

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

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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, 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

Mr. Bill Slaton

STAFF:

Ms. Anne Stausboll, Chief Executive Officer

Mr. Matt Jacobs, General Counsel

Ms. Donna Lum, Deputy Executive Officer

Mr. Doug McKeever, Deputy Executive Officer

Ms. Mary Anne Ashley, Chief, Legislative Affairs Division

Dr. Kathy Donneson, Chief, Health Plan Administration

Ms. Jennifer Jimenez, Committee Secretary

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

STAFF:

Mr. Gary McCollum, Senior Life Actuary

Mr. Anthony Suine, Chief, Benefit Services Division

ALSO PRESENT:

Mr. Ivan Carrillo, California Federation of Teachers

Ms. Diane Galo, CVS Health

Ms. Joanne Hollender, Retired Public Employees Association

Mr. Kent McKinney

Mr. Jai Sookprasert, California School Employees
Association

Dr. Richard Sun, Medical Consultant

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

2 CHAIRPERSON MATHUR: Good morning, everyone. I'm
3 going to call the open session of the Pension and Health
4 Benefits Committee meeting to order.

5 First order of business is roll call.

6 COMMITTEE SECRETARY JIMENEZ: Priya Mathur?

7 CHAIRPERSON MATHUR: I'm here.

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: Katie Hagen for
16 Richard Gillihan?

17 ACTING COMMITTEE MEMBER HAGEN: Here.

18 COMMITTEE SECRETARY JIMENEZ: Dana Hollinger?

19 COMMITTEE MEMBER HOLLINGER: Here.

20 COMMITTEE SECRETARY JIMENEZ: Henry Jones?

21 COMMITTEE MEMBER JONES: Here.

22 COMMITTEE SECRETARY JIMENEZ: Theresa Taylor?

23 COMMITTEE MEMBER TAYLOR: Here.

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

1 ACTING COMMITTEE MEMBER LOFASO: Here.

2 CHAIRPERSON MATHUR: And please note for the
3 record that Mr. Lind and Mr. Slaton and Mr. Jelincic are
4 also joining us for the Committee meeting.

5 Next order of business is the Executive Report.
6 Ms. McKeever.

7 DEPUTY EXECUTIVE OFFICER McKEEVER: Thank you,
8 Madam Chair, members of the Committee. Doug McKeever
9 CalPERS staff.

10 Good morning. We've got a full slate of business
11 to take care of this morning. And obviously, we've got
12 two important areas of discussion. One will be the
13 preliminary rates for '17, and then the last item, which
14 is an action item, is the final stage of the pharmacy
15 benefit manager solicitation. So those will be the two
16 heavy lifts for today.

17 I do want to provide us a couple of updates to
18 the Committee on some activities that are going on. One
19 is you may recall that our annual member health statement
20 went out back in March. And it went out to a select group
21 of individuals within CalPERS. And we're hoping to get
22 those results this month. We'll then evaluate those
23 results and then provide feedback on what this year's
24 survey results are telling us.

25 I think it's also worthy, and a great

1 opportunity, to mention that for the first time we are
2 preparing an annual report on the health care system for
3 CalPERS that will be published in -- later this year in
4 and submitted to the legislature in November. We are
5 going to look to build some of the survey results into
6 that particular report as well, so that folks can get a
7 broader -- we can have a broader audience relative to the
8 information, and how it's dispensed, and what our members
9 are thinking about the plans that they're currently in.

10 As you all know, pharmacy continues to be an area
11 where we place a great deal of emphasis, and certainly pay
12 a great deal of attention to, given the past couple of
13 years in which our pharmacy trend has increased, along
14 with all others who are in the same space as CalPERS.

15 I wanted to bring to your attention a couple of
16 areas in which we've been actively engaged. And, in fact,
17 two of these items are noted in the federal health care
18 report that's currently on the consent item, but I thought
19 they were worthy of bringing forward to your attention.

20 The first is our support for the Center
21 Medicare -- Medicare and Medicaid Services for the Part B
22 drug payment model. We're currently a member of the
23 Healthcare Roundtable. The Healthcare Roundtable is made
24 up of State purchasers like CalPERS throughout the country
25 all having similar interests and concerns and questions

1 relative to the health care market, and in this case, on
2 pharmacy in particular.

3 CalPERS signed on to a comment letter that was
4 provided in support of CMS's Medicare Part B drug payment
5 model. Essentially, this is aimed at curbing drug costs
6 in the Medicare program by testing new payment models for
7 medications administered in a physician's office or a
8 hospital outpatient department. The letter was submitted
9 on Friday, May the 6th, and it went to the Secretary of
10 Health and Human Services as well as the CMS Acting
11 Administrator Andy Slavitt.

12 We'll continue to update you on whether or not
13 that gets any traction, but it does at least give you an
14 indication of where we're lending our voice on the
15 national effort in this important area.

16 The second is there's a Campaign for Sustainable
17 Prescription Drug Pricing. And this is a broad coalition
18 of payors, providers, unions, and others who on April 25th
19 released 12 proposals to address the high cost of
20 pharmaceuticals. Included in these are areas on limits on
21 market exclusivity, additional reporting and transparency,
22 and policies to evaluate and reward value.

23 The National Coalition of Health Care and the
24 Pacific Business Group on Health are taking strong
25 leadership roles on this particular issue. And as a

1 reminder, CalPERS is a board member and participant in
2 both of those organizations.

3 Lastly, I want to mention the fact that there is
4 the Drug Price Relief Act on the November ballot. And
5 staff will be bringing in front of you next month our
6 review and assessment of that particular initiative. Of
7 note, you may have heard that last week there was an
8 actual hearing, a joint Assembly and Senate hearing at the
9 State Capitol, in which this particular item was
10 discussed.

11 The Legislative Analyst's Office has also issued
12 its report and we will make sure that we highlight both of
13 those, along with our internal analysis, when we present
14 that to the Committee next month.

15 Madam Chair, that concludes my comments.

16 CHAIRPERSON MATHUR: Thank you. I see no
17 requests to speak, so let's move on to Agenda Item number
18 3, approval of the March 15th, 2016 meeting minutes.

19 VICE CHAIRPERSON BILBREY: Move approval.

20 COMMITTEE MEMBER JONES: Second.

21 CHAIRPERSON MATHUR: Motion was made by Bilbrey,
22 seconded by Jones.

23 Any discussion on the motion?

24 Seeing none.

25 All those in favor say aye?

1 (Ayes.)

2 CHAIRPERSON MATHUR: Motion passes.

3 Agenda Item 4 is a consent item. I've had no
4 requests to pull anything off of consent.

5 So we'll move on to the big issue of the day.
6 Agenda Item number 5, preliminary 2017 health plan rates.

7 DEPUTY EXECUTIVE OFFICER McKEEVER: Thank you,
8 Madam Chair, members of the Committee. For this
9 particular item, I will turn it over to Kathy Donneson and
10 Gary McCollum.

11 HEALTH PLAN ADMINISTRATION DIVISION CHIEF
12 DONNESON: Madam Chair, members of the Pension and Health
13 Benefits Committee, this month we are bringing forward the
14 preliminary unadjusted and risk-adjusted single-party
15 rates for Anthem Blue Cross, Blue Shield of California,
16 Health Net, Kaiser Permanente, Sharp, and UnitedHealthcare
17 basic HMO plans. We are also providing the PERS Choice,
18 PERS Select, and PERSCare basic plan single-party rates,
19 and the Kaiser and United Medicare Advantage plans
20 single-party rates.

21 We are also providing for you the PERS Choice,
22 PERS Select, and PERSCare Medicare Supplement Plan rates.
23 A handout has been provided to members who are present and
24 the audience, and they were available on the back table.

