

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

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

TUESDAY, APRIL 19, 2016
1:03 P.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
LICENSE NUMBER 10063

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 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. Eric Lawyer

STAFF:

Ms. Anne Stausboll, Chief Executive Officer

Ms. Cheryl Eason, Chief Financial Officer

Mr. Doug Hoffner, Deputy Executive Officer

Mr. Matthew Jacobs, General Counsel

Mr. Doug McKeever, Deputy Executive Officer

Mr. Alan Milligan, Chief Actuary

Mr. Brad Pacheco, Deputy Executive Officer

Ms. Tanya Black, Committee Secretary

Mr. Gary McCollum, Senior Life Actuary

Ms. Kelly Sturm, Senior Pension Actuary

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

STAFF:

Mr. Todd Tauzer, Senior Pension Actuary

Mr. Scott Terando, Interim Deputy Chief Actuary

Mr. Wylie Tollette, Chief Operating Investment Officer

ALSO PRESENT:

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

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

2 CHAIRPERSON COSTIGAN: We're going to get the
3 April meeting of the Finance and Administration Committee
4 underway. I appreciate everybody trying to keep us on
5 time. And I know lunch was very short, so thank you,
6 everyone, for letting us start early.

7 Can we please call the roll.

8 COMMITTEE SECRETARY BLACK: Richard Costigan?

9 CHAIRPERSON COSTIGAN: Here.

10 COMMITTEE SECRETARY BLACK: Dana Hollinger?

11 VICE CHAIRPERSON HOLLINGER: Here.

12 COMMITTEE SECRETARY BLACK: Ralph Cobb for
13 Richard Gillihan?

14 ACTING COMMITTEE MEMBER COBB: Here.

15 COMMITTEE SECRETARY BLACK: J.J. Jelincic?

16 COMMITTEE MEMBER JELINCIC: Here.

17 COMMITTEE SECRETARY BLACK: Henry Jones?

18 COMMITTEE MEMBER JONES: Here.

19 COMMITTEE SECRETARY BLACK: Bill Slaton?

20 COMMITTEE MEMBER SLATON: Here.

21 COMMITTEE SECRETARY BLACK: Lynn Paquin for Betty
22 Yee?

23 ACTING COMMITTEE MEMBER PAQUIN: Here.

24 CHAIRPERSON COSTIGAN: All right. Thank you very
25 much. Ms. Eason, you're first up with the Executive

1 Report.

2 CHIEF FINANCIAL OFFICER EASON: Thank you. Good
3 afternoon, Mr. Chair and Committee members. Cheryl Eason
4 CalPERS staff. Well, we have an action packed agenda
5 today with six action items. We'll very quickly get to
6 them. I just want to remind the Committee that we have
7 the annual review of the employer reimbursements for
8 elected Board members. The Actuarial Office will be
9 providing both the State and schools actuarial valuation
10 and employer/employee contribution rates for 2016/17.

11 And we have a number of second readings.
12 Firstly, 2016/17 annual budget proposal, the Treasury
13 Management Policy, and the Actuarial Cost Methods Policy,
14 as well as the Actuarial Amortization Policy, all of which
15 were heard last month in March.

16 There are also several important information
17 items that will be presented today that includes the
18 semi-annual self-funded health plans report. We have a
19 final update on stakeholder assessment project, as well as
20 a first reading of the review of the Actuarial Assumption
21 Policy, which is a continuation of the Actuarial Policy
22 Framework Review currently being undertaken by the
23 Actuarial Office.

24 And with that, that concludes my report. I'd be
25 please to take any questions.

1 CHAIRPERSON COSTIGAN: Thank you. Mr. Jelincic,
2 are you going to ask about the next item.

3 COMMITTEE MEMBER JELINCIC: No, I was going to
4 ask an item -- a question about this item, I think.

5 CHAIRPERSON COSTIGAN: Okay.

6 COMMITTEE MEMBER JELINCIC: We received a letter
7 about the actuarial valuation delays from BETA Healthcare.
8 Are we going to talk about that at some point? And if so,
9 where is the appropriate place to talk about it?

10 CHIEF FINANCIAL OFFICER EASON: This --

11 CHAIRPERSON COSTIGAN: So Ms. Eason and I -- I'm
12 sorry. We have spoken about that. We have acknowledged
13 receipt of the letter. And staff is working on that, and
14 we'll have a response by the next Board meeting.

15 COMMITTEE MEMBER JELINCIC: By when?

16 CHAIRPERSON COSTIGAN: By our next Board meeting.

17 COMMITTEE MEMBER JELINCIC: Okay. That's fine.

18 CHAIRPERSON COSTIGAN: Thank you, Ms. Eason.

19 All right. We're going to go to action item --
20 or the consent items. We're going to remove 3b, at this
21 time, just on the semi-annual contracting. A couple
22 issues have arisen on that. So we have action items 3a
23 and c. Are there any questions?

24 COMMITTEE MEMBER JONES: I'll move it A and C.

25 CHAIRPERSON COSTIGAN: Moved by Jones.

1 Seconded by?

2 VICE CHAIRPERSON HOLLINGER: Second.

3 CHAIRPERSON COSTIGAN: Hollinger.

4 All those in favor?

5 (Ayes.)

6 CHAIRPERSON COSTIGAN: Oppose?

7 Motion carries. We'll take up 3b at the end.

8 On the information consent items, anybody have
9 any questions on them?

10 If not, we will move on to Item 5a, which is an
11 action item. Ms. Eason.

12 CHIEF FINANCIAL OFFICER EASON: Thank you.

13 The 2016/17 budget proposal is being presented
14 today as a second reading. The proposed total budget of 1
15 billion 788.5 million and 2,8732 positions represents a
16 decrease of 19.1 million or a 1.1 percent -- or 1.1
17 percent compared to the 2015/16 approved budget. These
18 totals remain unchanged from last year month's first
19 reading.

20 Based on yesterday's Board direction to staff at
21 the Investment Committee regarding the review of the
22 System's existing divestment initiatives, including
23 tobacco, an estimated 500,000 in costs related to further
24 study and outreach may be required. Staff recommends, at
25 this time, that the mid-year budget process be used to

1 address any resourcing requirements as necessary, and
2 changes are not being recommended to the annual budget at
3 this time.

4 Based on feedback during the first reading,
5 additional information was included in the item on page
6 eight, Attachment 1, or page 123 of 281 of the iPad, the
7 staff were able to break out the administrative and
8 investment operating budget of 546.8 million to display
9 base costs from one-time and discretionary costs.

10 The purpose of this information was to better
11 understand the cost drivers for the administrative portion
12 of the budget as asked by the Committee last month.
13 Staff's analysis shows that of the 546.8 million in
14 administrative and investment operating costs,
15 approximately 13 million represents one-time costs, and 42
16 million for discretionary costs. That leaves an increase
17 to the base salary of 27 million when you compare that
18 from the 2015/16 budget to the 2016/17 budget.

19 This increase is due mainly to the cost of new
20 positions, salary adjustments, data processing
21 maintenance, appraisal and tax advisory services, and the
22 implementation of the Investment Office's Artemis and
23 PEARS systems.

24 So in summary, the proposed 2016/17 total budget
25 of 1 billion 788.5 million and 2,872 positions is being

1 recommended to this Committee for approval.

2 That ends my report.

3 CHAIRPERSON COSTIGAN: Okay. So do we have any
4 questions on the budget?

5 Mr. Jelincic.

6 COMMITTEE MEMBER JELINCIC: Yeah. I would just
7 point to page 28 of 44, 133 of the iPad, the footnote 4,
8 profit sharing for private equity is deducted from net
9 returns. And that's, in fact, what we do. I also will
10 point out that it's a real cost, and we ought to start
11 acknowledging it and not just net it out, as well as the
12 cost not only with the carry, but I guess the
13 management -- the base management fees are here, but
14 there's also the portfolio management fees, there are the
15 waivers that get netted out against the management fees,
16 and all those are real costs. And at some point, we need
17 to capture them, and they ought to be showing up in the
18 budget.

19 But it is accurate as to how we're currently
20 doing it. I just don't think we're doing it
21 appropriately.

22 CHAIRPERSON COSTIGAN: So, Mr. Jelincic, what
23 you're looking for is a little bitter on the display of
24 the information. The information is there, but just on
25 how it's displayed.

