

MEETING
STATE OF CALIFORNIA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
PENSION & HEALTH BENEFITS COMMITTEE
OPEN SESSION

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

COMMITTEE MEMBERS:

Ms. Priya Mathur, Chairperson

Mr. Michael Bilbrey, Vice Chairperson

Mr. John Chiang, represented by Mr. Grant Boyken

Mr. Rob Feckner

Mr. Richard Gillihan, also represented by Ms. Katie Hagen

Ms. Dana Hollinger

Mr. Henry Jones

Ms. Theresa Taylor

Ms. Betty Yee, represented by Mr. Alan Lofaso

BOARD MEMBERS:

Mr. J.J. Jelincic

Mr. Ron Lind

STAFF:

Ms. Anne Stausboll, Chief Executive Officer

Mr. Matt Jacobs, General Counsel

Ms. Donna Lum, Deputy Executive Officer

Mr. Doug McKeever, Deputy Executive Officer

Dr. Kathy Donneson, Chief, Health Plan Administration

Ms. Jennifer Jimenez, Committee Secretary

Mr. Anthony Suine, Chief, Benefit Services Division

Mr. John Swedensky, Interim Chief, Affiliate Program
Services Division

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

ALSO PRESENT:

Mr. James Anderson, Retired Public Employees Association

Mr. Tim Behrens, California State Retirees

Ms. Yvette Fontenot, Avenue Solutions
(via teleconference)

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

Mr. Neal Johnson, Service Employees International Union

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

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

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

2 CHAIRPERSON MATHUR: Good morning, everyone. I'd
3 like to call the Pension and Health Benefits Committee to
4 order.

5 First order of business is roll call.

6 COMMITTEE SECRETARY JIMENEZ: Priya Mathur?

7 CHAIRPERSON MATHUR: Good morning.

8 COMMITTEE SECRETARY JIMENEZ: Michael Bilbrey?

9 VICE CHAIRPERSON BILBREY: Good morning.

10 COMMITTEE SECRETARY JIMENEZ: Grant Boyken for
11 John Chiang?

12 ACTING COMMITTEE MEMBER BOYKEN: Here.

13 COMMITTEE SECRETARY JIMENEZ: Rob Feckner?

14 COMMITTEE MEMBER FECKNER: Good morning.

15 COMMITTEE SECRETARY JIMENEZ: Richard Gillihan?

16 COMMITTEE MEMBER GILLIHAN: Here.

17 COMMITTEE SECRETARY JIMENEZ: Dana Hollinger?

18 COMMITTEE MEMBER HOLLINGER: Here.

19 COMMITTEE SECRETARY JIMENEZ: Henry Jones?

20 COMMITTEE MEMBER JONES: Here.

21 COMMITTEE SECRETARY JIMENEZ: Theresa Taylor?

22 COMMITTEE MEMBER TAYLOR: Here.

23 COMMITTEE SECRETARY JIMENEZ: Alan Lofaso for
24 Betty Yee?

25 ACTING COMMITTEE MEMBER LOFASO: Here.

1 CHAIRPERSON MATHUR: Thank you. We do have a
2 quorum. And please note for the record that Mr. Jelincic
3 and Mr. Lind are also in attendance.

4 Next order of business is the Executive Reports.

5 Ms. Lum

6 DEPUTY EXECUTIVE OFFICER LUM: Good morning,
7 Madam Chair, members of the Committee. I'm Donna Lum,
8 CalPERS staff.

9 This morning, I have two brief items to provide
10 you an update on. The first is related to the CalPERS
11 Benefit Education Events. We recently hosted the event in
12 Seaside near Monterey, which was held on February 26th and
13 27th. And again, we had another good turnout. We had
14 over 1,350 members attend. And again, we continue to get
15 positive feedback on the workshops. I also wanted to
16 share with you that our next event is going to be in
17 Oakland, California at the Marriott. And it will be on
18 April 15th and 16th.

19 So, as always, if you're available, I know that
20 many of you like to attend these events, and the staff do
21 enjoy seeing you there. And last month, we presented the
22 schedule of all the CBEEs which are currently on-line. So
23 we do have them all scheduled out through 2016.

24 The next item that I want to give you an update
25 on is related to the on-line health plan statement for

1 this year's open enrollment period. And if you recall
2 last month, we provided the Committee with an update, and
3 indicated that we were going to be rolling this project
4 out beginning in March. As of yesterday, we've sent out
5 about 340,000 letters to our health subscribers, and they
6 look like this. It's a trifold fold-out.

7 And the information that's provided on this
8 letter gives the members an understanding of why they're
9 receiving the notice, how does going on-line or accessing
10 your statement on-line benefit you. It also provides
11 information about how to access it on-line, and it gives
12 them options that if they choose not to have their
13 statements available on-line, that they can either call
14 the contact center and request to have it by hard copy, or
15 attached to this mailer is a postage paid postcard that
16 they can check a box and return. And if they elect to
17 return this, then they will continue to receive their
18 health statements in hard copy.

19 We also have provided the flexibility that if a
20 member chooses to go on-line this year and wants to have a
21 hard copy next year, they can opt to do that. And
22 likewise, those members that choose to get it hard copy
23 this year and want to go on-line next year will have that
24 flexibility as well.

25 Since we met in February, we have continued to

1 meet with a number of stakeholders, including our retiree
2 associations to address any issues and concerns that they
3 have with the approach of this project. In summary, they
4 have continued to express concerns related to the fact
5 that not all retirees have access to computers. In some
6 cases, they are concerned that retirees that may not open
7 their mail would miss the notification, and that they had
8 preferred that the option going forward would be to opt
9 into on-line, as opposed to opting out of it.

10 We have continued to provide feedback as to why
11 we have moved in this direction. And we've continued to
12 reassure them that both options are going to be available.
13 So even if a member does not respond at the deadline,
14 which is in July going into open enrollment in the August
15 period, they can still contact us and we will still
16 provide a hard copy document.

17 We are working with the associations. We've
18 provided them with a fact sheet. We've also provided them
19 with a draft article that can be used in their news
20 letters. And we also discussed many different ways that
21 they can help us by leveraging the various communication
22 vehicles that they have with their membership to ensure
23 that the message gets out.

24 And as always, we recognize that this is a
25 transition, and we are prepared for the feedback and the

1 contacts that we'll receive in the contact center. But
2 more importantly, we are very committed to helping all of
3 our members transition through this change.

4 So again, I wanted to make sure that you have
5 that information and to acknowledge that we have been
6 meeting with these groups, and we will continue to work
7 with them to help us to help the members ensure that we
8 can get through this.

9 CHAIRPERSON MATHUR: Thank you.

10 DEPUTY EXECUTIVE OFFICER LUM: Thank you.

11 CHAIRPERSON MATHUR: I see no questions from the
12 Committee.

13 Mr. McKeever.

14 DEPUTY EXECUTIVE OFFICER McKEEVER: Good morning,
15 Madam Chair, members of the Committee. Doug McKeever,
16 CalPERS staff.

17 Bear with me this morning, I've got quite a few
18 updates that I would like to share with you related to
19 recent developments regarding CMS's proposed Medicare
20 Advantage changes, long-term care reminder letters that
21 will be going out in April, two upcoming members surveys,
22 a medical group report card that was just issued, and then
23 the last item is just to brief you on an addition to the
24 CalPERS business plan that will be discussed in the
25 Finance and Admin Committee later this afternoon.

1 So the proposed Medicare Advantage changes. Each
2 year, CMS releases an advanced notice and draft call
3 letter that contains proposed changes to the Medicare
4 program and its reimbursement rates. This happens every
5 year.