25 Before providing a specific discussion of the

1 2017 rates, I would like to highlight a few changes for
2 the 2017 plan year. Blue Shield will not be providing the
3 NetValue plan in 2017. Members in the Blue Shield
4 NetValue plan will automatically be enrolled in -- to
5 Access+. They then may make a selection otherwise during
6 open enrollment. The annual fee on health insurance
7 providers will not be levied against CalPERS health plans
8 for 2017 as a result of a change within the federal budget
9 and the ACA reinsurance fee sunsets in 2016, and therefore
10 will not be reflected in the 2017 rates.

11 Medicare payments to the health plans are driven
12 in part by the federal government and largely contingent
13 on federal budget adjustments and other costs outside of
14 control of CalPERS. Nonetheless, CalPERS staff continue
15 to analyze those aspects of the Medicare rates that are
16 negotiable in order to minimize the increase in the
17 Medicare trend. We are also providing individual health
18 plan requests for HMO specific county expansions.

19 Now, turning to the 2017 health plan single-party
20 premium handouts, we present the 2017 unadjusted
21 single-party premiums, the 2017 adjusted single-party
22 premiums, and the 2017 regional single-party premiums. I
23 would like to remind the audience that these are
24 preliminary rates and this is an informational item, and
25 that we will continue to develop our work in working with

1 our health plans and our actuaries to provide the final
2 rates in June.

3 For an explanation of the unadjusted and
4 risk-adjusted rates, I will ask our CalPERS Health Actuary
5 to explain the difference. Gary McCollum is to my left
6 and he will discuss the difference between the unadjusted
7 and adjusted rates.

8 SENIOR LIFE ACTUARY McCOLLUM: Thank you, Kathy.

9 Gary McCollum, CalPERS Health Actuary. As you
10 know, CalPERS began risk adjusting rates for the 2014 plan
11 year. Up until this year, CalPERS calculated the risk for
12 the newer plans, in other words Anthem, Health Net, Sharp,
13 and United, by looking at the risk profile of the more
14 established Blue Shield HMOs.

15 Given that the new plans did not have sufficient
16 experience with CalPERS, it was a best practice to use the
17 risk profile of similar, albeit non-identical, plans.
18 This year, for the first time, CalPERS has a sufficient
19 level of claims experience for its newer plans. And in
20 accordance with best practice, and at the recommendation
21 of Milliman, a national leader in risk adjustment and
22 CalPERS risk-adjustment consultant, it is basing each
23 year's -- each plan's risk score off of its own claims
24 experience.

25 Attachment -- I'm sorry, attachment --

1 HEALTH PLAN ADMINISTRATION DIVISION CHIEF

2 DONNESON: We have handed out for this agenda item
3 attachment 1, which has two pages, and attachment 2, which
4 has two pages. For attachment 1, you will see the
5 preliminary health plan rates for the basic single-party
6 rate. And then you will also see the State premiums for
7 the Medicare program. And then in attachment 2, we have
8 provided the adjusted and unadjusted regional rates by
9 specific region.

10 DEPUTY EXECUTIVE OFFICER McKEEVER: Madam Chair,
11 if I may just jump in quickly --

12 CHAIRPERSON MATHUR: Yes.

13 DEPUTY EXECUTIVE OFFICER McKEEVER: -- I also
14 want to note for those who are unable to attend today,
15 these attachments have been posted to our web for access
16 there, and then also they have been emailed to our
17 stakeholder group.

18 CHAIRPERSON MATHUR: Great. Thank you.

19 HEALTH PLAN ADMINISTRATION DIVISION CHIEF

20 DONNESON: In conclusion, staff will continue to monitor
21 the medical and pharmacy claims trends to identify
22 possible improvements in the single-party premiums by
23 June. Also, at the conclusion of the pharmacy benefit
24 management procurement and selection, staff will have
25 final pharmacy pricing figures for those plans whose

1 pharmacy is currently managed by our current PBM.

2 Over 486,000 members use pharmacy services
3 provided by CVS through the PERSCare, Choice, and Select
4 plans, and the Anthem, Health Net, and Sharp, and
5 UnitedHealthcare HMOs. Once the pharmacy benefit
6 management company has been selected, CalPERS will update,
7 between now and June, the pharmacy portion of premium,
8 which will be part of -- will be part of our June 2017
9 presentation -- I guess it's not 2017, our 2016
10 presentation for the 2017 rates.

11 That concludes my presentation, and we are happy
12 to answer any questions.

13 CHAIRPERSON MATHUR: Thank you. Any questions
14 from the Committee?

15 Mr. Jelincic.

16 BOARD MEMBER JELINCIC: Doug, on page two of
17 three of the items, where you talk about the expansion,
18 you've listed -- you've got a table at the bottom that's
19 got some asterisks. The agenda item didn't define what
20 the asterisk is. Can you share that with us?

21 DEPUTY EXECUTIVE OFFICER McKEEVER: Thank you,
22 Mr. Jelincic an oversight on our part. My apologies. The
23 asterisks represent the fact that those counties are
24 already in the United portfolio. We are adding zip codes
25 within those counties.

1 BOARD MEMBER JELINCIC: Will the entire county
2 be -- now, be included?

3 DEPUTY EXECUTIVE OFFICER McKEEVER: That question
4 I am not able to answer at this point. I don't know if
5 those added zip codes now include the entire county or if
6 it's still partially covered.

7 BOARD MEMBER JELINCIC: Okay.

8 DEPUTY EXECUTIVE OFFICER McKEEVER: We can follow
9 up and provided that to you in June.

10 BOARD MEMBER JELINCIC: Okay. Thank you.

11 CHAIRPERSON MATHUR: Thank you.

12 Any further requests from the Committee?

13 Seeing none.

14 I will ask for public comment at this time. We
15 have two members of the public who wish to speak.

16 Kent McKinney and Joanne Hollender, if you could
17 please come up and take one of these seats over to my
18 left. The mics will be turned on for you. And if you
19 could identify yourself and your affiliation for the
20 record. You will each have three minutes in which to
21 speak.

22 Go ahead, Mr. McKinney.

23 MR. MCKINNEY: Am I first?

24 CHAIRPERSON MATHUR: Please. Yes, go ahead.

25 MR. MCKINNEY: Is the microphone working okay?

1 CHAIRPERSON MATHUR: It's working fine.

2 MR. MCKINNEY: I'm Kent McKinney. I'm a CalPERS
3 retired member and I'm not affiliated with an
4 organization. And I would like to speak on the issue of
5 combination health plans and rates for families that have
6 members in both a Medicare plan and a basic plan.

7 The Board is considering plans and rates for the
8 coming year, and they may choose to continue to offer some
9 of the plans that they did last year. And it looks like
10 they did from the handout I just received, where some of
11 the carriers are only offering one of the plans. For
12 example, the Anthem HMO doesn't have any Medicare plan
13 associated with it.

14 So when considering these rates, my concern is
15 for families that have a current enrollment that's
16 restricted to a certain carrier only because the carrier
17 that they would prefer to choose doesn't have any offering
18 in the other plan. For example, if a basic -- a basic
19 plan under Anthem was good for family members, and then
20 the Medicare recipient in that plan is put into another
21 plan or selects another plan like UnitedHealthcare or
22 Kaiser Medicare Advantage, that currently isn't allowed in
23 the procedures.

24 So as the Board is considering these new plans
25 and rates for next year, I would like to urge the Board to

1 arrange for enrollment procedures to be revised and rate
2 plans provided to allow families to enroll in basic and
3 Medicare plans from two different carriers. I believe
4 that currently the regulatory framework exists for that
5 arrangement. I believe it was passed by the Board and
6 made to regulations in 2013.

7 At this point, forms and procedures and rate
8 plans need to be developed in order to be able to
9 implement that. And then these families with combination
10 enrollments would be able to take full advantage of the
11 full range of plans CalPERS has to offer regardless of the
12 carrier that's providing it.

13 The Board may also want to verify that those
14 regulations are in place from the 2013 framework that was
15 established. Thank you for your consideration.

