 It's part of the existing monthly CIO performance
11 and risk report. You'll see when -- if and when we use
12 borrowed liquidity you'll see it appear there as a new
13 line item on that report, as it will have a borrowed
14 liquidity line. So we can certainly supply that same
15 report.

16 CHAIRPERSON COSTIGAN: Mr. Jones.

17 COMMITTEE MEMBER JONES: You want me to receive
18 the -- I mean, it's the whole -- he's looking to see
19 what's --

20 CHAIRPERSON COSTIGAN: I'm just looking at what
21 the triggering --

22 COMMITTEE MEMBER JONES: -- embodied in the
23 report is what I hear Wylie saying. So do you want you
24 know, it's the whole investment that --

25 CHAIRPERSON COSTIGAN: No, I'm just trying to

1 figure out what's the triggering mechanism to send it just
2 the notification of this Committee? Is it so -- I mean
3 what trigger -- what is different, just so I can
4 understand. If you're reporting monthly, what's magical
5 about 90 days, what would trigger 90 days?

6 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

7 Ninety days is the agreed upon timeline for the
8 length of term that we would use borrowed liquidity.

9 CHAIRPERSON COSTIGAN: Okay.

10 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

11 And the ETT is the oversight mechanism for that
12 to take place.

13 CHAIRPERSON COSTIGAN: So this Committee would
14 only be notified if you go beyond the 90 days?

15 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

16 That's the plan.

17 CHAIRPERSON COSTIGAN: But Mr. Jones' committee
18 is notified every month --

19 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

20 That's right.

21 CHAIRPERSON COSTIGAN: -- when you borrow it.

22 Okay.

23 COMMITTEE MEMBER JONES: Yes.

24 CHAIRPERSON COSTIGAN: Are you good with that?

25 COMMITTEE MEMBER JONES: Okay. And we could

1 certainly communicate with the Finance Committee Chair, if
2 need be.

3 CHAIRPERSON COSTIGAN: By carrier pigeon.

4 All right. Any other questions?

5 COMMITTEE MEMBER JONES: Because You're there.

6 CHAIRPERSON COSTIGAN: I'm there. It doesn't
7 actually mean I'm there.

8 (Laughter.)

9 CHAIRPERSON COSTIGAN: So anything else?

10 All right. Thank you very much.

11 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

12 Great. Thank you.

13 CHAIRPERSON COSTIGAN: Next item, 8b, is another
14 information item, Liquidity Status Report.

15 CHIEF FINANCIAL OFFICER EASON: Yes. So this is
16 the first report. And I was I -- did have a presentation,
17 but I think it's easier for me just to give you the
18 highlights of the report. I just wanted to make sure the
19 Committee is comfortable with what we're really trying to
20 provide. This is the first time that we've developed this
21 report, so, you know, your feedback and the usefulness of
22 this report would be helpful for us just to make sure that
23 we've tried to hit the mark here.

24 So really looking at this report, there's really
25 sort of three distinct areas within the report itself. We

1 look at the coverage ratio in terms of a normal
2 environment. And what we're trying to really show the --
3 in this report is -- and this is a six month report. So
4 this is the first time we've been able to capture we think
5 reliable data from the systems. And this six months, as
6 you can see, shows that when you look at the threshold,
7 the one percent threshold, that we have adequate levels of
8 liquidity at level 1 and level 1 and level 2.

9 And so this report would just say when we look
10 over the last six months just what levels of liquidity did
11 we experience. And these are -- this tells us that we
12 definitely would need to be able to meet our payment
13 obligations. And it also tells us that July historically
14 is when there's a greater influx of contributions from
15 agencies on their unfunded accrued liability pre-payments.
16 So you begin to see that and what's really driving those
17 liquidity levels.

18 We also use this report, because we want to be
19 able to do a simulation and a -- really some contingency
20 planning around what would have happened in that time
21 period, if, in fact, we entered a stressed environment.

22 So we use really three environments. We test it
23 against the assumptions for a Black Monday of the 1987
24 market crash, the 2008 liquidity crisis, and then we also
25 do a crisis environment for a 10-day liquidity. And what

1 we're trying to do here is really sort of simulate, had
2 those same -- if this occurrence happened over the last
3 six months at any time, would we have been able to
4 adequately protect the benefit payments and the
5 obligations of the organization.