1 COMMITTEE MEMBER JELINCIC: Well, I'm not -- one,
2 I'm not sure the information is all here, is one issue.
3 But the -- we really need to start displaying what our
4 real costs in private equity are.

5 CHAIRPERSON COSTIGAN: Thank you.

6 Mr. Jones.

7 COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.
8 Chair.

9 Yes, Ms. Eason, you mentioned that the increase
10 cost related to the tobacco divestment decision yesterday.
11 And you mentioned that it would be recognized in the
12 mid-year budget, but that's January. But aren't there
13 activities that's going to start sooner than that? And so
14 if so, why don't we, when we adopt this, just authorize
15 the addition of 500 be added to this budget so you don't
16 have to wait for mid-year adjustments?

17 CHAIRPERSON COSTIGAN: Mr. Jones, at least I will
18 say, we have no paper on it.

19 COMMITTEE MEMBER JONES: We what?

20 CHAIRPERSON COSTIGAN: So we've put a number out
21 there to half a million dollars. So we have no paper on
22 it. I'm not sure what the 500,000 -- yesterday, it was
23 given to us as an estimate at Committee, unless Wylie
24 would like to come up here and talk about it. My
25 understanding there was the discussion of an outside

1 counsel, some stakeholder. And I think one of the reasons
2 we talked about the mid-year was for the staff to bring
3 back a proposal that outlines it.

4 COMMITTEE MEMBER JONES: Yeah. And that's fine.
5 And I think an approach that can be used however is
6 that -- to authorize the money to be placed in a reserve,
7 so the money is in the budget. And then the
8 implementation as it occurs can come back to the
9 Committee.

10 I'm just concerned that, you know, we're waiting
11 till mid-year in January to authorize a resource that we
12 know is coming, and so why don't we just go ahead and
13 include it.

14 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

15 Wylie Tollette, CalPERS staff. Thank you, Mr.
16 Chairman and Mr. Jones, I do think we will begin incurring
17 or -- costs associated with the fiduciary analysis, the
18 financial review and economic review of the tobacco
19 divestment sooner than January. I, honestly, am not as
20 familiar with the budget process as Ms. Eason, so she can
21 instruct me as to whether that -- the January data allows
22 us the flexibility to begin contracting with those
23 external resources sooner than that. I'm just not sure of
24 the answer to that, but I know what we would prefer the
25 flexibility to begin doing that work sooner rather than

1 later.

2 CHAIRPERSON COSTIGAN: So just a couple
3 questions, following up on Mr. Jones. One, can you
4 outline what the 500 -- how did we arrive at \$500,000.
5 And when you talk about contracting out to fiduciary
6 counsel, are we going to use someone in the spring-fed
7 pool, are we going to use -- who is our -- I mean, there
8 is a process we have to go through, and so --

9 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

10 Absolutely. We would intend to follow the
11 process and we would count on our Legal Office to help
12 lead that effort to contract with fiduciary counsel. The
13 \$500,000, frankly, is just a very rough estimate --
14 frankly, a guesstimate of what we think we would require.

15 We have not had the chance, since the meeting was
16 just yesterday, to sit down and outline all the different
17 types of expenses we expect to incur related to that. I
18 think what we do know is that we are not currently staffed
19 to complete that type of analysis, as well as the
20 additional global governance activities that we've got on
21 the docket for the coming year. So that's why we felt it
22 important to include some budgetary authority for that
23 additional work.

24 CHAIRPERSON COSTIGAN: Mr. Jelincic.

25 COMMITTEE MEMBER JELINCIC: The -- we have in

1 place so many spring-fed pools that I'm sure we can tap
2 those spring-fed pools to deal with this issue until we
3 get to January when we actually will have some more solid
4 numbers. And, you know, at that point, we can look at why
5 it can't be done by civil service employees. So I think
6 we currently have enough money in here that it's not going
7 to stop them from making progress between now and the
8 first of the year. So I would not encourage us to add
9 more.

10 CHAIRPERSON COSTIGAN: Mr. Jones.

11 COMMITTEE MEMBER JONES: Yeah, I have a different
12 view point on that, because yes, we do have spring-fed
13 pool, but there may be some other requirements that's not
14 coming from a spring-fed pool. And those allocations
15 would allow staff to move expeditiously on this issue.
16 And, I mean, it's just an estimate. As staff has
17 indicated, the whole budget is an estimate, the whole 1.8
18 billion is an estimate. We don't know what the expense is
19 going to be.

20 So what they're saying is they're estimating
21 500,000 would be needed. And I would strongly suggest we
22 place that in the budget and let them come back to the
23 Committee as the requirements are identified. If it's not
24 in the spring-fed pool, they can come back and advise the
25 Committee on the expenses going forward.

1 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: One
2 other quick comment. Before we actually spent any money,
3 we would plan to come back to the Committee with a more
4 detailed breakdown of what we'd actually plan to spend it
5 on.

6 CHAIRPERSON COSTIGAN: So, Ms. Eason, you're
7 recommendation is actually wait until they have that level
8 of detail, bring it back as part of mid-year. Mr. Jones
9 wants to go ahead and put the money in. We'd still wait
10 for the detail before we would adopt. What I don't want,
11 and this is just my -- I don't want to authorize spending
12 on something I haven't seen in front of me. I understand
13 the concept, but I have not seen how much -- just as we
14 have on the contract items that we've pulled, we have
15 nothing in front of us.

16 And so we're being reactionary to what happened
17 yesterday. And I understand the importance of it. If Ms.
18 Eason is comfortable with moving it forward in the budget
19 with bringing that level of detail before any of it is
20 spent, would that suffice, Mr. Jones?

21 COMMITTEE MEMBER JONES: Yes, that's -- that is
22 the purpose. It's just that I don't want to have to wait
23 till January for resources to be authorized for this
24 project.

25 CHAIRPERSON COSTIGAN: But there are no resources

1 authorized, other than in the reserve, to be spent
2 until --

3 COMMITTEE MEMBER JONES: Well, yeah, you're
4 right. It's the nomenclature.

5 CHAIRPERSON COSTIGAN: No, I just want to make
6 sure we're on --

7 COMMITTEE MEMBER JONES: Yeah. No, we're on the
8 same page. And I'm saying let's make the -- include it in
9 the final budget, and then as the details are identified,
10 then staff would bring that information to this Committee.

11 CHAIRPERSON COSTIGAN: Mr. Jelincic.

12 COMMITTEE MEMBER JELINCIC: I would just point
13 out that as long as I've been on he Committee, we've never
14 had a budget so tight that they haven't been able to find
15 \$500,000 worth of wiggle room. And between now and then,
16 they're not likely to spend even half of that. So I know
17 there's \$250,000 worth of wiggle room in the budget. So
18 I'm not -- I mean, I'm not going to -- it's not a hill I'm
19 going to fight and die over, but I don't think it's
20 necessary.

21 CHAIRPERSON COSTIGAN: And again, mine is not the
22 500 that there's not room in the budget. Mine is just a
23 process issues. I mean, again, we set precedent. And the
24 fact is the item yesterday and today. And there's a whole
25 process that we spent putting on a second reading.

1 So with that, is there any other comment on the
2 budget?

3 So, yes, ma'am.

4 CHIEF FINANCIAL OFFICER EASON: Yes, if I can
5 just add. I mean, I think from a staff perspective, we
6 could go either way. But I just wanted to clarify that we
7 would -- I think staff's recommendation to wait until
8 mid-year, if required, is that up until mid-year we may
9 have surplus funds. There's always the ability to
10 redirect so that we do have some options within the
11 budget. The suggestion wasn't that we would wait for that
12 approval to actually action it. I think we still would be
13 able to do that with a redirection of funds. But we're
14 comfortable either way.

15 CHAIRPERSON COSTIGAN: So Mr. Jones --

16 COMMITTEE MEMBER JONES: Well, I will --

17 CHAIRPERSON COSTIGAN: -- we need to make a
18 motion.

19 COMMITTEE MEMBER JONES: Yeah, I will move that
20 we adopt the 2016/17 annual budget proposal, second
21 reading, with the additional of \$500,000 be added to deal
22 with the outcomes of the work-related to the tobacco
23 divestment initiative.