16 CHAIRPERSON MATHUR: Thank you for your comments.
17 Ms. Hollender.

18 MS. HOLLENDER: Yes. Good morning to all of you.
19 I'm Joanne Hollender, director of health benefits with the
20 Retired Public Employees Association. And I want to thank
21 the Board and the CalPERS health staff for bringing
22 forward health plan rates a month early. We've been
23 waiting many, many years. And I know last year was the
24 first year we did that, and we really appreciate it.

25 And I don't mean to complain, but I believe last

1 year, and my recollection may be off, but I believe we had
2 comparisons with the current health rates so we can see
3 the adjustment up or down or if it's steady. And we can't
4 really see that here. And I know these are preliminary
5 rates, but it would be helpful for us to assess it. I
6 guess we'll all go back and calculate these back in our
7 offices, but it would be helpful for the general public so
8 they can see the changes and also the overall rate
9 increase or decrease or whatever in the various areas.
10 But again, I'm not trying to complain, but I think it's
11 more helpful for us to assess what we're seeing here.

12 The other thing that it would be helpful also if
13 we could find out what the benefit modifications are going
14 to look like for 2017 as well, so that we have some idea
15 of what to expect. I think everybody has been going in
16 the right direction, and I really appreciate that. Doug
17 and your staff, Kathleen, you know, it's really good. I
18 just want to bring these forward, because I think it would
19 be helpful to your membership and to the public watching
20 your meeting.

21 Thank you.

22 CHAIRPERSON MATHUR: Thank you for your feedback.

23 Okay. I see no requests to speak from the
24 Committee, so we will move on to Agenda Item number 6,
25 unless you had anything else on Agenda Item 5?

1 DEPUTY EXECUTIVE OFFICER McKEEVER: No, ma'am.
2 We're ready to move to 6.

3 CHAIRPERSON MATHUR: Okay. Let's move on to 6,
4 Health Care Cost Trends. Yes.

5 HEALTH PLAN ADMINISTRATION DIVISION CHIEF

6 DONNESON: Madam Chair, members of the Committee. This
7 report provides the Board with the status report on the
8 health plan cost and use trends for fiscal year '14-'15
9 compared to the prior three fiscal years. In six months,
10 we will provide the full calendar year trend report. So
11 this is a fiscal year report.

12 I'd like to highlight some specific items related
13 to current cost drivers identified within this report.
14 For the pharmacy, we have experienced double digit
15 pharmacy trends, especially specialty cost trends which
16 continue to drive our overall health cost. Beginning in
17 the fourth quarter of 2014 and continuing into the first
18 quarter of 2015, high cost Hepatitis C drugs, compounded
19 prescriptions, and increasing utilization of certain
20 specialty drugs drove the pharmacy cost trends between
21 fiscal year '14 and '15.

22 Inpatient and outpatient hospitals showed
23 increased cost trends were driven by facility outpatient,
24 and the emergency room use. And I would like to point out
25 that we intend to continue to look at the emergency room

1 for appropriateness of need. And we have already started
2 that work.

3 Inpatient cost trends were a modest three and a
4 half percent, and inpatient utilization trends had no
5 change for fiscal year '14-'15.

6 The decline in the inpatient average length of
7 stay may explain the inpatient hospital trend
8 improvements. There appears to be a spike in mental
9 health cost and use for both HMOs and PPO plans. And this
10 also warrants further exploration with our health plans.
11 Though that increase has spiked, mental health and
12 substance abuse in the overall costs average three
13 percent.

14 In fiscal year '14-'15, the overall PMPM costs
15 increased approximately 6.9 percent, which is slightly
16 lower than the 7.7 percent experienced in the previous
17 fiscal year '13-'14, and it is consistent with what staff
18 are observing currently. This concludes my report and I'm
19 happy to answer any questions.

20 CHAIRPERSON MATHUR: Thank you. Any questions
21 from Ms. Donneson on the health care trend -- cost trend
22 report?

23 I don't see any.

24 So let's move on to Agenda Item number 7,
25 Customer Services and Support Performance Update.

1 Ms. Lum.

2 DEPUTY EXECUTIVE OFFICER LUM: Good morning,
3 Madam Chair and members of the Committee Donna Lum,
4 CalPERS staff. Today I'm reporting on Agenda Item number
5 7, which is an information item. It's our quarterly
6 update on Customer Services and Support performance.

7 Before we get started in the agenda, I just
8 wanted to give you a brief update on what we consider to
9 be a very successful conclusion that is coming related to
10 our CalPERS Education Benefit -- Benefit Education Events.
11 This year, we held eight CBEEs throughout the State,
12 through northern and southern California, and we also
13 added a few rural areas. And so far, we've had about
14 12,000 members who have benefited from our education
15 events.

16 At these events, as you know, they have the
17 opportunity to sit in workshops as well as interface with
18 CalPERS staff one-on-one, and really get a lot of detailed
19 information about their planning for their retirement
20 future.

21 In the upcoming fiscal year, we do have nine
22 CBEEs that are schedule, and for the public and those that
23 are interested. We have all nine of them listed on the
24 CalPERS website. So you're welcome to go to
25 www.calpers.ca.gov. And under the events tab, you'll be

1 able to see all of the CBEEs that are listed. We do have
2 our final CBEE, which is going to be this Friday and
3 Saturday up in Redding. And thus far, we have about 1,200
4 members that are already signed up to attend.

5 And as always, I know that the staff greatly
6 appreciates those of you that are able to stop by at one
7 of the CBEEs, and I know many of you have. So we do enjoy
8 your visits.

9 But also in addition to the CBEEs, you know, we
10 recognize that member education is extremely important for
11 our members, whether they're in the mid-cycle mid-year --
12 of their careers or whether they're heading towards
13 retirement. And so I just wanted to remind everyone that
14 in addition to these Benefit Education Events, we do have
15 a robust offering of other education that we provide to
16 our members. And so included in that is we do have our
17 instructor-led training classes that are held at all of
18 our regional offices. We do go on-site, as requested by
19 employers, to provide specific employer type of
20 information -- or, excuse me, education to their
21 employees. We attend numerous associations' conferences.
22 We provide webinars, and we do a lot in terms of our
23 computer-based training.

24 So I just wanted to make sure that for those of
25 you that are interested and participating in any of these

1 events, and I know that in our audience we have a lot of
2 associations that have members that may be interested,
3 that you are aware that we do have these other educational
4 offerings.

5 Now, I'd like to introduce Anthony Suine who will
6 walk you through our third quarter performance. And I'd
7 like to say again that overall the customer service
8 experience and overall customer service performance
9 continues to be very strong. And we do have, as we always
10 have, additional opportunities to identify in areas of
11 additional improvement. And we do have a number of
12 projects that are underway this year and in the upcoming
13 year business plan that will address our -- these areas of
14 opportunity.

15 But consistent with our methodology that was
16 approved by the Committee, we generally, in this report,
17 are going to be reporting on what we call exceptions. And
18 these are areas where our customer service level has
19 fallen below our established targets. And so we just want
20 to make sure that we're consistent with that reporting.
21 And Anthony is going to give you the update on that.
22 Thank you.

23 BENEFIT SERVICES DIVISION CHIEF SUINE: Thanks,
24 Donna.

25 CHAIRPERSON MATHUR: I'm sorry. Before we move

1 to Anthony Suine, we have a question from the Committee I
2 think on the CBEEs. Sorry. One minute.

3 Mr. Jelincic, go ahead.

4 BOARD MEMBER JELINCIC: Yeah. I was at the
5 Oakland event. And one of the things that was impressive
6 is there were people lined up at 7:30 in the morning,
7 which surprised me, surprised staff, quite frankly. But
8 it really was very well received. Although, I did notice
9 that it fell off Saturday afternoon, something about a
10 conflict with some playoff game.

11 (Laughter.)

12 BOARD MEMBER JELINCIC: So you may want to
13 consider playoff games when you schedule the next ones.
14 But it was an amazing event.