6 On February 19th, they proposed numerous changes,
7 including reducing Medicare Advantage Employer Group
8 Waiver Plan reimbursements. As a result of that, in
9 recent weeks there's been growing efforts to influence the
10 CMS on its rule-making process. And, at this point, it's
11 a bit too early to say how CalPERS may or may not be
12 impacted by these developments, but we're closely
13 monitoring those.

14 As typically happens this time of year, the
15 financial call letter from CMS will be issued in April.
16 And this year it's on April the 4th. And once that
17 initial -- that final call letter is provided, we'll have
18 a much better sense and also be able to assess any of the
19 potential impacts that may result in those findings that
20 we look at, and then bring those back to the Committee for
21 your awareness.

22 Moving on to the second item, the Long-Term Care
23 Program 2015-16 reminder letters. Back in October of
24 2012, the Board approved premium increases as part of the
25 Long-Term Care Program stabilization and restructuring

1 efforts. Impacted participants are those that purchase
2 policies between 1995 and 2004, that have lifetime
3 coverage and coverage plans with built-in inflation
4 protection.

5 The increases were spread out over two calendar
6 years, 2015 and 2016. Those participants that accepted
7 the 2015 premium increase will be subject to the 2016
8 portion of the premium increase, unless they choose to
9 reduce their benefit level as set forth in the 2016
10 premium increase offer letters. The increase offer
11 letters are scheduled to be mailed next month, and will
12 contain individualized participant options. The mailing
13 volume is approximately 40,000 members.

14 For participants that choose an option for
15 avoiding the premium increase by reducing their benefit
16 level, there will be a premium decrease for those
17 individuals. Our administrator Long Term Care Group will
18 have customer service representatives available to assist
19 our Long-Term Care Program participants, as well as our
20 CalPERS customer contact center have been notified and
21 provided guidance for addressing incoming calls on this
22 particular item.

23 Two member surveys are going to be going out.
24 The first is our annual CalPERS Health Plan Member Survey.
25 Pre-notification letters were mailed to members selected

1 to participate in the survey yesterday, so they should be
2 expecting to receive those letters later this week. The
3 letters include a link to the on-line version of the
4 survey and a password for them to use. Those selected
5 members who don't happen to log on will receive a
6 follow-up letter in a couple of weeks reminding them of
7 their efforts to participate. And then once the survey is
8 completed, we'll have the results the latter part of May,
9 in which staff will then start to look at those results
10 and compile them. And then we'll provide the Committee
11 with an update.

12 The next survey is relative to Castlight. And
13 it's an evaluation that we're doing on the pilot that
14 we've had in place for our PPO products for the last
15 couple of years. As a reminder, it is a web and
16 smartphone application transparency tool that provides
17 both cost and quality, physicians, hospitals, and specific
18 procedures, as well as pharmaceutical drugs.

19 So again, beginning this week, DSS Research is
20 implementing a mail and Internet survey to determine
21 Castlight usage and characteristics. The survey will
22 examine the correlation of Castlight usage, thoughts about
23 the transparency tool itself, empowerment and consumerism
24 attitudes, and demographics.

25 Those survey responses are anonymous, and only

1 will be reported in aggregate. And again, this survey
2 will conclude the latter part of May and we'll bring the
3 results back to the Committee.

4 Earlier this month, the Office of the Patient
5 Advocate released its annual medical group report card,
6 adding newly available cost information for the first time
7 to existing quality information for more than 150 medical
8 groups caring for about nine million California patients.
9 I raise this as -- for awareness as it is a joint effort
10 with the Integrated Healthcare Association, of which
11 CalPERS is an active member, and very much supports our
12 efforts for increased transparency. The report can be
13 found at www.opa.ca.gov.

14 And then finally, and in advance of the Financial
15 and Administration Committee later this afternoon, I
16 wanted to bring to your attention one item that's been
17 added to the business plan. For health, the new
18 initiative will be called Promoting Access to High Value
19 Health Care. And this initiative will specifically look
20 at value based insurance design options. Of note,
21 you'll -- you may have recognized in the federal health
22 care report that's going to be provided later this
23 morning, there was a reference to value-based insurance
24 design in that report.

25 In addition, we have a speaker from the

1 University of Michigan who will be speaking on value-based
2 insurance design at the July board off-site. Madam Chair,
3 that concludes my updates, happy to answer any questions.

4 CHAIRPERSON MATHUR: Thank you, Mr. McKeever. I
5 see no requests to speak. So we'll move on to Agenda Item
6 3, which is the action item on the meeting minutes.

7 COMMITTEE MEMBER JONES: Moved.

8 VICE CHAIRPERSON BILBREY: Second.

9 CHAIRPERSON MATHUR: Moved by Jones, seconded by
10 Bilbrey.

11 Any discussion on the motion?

12 Seeing none.

13 All those in favor say aye?

14 (Ayes.)

15 CHAIRPERSON MATHUR: All opposed?

16 Motion passes.

17 We do have a request from the public to speak on
18 Agenda Item 4c. And as is our practice, I will -- we will
19 take up 4c at the end of the agenda. So I will -- so,
20 Neal, I'll call you at that time.

21 So we'll move on to Agenda Item 5.

22 COMMITTEE MEMBER JONES: Madam Chair?

23 CHAIRPERSON MATHUR: Oh, I'm sorry, Mr. Jones.

24 COMMITTEE MEMBER JONES: Yeah. Thank you, Madam
25 Chair. Yeah, I would like to ask that Agenda Item 4e be

1 pulled.

2 CHAIRPERSON MATHUR: 4e.

3 COMMITTEE MEMBER JONES: 4e be pulled, in order
4 for staff to make some comments, because that's such an
5 important issue to our retirees.

6 CHAIRPERSON MATHUR: Thank you. Okay. So we'll
7 take up 4c and 4e at the end of the agenda.

8 Moving on to Agenda Item 5, action item, Review
9 Pension and Health Benefits Committee Delegation.

10 Mr. McKeever.

11 DEPUTY EXECUTIVE OFFICER McKEEVER: Madam Chair,
12 members of the Committee, this is the annual opportunity
13 for you all to look at the delegation for the Board of
14 administration for the Pension and Health Benefits
15 Committee.

16 I just want to call out for your attention that
17 there were no changes from the prior year that were made
18 to the current information before you. So we're -- as an
19 action item, we're looking for your approval of this
20 delegation.

21 CHAIRPERSON MATHUR: Thank you.

22 What's the pleasure of the Committee?

23 There are no changes to the delegation.

24 COMMITTEE MEMBER JONES: Move it.

25 VICE CHAIRPERSON BILBREY: Second.

1 CHAIRPERSON MATHUR: Motion has been made by
2 Jones, seconded by Bilbrey.

3 Any discussion on the motion?

4 Seeing none.

5 All in favor say aye?

6 (Ayes.)

7 CHAIRPERSON MATHUR: Motion passes.

8 We'll move on to Agenda Item number 6, Federal
9 Health Care Policy Representative Update.

10 Do we have them on the phone?

11 MS. FONTENOT: Yep, we're here.

12 CHAIRPERSON MATHUR: Hi there. Welcome. You're
13 live in the Auditorium

14 MS. FONTENOT: Great. Thank you. Good morning.

15 CHAIRPERSON MATHUR: Good morning. So you can
16 proceed

17 MS. FONTENOT: I think, Chris, are you on?

18 Okay. I will get started.

19 CHAIRPERSON MATHUR: Thanks, Yvette. If you
20 could just -- just to note for the record that we have
21 Yvette Fontenot on the phone.

22 MS. FONTENOT: Yes, thank you. I'm going to
23 start on the -- with a brief mention of the Medicare
24 Advantage change that Doug alluded to, and then give you a
25 quick update on some things that are actually moving

1 through the Senate, just so that you're aware of them,
2 because so few things tend to move -- actually move
3 through the Senate since it is a Presidential year.