6 And so this is really a stress test of the
7 stressed environment. And you can see here that we see
8 that if we relied only on level 1, which is your most
9 liquid assets, your cash and cash equivalents that we
10 would have had in the months of August and September, we
11 would have actually been below our liquidity and of one
12 percent. If -- and it would rely on us to be able to
13 actually go to our level 1 and 2 to be able -- for us to
14 be able to actually have the liquidity that we need.

15 So again, this indicates to us that we have the
16 adequate liquidity, but of two out of those six months, we
17 would have gone -- we would have probably have gone to a
18 level 1 and 2 combined.

19 And then the third area that we want to make sure
20 that we cover is -- and this really speaks to the
21 reserves, that the policy, we want to make sure that we
22 have enough liquidity 10 days -- the run up of 10 days
23 before the payment at the end of the month, because that
24 is the time that we're trying to protect to ensure that we
25 have adequate money set aside to be able to pay those.

1 And you can see on Attachment 2 that we actually have,
2 when we look at that 10-day period, it's a fairly high
3 liquidity level. We're just under the three in terms of
4 those liquidities.

5 So we certainly have sufficient cash to cover
6 those obligations 10 days prior to the payment date,
7 and -- had a crisis event occurred within that window.

8 The -- so really what we want to show here is
9 that with further trending we'd like to be able to see
10 that number come down. We think that there's not only
11 adequate liquidity but we may have some excess liquidity
12 in the system, and we're working very closely with the
13 Investment Office to help with not only projections on
14 that, but to ensure that we're starting to bring those
15 liquidity levels down closer to the threshold of one
16 percent, but as well not having so little liquidity that
17 we're not able to deal with the stressed environment.

18 And then the last section is really on our cash
19 flow forecasting, a good -- making sure that we keep
20 adequate and liquidity levels relies on the ability to be
21 able to forecast. And what we're just saying here is that
22 when you look at what we felt that our estimated
23 contributions and distributions would be, our
24 non-investment cash flows, we do a very good job of being
25 able to predict those. The exception being in July again.

1 We don't necessarily know what the contracted agencies
2 will be giving us in terms of their unfunded accrued
3 liability pre-payments, so that tends to be a little bit
4 more volatile.

5 It's really when it comes to our -- when we
6 combine or non-investment and investment cash flows, we
7 still need to work on getting information from the system
8 to be able to do closer cash flows. So what we anticipate
9 the estimated sources and uses will be versus what
10 actually happens is still -- there's still a lot of
11 variability. So again, it just helps us from a staff
12 perspective to work on where can we begin to bring those
13 estimates to actual forecasting down. The better our
14 forecasting as we move out, the -- and the more accurate
15 it is, the better handle we can have on the liquidity
16 levels.

17 We have looked out to January and February of
18 2016. We see that there's a closer relationship between
19 the estimated and the actual uses. So we think we're
20 getting better just by having these conversations and
21 working with the Investment Office, but it really is a
22 work-in-progress. This is only six months. This is a
23 trending report. We hope to bring back to the Committee
24 again in six months to show that our forecasting is
25 getting more accurate and our liquidity levels are closer

1 to those -- to that threshold, so that we have adequate
2 liquidity, without having excess liquidity.

3 CHAIRPERSON COSTIGAN: Mr. Jelincic.

4 COMMITTEE MEMBER JELINCIC: On 9 of 19, the
5 normal environment 30-day coverage ratio, 187 of the iPad,
6 the -- and 9 of 19 of Attachment 1 of 8B -- that one
7 suggests that maybe we have too much cash. And, you know,
8 holding cash is expensive. So that's one thing I'd like
9 you to comment on. And then in the description, it says
10 that this big spike in July was from contributions for the
11 unfunded accrued liability payment -- pre-payment option
12 becoming available. And I think it had been available for
13 a long time. And maybe they take advantage of it, because
14 it's the end of the fiscal year and they dump whatever
15 surplus they have, but --

16 CHIEF FINANCIAL OFFICER EASON: Yes, that was an
17 unfortunate wording choice. It is available currently and
18 continues to be so.

19 COMMITTEE MEMBER JELINCIC: And it's ongoing.

20 CHIEF FINANCIAL OFFICER EASON: Yes.

21 COMMITTEE MEMBER JELINCIC: And on the issue of
22 too much cash.

23 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

24 Wylie Tollette, Investment Office staff.

25 So we moved to the one percent liquidity target

1 range last July 1st. However, at that time, we had not
2 yet brought to the Investment Committee the policy around
3 borrowed liquidity. You might recall that when we moved
4 to the one percent liquidity target, we also expanded the
5 range to three percent up and down.