15 DEPUTY EXECUTIVE OFFICER LUM: Thank you very
16 much for that feedback. I will add one comment. As we
17 were watching the registration for the Oakland CBEE, it
18 was far exceeding what we had originally anticipated in
19 terms of attendance. And so in conjunction with the
20 Customer Service team as well as Stakeholder Relations
21 event management, and Public Affairs, we did some real
22 quick last minute changes working with the venue to ensure
23 that we could have adequate space and take advantage of
24 everything that that venue had to offer to be able to
25 accommodate the attendance. So thank you very much for

1 the observation.

2 CHAIRPERSON MATHUR: Thanks. Okay. Now proceed.
3 Thanks, Mr. Suine.

4 BENEFIT SERVICES DIVISION CHIEF SUINE: Thank
5 you. Good morning, Madam Chair, members of the Committee.
6 Anthony Suine, CalPERS staff. I wanted to take an
7 opportunity to share some customer service highlights in
8 the last quarter for our Customer Services and Support
9 Branch.

10 I want to first focus on our strategic measures
11 and those which fell below our established thresholds.
12 The first is in the area of death benefit payments. And
13 as I've mentioned before, we have two types of death
14 benefit payments we make: Those that are ongoing monthly
15 payments which are more critical to keep typically a
16 surviving spouse with an ongoing benefit stream, as well
17 as health benefits; and, the other are lump sum death
18 benefits that are paid to a designated beneficiary.

19 So when our volumes are excessively high, we
20 focus on those critical monthly payments and we have been
21 meeting our service levels ongoing in those areas.

22 However, in the lump sum death benefit areas, our
23 service levels have fallen below our established goals.
24 The reason is because of an ongoing increase upwards of 25
25 percent in the reported number of deaths. And that is --

1 it doesn't seem to be decreasing at any point in the
2 future.

3 We have mitigated this by submitting a formal
4 budget request, asking for seven new positions in our
5 death benefits area to handle this ongoing workload, and
6 you were gracious enough to approve that.

7 And so as we ramp up these new staff, hiring them
8 typically in July and getting them trained, we feel we can
9 return to normal processing levels.

10 As reported last quarter, we also have a
11 strategic goal on customer satisfaction surveys. And I
12 reported last quarter on our payroll reporting process
13 survey, which was below the threshold. And that continues
14 to remain at about 85 percent, which is our -- below our
15 established goal of 90 percent. And this is reporting the
16 satisfaction of our business partners with reporting
17 payroll to us.

18 And while 85 percent is still a great number, we
19 do look at their comments and figure out what their needs
20 are. And we have made several improvements, some that
21 have just recently went into production and others that
22 are queued up. And we believe once those get into
23 production a bit and we have some time to issue future
24 surveys we'll see those numbers exceed our 90 percent
25 satisfaction goal.

1 In addition to our strategic measures, we're also
2 measuring our other business processes for timeliness.
3 And one area I wanted to point out in our customer contact
4 center, we have two areas of focus, and that is our call
5 wait times, and our responses to secured messages that our
6 members send us. In the first quarter -- or in the last
7 quarter, those measures fell below our desired thresholds.
8 As noted in the agenda item, the beginning of the year
9 typically results in high call volume. And the call
10 center also experienced a large number of vacancies and
11 onboarding during this period.

12 So we feel with the staff that has hired and our
13 peak periods kind of stabilizing, we will return to normal
14 service levels. And April has already returned us to
15 normal service levels in this area.

16 Also, our processing of service credit purchase
17 requests has dipped below our desired level in the last
18 quarter. We are attributing this -- as Donna mentioned
19 how successful our Benefit Education Events are, we
20 believe that we are further educating our members on the
21 types of service credit that are available to them to
22 increase their benefit, as well as how to submit that.
23 And it's resulted in a 20 percent increase in our
24 applications in this area.

25 We're utilizing overtime, we're filling vacancies

1 quickly, and we are going to continue to monitor that
2 workload as we go forward hoping to return to normal
3 service levels very soon.

4 I also wanted to point out some enhancements. As
5 Donna mentioned, we're continuously looking for areas of
6 enhancements. We have a functional optimization project
7 that looks at our my|CalPERS system, and any enhancements
8 we can make in that area. And one of those recent
9 enhancements, as we've talked about before, is our ability
10 for our member health statements to be delivered through
11 member self-service.

12 And by June, our system will be enabled for
13 on-line distribution of these health statements in time
14 for our 2016 open enrollment period. And while this
15 enhancement will reduce the cost of printing and sending
16 those open enrollment materials, more importantly, it will
17 increase our flexibility and timeliness of delivering
18 these statements, and ultimately improve our customer
19 service.

20 As a reminder, all our members have the ability
21 to opt-in to receive a paper statement via the mail. And
22 we also are continuing to work with our retiree
23 stakeholders on their concerns with this transition and
24 are assisting them with any communications, as needed or
25 requested.

1 And besides our system enhancements, our business
2 plan also calls for looking at other opportunities to
3 improve customer service. And one such initiative we have
4 is called event triggered outreach. And this is where we
5 look to target certain customer bases with retirement
6 information critical to where they are in their career
7 path.

8 One of our recent efforts saw us mail over 9,000
9 of these postcards to our members who became eligible to
10 retire in the last six months, based on their age and
11 service credit.

12 And by identifying these type of milestones, we
13 empower our members to take the appropriate actions at the
14 right time for their retirement education.

15 That concludes my update, and I'm happy to take
16 any questions.

17 CHAIRPERSON MATHUR: Thank you.

18 Mr. Jelincic.

19 BOARD MEMBER JELINCIC: Yeah, one of the
20 exceptions you reported on was payroll reporting. And
21 you've made some enhancements. You believe we've got an
22 upward trend. What is payroll reporting?

23 BENEFIT SERVICES DIVISION CHIEF SUINE: Yeah. So
24 this is where our business partners, our employers go
25 on-line through my|CalPERS and submit their contribution

1 and payrate data to us. And so every time they do that
2 submission on a monthly basis, they receive a survey
3 asking them how the process was for them, do they have any
4 comments on how we could improve that information? And
5 their satisfaction has been 85 percent.

6 BOARD MEMBER JELINCIC: So what's the
7 enhancements we've made?

8 BENEFIT SERVICES DIVISION CHIEF SUINE: So base
9 on their comments, they would like a little -- they would
10 like some additional reporting mechanisms, where they can
11 run reports to view their members who are potentially
12 not -- who are active who they may have as a separated or
13 on a leave of absence, other ways to calculate their
14 contributions. And so -- and an easier flow to the
15 process. So we're responding to those inquiries by making
16 those changes for them.

17 BOARD MEMBER JELINCIC: Thank you.

18 CHAIRPERSON MATHUR: How do we use demographic
19 and mortality data to predict when we're going to see
20 increases in need for services, and thereby sort of avoid
21 the risk of a deterioration in service levels by acquiring
22 those resources in advance?

23 BENEFIT SERVICES DIVISION CHIEF SUINE: Yeah. So
24 we use a lot of business intelligence data. We work with
25 our IT department to run queries. We're getting better at

1 that, so we can be more proactive rather than reactive.
2 But at certain points, you don't want to always ask for
3 the resources right up front. You try to mitigate it with
4 overtime or improved processes.

5 But when it becomes an ongoing trend, and in this
6 most recent FBR, where we asked for the seven positions in
7 the death example, we looked at the current population of
8 retirees, and looked at the average age of death, and
9 those that were in that at-risk area to see does this look
10 like an ongoing trend?

11 So that type of data helped us knowing, look,
12 this isn't going to decrease anytime soon. So we continue
13 to look at that type of data to help us be more proactive.

14 CHAIRPERSON MATHUR: Okay.

15 DEPUTY EXECUTIVE OFFICER LUM: I would add to
16 that also similarly in the area of the contact center. So
17 we know the business cycles. We know when the high volume
18 is expected for retirements, and we know what happens in
19 terms of annual cycles for taxes, and COLA, and those
20 types of things. So rather than augmenting the resources
21 with permanent ongoing staff for those high peak areas,
22 because we recognize that at certain other times of the
23 year, we would then be overstaffed, because we don't have
24 the same volume. We do have a lot of mitigation measures
25 that are in place where we utilize internal resources that

1 have existing knowledge in those areas. And they're very
2 good at redirecting those -- you know, whether they're
3 trainers or quality assurance or other parts of the
4 outreach -- Customer Service Outreach Division to mitigate
5 during those periods of time.