4 CHAIRPERSON MATHUR: Yvette, I'm so sorry to
5 interrupt you. You're sounding a little faint. Is it
6 possible to get a little closer to the phone?

7 MS. FONTENOT: Yeah, hold on.

8 CHAIRPERSON MATHUR: Sorry about that. Thank
9 you.

10 MS. FONTENOT: That's okay. Is that any better?

11 CHAIRPERSON MATHUR: That is much better. Thank
12 you.

13 MS. FONTENOT: Okay. Perfect. Okay. So Doug
14 mentioned quickly, and I won't spend too much time on
15 this, but I just wanted to elaborate a little bit about
16 the proposed Medicare Advantage call letter that CMS
17 released. And in segments -- it has a number of changes
18 to Medicare Advantage Program, and they include, you know,
19 changes in the risk adjustment methodology, and to the
20 benchmark. But the biggest change that would impact, I
21 believe, CalPERS, and its employers are the proposed
22 changes to the Employer Group Waiver Program, which, as
23 you know, are often offered by employers of Medicare
24 advantage plans to retirees.

25 So just to give you a sense of the population

1 we're talking about generally, it's about three million
2 beneficiaries or about 19 percent of all MA members are
3 enrolled in these EGWP plans. And this is a policy that
4 has been contemplated by MedPAC for a while that CMS
5 finally acted on. And it's really to address their
6 concerns that the EGWP bids are much higher on average
7 than the bids that the individual markets brought us, even
8 though it's a risk for the employer plans are lower. So
9 they are acting to try and address that discrepancy.

10 However, it is -- it does create a large impact
11 for all the EGWP providers. And so just to give you a
12 sense of what's going on in D.C. to try and address that
13 change, there is a newly formed coalition. It's called
14 the Coalition to Save Medicaid Advantage Retiree Coverage.
15 And it's comprised of health plans employers and labor
16 unions. So that should have about 50 member organizations
17 at this point. And they are -- they have launched a
18 nationwide advertising campaign to try and fight these
19 cuts.

20 And they're lobbying methods is really that the
21 payments change would hurt seniors through benefit cuts or
22 higher premiums. They did, as I think as the results of
23 their lobbying campaign, did a bipartisan letter from the
24 leaders of both, the Ways and Means, and Energy and
25 Commerce committees, as well as Senate Republicans who

1 sent a letter to Andy Slavitt who's the Acting
2 Administrator of the Centers for Medicare and Medicaid
3 Services urging him to reverse the proposed policy in the
4 final call letter.

5 They've also picked up a number of letters that
6 have gone both to the administration and to Congress from
7 retired -- retired teachers for example, have sent a
8 letter to the National Correctional Employees Union, the
9 UAW sent a strong letter. So there's a lot of activity
10 around this policy. And I know that staff is working on
11 the impact on CalPERS. And we will certainly stay on top
12 of the reaction that we're seeing from both the
13 administration and in Congress on this policy. But I
14 wanted to make sure you're aware of all the goings on
15 around it here in D.C.

16 CHAIRPERSON MATHUR: Thank you. Yvette, I think
17 Chris Jennings has joined us. Are you on the line, Chris?

18 MR. JENNINGS: Yes, I am. Thank you very much.

19 CHAIRPERSON MATHUR: Great.

20 MS. FONTENOT: Chris, why don't you go ahead,
21 because you've got some topical issues. And then if we
22 have gone too long, at that point, I'll jump back in.

23 MR. JENNINGS: Sure. Thank you. We had a little
24 technical difficulties here. We have two other issues I
25 wanted to highlight that have been of interest to the

1 Board. One is a very quick update on the Cadillac tax and
2 legislation and recent regulation activities addressing
3 that issue.

4 And the second deals with developments on
5 prescription drug pricing issues, and how they're
6 increasingly being integrated with the value purchasing
7 and delivery reform debate, particularly as it relates to
8 administration activities of interest.

9 Very, very quickly on the Cadillac tax, you all
10 know that in the Consolidated Appropriations Act of 2016,
11 there was a two-year delay of the Cadillac tax to 2020,
12 which has largely suppressed immediate activity to move
13 towards repeal and eliminate the law altogether. However,
14 what it did do is seem to affirm that whatever happens in
15 the future, there will either be another delay, reform, or
16 repeal of the underlying law. And that certainly is a
17 very significant development.

18 Secondly, in the President's own budget that was
19 just recently released, he did include a modification to
20 the policy, which acknowledges, by it's very existence of
21 having a reform policy that there are underlying flaws
22 with the law, including a provision that would attempt to
23 at least partially address geographical variation issues,
24 like we see in California and San Francisco in particular,
25 by increasing the cost threshold to the exchange gold plan

1 value in the State.

2 Having said that, that is a budget proposal. It
3 does not look like we will see significant legislative
4 activity for the remainder of the year, but it is notable
5 that the outgoing administration does acknowledge ongoing
6 concerns, and continues to contemplate rules governing its
7 actual and eventual implementation, which CalPERS has been
8 very much involved in in submitting comments to address.

9 Now, shifting very quickly to the prescription
10 drug pricing issue, another area of great interest to
11 CalPERS. While there have been recent announcements of
12 reductions in the rate of growth relative to last year,
13 without question prescription drug prices continue to lead
14 health care spending lines in almost every private and
15 public purchasing area, and it continues to be a major
16 concern.

17 One area that we thought we would raise that's
18 new and does -- it's an example of a policy approach that
19 gets integrated in the value purchasing debate and the
20 delivery reform debate is one that the administration has
21 proposed relating to how it pays for part B, as in boy --
22 Part B drugs. These are drugs that are administered in
23 in-patient settings largely -- excuse me, outpatient
24 settings within the physician's offices.

25 And in that context, we currently pay these

1 providers average sales price plus six percent. And I
2 only mention that because what it shows is we actually
3 have a reimbursement incentive that penalizes physicians
4 for prescribing dispensing lower cost drugs, because they
5 get far more money, if they dispense at the higher cost
6 items.

7 And instead, the administration is proposing to
8 modify that to a much smaller 2.5 percent with a flat fee
9 of \$16.80 per drug per day, regardless of the price of the
10 drug, which is meant to move towards addressing
11 disincentives to appropriately manage care in medically
12 appropriate ways.

13 But just as interestingly is, and perhaps even
14 more of relevance to CalPERS, is a phase 2 of this
15 proposal, in which they introduce value purchasing
16 concepts into how they're purchasing drugs. They look at
17 indication based pricing, which means that they might vary
18 their reimbursement based on the relative value of
19 particular drugs. They look at reference pricing by
20 setting a benchmark price for a group of similar drug
21 products, much as CalPERS has done in other areas. They
22 would contemplate risk-sharing agreements, and they would
23 also look at different ways to eliminate cost sharing for
24 lower cost more appropriate drugs, all of which is
25 something that -- are areas that are absolutely consistent

1 with some of the policy work that some of your benefit
2 managers have been contemplating for the plans that are
3 offered within CalPERS. And it's very interesting to
4 follow this. And it certainly has captured some
5 inattention in Washington and it's worthy of your knowing
6 about and maybe following closely and being integrated in
7 as we move forward.

8 Lastly, I'm going to turn it back over to Yvette,
9 because every time you read something in the paper or
10 watch something on TV, you might think that absolutely
11 nothing is happening in Washington on the congressional
12 front, because of the politicization and polarization
13 of -- and the really negative environment, in which we
14 exist.

15 But there are actually some developments we
16 thought were worthy of you knowing about. As we go
17 forward they are very bipartisan in nature actually. So
18 with that, Yvette, I'll turn that back over to you.