6 And with the three percent down, that obviously
7 implied a negative liquidity asset class target range. So
8 because we had not yet brought to the Investment Committee
9 the procedures around the use of borrowed liquidity, that
10 option was not available to us during that time frame, and
11 so we basically kept more cash than we would have
12 otherwise, because we knew that we couldn't use any
13 borrowed liquidity.

14 Now, that that has been brought to the Investment
15 Committee and you should see this in the next report,
16 you'll see that our cash figures are coming down closer to
17 the one percent, now that we have the borrowed liquidity
18 option available.

19 COMMITTEE MEMBER JELINCIC: Okay. And then on
20 slide 11 of 19 of Attachment 1 of 8a, 189 of the iPad, the
21 Black Monday scenario. Are we assuming that every day of
22 that month was a Black Monday or are we assuming that it
23 happened at least at one point during that month? And the
24 other question is, having been on the trading desk at that
25 point, there wasn't a liquidity problem. I mean, I don't

1 understand why liquidity fell so much. I mean, asset
2 prices fell, but, you know, the market didn't particularly
3 freeze up, and people could trade, and people settled and
4 all that good stuff. So I'm not sure why it had a
5 liquidity impact.

6 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: The
7 primary driver of liquidity demand in the scenario that's
8 provided here relates to the fact that a portion of our
9 equity portfolio is derived synthetically through the use
10 of futures contracts. And as those futures contracts are
11 marked to market, they have a variation margin cash
12 demand. It's a fairly small portion of our equity
13 portfolio, which is why you see the impact to our
14 liquidity demand is also fairly small. And that's the
15 primary driver.

16 Derivatives marked to markets and other parts of
17 the portfolio could also have some nominal impact on
18 liquidity demand in the portfolio, but it's not terribly
19 dramatic. I think the 2008 liquidity scenario is probably
20 a better test, and that's why it was also included in your
21 materials as kind of more representative of an actual
22 liquidity crises where many parts of the market stopped --
23 many parts of the market that are normally liquid and
24 trade frequently froze up, and so assets that would
25 normally be considered liquid were suddenly not.

1 The primary drivers of actual cash demand here
2 are really the benefit payment and those derivatives or
3 futures contracts variation margin calls.

4 COMMITTEE MEMBER JELINCIC: And in 2008, even if
5 you could trade, that didn't necessarily mean you could
6 settle.

7 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
8 That's right.

9 COMMITTEE MEMBER JELINCIC: Thank you.

10 CHAIRPERSON COSTIGAN: Okay. No further
11 questions. All right, next item is going to be very
12 quickly.

13 Ms. Stausboll.

14 CHIEF EXECUTIVE OFFICER STAUSBOLL: Yes.

15 CHAIRPERSON COSTIGAN: Hang on. Mr. Jones.

16 COMMITTEE MEMBER JONES: Wylie, back. Yeah.

17 J.J. asked a second question, whether it was one
18 day or the whole month and I didn't hear the answer to
19 that.

20 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

21 The Black Monday was actually a day followed by
22 multiple subsequent days of very high levels of
23 volatility. So that entire scenario, all of the days of
24 volatility that that scenario represented back in 1987
25 effectively are reproduced on the current portfolio. So

1 it's not exactly one day. It's a little bit broader than
2 that but I wouldn't say it's an entire month.

3 COMMITTEE MEMBER JELINCIC: Yeah, but the four
4 days after the Monday were great days.

5 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
6 Yeah.

7 CHAIRPERSON COSTIGAN: All right. Anything else
8 on that item, Mr. Jones, Mr. Jelincic?

9 Okay. Ms. Stausboll, we're on to Item 9a.

10 CHIEF EXECUTIVE OFFICER STAUSBOLL: Thank you.
11 Just before I begin, I just wanted to give some kudos to
12 Cheryl and her team and Investments and the Actuarial
13 Office, but -- for that liquidity report, because we've
14 been waiting for it. And it's a really good addition to
15 our internal controls toolkit, so thanks, Cheryl.

16 I wanted to update the Committee on our strategic
17 planning efforts. As we've mentioned recently, we're
18 getting ready to embark on our next strategic planning
19 effort. The current plan expires June 30, 2017.

20 So our goal is to get a plan -- a new strategic
21 plan, which we envision as again a five-year plan to get a
22 new plan in place by the end of the 2016 calendar year.
23 That would give time to -- what's the word? -- whatever --
24 maneuver into putting our business plan together for the
25 next year, so that it would be seamless.