6 We pride ourselves obviously in the call wait
7 time, because we have a very aggressive goal in terms of
8 the target itself. In previous years, we'd seen wait
9 times beyond five to ten minutes during that period of
10 time. So the fact that we've done a lot of streamlining,
11 a lot of good training, and we have a lot of tools in
12 place to be at a three minute wait time during these high
13 peak periods, I think is still a pretty satisfactory level
14 of customer service.

15 CHAIRPERSON MATHUR: Sure. No, I think it is.
16 It's probably better than many who are offering customer
17 service out there.

18 Okay. Thank you. That's helpful.

19 Mr. Jones.

20 COMMITTEE MEMBER JONES: Yeah. Thank you, Madam
21 Chair. On the transition of our health statements to
22 on-line delivery, a mailing has already gone out, and do
23 we have any sense of responses at this stage, and two,
24 when is the deadline, and three, what happens if someone
25 doesn't meet the deadline and have the desire to change

1 after that?

2 BENEFIT SERVICES DIVISION CHIEF SUINE: Sure, I
3 can answer those. So far, we've had 11 percent of the
4 population of our health members opt in to receiving a
5 paper health statement mailed to them. We have provided
6 several communications already. We plan -- on the June
7 retirement warrant, we plan to have a message of the month
8 at the bottom to inform the retirees of the deadline of
9 July 1st to opt-in to receive a paper health statement.

10 While that's a deadline for this open enrollment
11 period, at any time after July 1st, they could contact us
12 as well, and we'd be able to opt them in and generate
13 their paper statement for this open enrollment period.

14 And we also have another communication planned
15 for July besides the -- or, sorry, in June/July time frame
16 besides the message of the month on the retiree warrant.

17 COMMITTEE MEMBER JONES: And of the 11 percent,
18 do you have any sense of how many what percent of the
19 percentage are retirees?

20 BENEFIT SERVICES DIVISION CHIEF SUINE:
21 Seventy-five percent of the eleven percent are
22 retirees, who are opting in.

23 COMMITTEE MEMBER JONES: Okay. Thank you.

24 CHAIRPERSON MATHUR: Thank you.

25 I see no further requests to speak, so we'll move

1 on to Agenda Item number 8, which is Assembly Bill 1878.

2 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Good
3 morning, Madam Chair and members of the Committee. Mary
4 Anne Ashley, CalPERS staff.

5 I'm presenting Agenda Item 8 this morning for
6 your consideration. It is an action item. AB 1878 by
7 Assembly Member Jones-Sawyer is sponsored by the
8 California Federation of Teachers. The measure proposes
9 to increase the death benefit paid to the designated
10 beneficiary of a retired school member from the current
11 \$2,000 to not less than \$5,000. In addition, the measure
12 would also authorize the CalPERS Board of Administration
13 to adjust the benefit amount after each actuarial
14 valuation, based on changes in the All Urban California
15 Consumer Price Index.

16 Currently, CalPERS provides varying levels of
17 death benefits according to the membership category and
18 status. CalPERS State and school members have a retiree
19 death benefits of \$2,000. Additionally, the death
20 benefits offered by comparable public employee groups is
21 higher than that offered by CalPERS. Recent studies have
22 shown that the median cost of a full service funeral is
23 new over \$7,000.

24 So this measure proposes to increase the death
25 benefit to better align with the true cost of funeral

1 service, as well as to be comparable to the benefit
2 received by other educators outside of the CalPERS system.

3 Staff estimates that there would be
4 administrative costs of about \$50,000 to modify the
5 my|CalPERS system, and also to update publications and
6 website information. And furthermore, if enacted, the
7 bill could add hundreds of millions of dollars to the
8 unfunded liabilities of the school plans.

9 CalPERS staff is recommending a neutral, if
10 amended position to include State miscellaneous plan
11 members, as well as to identify a funding source.
12 Additionally, staff also notes that as currently written,
13 the provision that would authorize the Board to adjust the
14 benefit amount based on the changes in the CPI would apply
15 to all CalPERS and not just school members. And we need
16 to clarity with the author if that is indeed the intent.

17 The measure is currently on the suspense file in
18 appropriations. Fiscal committees have until May 27th to
19 clear all bills to the floor, and then June 3rd to pass
20 from the House of origin.

21 And that concludes my presentation. I'm happy to
22 answer any questions.

23 CHAIRPERSON MATHUR: Thank you, Ms. Ashley.
24 Mr. Boyken.

25 ACTING COMMITTEE MEMBER BOYKEN: Thank you. I

1 think the staff recommendation is similar to what we've
2 done in terms of similar proposals. I think the -- there
3 is a twist with the sort of adjustment provision. But
4 with that, I'd be happy if it's appropriate at this time,
5 Chair, to make a recommendation for this -- to support the
6 staff recommendation of neutral, if amended.

7 CHAIRPERSON MATHUR: Is there a second to the
8 motion?

9 COMMITTEE MEMBER JONES: Second.

10 CHAIRPERSON MATHUR: Motion was made by Boyken,
11 second by Jones.

12 Discussion on the motion?

13 Mr. Jelincic.

14 BOARD MEMBER JELINCIC: Well, as one of those
15 State miscellaneous employees, I would like to see that
16 amendment go through.

17 But the question I have is would we oppose the
18 bill if it's -- if we don't get that amendment or are
19 going to be neutral no matter what?

20 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: The
21 Board -- the position that the Board is adopting today is
22 that we're neutral if there are amendments. If there
23 aren't amendments, then essentially the Board doesn't have
24 a position. So if the amendments aren't taken, then there
25 is no position, unless the Board asked us to bring the

1 bill back.

2 BOARD MEMBER JELINCIC: So we're essentially
3 neutral in either case?

4 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:

5 CHAIRPERSON MATHUR: Well, no position is not
6 necessarily the same as neutral.

7 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:
8 Right.

9 DEPUTY EXECUTIVE OFFICER MCKEEVER: Yeah, Mr.
10 Jelincic, I think if there is a distinction between the
11 two, the distinction is that if the Board takes a neutral
12 position, we're actively engaged in the process. And, in
13 fact, once the bill moves to -- if the bill were to move
14 through the entire process and reach the Governor's
15 office, we would be asked to perform an enrolled bill
16 analysis providing our perspectives on this and the bill's
17 position. So there are some unique distinctions between
18 the two.

19 I think what's important to note here is when the
20 Board takes a neutral position, it may not seem like it's
21 affirmative or unaffirmative. But the signals that we've
22 gotten from the consultants over at the legislature, they
23 would like for us when there is impacts to our membership
24 that we bring it to your attention and that we provide
25 some direction, even if it's neutral, that you all have

1 considered these types of positions in bills that do have
2 an ultimate impact on our membership.

3 BOARD MEMBER JELINCIC: Thank you.

4 CHAIRPERSON MATHUR: Thank you.

5 Mr. Jones.

6 COMMITTEE MEMBER JONES: Yeah. Thank you, Madam
7 Chair. On -- here we go. The cost that's identified is
8 the future liabilities, but the method of payment is going
9 to be included in the contribution rate of the school
10 districts. And so I see you have percentages increase in
11 the contribution rates. Do you have a dollar figure for
12 per employee what that would represent?

13 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: I
14 don't have that information available to me today.

15 COMMITTEE MEMBER JONES: Okay. Because -- the
16 reason I'm asking the question is because if you look at
17 the overall unfunded liability, it presents one optic in
18 terms of how you're going to get all this money to pay.
19 But when you really boil it down that it's going to be
20 paid over 30 years, and it's on an increase in a
21 contribution rate, the number is much smaller and maybe
22 more palatable, in terms of trying to achieve this goal.