24 COMMITTEE MEMBER JELINCIC: And where are you
25 putting it?

1 COMMITTEE MEMBER JONES: It's in a reserve until
2 staff brings back a plan to use the money. That way --
3 they're bringing back a plan to use the money. The money
4 will already be in the budget.

5 VICE CHAIRPERSON HOLLINGER: I second it.

6 CHAIRPERSON COSTIGAN: I just want to make sure
7 that motion works --

8 CHIEF FINANCIAL OFFICER EASON: (Nods head.)

9 CHAIRPERSON COSTIGAN: -- in the reserve as
10 opposed to the Investment Office. Okay. All right. It
11 has been moved and it has been seconded.

12 Any further discussion?

13 COMMITTEE MEMBER JELINCIC: Well, I'm not sure
14 we're --

15 CHAIRPERSON COSTIGAN: Hang on, Mr. Jelincic.
16 Oh, your microphone is on.

17 COMMITTEE MEMBER JELINCIC: I'm not sure where in
18 the budget we're showing a \$500,000 reserve. If we're
19 going to add it, we have to show it someplace, because
20 we're sending this over to the legislature. And a
21 footnote that, oh, by the way, there's a \$500,000 reserve
22 that doesn't show up anywhere is probably not appropriate.

23 CHAIRPERSON COSTIGAN: Ms. Eason.

24 CHIEF FINANCIAL OFFICER EASON: My suggestion
25 would be that we keep it within the Finance Division

1 budget, so that upon Investment Committee and Investment
2 Office coming back with the item, then we can release it
3 to the Investment Office.

4 CHAIRPERSON COSTIGAN: So again, I just want to
5 make sure I understand. Let me ask Mr. Jones to restate
6 his motion. It would be to approve the proposed 2016/17
7 budget with an additional appropriation of 500,000 to
8 Finance.

9 CHIEF FINANCIAL OFFICER EASON: I think you could
10 just -- you could just leave it as 500,000 -- and addition
11 of 500,000 in the budget. And then we'll change the
12 report accordingly. It will -- it will show up as part
13 of -- at this point, as part of consulting until we have
14 any further direction.

15 CHAIRPERSON COSTIGAN: Mr. Jones.

16 COMMITTEE MEMBER JONES: Yes, that's fine.

17 CHAIRPERSON COSTIGAN: Okay. All right. We've
18 got a motion. We've got a second.

19 All those in favor?

20 (Ayes.)

21 CHAIRPERSON COSTIGAN: Opposed?

22 (No.)

23 CHAIRPERSON COSTIGAN: Note Mr. Jelincic voting
24 no. Thank you very much.

25 Next item, please. Ms. Eason, Treasury

1 Management, 6a.

2 CHIEF FINANCIAL OFFICER EASON: Thank you, again.

3 This is the second reading of the Treasury
4 Management Policy, which includes comments from the
5 Committee last month and recommended changes by staff.
6 Based on the feedback we received, the definition of
7 stress event was improved and the language was
8 incorporated to reflect borrowed liquidity and the
9 escalation to the Finance and Administration Committee, if
10 borrowed liquidity exceeded operating guidelines.

11 As a result of last week's briefings, staff are
12 also proposing an additional line reflecting that quote,
13 "The Investment Committee will be updated on all borrowed
14 liquidity actions through the monthly performance and risk
15 report". This additional verbiage captures the review and
16 escalation of borrowed liquidity activities by the
17 Investment Office to the enterprise treasury team, the
18 Investment Committee and the Finance and Administration
19 Committee of the CalPERS Board.

20 As an additional note, the Investment Committee
21 currently is provided a performance and risk report by
22 Investment staff, which includes all borrowed liquidity
23 usage. This ends my report. I'd be happy to answer any
24 questions.

25 CHAIRPERSON COSTIGAN: Is Mr. McGuire good with

1 this?

2 Mr. Jelincic.

3 (Laughter.)

4 CHAIRPERSON COSTIGAN: Mr. Jelincic.

5 COMMITTEE MEMBER JELINCIC: Can you repeat your
6 amendment and where you're putting it?

7 CHIEF FINANCIAL OFFICER EASON: The amendment
8 would be an addition. "The Investment Committee will be
9 updated on all borrowed liquidity actions through the
10 monthly performance and risk report".

11 COMMITTEE MEMBER JELINCIC: Okay. So the only
12 language that we continue to have that gets it to this
13 Committee is when it exceeds the time frames in the
14 operating guidelines?

15 CHIEF FINANCIAL OFFICER EASON: That's correct.
16 The Investment Committee -- based on the discussion last
17 month, the Investment Committee would receive regular
18 reporting on all of the borrowed liquidity activity, and
19 it would -- the policy would be that the -- we would only
20 escalate when that -- those guidelines are exceeded. It
21 would then come to the Finance and Administration
22 Committee.

23 COMMITTEE MEMBER JELINCIC: And those operating
24 guidelines are within the control of staff?

25 CHIEF FINANCIAL OFFICER EASON: And reported out

1 to the Investment Committee in their performance report.

2 COMMITTEE MEMBER JELINCIC: Okay. Thank you.

3 CHAIRPERSON COSTIGAN: All right. Any other
4 questions?

5 All right. So this is an action item. Is there
6 a motion?

7 COMMITTEE MEMBER JONES: Move it.

8 CHAIRPERSON COSTIGAN: Moved by Jones.

9 ACTING COMMITTEE MEMBER COBB: Second.

10 CHAIRPERSON COSTIGAN: Seconded by Cobb.

11 All those in favor?

12 (Ayes.)

13 CHAIRPERSON COSTIGAN: No?

14 Motion carries. Thank you.

15 Next item. And I was not voting no on that. I
16 just said no. Thank you.

17 Item 7a, Ms. Eason, Program Administration,
18 Annual Review of Board Member Employer Reimbursements.

19 CHIEF FINANCIAL OFFICER EASON: I promise this
20 will be my last item for this Committee, but there will be
21 others presenting. So Agenda Item 7a is an action item
22 for the Committee to approve the proposed elected Board
23 member percentages of time spent on Board-related duties.

24 All proposed percentages have been provided in
25 the agenda item. Slight increases to Mr. Bilbrey's and

1 Ms. Mathur's percentages are reflected in the agenda item
2 with all other percentages remaining the same.

3 Board Member Mr. Jelincic had requested last week
4 that the agenda item include a statement that, "The
5 proposed percentage of time of 100 percent reflect his
6 responsibilities serving as a member of the CalPERS Board
7 of Administration and the balance on administrative
8 leave". This added wording is reflected in the handout
9 that you were provided to accommodate Mr. Jelincic's
10 request. And with that, staff are recommending approval
11 of the agenda item.

12 CHAIRPERSON COSTIGAN: Okay. No questions on
13 this? This too -- oh, hang on a second. Mr. Slaton.

14 COMMITTEE MEMBER SLATON: Thank you, Mr. Chair.
15 I would go ahead and move this item, but I have
16 some commentary about it. And you and I have discussed
17 this particular topic.

18 I think that I would suggest that maybe this
19 would be a topic in the future for the Governance
20 Committee to talk about this particular compensation
21 model. It seems to me having a observed it, it seems
22 overly complex and requires a lot of thought process into
23 documenting, you know, specific hours. And I think the
24 job of being a CalPERS Board member is challenging at
25 times and requires a lot of time and effort and thought.

1 So I think, as a group, if we get a chance to
2 revisit this in the Governance Committee and talk about it
3 as to is there another model that might be simpler rather
4 than having to go through this process. And hopefully all
5 the Board members, those who are subject to this
6 compensation model and those who are not, can have a free
7 conversation and decide if we want to keep it this way or
8 come up with another model.

9 But I will make the motion.

10 CHAIRPERSON COSTIGAN: Okay. First of all, I
11 agree with Mr. Slaton. I think further discussion in the
12 Governance Committee would be good. In reviewing some of
13 the documents with some of the attachments, it does get
14 somewhat cumbersome on the reporting in the documentation.
15 And I know we have, I believe, three different units
16 involved in the approval process.