19 MS. FONTENOT: Okay. Great. Thanks, Chris. So
20 the issue I wanted to mention, because it is getting a lot
21 of attention and there's been some action on it is on
22 opioids. The Senate recently passed this last week, they
23 passed the Comprehensive Addiction and Recovery Act by a
24 vote of 94 to 1 actually, which is -- it's a measure that
25 authorizes about \$80 million for drug abuse treatment and

1 prevention programs within HHS and the Department of
2 Justice. It also creates grant programs for states to
3 build education programs and develop evidence-based
4 treatment plans, and expand the availability of the drug,
5 which can lead to opioid overdose, and strengthens
6 prescription monitoring programs.

7 There was a little bit of controversy around the
8 bill as it was moving through the Senate, because it
9 lacked some necessary funding, but the Senate passed it
10 regardless and the administration, although they expressed
11 concern about the level of funding, did not threaten to
12 veto the Senate bill. So there is a -- there is a house
13 counterpart that's pending, and it likely will get some
14 action as well this year. It is -- and the Senate is
15 urging the House to act quickly.

16 In addition, the Senate Health Education, Labor,
17 and Pensions Committee is marking up another opioid bill
18 tomorrow that addresses some of the other issues in
19 current law, such as the requirement that physicians meet
20 certain conditions and apply for federal waiver in order
21 to prescribe certain opioid addiction medicines. So they
22 will pass that bill out of committee tomorrow.

23 And then there's been other actions by the
24 administration such as the Department announcing -- of
25 Health and Human Services announcing \$94 million to health

1 centers around the country to improve and expand substance
2 abuse treatment. That CDC has taken some action on
3 prescribing guidelines, as well as the FDA changing its
4 policy for reviewing new opioid pain killers to get them
5 on the market more quickly.

6 So this is an issue that is getting a significant
7 amount of attention, and actual action through the Senate,
8 and probably the House, and will likely be something
9 that's signed into law. It has obviously got wide, wide
10 bipartisan and bicameral support. And although the CDC
11 says that this is really the growth in the drug problem
12 that we've seen has been most significant in the northeast
13 midwest and the south. I wanted to bring it to your
14 attention just because it's -- things are so rarely moving
15 and that we want to make sure and stay on top of anything
16 that is, as it may create an opportunity to support a
17 bipartisan solution to a growing problem that has been
18 highlighted.

19 And the last thing I wanted to mention is sort of
20 a growing interest in doing -- taking some action on
21 mental health. This one is not as far along as the opioid
22 effort. The Health Committee tomorrow during the mark up
23 will also mark up a mental health bill. It's not clear
24 what the prospects for that are in the Senate quite yet.
25 In the House it's a little bit behind the Senate even, but

1 it is just another area where there is bipartisan interest
2 and acknowledgement that there is a need to act, and
3 potentially act quickly.

4 So that's another issue that we will just be
5 tracking to see if they can get some actual movement on
6 that. So I think with that, unless -- we're happy to
7 answer questions, if there are any.

8 CHAIRPERSON MATHUR: Well, thank you both very
9 much. We do have some questions from the Committee.

10 Mr. Jelincic.

11 BOARD MEMBER JELINCIC: In the delivery reform
12 developments, A, you talk about a nursing facility
13 initiative, and I -- you note that 7 out of 7
14 participating sites have cost reductions. Can you tell us
15 a little bit about what that is, because it obviously
16 looks like it's been relatively successful when 7 out of 7
17 make improvements.

18 MR. JENNINGS: Yvette, why don't you go ahead.

19 MS. FONTENOT: Sure. So you're referring to the
20 first item in the monthly report?

21 BOARD MEMBER JELINCIC: Yes.

22 MS. FONTENOT: This is sort of the extension of
23 the CMS efforts to avoid hospitalizations and readmissions
24 that may not be extended into the nursing home setting.
25 So as I'm sure you've tried to track their efforts to

1 reduce readmissions and avoidable hospitalizations has
2 been very effective on the inpatient side, and they've
3 cited, I think, you know, 87,000 less harm to patients,
4 because of the beginning of that initiative. This is the
5 extension of that effort to nursing facilities to try and
6 see if we can come up with the same applicable solutions
7 in the nursing home setting to reduce harm and
8 readmissions in that setting.

9 And as you see from the report, and as you
10 rightly mentioned, it has been the initial reports are
11 that it has been fairly successful. So I assumed, you
12 know, that, at some point, we will see even a further
13 expansion of this effort by CMS to try and, you know, not
14 only expand this nationwide to further nursing home
15 facilities, but also to just more provider settings like
16 inpatient rehab facilities, et cetera.

17 BOARD MEMBER JELINCIC: What are they doing or is
18 it just a question of putting a spotlight on it and people
19 start behaving better?

20 MS. FONTENOT: No. Well, I think for -- in the
21 example of hospital readmissions, they actually did,
22 through the Agency for Healthcare Research and Quality,
23 they looked at the actual causes of readmissions and harm
24 to the patient, you know, central line infections, and,
25 you know, where that harm actually occurs. And then they

1 came up with protocols for how to reduce those -- that
2 harm and the causes of readmission.

3 And they did sort of a nationwide effort on
4 educating providers about those causes and how to actually
5 reduce them. So it's an actual -- you know, it's a fairly
6 proactive effort to do the research and then educate the
7 providers. And this is -- they're doing the same in
8 really the nursing facility setting. And then, you know,
9 once they develop their research for other settings, they
10 will expand to those settings as well.

11 BOARD MEMBER JELINCIC: Thank you.

12 MR. JENNINGS: And other areas that people look
13 at with nursing homes, of course, include much more
14 aggressive drug management and fall prevention activities.
15 Those two alone have a major impact on the likelihood of
16 rehospitalizations.

17 CHAIRPERSON MATHUR: Thank you. I was really
18 interested to see CMS's part B sort of revisions regarding
19 price -- drug pricing in the medical administrated
20 setting. And I'm wondering -- I guess my question really
21 is for you, Doug, how are we incorporating that into our
22 conversations with our plans, are there things that we can
23 translate to our own program that would benefit our
24 members?

25 DEPUTY EXECUTIVE OFFICER McKEEVER: So, Madam

1 Chair, I think what we're doing is watching this closely
2 to find out where it lands, but it certainly carries with
3 it a great deal of promise relative to the disincentive,
4 as Chris just mentioned, where doctors are not going to
5 prescribe a higher cost drug because they're going to end
6 up getting some additional dollars for that. So it is
7 something that we're looking at and talking about
8 internally. And we'll keep the Committee appraised as we
9 continue to move forward.

10 I'd also like to note the issue of opioids that
11 Yvette brought, you may recall CalPERS has been working
12 with Secretary Dooley's office as well as Peter Lee with
13 Covered California on an overuse work group in which
14 opioids is one of the three areas of concentration that
15 we've been collectively looking at.

16 Just to let you all know this is also something
17 that CalPERS is specifically looking at here on the
18 impacts that are attributed to folks here in California.

19 CHAIRPERSON MATHUR: Thank you. I'm particularly
20 interested on this drug pricing issue and the reference
21 pricing, it's something we have. As Chris mentioned,
22 something that we have implemented in terms of hips and
23 niece. And it -- I hadn't really considered it in terms
24 of drug pricing, but it seems to make some logical sense,
25 and so --

1 DEPUTY EXECUTIVE OFFICER McKEEVER: Yeah, it also
2 fits in with my earlier comments about us looking at and
3 including in the business plan the initiative on value
4 based purchasing design, because it has not only a
5 reference pricing component, but there's also some
6 co-insurance and co-pay items that we look at. For
7 example, with diabetes, currently now there is a co-pay if
8 you go in for an issue relative to diabetes.