23 The other comment I have is that the -- taking a
24 position because we can't get all three categories in, and
25 so we're not going to go for the second category, to me

1 to -- that would be a race to the bottom. And so I think
2 it's always better if we can continue to improve by
3 including two of the tree as opposed to one of the three.
4 So those are my comments.

5 CHAIRPERSON MATHUR: Thank you.

6 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Thank
7 you.

8 CHAIRPERSON MATHUR: Ms. Hagen.

9 ACTING COMMITTEE MEMBER HAGEN: Thank you. I
10 just had a comment for my fellow Committee members that,
11 as a reminder, most benefit improvements for current
12 employees are typically negotiated through collective
13 bargaining contracts. So that's my feedback.

14 CHAIRPERSON MATHUR: Thank you.

15 Okay. I see no further requests to speak from
16 the Committee. We do have one member of the public who
17 wishes to speak. Ivan Carrillo, if you could make your
18 way to the front, sit here to my left, and the mic will be
19 turned on for you. If you could identify yourself and
20 your affiliation for the record and you'll have three
21 minutes to speak.

22 MR. CARRILLO: Thank you. Good morning. My name
23 is Ivan Carrillo. I'm with the California Federation of
24 Teachers. We are the proud sponsor of AB 1878 and come
25 here today to urge your support.

1 The death benefit for CalPERS school employees
2 has not kept pace with the rising cost of funerals. Since
3 established in 1945, the death benefit has only been
4 increased one time. And since it was raised to \$2,000 in
5 the year 2000, the average cost of funerals has gone up 40
6 percent, and when considering all factors, that the
7 average funeral costs \$10,000 currently.

8 This is compounded with the fact that classified
9 school employees are the lowest paid school staff, and
10 most do not have life insurance. This leaves the
11 survivors of these classified school employees in really
12 difficult positions when their loved ones pass away.
13 We've heard stories of people having to suck up their
14 pride and ask friends and churches to help them raise
15 money. We've also heard stories of others having to
16 secure high interest loans to cover the cost.

17 We've also heard stories of people losing their
18 housing because they couldn't afford to bury their loved
19 one and rent at the same time.

20 We're here today because we've heard too many of
21 these heartbreaking stories. As you all -- as is noted in
22 the analysis, this bill has been introduced a number of
23 times. It's one that's extremely important to our
24 members. They see it as an equity issue. As was also
25 noted CalSTRS members receive a death benefit of \$6,163.

1 So their colleagues in their own school sites lives appear
2 to be valued more than classified members.

3 We're in discussions with the Chair of the
4 Assembly Appropriations Committee about further ways to
5 cut costs. Please know that it's something that we're
6 attempting to be flexible on, but the problem is
7 continue -- every year that we don't take action, the
8 problem is worsening because the average funeral costs
9 just continue to go up, while the death benefit for these
10 school employees remains stagnant.

11 So we're hoping that this year we can make some
12 progress to help stop the bleeding and bridge the gap. We
13 have a broad coalition of labor and support of the bill,
14 the California School Employees Association, the Labor
15 Fed, SEIU, AFSCME, and CTA have all joined us on this
16 bill. And we're hoping that you all will do the same. So
17 thank you all very much for your consideration.

18 CHAIRPERSON MATHUR: Thank you, Mr. Carrillo.
19 Mr. Jones.

20 COMMITTEE MEMBER JONES: Yeah. Thank you, Madam
21 Chair. Maybe the gentleman --

22 CHAIRPERSON MATHUR: Oh, do you have a question
23 for Mr. Carrillo?

24 COMMITTEE MEMBER JONES: I have a question. I
25 noticed the opposition is the Los Angeles County Office of

1 Education. Do we have a sense of what the other County
2 Offices of Education position is on this item?

3 MR. CARRILLO: I haven't had any conversation
4 with any other County Offices of Ed. I'm sorry, but I can
5 look into that most certainly and report back.

6 CHAIRPERSON MATHUR: Okay. Thank you.

7 All right. There is a motion on the table. I
8 see no further requests to speak from the public or the
9 Committee members.

10 Any further discussion?

11 Seeing none.

12 All those in favor say aye?

13 (Ayes.)

14 CHAIRPERSON MATHUR: Any opposition?

15 Any abstentions?

16 ACTING COMMITTEE MEMBER HAGEN: Abstain.

17 CHAIRPERSON MATHUR: Please note CalHR's
18 abstention. And the motion passes.

19 We'll move on to Agenda Item number 9, Assembly
20 Bill 2028.

21 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Thank
22 you. This is also an action item. Assembly Bill 2028 by
23 Assembly Member Cooper is co-sponsored by the California
24 School Employees Association, and California Professional
25 Firefighters.

1 AB 2028 would require the credit for service and
2 compensation earnable for wrongfully terminated school
3 member or local safety member to include the amount of
4 service that would have been credited, and the
5 compensation earnable reported as though the member had
6 not been wrongfully terminated.

7 Currently, there are two statutes that permit
8 service credit to be granted retroactively to employees
9 that have been subject to an involuntary termination and
10 that action was subsequently reversed.

11 Current law provides the authority to reserve --
12 restore service credit for State employees when the State
13 Personnel Board revokes or modifies a disciplinary or
14 adverse action. Additionally, current law also provides
15 authority to restore service credit for all CalPERS
16 members who retired after being wrongfully terminated, but
17 before the termination was reversed.

18 AB 2028 will clarify that the same treatment for
19 wrongfully terminated school, safety, and some local
20 agency employees will be provided as is that provided to
21 State employees to ensure parity and equity between these
22 employees and State workers.

23 CalPERS staff is recommending a support, if
24 amended position to add clarifying language to apply the
25 bill to all active CalPERS school and local agency members

1 consistent with the treatment of all retired CalPERS
2 members reinstated to active service following an
3 involuntary termination as provided under existing law.

4 Any additional benefit costs would be borne by
5 school and contracted employers and members. And costs to
6 CalPERS would be minor and absorbable.

7 And thank you. That concludes my presentation.
8 And I am happy to answer any questions.

9 CHAIRPERSON MATHUR: Thank you, Ms. Ashley.

10 Mr. Jones.

11 COMMITTEE MEMBER JONES: Yeah. Thank you, Madam
12 Chair. I move that we approve the staff's recommendation.

13 COMMITTEE MEMBER TAYLOR: Second.

14 CHAIRPERSON MATHUR: And the staff's
15 recommendation, just to be clear, is support, if amended.

16 COMMITTEE MEMBER JONES: Yes.

17 CHAIRPERSON MATHUR: Motion made by Jones, second
18 by Taylor.

19 Discussion on the motion?

20 Mr. Bilbrey

21 VICE CHAIRPERSON BILBREY: Can I get
22 clarification? If it is not amended, what will happen, as
23 far as our support?

24 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: If
25 it's not amended, then we don't essentially have a

1 position.

2 VICE CHAIRPERSON BILBREY: You don't have a
3 position.

4 All right. Thank you.

5 CHAIRPERSON MATHUR: Thank you. We do have one
6 member of the public who wishes to speak. Jai Sookprasert
7 if you could take a seat to my left, your mic will be
8 turned on, note your name and affiliation for the record
9 and you'll have three minutes to speak.

10 MR. SOOKPRASERT: Good morning, Madam Chairwoman
11 and members. Jai Sookprasert with the California School
12 Employees Association. We are a sponsor of this bill
13 along with the firefighters. I'm here hopefully -- that
14 last question is a very good one. We're hoping that this
15 is seen in the light that, you know, we -- behest may be
16 too strong of a words, but we did engage in this issue at
17 the urging of CalPERS staff when they looked at the
18 provisions. These have been done in the past. And all we
19 are doing here is to try to put into statute those
20 practices that have been done in the past.

21 So while there are amendments from CalPERS, we'd
22 like you to adopt this in sort of as full support as
23 possible, because I believe that they are in support of
24 the policy itself.