17 Mr. Jelincic.

18 COMMITTEE MEMBER JELINCIC: Yeah. And I just
19 want to thank staff for the additional notation. As I had
20 said earlier, people will look at the paperwork and
21 there's not really a normal justification for my 100
22 percent. And I just wanted to make sure that there's a
23 paper record as to why I am there. So thank you for that
24 addition.

25 CHAIRPERSON COSTIGAN: All right. It has been

1 moved by Slaton. Seconded by?

2 VICE CHAIRPERSON HOLLINGER: Second.

3 CHAIRPERSON COSTIGAN: Hollinger.

4 All those in favor?

5 (Ayes.)

6 CHAIRPERSON COSTIGAN: Opposed?

7 Motion carries. Thank you.

8 Mr. Milligan, you're up on the actuarial. So we
9 ant to move to Item 8a.

10 CHIEF ACTUARY MILLIGAN: Thank you. This item is
11 the annual State and schools actuarial valuation and
12 employer and employee contribution rate setting. And I'm
13 going to call on Senior Pension Actuary Kelly Sturm, who's
14 the actuary who did the bulk of the -- did a bunch of the
15 work. Although, we do have another pension actuary
16 working on this as well.

17 So, Kelly.

18 SENIOR PENSION ACTUARY STURM: Good afternoon,
19 Mr. Chair, members of the Committee. This Agenda Item is
20 for the regular annual valuation of the State plans as of
21 June 30th, 2015. Overall, the recommended employer
22 contribution rates for the State plans are lower than what
23 was projected in the June 30th, 2014 annual valuation, but
24 they were still increase from fiscal year 2015/16 to
25 fiscal year 2016/17.

1 The expected contribution amount in dollars for
2 2016/17 is approximately \$5.4 billion. This is
3 approximately \$600 more than last year -- 600 million,
4 excuse me. The increases is due to a few factors. The
5 first one is in February of 2014, the Board adopted new
6 demographic assumptions. And for the State, the impact of
7 the change in accrued liability was phased in over three
8 years. So this contribution increase has been fully
9 phased in for the current rate.

10 The second main reason for the increase in
11 contributions is due to the normal progression of the
12 amortization basis. Thirdly, the overall payroll of this
13 State increased by more than our three percent payroll
14 growth assumption. So this caused an increase in expected
15 contributions. And the fourth main reason for the
16 increase was due to the investment return from the 2014/15
17 fiscal year.

18 So note that staff is recommending the Board
19 adopt the rates on page two of the agenda item, but the
20 rates that will appear in the Budget Act are expected to
21 be higher than what the Board adopts.

22 Pension reform added Government Section Code
23 20683.2, which increased the member contribution rate for
24 many State employees, but it also requires that the money
25 that the State would save, due to those member

1 contribution rates increases, still be sent in as an
2 additional payment on the unfunded liability. This
3 additional payment is subject to appropriation by the
4 State, and is not part of the actuarially required
5 contribution.

6 So the detail of this additional contribution
7 was -- is calculated and it's on page five of the agenda
8 item. And the contribution amounts in dollars that these
9 rates are expected to generate are shown on Attachment 5.

10 The average funded status across the State plans
11 as of June 30th, 2015 was approximately 69.4 percent.
12 This reflects a decrease of about 2.7 percent from June
13 30, 2014. And this is largely due to the investment
14 return from 2014/15. The unfunded liability as a dollar
15 amount has increased from about \$43 billion, as of June
16 30th, 2014, to almost \$50 billion as of June 30, 2015.

17 The member contribution rate for PEPR State
18 miscellaneous members who work for the legislature, the
19 California State University or the judicial branch will
20 increase from 6 percent to 6.75 percent. The total normal
21 cost has now changed by more than one percent from the
22 initial base total normal cost. And the vast majority of
23 that increase in total normal cost was due to the
24 demographic assumption change that was put into two years
25 ago.

1 CHIEF ACTUARY MILLIGAN: One thing that we came
2 across while we were working on this valuation that I
3 found somewhat surprising, and I thought the Board -- the
4 Committee might be interested in, was the number of
5 members who were covered under the PEPRA formulas. This
6 valuation report -- the effective date of the valuation
7 report is two and a half years after PEPRA was
8 implemented. And, at that point, we had almost 14 percent
9 of our State miscellaneous members covered under the PEPRA
10 formulas.

11 We anticipate that by June 30th of this year, we
12 will have over 20 percent of the State miscellaneous
13 members covered under the PEPRA formulas.

14 I thought that was interesting. And when we come
15 up with the schools report, I will tell you that we expect
16 that number to be over 25 percent by June 30th of this
17 year, so.

18 The other thing I should mention is that we are
19 anticipating completing the final -- the formal valuation
20 report that backs up this agenda item a bit earlier this
21 year than we have in previous years. We expect that to
22 happen in early summer, rather than a bit later in the
23 year, as we have done in the past. This has been made
24 possible by efficiencies within our office.

25 We -- the downside to that is that we will end up

1 producing that report before we have the final investment
2 returns for the fiscal year. So we will hold off on
3 including a projection of the required contribution rates
4 and issue that as a supplemental item to the valuation
5 report after the final -- after the valuation report is
6 done. So that information will still be forthcoming. It
7 will just be issued as a supplemental report rather than
8 as part of the main valuation report.

9 And with that, we'd be happy to take any
10 questions.

11 CHAIRPERSON COSTIGAN: We got a couple. Just
12 another interesting observation, Mr. Milligan is at least
13 when you look at the miscellaneous tier 2, there's
14 actually a reduction in the expected employer
15 contribution. That's because that workforce is beginning
16 to age out and retire, is that correct?

17 CHIEF ACTUARY MILLIGAN: I believe that is
18 correct.

19 CHAIRPERSON COSTIGAN: Because that's -- I'm
20 just -- because those are both pre-PEPRA and then pre what
21 is it 19 -- those were your classic employees.

22 CHIEF ACTUARY MILLIGAN: Those -- that's an old
23 frozen block from quite some time ago.

24 CHAIRPERSON COSTIGAN: So we -- in the future, we
25 should see that number continue to go down. Okay.

1 CHIEF ACTUARY MILLIGAN: I would expect so, yes.

2 CHAIRPERSON COSTIGAN: All right. Thank you.

3 Mr. Jelincic.

4 COMMITTEE MEMBER JELINCIC: The State's
5 contribution is some \$602 million higher than last year,
6 but you also said that it was less than had been
7 projected. How much less than it had originally been
8 projected?

9 CHIEF ACTUARY MILLIGAN: We looked at that -- we
10 looked at that in terms of the percentage, rather than in
11 terms of the dollar amounts. And the contribution did go
12 up very much in line with what we expected. It's a lot
13 closer to what we expected than what it was -- what it is
14 in the current year. So it's a small difference.

15 COMMITTEE MEMBER JELINCIC: So the dollar amount
16 is basically the same, and the difference is in the
17 percent, because the payroll looks different?

18 CHIEF ACTUARY MILLIGAN: Yeah, the difference --
19 well, the dollar amount is actually the -- there was an
20 increase due to the increase in overall payroll that was
21 more than expected. And so the dollar amount actually
22 probably did go up a bit more than expected, because of
23 the -- we have more employees. And that's cost -- and
24 they have a normal cost associated with them that went up.

25 COMMITTEE MEMBER JELINCIC: Okay. So dollar-wise

1 it's about what we had estimated a year ago?

2 CHIEF ACTUARY MILLIGAN: Yes.

3 COMMITTEE MEMBER JELINCIC: Thank you.

4 CHAIRPERSON COSTIGAN: Mr. Jones.

5 COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.
6 Chair.

7 Yeah, Alan, on the unfunded liability for the
8 plans that are listed that she made -- you made reference
9 to 49.5 or almost 50 million, what's the total unfunded
10 liability for all plans in the system?

11 CHIEF ACTUARY MILLIGAN: So we don't have a
12 figure for that just yet, because we have not completed
13 the June 30th, 2015 actuarial valuations for the local
14 agencies. But we do anticipate that as we indicated in
15 our comprehensive annual financial report, we are
16 expect -- we believe that we will be about 73.3 percent
17 funded once we complete that. And given the level of
18 assets of the system, that implies that we have an
19 unfunded liability of approximately \$110 billion. But I
20 won't have a more accurate figure until after we complete
21 the annual valuations.