9 But if there's a secondary issue that is
10 corresponding to diabetes, you also have to pay that
11 co-pay. Value-based purchasing says we'll look at the
12 entire spectrum of care, not charge them a co-pay,
13 actually incent them to get into see the doctor without
14 having to pay for that, and then the long-term benefits
15 are looking fairly good relative to the medical evidence
16 that have come out so far.

17 So we'll have a much more deeper conversation
18 about this at the July off-site.

19 CHAIRPERSON MATHUR: Great. All right. Well,
20 thank you very much Chris and Yvette for being on the
21 phone with us this morning. That exhausts our questions.

22 MS. FONTENOT: Great Thank you.

23 MR. JENNINGS: Our pleasure. Thank you.

24 CHAIRPERSON MATHUR: Take care.

25 We'll move on to agenda Item number 8, Pharmacy

1 Benefit Manager Contract Evaluation Update.

2 Mr. McKeever.

3 DEPUTY EXECUTIVE OFFICER McKEEVER: Madam Chair,
4 I'm sorry, before we move on there, we do have the --

5 CHAIRPERSON MATHUR: Oh, 7, I'm sorry.

6 DEPUTY EXECUTIVE OFFICER McKEEVER: Yeah, thank
7 you.

8 CHAIRPERSON MATHUR: Thank you. Agenda Item
9 number 7, Federal Retirement Policy Representatives
10 Update.

11 And are they -- they're on the phone?

12 Well, Tony and Tom, are you both on the phone?

13 Tony Roda, Tom Lussier?

14 MR. LUSSIER: Madam Chair, this is Tom. Tony was
15 going to start, but I certainly can, if, for some reason,
16 he's having some technical difficulties.

17 CHAIRPERSON MATHUR: That's fine. Please
18 proceed.

19 MR. LUSSIER: I wanted to raise two issues with
20 you that are familiar to you and have been priorities and
21 continue to be priorities that we believe are of interest
22 and worthy of your engagement.

23 The first is you are all familiar with
24 Congressman Nunes's prior attempts to enact a Public
25 Employee Pension Transparency Act, which is known as

1 PEPTA. The legislation, although it sounds as though it
2 has noble purposes, is -- really would represent the first
3 and rather unprecedented attempt by the federal government
4 to mandate reporting by State and local pension plans to
5 the Treasury Department with regard to the funding status
6 of your plans.

7 And most importantly, it would require that that
8 reporting be done with a so-called risk free rate, which,
9 as we all know, would dramatically understate the funded
10 status of every pension plan in the country, and we
11 believe is unfortunately designed to simply reinforce the
12 message that public plans have been falsely reporting
13 their liabilities, and therefore are at greater risk than
14 they really are.

15 Although, the legislation we believe will
16 continue to be optional, we believe it will also continue
17 to contain provisions that any governmental unit that
18 fails to file would put their tax exempt bonding authority
19 at risk.

20 Congressman Nunes has been relatively quiet on
21 this issue for some time. It has not -- had not yet been
22 introduced in the current Congress. Although, he is now
23 actively circulating a dear colleague letter amongst
24 members of Congress requesting co-sponsors for the
25 submission of the legislation.

1 Last year, I shouldn't say last year -- in the
2 last Congress, we were successful in pushing back against
3 his outreach for co-sponsors and tremendously limited the
4 number. And we were pleased to see that the legislation,
5 in fact, never even received a hearing. But in any event,
6 we are currently engaged in an effort with a number of
7 organizations yesterday and 18 national organizations that
8 delivered a letter to Congress. And these organizations
9 are all of the national labor unions, the National
10 Retirement Association to which you belong, and many of
11 the national public sector employer organizations jointly
12 delivered a letter to members of Congress opposing the
13 legislation, and urging them not to join Congressman Nunes
14 as a co-sponsor.

15 We are, as we speak, working with your staff to
16 finalize a letter from CalPERS to the California
17 delegation delivering a very similar message. And our
18 State message will be joined by many other State plans
19 around the country.

20 It's unclear to us whether Mr. Nunes is serious
21 about attempting to advance the legislation. You will
22 recall that the bill, although it was never introduced,
23 was actually a section of Senator Hatch's Puerto Rico
24 Reform Act that he introduced at the end of the last year.
25 It's possible that Mr. Nunes just felt that since it's out

1 there he should introduce it himself. But we're taking it
2 very seriously. We do not believe that it deserves the
3 consideration of Congress and we'll keep you informed as
4 the folks do opt to sign, and the legislation is
5 ultimately -- we assume will ultimately be introduced.

6 The second issue that I wanted to bring you up to
7 date on is one again that you are supportive of. It is
8 the legislation that has been introduced on a bipartisan
9 basis by Mr. Brady of Texas and Mr. Neal of Massachusetts
10 to replace the current Windfall Elimination Provision of
11 the Social Security law with a fair -- what is referred to
12 as a formula that's based on fairness, which is designed
13 to take into consideration a retiree's total career within
14 and without of the Social Security system in formulating
15 their benefit.

16 Mr. Brady -- the issue had gone somewhat silent.
17 Mr. Brady was one of several members who had very
18 difficult primaries in early -- earlier this year. He was
19 successful in his primary and has now refocused, and we
20 expect -- we expect there to be a hearing on the issue of
21 WEP reform, including Mr. Brady's legislation as early as
22 next week. In fact, we expect it may very well be
23 announced today.

24 CalPERS has joined with 16 other State and
25 national organizations to -- on a letter that urges

1 members of Congress to embrace the Brady/Neal legislation
2 by co-sponsoring it. That will be announced -- that
3 letter will be announced by Mr. Brady again we believe
4 today. The other very positive news around the issue of
5 WEP reform is that last week AARP offered its endorsement
6 for the Brady/Neal legislation. That was a very
7 significant development, and represents the first time
8 that they have weighed in on the issue of WEP reform, and
9 we believe will be very significant.

10 And lastly, related, but slightly different, when
11 the budget -- when the President released his budget
12 earlier this year, their actually was a provision --
13 there's been a WEP GPO provision, an enforcement provision
14 in prior year Presidential budgets. But this one went so
15 far as to advance what is being referred to as a Brady
16 like reform proposal. It's -- the details are pretty
17 schedule, but the fact that it's there represents
18 tremendous movement on this issue.

19 And what's perhaps most significant is that not
20 only did the President's budget suggest a Brady like
21 reform of the WEP provision, it also suggested a similar
22 reform for the Government Pension Offset Provision.
23 You'll recall that when we discussed the HR 711, the
24 Brady/Neal Bill, with you, we suggested that Mr. Brady
25 wanted to deal with WEP first and then was committed to

1 dealing with GPO later.

2 The President's initiative, although a little
3 unclear, and with a slightly longer time horizon, does
4 open up the door to perhaps a GPO fix within the context
5 of this WEP discussion.

6 So we will monitor the hearing very carefully
7 next week. We will monitor the result of this group
8 letter that we are actively circulating, and we will keep
9 you informed. We believe that all of this is part of the
10 building and growing momentum to perhaps actually deal
11 with this issue in the current session of Congress.

12 With that, I'm thinking that Tony hopefully has
13 joined us.

14 CHAIRPERSON MATHUR: Tony Roda, have you joined
15 us?

16 I don't think so, Tom.

17 MR. LUSSIER: Okay. Then let me deal with one
18 other issue, so that we don't hold you up. And I
19 apologize. There must be some technical problem on his
20 end, because he was on the line.

21 CHAIRPERSON MATHUR: That's fine.

22 MR. LUSSIER: In any event, the Treasury
23 Department has been dealing with a proposed regulation
24 with regard to the definition of normal retirement age for
25 years. Their initial proposal was one that we've been

1 discussing with your staff for a very long time. And the
2 larger public pension retirement community has objected
3 vigorously to the proposals that were initially advanced
4 by Treasury.