1 We've talked about the fact that with a new CEO
2 and depending on the timing of that, you may want to
3 slightly adjust the timing for completing and finalizing
4 the strategic plan.

5 So in the materials there's an attachment that
6 gives you a visual of the project plan, the stakeholder
7 engagement we're doing, and the Board engagement. Our
8 plan is that after today, as we do the sessions with the
9 Board, that they would be full Board workshops and move --
10 transition in and out of the Committee. And that's what
11 did last time around. I think it's important to get the
12 full Board's engagement as we develop the plan.

13 So we're going -- we about to embark on
14 comprehensive stakeholder engagement external. We'll
15 be working internally as well. It's intended to be
16 very thorough reaching out to all the usual stakeholders.
17 And then internally, we're doing risk assessment, SWOT
18 analysis, the usual. The executive team has begun meeting
19 already to identify key themes that we need to discuss.

20 So Doug can walk you through more detail or we
21 can just take questions, whatever the Committee prefers.

22 CHAIRPERSON COSTIGAN: Mr. Jelincic.

23 COMMITTEE MEMBER JELINCIC: I appreciate the fact
24 that you pointed out that at least one of the options was
25 a three-year plan, rather than a five-year plan. You

1 know, you've often heard me say, if I don't know what B
2 is, then I don't know what I'm rejecting.

3 I actually would be inclined to go with a
4 three-year plan given that we're going to have a new CEO,
5 and it seems to me that there would be some advantage
6 to -- we need a plan to keep going, but not lock this new
7 CEO into something that long. And so I was wondering if
8 you could comment on why you thought five was better than
9 three, even in the light of a new CEO coming in?

10 CHIEF EXECUTIVE OFFICER STAUSBOLL: Sure. And
11 first, I guess, I'd start by saying we talked about three.
12 And in such a changing environment there's some advantages
13 to a three-year plan. And I think there's a trend in
14 strategic planning to going shorter. But for CalPERS, we
15 do take quite a while sometimes to put these things
16 together. And the planning process is almost a year. So
17 that's why we felt that three years would be kind of a
18 short plan, because then we're two years in and we're
19 planning again.

20 In terms of the new CEO, we think -- we see this
21 as a tentative schedule that can evolve as the recruitment
22 and hiring takes place. If you have a new CEO here
23 sometime in the summer, there will be several months for
24 that individual to be engaged in this new strategic plan
25 before it's finalized. And I would recommend that you

1 could just leave that issue open of the timing, and
2 whether you want to shorten it in the end.

3 It's something we -- we envision it as five.
4 It's your decision. It doesn't need to be made today.

5 COMMITTEE MEMBER JELINCIC: Okay. And I would
6 encourage the Committee to really think about whether a
7 three doesn't make more sense given a new CEO coming in.
8 But we don't have to decide today, so I'm not going to
9 make a motion to decide it today.

10 CHAIRPERSON COSTIGAN: Well, this is an
11 informational item for the time being, so -- but I agree
12 with Mr. Jelincic. I think five years with both the
13 advancement of technology, staff changes, three years is a
14 little more nimble, but that's why we're having this
15 discussion.

16 Mr. Hoffner, is there anything you'd like to add?
17 Don't have to. Is there anything you'd like to?

18 DEPUTY EXECUTIVE OFFICER HOFFNER: Have a good
19 afternoon.

20 (Laughter.)

21 CHIEF EXECUTIVE OFFICER STAUSBOLL: Yeah,
22 perfect.

23 CHAIRPERSON COSTIGAN: That works. Thank you.
24 All right. Any other further questions?
25 Mr. Jones, Mr. Slaton, Ms. Paquin?

1 No, no.

2 All right. Ms. Eason, anything we need to cover
3 before we adjourn?

4 CHIEF FINANCIAL OFFICER EASON: No, I think we're
5 good.

6 CHAIRPERSON COSTIGAN: Okay. We -- and you have
7 everything you need for our next Board meeting?

8 CHIEF FINANCIAL OFFICER EASON: I do.

9 CHAIRPERSON COSTIGAN: And there is no public
10 comment?

11 All right. Thank you, everyone. This meeting is
12 adjourned.

13 (Thereupon the California Public Employees'
14 Retirement System, Board of Administration,
15 Finance & Administration Committee meeting
16 adjourned at 4:35 p.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 22nd day of March, 201

18
19 

20
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22 Certified Shorthand Reporter
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25