22 COMMITTEE MEMBER JONES: Okay. Thank you.

23 CHAIRPERSON COSTIGAN: All right. Any other
24 questions for Mr. Milligan?

25 CHIEF ACTUARY MILLIGAN: No. This is an action

1 item. We do need the Board to adopt the rates.

2 COMMITTEE MEMBER JELINCIC: I'll move it.

3 COMMITTEE MEMBER JONES: Second.

4 CHAIRPERSON COSTIGAN: Moved by Jelincic,
5 seconded by Jones.

6 All those in favor?

7 (Ayes.)

8 CHAIRPERSON COSTIGAN: Opposed?

9 Motion carries.

10 All right. Mr. Milligan, Item 8b, Schools
11 Actuarial Valuation and Employer/Employee Contribution
12 Rate.

13 MS. HOPPER: You have a public comment.

14 CHAIRPERSON COSTIGAN: Oh, I'm sorry. Thank you.
15 Mr. Johnson.

16 COMMITTEE MEMBER JELINCIC: Depending on what he
17 says, I may move to reconsider.

18 CHAIRPERSON COSTIGAN: You've to wave at me Neal.
19 I won't say I'm having a Mr. Jones moment, but it's an
20 after lunch moment.

21 All right. Mr. Johnson, sway the votes. You've
22 got three minutes.

23 MR. JOHNSON: Neal Johnson, SEIU 1000. Actually,
24 I'm not going to argue to change the recommendation. It
25 is what it is. I actually want to thank both Mr. Milligan

1 and Kelly and the other members of the Actuarial Office
2 for their excellent work. I wish some of the numbers were
3 a little better. But one of the things Alan and I had a
4 discussion last week about how some of the demographics
5 are changing, which is a little bit consistent with
6 something we've been -- I've been observing looking at the
7 alternative retirement program over the number of years
8 the sort of turnover of State employees. And I don't
9 think it was -- it's particularly surprising that the
10 number of PEPRA members is growing as fast as it is,
11 because the system seems to churn through a lot of people
12 in the first three to five years of State service, whether
13 that's due to compensation levels or other issues, I'm --
14 I cannot -- I can only venture guesses. I do not have any
15 real data. But mainly want to thank the Actuarial Office
16 for its work. And it sort of shows what good work can be
17 done if you rely on your own staff, as opposed to
18 contracting it out. Thank you.

19 CHAIRPERSON COSTIGAN: Thank you, sir.

20 COMMITTEE MEMBER JELINCIC: And if you want
21 better --

22 CHAIRPERSON COSTIGAN: Hang on, Mr. Jelincic.

23 All right. Next Item, 8b.

24 CHIEF ACTUARY MILLIGAN: And for this item I'm
25 going to have Todd Tauzer, that actuary who worked on the

1 schools valuation present the item.

2 SENIOR PENSION ACTUARY TAUZER: Good afternoon.
3 This item is for the annual valuation for the schools pool
4 as of June 30th, 2015.

5 We are recommending the adoption of the schools
6 employer contribution rate of 13.888 percent for fiscal
7 year 2016/17. Similar to the State, the schools
8 contribution rate is increasing. The rate itself is
9 increasing, but by slightly less than what was projected
10 in last year's annual valuation.

11 The recommended contribution rate results in an
12 expected contribution amount of about 1.7 billion, which
13 is an increase of about 342 million from the prior year.
14 For schools over half of this increase in the employer
15 contribution is due to the recognition of our updated
16 actuarial assumptions that we're recognizing in this
17 schools valuation in particular.

18 While the State, as Kelly mentioned, is in their
19 third and final year of phasing in these new assumptions,
20 for the schools pool. We are recognizing the assumption
21 change in the same contribution year as we are for public
22 agencies, which is the '16/'17 contribution year.

23 This cost includes both the full change in the
24 normal cost and the first year of the unfunded liability
25 contribution increase, which will be phased in over five

1 years. After implementing this -- the change in
2 assumptions for the schools pool, the schools PEPRA normal
3 cost is three-quarters of a percent higher than the base
4 normal cost for PEPRA members. So what this means for
5 schools PEPRA members is we will not be seeing any
6 employee increase due to the adoption of the new actuarial
7 assumptions.

8 A large increase in payroll, along with the
9 State, also cause expected contributions to increase
10 significantly. So those are really the two -- when we're
11 talking about dollar contributions, the two main factors
12 is the assumption change and then the large increase in
13 payroll.

14 And finally, with unfavorable investment return
15 for the prior fiscal year, the schools market of assets
16 remains about the same -- market value of assets remains
17 about the same as last year at 56.8 billion. With an
18 accrued liability of 73.3 billion, this leaves us with an
19 unfunded liability of 16.5 billion, and a funded status of
20 77.5 percent.

21 Similar to the State plans, the valuation report
22 for the schools is expected to be prepared in made
23 publicly available around the beginning of summer, and it
24 will include assumptions, methods, and participant data,
25 which we used to generate the valuation.

1 And with that, I'd be happy to answer any
2 questions you may have.

3 CHAIRPERSON COSTIGAN: You must have done an
4 excellent job, as there are no questions.

5 SENIOR PENSION ACTUARY TAUZER: Great.

6 COMMITTEE MEMBER JELINCIC: I'll move it.

7 COMMITTEE MEMBER JONES: Second,

8 CHAIRPERSON COSTIGAN: So it's been moved by
9 Jelincic, seconded by Jones.

10 All those in favor?

11 (Ayes.)

12 CHAIRPERSON COSTIGAN: Opposed?

13 Motion carries.

14 Thank you. Thank you.

15 All right. Mr. Milligan, one more item, Item 8C.

16 CHIEF ACTUARY MILLIGAN: And so for this item,
17 I've asked Scott Terando, our Interim Deputy Chief
18 Actuary, to present the item.

19 Scott.

20 INTERIM DEPUTY CHIEF ACTUARY TERANDO: Thank you.

21 This agenda item is the second reading of staff's
22 consolidation of two actuarial policies, the Actuarial
23 Cost Method Policy and the Actuarial Amortization Policy.
24 The Actuarial Cost Method Policy consolidates two Board
25 policies, the Funding Method Policy, and the funding

1 method for survivor benefits program.

2 For the Amortization Policy, it's a consolidation
3 of four items, two Board policies, one Board-approved
4 guideline, and one Actuarial Office directive. For the
5 proposed amortization policy, there's been one change from
6 the initial reading. In the first reading, plan changes
7 were inadvertently including a ramp-up in the cost
8 allocation. And in the second reading, this has been
9 removed.

10 That concludes our presentation on this item. If
11 you have any questions, we'll take them.

12 CHAIRPERSON COSTIGAN: Okay. This is a second
13 reading.

14 Mr. Jelincic.

15 COMMITTEE MEMBER JELINCIC: On the Actuarial
16 Amortization Policy, page eight, number 12, which is the
17 funding risk mitigation. If you -- as I read that, it
18 basically says give us a little wiggle room in case
19 something freaky happens. Is that a fairly accurate
20 reading of what it really says?

21 CHIEF ACTUARY MILLIGAN: Yes.

22 COMMITTEE MEMBER JELINCIC: Okay. Thank you.

23 CHAIRPERSON COSTIGAN: I think you guys
24 wordsmithed it much better.

25 (Laughter.)

1 CHAIRPERSON COSTIGAN: All right.

2 COMMITTEE MEMBER JONES: Move staff
3 recommendation.

4 CHAIRPERSON COSTIGAN: It's moved by Jones.

5 COMMITTEE MEMBER JELINCIC: But mine is English.

6 CHAIRPERSON COSTIGAN: Seconded by?

7 Is that a second, Mr. Jelincic?

8 COMMITTEE MEMBER JELINCIC: Sure, I'll second it.
9 (Laughter.)

10 CHAIRPERSON COSTIGAN: All those in favor?

11 (Ayes.)

12 CHAIRPERSON COSTIGAN: Opposed?

13 Motion carries. Thank you.

14 All right. Next item is informational. Mr.
15 Milligan.

16 Anything on 9a?

17 CHIEF ACTUARY MILLIGAN: And in keeping with the
18 way I've been doing things so far, I'm going to ask Scott
19 do this one as well.