5 Recently, and over the years, we've been meeting
6 with them and they have at various times indicated that
7 they were hearing our arguments and understanding the
8 issues that were unique to State agencies and the need to
9 define retirement age in the State statutes and various
10 legislatures choosing to deal with this issue in various
11 ways.

12 The good news is, and that we're pleased to
13 share, is that the Treasury Department has recently
14 released its most advanced proposed regulation. All of
15 the industry, including your staff, has evaluated the
16 rule. And although there are a couple of areas that raise
17 slight questions, I think we have all reached the
18 consensus that they hurt us, and that the new rule is a
19 very positive step in the right direction, and is one that
20 doesn't propose any threats to CalPERS or to any other
21 major State and local plan around the country.

22 So as recently as last week, we were in
23 conversation with your staff, and it has been agreed that
24 we will not even recommend suggesting comments from
25 CalPERS. We do believe the national associations will

1 comment, and their comment will be generally to say thank
2 you for hearing our message. And so with that, I'd be
3 happy to -- so we think it's a success.

4 With that, I'd be happy to try to answer your
5 questions on any of those issues or anything else that
6 might be of interest to you.

7 CHAIRPERSON MATHUR: Thanks very much, Tom.

8 Mr. Jones.

9 COMMITTEE MEMBER JONES: Yeah. Thank you, Madam
10 Chair. Yeah. Thank you, Tom for the update. Would you
11 let us know if there's anyway this Board could weigh-in on
12 the WEP reform legislation that may be helpful. And
13 secondly, as you previously provided us information about
14 the WEP that it included a possibility of funding source
15 and what that amount might be, and I was wondering has a
16 discussion occurred regarding the GPO in terms of funding
17 source or what amounts may be needed to fix that part?

18 MR. LUSSIER: Sure. First, let me deal with, we
19 will absolutely recommend any additional communication.
20 We think the letter that we are in the process of
21 circulating right now that CalPERS has joined with a
22 number of other State plans and State retiree associations
23 and some -- a number of national unions is a very, very
24 important message.

25 We had a brief conversation with your staff,

1 which we will follow up on as to whether or not it would
2 make sense for us to draft a statement for the record for
3 this upcoming hearing. That may be helpful, and if it is,
4 we will certainly prepare it and work with your staff to
5 finalize it.

6 With regards to the GPO potential fix and revenue
7 associated with it, there are very, very, very few details
8 associated with the language that is part of the
9 President's budget. And he also in the way they framed it
10 in the budget, recommended that it not take effect until
11 10 years from now, which is obviously not appealing to any
12 of us who've worked on this issue.

13 So I know, because we've chatted with them, that
14 staff of the Social Security Subcommittee on both the
15 Democrat and Republican side are working with the Social
16 Security actuary to try to better understand what the
17 President is suggesting. And as soon as -- they've not
18 been able to explain it to us yet. And if they can
19 explain it, I suspect none of us will be able to until
20 some further work is done at SSA.

21 But as soon as that information is available,
22 we'll share it with you obviously. And obviously, how
23 that revenue was raised may very well impact how we feel
24 about the actual outcome. But the bottom line was we were
25 encouraged to see, for the first time in -- really in

1 years and years and years, the administration acknowledge
2 that both WEP and GPO need to be addressed.

3 COMMITTEE MEMBER JONES: Thank you.

4 CHAIRPERSON MATHUR: Thank you, Tom. I think
5 that exhausts the questions of the Committee.

6 Has Tony -- Tony Roda have you joined us now?

7 MR. RODA: Yes, I am.

8 CHAIRPERSON MATHUR: Hi, Tony. So, Tom, is there
9 anything else that you wanted Tony -- that Tony was
10 planning to talk about that you haven't already covered?

11 MR. LUSSIER: No, I think I was able to cover
12 what was -- we had agree Tony would talk about.

13 CHAIRPERSON MATHUR: Okay. Well, thank you both
14 for joining us this morning and we'll let you go.

15 MR. LUSSIER: Thanks so much. Enjoy the rest of
16 your day.

17 CHAIRPERSON MATHUR: You, too.

18 All right. Now, we'll move on to Agenda Item
19 number 8, Pharmacy Benefit Manager Contract Evaluation
20 Update.

21 Ms. Donneson.

22 HEALTH PLAN ADMINISTRATION DIVISION CHIEF

23 DONNESON: Good morning, Madam Chair, and members of the
24 Pension and Health Benefits Committee. This agenda item
25 updates the Committee on the status of the pharmacy

1 benefit management solicitation.

2 On November 13th, 2015, firms submitted their
3 responses to the PBM solicitation 2015-7755, which have
4 now been reviewed, evaluated, and on-site visits
5 conducted. As discussed with the Committee in other
6 public agenda items, the competitive negotiation process
7 considers price, technical expertise, operational
8 performance and management in selecting the highest
9 quality, cost-effective submissions, to present to the
10 Committee at a future date. Those competitive
11 negotiations will begin next week, and will continue
12 through the first week of April.

13 Staff will inter into the negotiations with the
14 most qualified firms, during which performance, technical
15 standards, or other criteria may be discussed in order to
16 secure the firm that best meets the needs of CalPERS and
17 its members. In order for a firm's submission to move
18 forward to the Board of Administration for consideration,
19 the firm must sign a letter agreeing to enter into the
20 contract that has been negotiated during the competitive
21 negotiation phase of the solicitation.

22 The solicitation process concludes with a
23 presentation by CalPERS staff to the CalPERS Pension and
24 Health Benefits Committee of the submissions that have met
25 the requirements of the solicitation. However, a

1 presentation of a firm's submission to the Committee may
2 not be construed as an award of a contract. The award of
3 the contract lies solely with the CalPERS Board.

4 In summary, this solicitation is intended to
5 provide a fair and robust process in order to have a
6 completed contract and implementation plan in concert with
7 the 2017 rate-setting process.

8 This concludes my presentation. I am happy to
9 answer any questions.

10 CHAIRPERSON MATHUR: Thank you very much.

11 I see no questions from the Committee. We do
12 have one member of the public who wishes to speak on this
13 item. James Anderson, if you would please come forward,
14 take a seat here, and please identify yourself and your
15 affiliation for the record, and you'll have three minutes
16 with which to speak.

17 MR. ANDERSON: Thank you, Madam Chair. My name
18 is James Anderson. I'm the legislative director for the
19 Retired Public Employees Association.

20 I bring a question that maybe CalPERS could be a
21 leader in this area regarding the take-back of unused
22 pharmaceuticals. We're becoming aware of elements getting
23 into the environment because of inadequately disposed
24 pharmaceuticals. The State and local governments some
25 local agencies have sampled. They do not find levels of

1 health concern, but they have found these elements in the
2 aquatic environment.

3 It might be a way to put an item in this
4 negotiations to come up with a plan to take back
5 pharmaceuticals. The County of Alameda has instituted a
6 program where they have -- cite specifics, where people
7 can come and -- they fund this by a \$0.01 addition to any
8 prescription over \$10. They raise a million dollars.
9 They're able to take out -- let's see if I have my --
10 about 14,000 pounds of pharmaceuticals were removed in
11 2013.

12 The Santa Clara Hospital has instituted a
13 take-back program, where they repackage the drugs, but
14 this is expensive, and is labor intensive, and has to be
15 supervised. The cost is relatively small. British
16 Columbia has instituted the program at the
17 pharmaceuticals -- pharmacies. They have 500 -- the
18 pharmacies cost about \$500 a year, about a \$1.35 a
19 month -- or a day. Ninety-four percent of the pharmacies
20 are in this plan, so they can do that.