25 The statutory amendments that are going back and

1 forth a little bit right now has more to do with the
2 technicality of when those dates are determined and so
3 forth. This has moved through the Assembly at this stage
4 with bipartisan unanimous support. And we really, you
5 know, want to continue to ensure you that this is an
6 effort to ensure that past practice will continue without
7 disruption for school and safety employees.

8 So I almost want to call it a technical clean-up
9 bill, but I realize that that can be -- you know, get
10 complicated when you do those kinds of things to ensure
11 that we have the right provisions in place.

12 But all of that is to say this is a really
13 important bill, if you step back and look at these are
14 people who were wrongfully terminated. It's no fault of
15 their own that their service credit got denied. We're
16 simply trying to make it whole for them. There's no
17 reason for them to have to pay or have some additional
18 cost be put upon them. They contribute -- the employee
19 will contribute their share. We will make sure that
20 CalPERS doesn't have a additional liability to the extent
21 possible.

22 But these are people who were wrongfully
23 terminated. I really want to emphasize that. This is not
24 a decision to leave or to be terminated, and so we want to
25 make them whole.

1 We understand there are some issues and concerns
2 from the Department of Finance. We will work it out with
3 them. We believe that there's a way to make sure that
4 that's covered also. We have not engaged in that question
5 yet, but we will this month. Again, it's gone through the
6 assembly bipartisan unanimous support on consent. And we
7 hope that you will adopt a support position with that
8 approach.

9 Thank you very much.

10 CHAIRPERSON MATHUR: Thank you for your comments.
11 Mr. Boyken.

12 ACTING COMMITTEE MEMBER BOYKEN: Sorry, a
13 question for you, Jay.

14 CHAIRPERSON MATHUR: A question for you, Jai.

15 MR. SOOKPRASERT: Absolutely.

16 ACTING COMMITTEE MEMBER BOYKEN: So just a point
17 of clarification, is CSEA and the author open to the
18 amendment to make it --

19 MR. SOOKPRASERT: Absolutely.

20 ACTING COMMITTEE MEMBER BOYKEN: Okay.

21 MR. SOOKPRASERT: We are. We're just quibbling
22 over the little details of, you know, how it's said at
23 this point. We want to make sure that we protect
24 CalPERS -- essentially CalPERS, trying to make sure that
25 you don't end up paying more for things that the district

1 never sent you. We want to make sure you have the
2 authority to go and say give us the paperwork that we need
3 and to ensure that this is the right salary amount and so
4 forth. And so we're trying to work on that word
5 "authority" at this stage.

6 ACTING COMMITTEE MEMBER BOYKEN: Thank you.

7 CHAIRPERSON MATHUR: All right. Thank you.

8 There is a motion before us. All those -- seeing
9 no further requests to speak.

10 All those in favor say aye?

11 (Ayes.)

12 CHAIRPERSON MATHUR: All opposed?

13 Any abstentions?

14 ACTING COMMITTEE MEMBER HAGEN: Abstain.

15 CHAIRPERSON MATHUR: Please note CalHR's
16 abstention.

17 Thank you very much.

18 MR. SOOKPRASERT: Thank you.

19 CHAIRPERSON MATHUR: Moving on to Agenda Item 10.
20 Pharmacy benefit manager contract award.

21 DEPUTY EXECUTIVE OFFICER McKEEVER: Madam Chair,
22 members of the Committee. Doug McKeever, CalPERS staff.

23 As the team is cycling up here, let me take a
24 moment and open up this particular item. And due to the
25 importance of it, I'm actually going to read my comments

1 to you to ensure that I cover the pertinent areas, given
2 the fact that this is such an important solicitation.

3 So I do want to take a minute to remind those in
4 attendance, those watching, and others that pursuant to
5 Government Code section 228570, the Board is not bound to
6 State competitive bidding laws when it is soliciting to
7 contract with health plans or entities that administer
8 health benefits, such as pharmacy benefit managers.

9 In a traditional procurement, points are
10 allocated, responses scored, and then a financial proposal
11 is scored. Typically, the proposal with the highest
12 points or the lowest bid wins the contract, which CalPERS
13 must then negotiate. For this procurement, the Board
14 elected to utilize the provisions under 22850, and go
15 through a competitive solicitation, which allowed us to
16 share information with the Board at each phase of the
17 solicitation. And Kathy will be going through those
18 phases momentarily.

19 It has also allowed CalPERS to do something that
20 we typically don't do in this case and that's actually
21 negotiate the contract during the solicitation process
22 itself, so that we would actually have contractual
23 agreements reached with each potential vendor during the
24 same time that the remaining phases of the project are
25 going forward.

1 And that's in the best interests of CalPERS to
2 get both of those done now, and then deal with whatever
3 the decision is relative to that moving forward.

4 So with that, I'd like to turn it over to Kathy
5 Donneson who will run through the actual solicitation
6 process, so folks understand what we've done over almost
7 the last 18 months.

8 CHAIRPERSON MATHUR: And just before you start,
9 Kathy, I think before -- what we'll -- the way we'll do it
10 is we'll have you make your presentation, we'll have the
11 Committee ask questions, and then before we have a motion,
12 we'll call on the public to make any comment they wish to
13 make. And then we'll entertain a motion at that time.

14 Thank you.

15 HEALTH PLAN ADMINISTRATION DIVISION CHIEF

16 DONNESON: Thank you, Madam Chair, and members of the
17 Pension and Health Benefits Committee.

18 Agenda Item number 10 asks the Committee to
19 consider the cumulative results for all proposers
20 responding to the pharmacy benefit manager solicitation
21 number 2015-7755, and from such results select the firm
22 whose proposals best demonstrate the ability to administer
23 pharmacy benefit services to CalPERS members. Staff
24 recommends to the Board of Administration the intent to
25 identify the successful firm for this solicitation.

1 The PBM solicitation was released to solicit bids
2 for pharmacy benefit services for 2017 to 2021. The
3 solicitation was released in two phased approaches. Phase
4 one was released on July 2nd, 2015, and phase two on
5 September 10th, 2015. Proposers were allowed to submit
6 written questions after the release of each phase and
7 CalPERS provided responses.

8 Ten addenda were issued containing clarifying
9 information and updated requirements. Nine companies
10 responded to phase one. The nine responding firms were
11 Anthem Blue Cross, Blue Shield of California, Catamaran,
12 CVS Health, EnvisionRx, Express Scripts, Navitus, OptumRx,
13 and WellDyne.

14 Of those nine companies, seven qualified to
15 continue to phase two and two were disqualified. The two
16 disqualified firms were Navitus and EnvisionRx.

17 Upon conclusion of phase one, Catamaran notified
18 CalPERS that they had merged with OptumRx, and therefore
19 did not submit as an individual firm in phase two. In
20 phase two of the PBM solicitation, each firm was required
21 to demonstrate their capabilities, management philosophy,
22 including commitment to cross-organizational resources,
23 and technical understanding of the required services
24 needed to operationally support CalPERS and its plan
25 members, as prescribed in the pharmacy benefit management

1 model contract and CalPERS pharmacy benefit management
2 contractor manual, including all related attachments and
3 exhibits.

4 And each firm also received CalPERS-specific
5 de-identified pharmacy demographic and claims data set
6 forth with a data dictionary, current pharmacy plan
7 design, and evidence coverage for outpatient prescription
8 drug program, and CalPERS prescribing guide for use by
9 firms in responding to the solicitation.

10 Shortly after the release of phase two, and upon
11 conclusion of the question-and-answer period, CalPERS
12 staff conducted in-person confidential discussions with
13 each firm. These discussions provided firms with another
14 opportunity to seek clarification. Following the
15 confidential discussions, Blue Shield and Anthem Blue
16 Cross formally noticed CalPERS of their intention not to
17 proceed in the pharmacy benefit management solicitation
18 process, leaving CVS Health, Express Scripts, OptumRx, and
19 WellDyne.

20 On November 13th, 2015, phase two solicitation
21 submissions were received from the remaining firms with
22 the exception of WellDyne who formally noticed CalPERS of
23 their intent not to proceed with the phase two process.
24 All submissions met the basic format requirements and
25 contained the required documentation as evidenced by

1 passing the Operations Support Services Division's
2 compliance review prior to being released to the Benefit
3 Program's policy and planning staff for evaluation.