20 CHAIRPERSON COSTIGAN: Thank you.

21 INTERIM DEPUTY CHIEF ACTUARY TERANDO: This
22 agenda item is the review of the Actuarial Assumptions
23 Policy. It's a first reading and information only. This
24 agenda item consolidates two Board policies, the Actuarial
25 Assumptions Policy and the Adjustment for Actuarial

1 Factors used in the administration of benefit changes.

2 There are no content changes in this policy.

3 It's basically just a rewording into the new policy
4 format. And we continue to have review of actuarial
5 assumptions every four years, and the review of
6 adjustments for service purchase factors.

7 And with that, I'll be happy to answer any
8 questions.

9 CHAIRPERSON COSTIGAN: So just actually one --
10 Ms. Eason, one question, we're not going to be meeting for
11 two months? I just want to make sure there's no concern
12 with -- while, this is a first reading, our second reading
13 may not be for...

14 CHIEF FINANCIAL OFFICER EASON: That's right.
15 The next scheduled meeting for Finance and Administration
16 is September.

17 CHAIRPERSON COSTIGAN: Okay. Does that work for
18 you?

19 CHIEF ACTUARY MILLIGAN: Given that there's not
20 substantive changes -- no real substantive changes in this
21 policy. Our current policies can certainly last until
22 then.

23 CHAIRPERSON COSTIGAN: We may have a short
24 meeting between now and then just to clean up some of this
25 stuff that's hanging out there.

1 All right. Any other questions?

2 All right. Thank you.

3 Oh, Mr. McKeever.

4 DEPUTY EXECUTIVE OFFICER McKEEVER: Good
5 afternoon, Mr. Chair, members of the Committee. Doug
6 McKeever, CalPERS staff.

7 To be brief, I'm going to ask Gary McCollum to
8 report on this agenda item.

9 SENIOR LIFE ACTUARY McCOLLUM: Good afternoon,
10 members of the Board. I'm Gary McCollum, CalPERS staff.

11 This is an information item, Agenda Item 10a, the
12 semi-annual self-funded health plans report. In the past,
13 this report provided the Committee with an update on the
14 financial status for just the self-funded PPO health
15 plans. But beginning in 2014, we added several new HMO
16 plans, and we flex-funded them. These plans provided
17 coverage for over 22,000 lives in 2014. And in 2015, the
18 year of this report, the enrollment in these plans has
19 increased to almost 66,000.

20 Excuse me.

21 This report summarizes the 2015 financial reports
22 for the HMO plans, except in Kaiser, which is not
23 flex-funded, and for the PPO plans.

24 So Attachment 1 is the summary -- it summarizes
25 the results for the PPO plans. Actual reserves above the

1 actuarial reserve requirements are 71.2 million. Overall,
2 we have a ratio of assets to reserves of 114 percent.
3 Now, that's down from 2014's number, where it was 134
4 percent.

5 Pharmacy claim costs for the basic plans improved
6 from double digit increases in 2014 to actually low single
7 digits in 2015. The Medicare plans, the pharmacy claims
8 costs, moderated slightly, but they continued to be in the
9 low -- or, excuse me, high single digit, low double digit,
10 around 10 percent or so. And as you've heard many times
11 before, specialty drugs continue to fuel that increase.

12 Enrollment in the PPO plans increased by 1.5
13 percent, so not much. We do risk adjust the PPO plans,
14 which caused a large decrease in the PERSCare rate
15 starting in 2014. And that has caused an enrollment
16 shift. PERSCare continues to increase. They now have
17 almost 26,000 members. PERS Choice has remained quite
18 stable, and PERS Select basic has decreased by about 10
19 percent from where it was.

20 So now for the HMO plans. In the funding
21 arrangement that started in 2014, we retained the premium
22 here at CalPERS. We pay out the capitation payments and
23 then the remainder of the money is received deposited into
24 the Health Care Fund and is used to pay the administrative
25 expenses and the fee-for-service claims when the plan

1 submits an invoice.

2 For calendar year 2015, the assets for the HMO
3 plans totaled about \$70 million. That's an improvement
4 from the negative asset position that existed at the end
5 of 2014. But the two Blue Shield basic plans are still
6 experiencing unfavorable claims experience. The other
7 plans are all showing positive results for 2015.

8 Medical and pharmacy claims costs are shown on
9 pages five through eight of the attachment. And I
10 apologize, because in the agenda item itself, it had a
11 misstatement on which pages they were on.

12 The variation in claims costs reflect the
13 demographics of the population covered, and the regions
14 that they live in. And the plans are still experiencing
15 significant enrollment changes, which makes analysis of
16 claims costs difficult to in interpret.

17 So that concludes my report. I'll be happy to
18 answer any questions.

19 CHAIRPERSON COSTIGAN: So I just have one
20 question perfect we get to Mr. Jelincic. Did the mergers
21 have any impact, the Anthem merger or the Health Net
22 merger, on this program?

23 DEPUTY EXECUTIVE OFFICER McKEEVER: No.

24 CHAIRPERSON COSTIGAN: Okay. All right. That's
25 very succinct, Mr. McKeever. Thank you.

1 Mr. Jelincic.

2 COMMITTEE MEMBER JELINCIC: A couple of
3 questions. The medical claim -- this is in the agenda
4 item, page two of three, medical claims costs are
5 currently exhibiting higher than expected trends in Care
6 basic. Do we have any idea why or is it early enough that
7 it's just -- it could be a fluke?

8 SENIOR LIFE ACTUARY McCOLLUM: No, we don't know
9 for sure. It's probably a combination of the enrollment
10 that moved in 2015 was less young than what moved in
11 2014 -- less young and less healthy, so that we didn't get
12 quite as good a demographic profile in 2015 as we
13 projected. And then we might have had some additional
14 claims that just occurred. I don't know for sure.

15 COMMITTEE MEMBER JELINCIC: Okay. And then the
16 risk adjustment, you know, we have encouraged people to
17 move into Care and out of Select and Choice. So we're
18 seeing that movement. So we're encouraging people to go
19 into the higher benefit structure, the higher cost
20 structure. When we look at risk adjustment, are we
21 considering the difference in the benefit structure as
22 well?

23 SENIOR LIFE ACTUARY McCOLLUM: Definitely.

24 COMMITTEE MEMBER JELINCIC: Then do we have any
25 sense why we're driving people the way we are, as a large

1 a numbers as we are?

2 SENIOR LIFE ACTUARY McCOLLUM: Well, I would say
3 that we're not driving people there. The effect of the
4 risk adjustment is driving people. And what it's doing is
5 creating a price differential between Care and Choice that
6 reflects the benefit differential.

7 COMMITTEE MEMBER JELINCIC: And yet, we have --
8 with the risk adjustment, we've increased the cost of
9 Choice and Select and reduced the premium for Care.

10 SENIOR LIFE ACTUARY McCOLLUM: Correct.

11 COMMITTEE MEMBER JELINCIC: Which would seem to
12 move contrary to where we actually want to move people.

13 DEPUTY EXECUTIVE OFFICER McKEEVER: Mr. Jelincic,
14 if I may jump in here. When we started risk adjustment
15 back in 2014, there was a recognition that by not risk
16 adjusting the prior 50 years, that there was an imbalance
17 already inherent between the Care, Choice, and Select
18 products. And so we've been self-correcting that over the
19 last couple of years. So what you're truly seeing now is
20 what that risk is reflective of with those members who are
21 currently in those plans. And those cost points are
22 reflective of that as well.

23 So on the face, it looks like it's
24 counterintuitive, and we're driving folks. But as Gary
25 mentioned, the plan differential or the benefit design is

1 taken into consideration with risk adjustment as other
2 variables are as well. We're hoping as the population
3 stabilizes in all of our health plans that you're going to
4 see a lot of this fluctuation minimize, especially when it
5 comes to members moving in and out of various plans.

6 COMMITTEE MEMBER JELINCIC: Okay. And I do
7 recognize that when PERSCare was the only one without a
8 cap -- lifetime cap, it really did encourage everybody,
9 who had really high bills, to move there, because they
10 were bumping up against the cap.

11 And, in fact, administratively, as people
12 approached the cap, we moved them. So it really did
13 create a distortion.