21 And as you may have heard or may have seen,
22 Walgreens has instituted a take-back program at the
23 pharmacy. California will be the first area, I
24 understand, that Walgreens will implement this plan. So I
25 think it's an opportunity. I understand it's on your

1 staff's radar. If the Committee would give us direction,
2 we'd help work with them and come up with a good plan to
3 do this important product.

4 CHAIRPERSON MATHUR: Well, I thank you very much
5 for raising a certainly very relevant issue. Is that
6 something that we're already talking about or -- with the
7 plans?

8 HEALTH PLAN ADMINISTRATION DIVISION CHIEF
9 DONNESON: Indeed, we are. We're not doing it through the
10 solicitation particularly, but the State work group on
11 reducing overuse has -- is also watching the buyback or
12 take-back program. We think it's really important, and
13 not just through our solicitation when we look at such
14 things, but also through our joint work with Covered
15 California and the Department of Health Care Services

16 CHAIRPERSON MATHUR: Okay. Terrific. Thank you
17 very much. Thanks so much for your comments.

18 Okay. Seeing no other requests to speak on this
19 item, we'll move on to Agenda Item 9, LONG-TERM Care
20 Program Semiannual Update.

21 HEALTH PLAN ADMINISTRATION DIVISION CHIEF
22 DONNESON: Good morning again, Madam Chair.

23 CHAIRPERSON MATHUR: Micro -- I'm sorry, Ms.
24 Donneson, your microphone. Thank you.

25 HEALTH PLAN ADMINISTRATION DIVISION CHIEF

1 DONNESON: Good morning again, Madam Chair, and members of
2 the Committee. This Agenda Item number 9 provides the
3 long-term care semi-annual update and looks at annual
4 trends 2013 to 2015.

5 This semiannual report updates the Committee on
6 key statistics, the Long-Term Care 4 product and the
7 activity of current participants. Annualized program
8 statistics are provided for the years 2013, '14, and '15.

9 I would like to highlight a few points found in
10 Attachment 1 of this agenda item, starting with the key
11 statistics. The program has 134,000 participants. We
12 have four billion in invested assets, and have paid to
13 date 1.8 billion in participant benefits since the start
14 of the program in 1995.

15 On pages four and five, premiums have increased
16 in 2015, primarily as a result of the first half of the 85
17 percent rate increase. We will continue to make policy
18 conversion options available to members who will
19 experience the second half of the 85 percent rate increase
20 effective July 1st 2016.

21 On page six of Attachment 1, you can see that use
22 of on-line applications has increased to 60 percent.
23 We're very encouraged. That's a 10 percent increase since
24 the -- the -- since we implemented the on-line application
25 service. What that means is that the applications are

1 completed at the end of that process, which is improving
2 the throughput of our applications on to underwriting and
3 approval.

4 On page seven, we have provided a new chart for
5 you that shows the average annual premium and average
6 attained age for LTC4 compared to the annual average
7 premium and average attained age for LTC1, 2 and 3.

8 Then illustrated on page eight, the long-term
9 care preferred provider network continues to grow and
10 expand and provide discounts from five to 20 percent to
11 our members who use those facilities or home care when
12 needed.

13 On page nine, ten, and 11, participants in active
14 claim -- claimed dollars paid claims by site of care are
15 growing at a fairly reasonable rate. It should be noted
16 that the claims payments by site of care have held steady
17 in distribution between skilled nursing assisted living
18 and home care for the -- over the last 3 years.

19 The LTC Program -- finally, my concluding
20 comments. The LTC Program lost nearly 3,000 participants
21 who passed away. This concludes my presentation and Mr.
22 Espinoza and I are available to answer any questions.

23 CHAIRPERSON MATHUR: Thank very much, Ms.
24 Donneson. So the semi-annual update is before you. Are
25 there any questions from the Committee.

1 Well, thank you very much for your report.

2 So we will now go back to the Information Consent
3 items. First, 4c, Mr. Neal Johnson, did you have comments
4 on this item?

5 Please identify yourself and your affiliation for
6 the record and you'll have three minutes to speak.

7 MR. JOHNSON: Thank you. Neal Johnson, Service
8 Employees International Local 1000.

9 The -- actually, it was more a couple of
10 questions. The employer trust retirement trust is
11 designed as a government program. And part of the
12 question I understand that our PERS has gotten some type
13 of confirmation from the Treasury or Internal Revenue that
14 it qualifies as a governmental program. And I think
15 that's true, but that's one of my questions.

16 Is it, in fact, a governmental program?

17 And then the second deals with, as I read the
18 statute, PERS is a prudent investor, but does not, as
19 opposed to the pension program, have a fiduciary
20 responsibility to the trust, and really just invests the
21 money that is provided by the employer or the employees
22 who are in it through the employer. And I want to confirm
23 that that is also accurate.

24 CHAIRPERSON MATHUR: So do you want to come up,
25 Mr. Swedensky and answer these questions?

1 MR. JOHNSON: What?

2 CHAIRPERSON MATHUR: I'm sorry, I'm asking Mr.
3 Swedensky who runs the program to respond or if you
4 would -- if you'd like to come back another time, that's
5 fine?

6 AFFILIATE PROGRAM SERVICES DIVISION INTERIM CHIEF

7 SWEDENSKY: Yes, Madam Chair, members of the Committee.
8 John Swedensky, CalPERS staff. The first question that
9 Mr. Johnson raised, I believe, he's talking about a
10 private letter ruling from the Internal Revenue Service.
11 The CERBT program has received such a letter from them.

12 The second question is a little unclear to me, so
13 maybe he could restate that.

14 CHAIRPERSON MATHUR: Could you, Mr. Johnson,
15 restate your second question?

16 MR. JOHNSON: Yeah. The second question deals
17 with it's my understanding that PERS role is to invest the
18 money and does not -- the Board does not have a fiduciary
19 responsibility as it does in the pension program, where
20 its decisions must be taking into account the
21 beneficiaries of the system and minimizing costs, not that
22 you --

23 CHAIRPERSON MATHUR: Your question is whether we
24 have a fiduciary duty?

25 MR. JOHNSON: -- not that you won't be a prudent

1 investor, but there's a little different test.

2 CHAIRPERSON MATHUR: Is that something you can
3 answer, Mr. Swedensky?

4 AFFILIATE PROGRAM SERVICES DIVISION INTERIM CHIEF
5 SWEDENSKY: Yeah, I think Mr. Johnson is alluding to the
6 fact that there are some differences between the CERBT
7 program and the PERF, the pension program here at CalPERS.
8 And those differences are rooted in the fact that
9 contributions and decisions related to cash flows are
10 voluntary and made by the employer, so we don't have an
11 oversight as to what asset allocation strategy an employer
12 chooses, when they make contributions, how often, how
13 much, or when they seek reimbursement. Those are all
14 employer decisions as it's an employer trust.

15 I would say the Board still has a fiduciary
16 responsibility to that as well though, because we do
17 manage the investment portion of the portfolios.

18 CHAIRPERSON MATHUR: I think that's very well
19 answered. So there are differences in the structure of
20 the program, but we still have a fiduciary duty to manage
21 the investments within each asset allocation trust,
22 because there's three different asset allocation options.

23 AFFILIATE PROGRAM SERVICES DIVISION INTERIM CHIEF
24 SWEDENSKY: That's correct.

25 CHAIRPERSON MATHUR: Does that answer your

1 question?

2 MR. JOHNSON: Thank you.

3 CHAIRPERSON MATHUR: Thank you very much.

4 Let's move on to Agenda item 4e, Mr. Jones, you
5 had some questions.

6 COMMITTEE MEMBER JONES: Yes.

7 CHAIRPERSON MATHUR: Sorry, sorry.

8 COMMITTEE MEMBER JONES: Yeah, thank you Madam
9 Chair. Yeah, I would just like Mr. Suine to give his
10 annual report because he provides very clear information
11 about how this works and its helpful I think for our
12 retirees to -- because this is a big, you know point in
13 time in check adjustments Okay.