14 SENIOR LIFE ACTUARY McCOLLUM: And if you
15 remember in the years leading up to 2014, there was a
16 concern that PERSCare was entering a death spiral. So
17 whether it was intentional or not, that death spiral has
18 been terminated and PERSCare now has a fairly healthy
19 population of about 26,000 lives. The average age in
20 PERSCare, which was up in the mid to high 50s has also
21 gone down as younger lives have moved into it.

22 COMMITTEE MEMBER JELINCIC: And, you know, I
23 would just encourage people to pay attention to some of
24 the Shield numbers, because we're going to have to deal
25 with that at some point.

1 Thank you.

2 CHAIRPERSON COSTIGAN: Mr. Cobb.

3 ACTING COMMITTEE MEMBER COBB: I just want us to
4 make sure and be vigilant over the reserving in PERS
5 Choice basic, just because it's such a large portion of
6 the whole PPO program. And it's -- it is adequately
7 reserved, but no longer has an excess. I just want us to
8 be vigilant to how that plan is doing.

9 SENIOR LIFE ACTUARY McCOLLUM: Yes, that's very
10 much in our sights.

11 ACTING COMMITTEE MEMBER COBB: Thank you.

12 CHAIRPERSON COSTIGAN: Mr. McKeever, anything
13 else? Mr. McCollum?

14 DEPUTY EXECUTIVE OFFICER MCKEEVER: No.

15 CHAIRPERSON COSTIGAN: No other questions.

16 All right. Thank you.

17 Mr. Pacheco.

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

20 CHAIRPERSON COSTIGAN: And this will be the last
21 item. If there's anybody public comment, please fill out
22 the form, otherwise we are almost done.

23 Okay. I know I've got the item to go back to.

24 DEPUTY EXECUTIVE OFFICER PACHECO: Good
25 afternoon, Mr. Chair and members of the Committee. Brad

1 Pacheco, CalPERS staff.

2 I am please to be here before you to present the
3 final report of our Stakeholder Assessment Project. And
4 your materials, you have the agenda item and a much longer
5 presentation. I plan to just touch on a few slides that
6 represent the more significant findings.

7 --o0o--

8 DEPUTY EXECUTIVE OFFICER PACHECO: Just by way of
9 background, CalPERS has been engaged in a three-year
10 project to review and assess the views of our stakeholders
11 on our reputation and our credibility. You'll remember
12 this work was the direct result of our Board's Governance
13 Projected six years ago that identified reputation as a
14 key risk for the organization

15 So for the last three years, we've been using
16 both quantitative and qualitative methods to assess
17 CalPERS standing and perception among our stakeholders.
18 This has included an on-line survey, where we send a
19 survey to 50,000 active and retired members. We send the
20 survey to all of our employers and to all CalPERS staff.

21 We also have been conducting interviews with our
22 key stakeholder groups. These are leaders of our member
23 and employers associations, legislative staff, our pension
24 peers, academics, and taxpayer groups. And finally, we've
25 been doing a media analysis as part of this project.

1 --o0o--

2 DEPUTY EXECUTIVE OFFICER PACHECO: So in the
3 final phase of the survey, we continue to see opinions
4 rise among both our employers and our members. There were
5 no downward trends in any of the 48 topic areas that we
6 measured.

7 --o0o--

8 DEPUTY EXECUTIVE OFFICER PACHECO: In this slide
9 that you see here, these are the responses of the eight
10 questions that we've asked consistently over the course of
11 the project, and actually even before that. And this view
12 shows the responses of our members during this phase. And
13 you'll see that seven of the eight have shown increases or
14 have remained high. We've seen positive movement in
15 customer service, confidence in the System, and confidence
16 in the answers members receive from the System.

17 The one area that continues to be an area of
18 opportunity, as much as we communicate, our members would
19 like to see more communication.

20 --o0o--

21 DEPUTY EXECUTIVE OFFICER PACHECO: In this next
22 slide, it's the same view, but now these are our responses
23 from our employers. And again, all but one area has shown
24 significant increase since the start of the project,
25 especially in the areas of customer service, and the

1 services that we are delivering our employers.

2 And just as you'll notice as it was with our
3 members, the area of communication continues to be an
4 opportunity for our employers as well. I was asked by one
5 member of the Committee why the scores were so
6 significantly low in the second column there around
7 customer service back in 2013. And I just would remind
8 the Committee that in September of 2012, we launched
9 my|CalPERS. And you'll recall that while the system was
10 stabilizing, we did have some customer service issues, and
11 that's reflected in that score. But the good news is the
12 score has dramatically increased since that time.

13 --o0o--

14 DEPUTY EXECUTIVE OFFICER PACHECO: And it looks
15 like -- let me just -- so we interviewed over 111
16 stakeholder groups during this last phase. Overall, the
17 perceptions of the Board and the senior leadership team
18 remain good. The organization is viewed as an effective
19 advocate and positive force in its commitment to defined
20 benefit plans.

21 We did see a slight decrease due to concerns over
22 Board experience, and some of the vacancies that have
23 happened in key leadership positions. And just as we are
24 focused on long-term sustainability of the System, our
25 stakeholders are equally concerned about the long-term

1 sustainability of the System, and they have a range of
2 views on that topic.

3 --o0o--

4 DEPUTY EXECUTIVE OFFICER PACHECO: In the area of
5 the media, we did see more favorable media coverage in
6 this last phase. Disclosure of our private equity fees
7 boosted our ratings, and we also were given credit with
8 CalPERS adoption of our Risk Mitigation Strategy. The
9 best coverage that we saw during this phase was around the
10 reduction of costs and complexity in our investment
11 portfolio.

12 --o0o--

13 DEPUTY EXECUTIVE OFFICER PACHECO: In this slide
14 here, you'll see that consistently there's been three
15 primary recommendations to enhance our reputation that
16 came out of this project: Down the left-hand side,
17 increasing the visibility of our leaders, improving the
18 customer service and communication with members and
19 employers, and also identifying more outreach and
20 engagement opportunities.

21 The right-hand side of this slide is how we
22 responded to these findings. And as you know, we've
23 instituted visits with key employer groups, some of our
24 largest groups. We have dialogues and employer response
25 team that's been very effective. And we have

1 is, we want to streamline the survey. Today, we asked
2 about 60 questions, which is in best practices quite a
3 bit. We want to continue to ask those long-term trend
4 questions that you saw, and maybe a few others that relate
5 to our strategic plan, our issues that we may be dealing
6 with at the time.

7 We'd like to perform this work internally and
8 reduce the cost and reliance on our external consultants.
9 When this project first started, we were administering the
10 survey twice a year. And not much changes every six
11 months. So we're recommending that we perform the survey
12 on an annual basis to avoid survey fatigue as well.

13 And finally, we want to partner with our internal
14 programs, like our audits program and research, to ensure
15 the integrity and objectivity of the survey, as well as to
16 help perform the analysis.

17 So with that, Mr. Chair, that concludes my
18 presentation. I'd be happy to answer any questions.

19 CHAIRPERSON COSTIGAN: Mr. Jelincic.

20 COMMITTEE MEMBER JELINCIC: Yeah. Brad, we had
21 talked about this. And you -- on the recommended
22 structure, you're proposing to eliminate the media
23 analysis and State and federal representative interviews.
24 Those are -- what people think is going on, which is what
25 the media presents, may or may not be accurate, but it is

1 what people react to. And so you want to expand on that a
2 little bit?

3 DEPUTY EXECUTIVE OFFICER PACHECO: Sure, I'm
4 happy to. So you're right, we are recommending that we
5 eliminate the media analysis, but I should have been
6 clear. It's eliminate the media analysis from the work
7 that the consultant has been performing, because we felt
8 it's duplicative of what we're already doing internally.

9 So we'll still continue to do the media analysis
10 and it will be part of this ongoing project, but it just
11 won't be done through an outside consultant.

12 The second piece is we have struggled to get good
13 response from interviews at the federal level. They don't
14 view themselves as a stakeholder of ours. And so we've
15 actually eliminated that in this last phase. We're
16 recommending that we eliminate that going forward and use
17 other vehicles, like our federal lobbyist, to gauge the
18 reputation and relationship with CalPERS, as opposed to
19 trying to do it through this survey.

20 COMMITTEE MEMBER JELINCIC: Thank you.

21 CHAIRPERSON COSTIGAN: Ms. Paquin.

22 ACTING COMMITTEE MEMBER PAQUIN: Thank you.

23 Thank you for the report. I have a -- I was curious with
24 the modifications that you're suggesting and bringing more
25 of the work in-house, what is the estimated cost

1 reduction?

2 DEPUTY EXECUTIVE OFFICER PACHECO: So the
3 three-year project cost approximately \$350,000 utilizing
4 two consultants over those three years. The work will be
5 performed internally, so going forward we would just
6 estimate it would be staff time to perform the work.

7 ACTING COMMITTEE MEMBER PAQUIN: Thank you.

8 CHAIRPERSON COSTIGAN: All right. So just a few
9 observations. First of all, great report Mr. Pacheco.

10 So first, on the Washington D.C. external and
11 reputation, and not only relying on folks like K&L Gates.
12 But I do -- what I do want to point out is look at the
13 people that want to do business with us. So, I mean, from
14 a standpoint of while the feds may not have time for us,
15 the fact that every time we put out an RFP or something,
16 you have people flock.

17 So I don't know how we measure that, but when you
18 look at -- it partly is who do I chose as my client and
19 who do my -- and who do the clients choose as their
20 representative. So I think from a standpoint, if you look
21 at who we do business with is a good reflection of the
22 organization.

23 I want to give credit to Mr. Jones and Mr.
24 Feckner, when you talk about reputation and engagement, I
25 heard you all were around the building recently. So there

1 are no secrets. So from the standpoint that you guys are
2 doing a Fantastic job.

3 Brad, you and your team, you know, everywhere I
4 bump into, since we're sort of in the same world at times,
5 you guys are doing a fantastic job. I hear the engagement
6 both from a staff standpoint and from a legislator's
7 standpoint has been great.

8 Mr. McKeever, just again, when I hear from some
9 of the external stakeholders back on your engagement and
10 what you have been doing meeting with opponents on some of
11 the measures out there, and the proponents, just excellent
12 work.

13 I will say, just wanted to go through since --
14 and touch base on it. Your social media, you guys
15 continue to do a fantastic job. When I look at sort of
16 the downside on the communication aspect, I don't know
17 what more really we could be doing. You utilize YouTube,
18 our meetings are webcast, we make everything available,
19 there are email subscribers lists. At some point, the old
20 proverbial, you can lead a horse to water, but can't make
21 them drink.

22 We may have to just recognizes there's only so
23 much we can do, because I look at every channel that you
24 and your staff have tried to do, and what we make
25 available, and I know what other members of this Board put

1 out, we're doing our best. We've seen the curve increase
2 in the social media aspect.

3 I was back east last week, speaking at a
4 conference to Ms. Stausboll to the work that she does to
5 Ceres and all of you all, it was very interesting. I was
6 with the New York Comptroller. And it was great to be
7 able sit in a room and have them talk about it, but hear
8 how great CalPERS was. And just a fantastic job. And I
9 know oftentimes as we sit here in Sacramento, we don't
10 hear that.

11 I had the opportunity to visit with about a half
12 dozen to a dozen CIOs from other states. You guys are all
13 doing a fantastic job. And it was just an honor for me to
14 go back there and represent the System.

15 Donna on the customer service side, again, as we
16 look back on that one, I understand the implementation. I
17 also -- every time I call DMV I email Donna and say, oh,
18 it's a 45-minute wait.

19 So I'd like for us again to put some things in
20 perspective for what the System is doing. We are doing a
21 great job. We hold ourselves to an amazing standard.

22 But when I -- just one sort of small point on
23 DMV, and if DMV is listening, I received my license plates
24 six months ago. Quit sending me license -- or notices
25 that my license is at the Rocklin office. It's not there.

1 At some point, DMV is either going to -- I mean when you
2 look at sort of the customer service experience, DMV has
3 now sent me six notices on a plate that I already have.

4 So again, I just want to give credit to all of
5 you and the staff from the standpoint -- and then just
6 on -- on just overall just on this report. The trends are
7 upward. I mean, we're never going to make 100 percent of
8 people happy. In fact, Mr. Milligan's actions of a little
9 while ago of raising are probably going to make some
10 employers very unhappy. And if I can take it out in a
11 survey, I will.

12 And so from that end, the trends that you and
13 your unit are doing are great. And I don't want us to
14 lose sight that that -- while we may not achieve 100 and
15 we never will, we have a very high bar and you guys are
16 doing a fantastic job. So I know this was a little bit of
17 a laundry list, but it's a team effort. And even with
18 what Investment Office is doing just -- Wylie, just the
19 great work I heard back from -- it was -- it was a
20 pleasure on two points to be in New York to have a hedge
21 fund discussion say great to see everybody following us,
22 we've already exited, and then to have the Comptroller say
23 come to New York and spend money, and so, oh, I already
24 did. We bought a building a month ago.

25 So from that standpoint, just fantastic all

1 around. So Brad, excellent report. I'd like to see more
2 of these. Again, you and your unit are doing a fantastic
3 job of continuing to build the brand.

4 DEPUTY EXECUTIVE OFFICER PACHECO: Thank you.

5 CHAIRPERSON COSTIGAN: So with that, any other
6 comments, questions?

7 Okay. We're going to go back to Item 3b. Mr.
8 Hoffner, you may want to come sit up for a moment, since
9 this is your item. This was an informational item on
10 contracting out.

11 I will say, the issue -- we pulled it for a
12 couple reasons. I have a concern under 3b on the two
13 legal contracts. I have shared a recent ruling from the
14 executive officer of the State Personnel Board involving
15 11 legal contracts that we invalidated. And so I am
16 either -- I'm not going to be voting on this item anyway
17 as Chair, but I have concerns now as it relates to our
18 recent ruling. I've sent the opinion to Mr. Jacobs, and
19 so we will at least need to review, at some point,
20 assuming -- I mean, if the rest of the Committee moves it
21 along.

22 But I just want you all to be aware that Director
23 Ambrose has issued an opinion and there will be a ruling
24 forthcoming. Her decision was appealed to the full board,
25 the full board took it up, and there will be a ruling

1 coming out by our next board meeting that I would
2 encourage you to read as it relates to legal contracts,
3 including the issue of expertise, which was directly
4 addressed, and of which I understand these two contracts
5 are for.

6 So with that, I believe Mr. Jelincic you had a
7 concern.

8 COMMITTEE MEMBER JELINCIC: I have my ongoing
9 continuing concern about the investment contracts. We
10 should hire the staff we need to do it. The argument that
11 we can't pay the salaries in light of 20098 is inaccurate.
12 And the truth of the matter is we're paying the salaries
13 now, so that when we contract out, you know, we're paying
14 those salaries.

15 The other general observation is a number of
16 these contracts seem to be redundant and vague enough that
17 you really can't look at it and say, no, a State employee
18 can't do that, or yes, that is a cost savings. That is an
19 ongoing -- there's nothing new in what I've said, but I
20 continue to be concerned. If we -- if it is more
21 efficient to pay the salaries and bring it in-house, if it
22 is more cost effective, we owe that to our beneficiaries.

23 CHAIRPERSON COSTIGAN: Thank you, Mr. Jelincic.

24 So this is an action item for 3b, our annual
25 contracts. So is there a motion?

1 COMMITTEE MEMBER JONES: Move it.
2 CHAIRPERSON COSTIGAN: Moved by Jones.
3 VICE CHAIRPERSON HOLLINGER: Second.
4 CHAIRPERSON COSTIGAN: Seconded by Hollinger.
5 All those in favor?
6 (Ayes.)
7 CHAIRPERSON COSTIGAN: Opposed?
8 (No.)
9 CHAIRPERSON COSTIGAN: Motion carries.
10 All right. We have no public comment?
11 The Risk and Audit Committee will meet at 2:30.
12 This meeting is adjourned.
13 Thank you, everyone.
14 (Thereupon the California Public Employees'
15 Retirement System, Board of Administration,
16 Finance & Administration Committee meeting
17 adjourned at 2:11 p.m.)
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C E R T I F I C A T E O F R E P O R T E R

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

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration, Finance & Administration Committee 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 25th day of April, 201

JAMES F. PETERS, CSR
Certified Shorthand Reporter
License No. 10063