14 BENEFIT SERVICES DIVISION CHIEF SUINE: Sure.
15 Good morning, Madam Chair, Anthony Suine, CalPERS Staff.

16 CHAIRPERSON MATHUR: Morning.

17 BENEFIT SERVICES DIVISION CHIEF SUINE: Anthony
18 CalPERS staff. And yes, as Mr. Jones alluded to, Agenda
19 item 4e is our annual cost of living adjustment update.

20 And as you are aware, the retirement law does
21 provides for an annual cost of living adjustment to be
22 paid each May. However, the law also states that if the
23 COLA increase is less than one percent that no COLA
24 increase is applied for that year.

25 So this is one of two years in recent history, I

1 guess, that we had to invoke that law one year was a
2 deflation period, where there was no inflation at all. So
3 this year, due to the low rate of inflation of 0.12
4 percent, approximately 45 percent of our retirees will not
5 be receiving a 2016 cost of living increase.

6 And so this agenda item does provide a helpful
7 chart for retirees to see when they may -- if they may be
8 receiving a COLA on their May 1 check. Because more than
9 95 percent of our retirees are subject to the two percent
10 COLA increase. For those retirees, anyone who retired in
11 2005 and prior will receive a COLA increase in May.

12 This information has been shared with our retiree
13 stakeholders, and we do have an article going out in our
14 April addition of the PERSpective that states what I've
15 briefed you on here today as well.

16 CHAIRPERSON MATHUR: Thank you.

17 We do have a couple questions.

18 Mr. Jelincic.

19 BOARD MEMBER JELINCIC: Anthony, did I hear you
20 say that 45 percent of our retirees would not be receiving
21 a COLA?

22 BENEFIT SERVICES DIVISION CHIEF SUINE: That's
23 correct. So the reason being is because they haven't been
24 retired long enough, so Mr. Jones referred to my annual
25 spiel on this. The COLA does -- when their are times of

1 low inflation or deflation, the COLA banks up, so that
2 will -- and if there was times of higher inflation, we can
3 only pay the lesser of the contracted amount or the rate
4 of inflation, whichever is less.

5 So when times have -- in the earlier 2000's when
6 inflation was much higher than the two percent, for
7 instance, that banked up. And so when it was -- has been
8 lower, these retirees who have been retired for longer
9 were still seeing the benefits of that banked up COLA.
10 But now, there's been several years, and so anybody who's
11 been retired after 2005 does not have enough banked COLA
12 to get us over a one percent COLA increase.

13 Therefore, that's why so many retirees would not
14 receive an increase this year, even if we applied it at
15 the 0.12 percent, you know, on \$3,000 benefit, it's a
16 \$3.60 increase.

17 BOARD MEMBER JELINCIC: Yeah. I was just
18 surprised that that high a percentage of our retirees were
19 essentially relatively recent retirees.

20 BENEFIT SERVICES DIVISION CHIEF SUINE: Yeah, and
21 recent in this since, is still 10 years.

22 BOARD MEMBER JELINCIC: Yeah. Thank you.

23 CHAIRPERSON MATHUR: Thank you. Mr. Jones.

24 COMMITTEE MEMBER JONES: Yeah. Thank you, Madam
25 Chair. Yeah, Anthony, in the inflation rate that we use

1 is the CPI-U. And I know some questions have been raised
2 about why we don't use some inflation factor from
3 California as opposed to the U.S., can you comment on
4 that?

5 BENEFIT SERVICES DIVISION CHIEF SUINE: Yeah.
6 The CPI-U is its defined by law, so we're just abiding by
7 the -- what the current statute is. It could be
8 considered to propose something different. You know, the
9 federal government uses a clerical wager earner, CPI,
10 they're all fairly similar in that sense. Many of these,
11 so they're -- they offer -- they also had a 0 percent cost
12 of living adjustment this year as well. So we could
13 consider other ones through legislation.

14 COMMITTEE MEMBER JONES: Yeah, no. And not that
15 I'm advocating, I just wanted to get an explanation.
16 Thank you.

17 BENEFIT SERVICES DIVISION CHIEF SUINE: Sure.

18 CHAIRPERSON MATHUR: Okay. Thank you.

19 Ms. Taylor, you're okay?

20 COMMITTEE MEMBER TAYLOR: (Nods head.)

21 CHAIRPERSON MATHUR: Okay. I see no further
22 questions from the Committee on this item. Thank you very
23 much for the presentation.

24 Next item is the Summary of Committee Direction.
25 I don't think there has been.

1 DEPUTY EXECUTIVE OFFICER McKEEVER: Madam Chair,
2 this will be a very easy response. I don't believe there
3 were any Committee directions this morning, so we're good
4 for the day.

5 CHAIRPERSON MATHUR: For once.

6 DEPUTY EXECUTIVE OFFICER McKEEVER: Yeah.

7 CHAIRPERSON MATHUR: That will bring us to Agenda
8 Item number 11, public comment. We do have one member of
9 the public who wishes to speak. Tim Behrens if you'd
10 please come up, take a seat, identify yourself and your
11 affiliation for the record, and you'll have three minutes
12 to speak.

13 MR. BEHRENS: Good morning, Madam Chair, and
14 Committee members. My name is Tim Behrens. I'm the
15 President of the California State Retirees.

16 I'd like to talk to you all today about the
17 opt-in issue plan, which I understand many retirees got a
18 letter yesterday. And the opt-in part of it is something
19 that this Committee recommended and the Board passed last
20 month with only one opportunity to speak against it, which
21 the majority of, if not all of, the stakeholders from
22 retirees groups at the last stakeholder meeting spoke
23 against the opt-in plan.

24 Why?

25 Well, statistically, you're own statistics say

1 that 40 percent of the current retirees actually sign on
2 to CalPERS website, which means at best, 60 percent of the
3 retirees will not know that by not sending this card back,
4 they will not receive anything in the mail regarding the
5 open enrollment period next year. That's 60 percent is a
6 very large number of people that will go uninformed.

7 Now, we talked about this yesterday with staff,
8 and recommended that staff have a couple of things in
9 place as soon as possible. One is a phone number that
10 people can call in directly that didn't understand the
11 letter when they got it or threw it away.

12 In order to have a more confidential plan,
13 there's a bar code being used instead of the name. So if
14 you look at the card you're supposed to send back in, if
15 you want to opt in and continue to receive written
16 material from CalPERS, your name is not on it. That's
17 also confusing for many of our retirees.

18 Now, there's some issues with the timeliness,
19 giving us enough time to alert our members. We would like
20 to, in the future, hope that we have at least 90 days, so
21 we can put articles in our paper to educate our 36,000
22 members about these kinds of changes. And this is a
23 radical -- historically, a radical change to opt-in AS
24 opposed radical to change to opt-in as opposed to opt-out.

25 So I would appreciate it, in the future, if we

1 can get at least 90 days to educate our members. We want
2 to continue to partner with CalPERS and with your
3 committee on issues related to health care benefits and
4 anything else to do with our pensions. Thank you very
5 much

6 CHAIRPERSON MATHUR: Thank for your comments.

7 Well, that brings us to the end of our agenda on
8 the public session -- or the open session. So I'm
9 going -- seeing no further requests to speak from the
10 public or the Committee, I'm going to bring this Committee
11 to adjourn.

12 (Thereupon the California Public Employees'
13 Retirement System, Board of Administration,
14 Pension & Health Benefits Committee open
15 session meeting adjourned at 9:12 a.m.)
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C E R T I F I C A T E O F R E P O R T E R

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

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 21st day of March, 2016.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
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