4 The first stage in the process was to evaluate
5 and score the proposals using the automated scoring tool
6 developed by Mercer Consulting. Multiple evaluation teams
7 compiled initial consensus scores for the firm's
8 capabilities, management work, staffing and financial plan
9 components, and their relevant sections.

10 Upon completion of the first stage, the second
11 stage of the process included on-site visits, and we had
12 five teams visit 10 sites, reference checks, additional
13 rounds of clarification and technical discussions.
14 On-site visits were conducted at multiple sites for each
15 proposer with a focus on customer service. Reference
16 checks were conducted and deemed satisfactory for each
17 proposer.

18 Four rounds of submission clarifications had been
19 requested of each firm to address qualitative and
20 quantitative ambiguities in the financial terms, retail
21 networks for mail at retail programs, formulary
22 disruption, clinical programs, and so forth.

23 Then technical discussions were held in person
24 here at CalPERS to ensure that each firm understood the
25 requirements necessary to successfully execute any

1 required implementation activities.

2 Competitive negotiations with each firm were
3 conducted preceding -- preceded by the technical
4 discussions. The competitive negotiation process
5 considered price, technical experience, operational
6 performance, allowed for greater interaction with firms,
7 flexibility, and transparency, ability to provide and
8 obtain more accurate information, as well as agreement to
9 contractual terms and conditions in advance of any intent
10 to award and finalize the 2017 health plan rates.

11 At the conclusion of the competitive
12 negotiations, each firm participating in the pharmacy
13 benefit management solicitation process demonstrated the
14 capability to effectively administer pharmacy benefit
15 services and demonstrated competitiveness in terms of
16 their acceptance of proposed contractual terms,
17 demonstrated abilities to meet CalPERS needs for pricing
18 for prescription drugs, administrative fees, discounts,
19 rebates, and other guarantees.

20 At the conclusion of the competitive negotiation,
21 staff finalized the qualitative and quantitative value
22 result -- evaluation results, finalized pricing, and
23 obtained contractual commitments for the five years 2017
24 to 2021.

25 The evaluation results are reflected as stars

1 provided in attachment five. In addition, today, CalPERS
2 staff made available for the Committee and members in the
3 audience the aggregate total projected cost for each
4 firm's final proposal for each contract year.

5 With contract provisions already negotiated, an
6 implementation can begin, should it be needed, at the
7 announcement of the award with the full attention of the
8 Health Plan Administration Division managers and staff, as
9 well as the enterprise in support of our enterprise and
10 our State Controller's office.

11 To facilitate this effort, a pharmacy benefit
12 management charter anticipated the need for executive and
13 senior staff oversight through a governance structure,
14 which includes a steering committee, advisory committee,
15 operational units, and staff, including assessment of risk
16 and risk mitigation.

17 My staff have already developed an initial
18 communication plan that would roll-out and be coordinated
19 with different CalPERS divisions and implementation
20 planning timelines, and milestones have been developed by
21 each firm and CalPERS staff.

22 Finally, through our Stakeholder Relations
23 Office, CalPERS staff would provide detailed reporting
24 through the Stakeholder Relations monthly committee and
25 the Retiree Roundtable. Based on the competitive

1 five-year pricing, full agreement with contractual
2 provisions, integrated basic and Employer Group Waiver
3 Plan, Medicare services platform, expected improvements in
4 customer service, and a Walgreens and potentially Rite Aid
5 network, and based on the information provided to you
6 today and in previous open and closed discussions, CalPERS
7 staff recommend that OptumRx be awarded the contract for
8 2017 to 2021.

9 I'd like to pause there for any questions you
10 might have.

11 CHAIRPERSON MATHUR: Thank you.

12 Before I turn to question, I just want to
13 congratulate staff on a robust and innovative process,
14 that I think really allowed us to get great transparency
15 into all of the issues that matter to our members,
16 including costs, but also customer service and other
17 elements. I think it's really -- regardless of whatever
18 the outcome is, I think it was a real enhancement in our
19 process. So thank you for all of your work on it.

20 Now, I'll turn to questions.

21 Mr. Jones.

22 COMMITTEE MEMBER JONES: Yeah. Thank you, Madam
23 Chair. Thank you for the presentation. The -- if we were
24 to change our pharmacy benefit manager from the one we
25 have currently, how did you or how do you assess the

1 disruption value going from -- you know, this will be the
2 second time we've changed in a relatively short period of
3 time. So how do we manage this disruption that will
4 occur? And also, the question of -- it indicates, as a
5 footnote, that it's before member copays and insurance.
6 And when you add that, what difference does it make?

7 So those are my two. And primarily, the
8 disruption on formulary.

9 DEPUTY EXECUTIVE OFFICER MCKEEVER: Thank you,
10 Mr. Jones. We'll collectively respond as a team on this,
11 because essentially it is going to require a team effort
12 in any transition that may take place.

13 Relative to disruption, I think there is one
14 critical piece of the disruption that you brought up, and
15 that has to do with formulary. We recognize, based on
16 past experiences when we've had transitions between the
17 PBM from one to another, that individuals who are on
18 certain medications want to remain on those medications.
19 And typically, there is a formulary change between one PBM
20 and another. And that results in a very assertive and,
21 what I would consider to be, aggressive communication
22 effort with our stakeholders, so that they understand what
23 those changes are and why they're in place.

24 Oftentimes, many of those changes are due to the
25 fact that you have 10, 12 drugs for a particular chronic

1 condition, and a PBM may decide to narrow down those 10 to
2 12 available drugs to two, or three, or four. And by
3 doing so, it obviously lowers the cost.

4 Now, of course, they have huge formulary
5 committees that take this into consideration. They have
6 medical doctors and pharmacists that review all of this
7 data to make sure that the drugs that they do provide are
8 if not the same, as close as the same, as all the others
9 that are in that category of drugs.

10 So we were going -- we will do our best, in any
11 transition, to ensure that the information is available to
12 our members on what the formulary is, what the differences
13 in the formularies are. I think it's also worthy to note,
14 we have internal processes to deal with potential member
15 disruption when it comes to continuity of their
16 medications, in which they can go to a physician. Their
17 doctor -- if their doctor believes they should be on that
18 same drug, then there is an ability for that doctor to
19 make that request.

20 We also have an appeals process internally, in
21 which we can review that information to ensure that the
22 member is getting the right drug, at the right time, at
23 the right place. So there are already internal processes
24 in place to address some of the disruption that takes
25 place today, what may take place in the future, and

1 certainly ongoing communication is going to be important
2 on our part. I don't know if anybody else wanted to add.
3 Donna.

4 DEPUTY EXECUTIVE OFFICER LUM: Certainly. So
5 recognizing that our members are going to be going through
6 a transition, and we know that transitions of this nature
7 can be rather challenging, especially for the retirees who
8 need to better understand how they're going to continue to
9 go about getting their prescriptions, I wanted to reassure
10 you that from the customer service teams at CalPERS, and
11 although we recognize that a lot of the support that our
12 members are going to need will also be provided by the
13 PBM, but we are ready to partner with Kathy and Doug and
14 their teams to ensure that we are able to provide the
15 level of customer service that we know our members are
16 going to need through this transition.

17 Apart of that is ensuring that we have a well
18 developed toolkit, which includes ensuring that our
19 contact center and our regional office staff are well
20 trained and informed with, you know, frequently asked
21 questions, and other processes, so that as members do
22 contact CalPERS, we're able to assist them through the
23 process.

24 And then certainly with open enrollment on the
25 horizon, we would work with the teams to ensure that this

1 change is included in our open enrollment communications
2 and information, again giving early notice to our members
3 of what they can expect.

4 COMMITTEE MEMBER JONES: Yeah. And I have full
5 confidence in customer service from our team, your staff.
6 What about the provider, what are they doing to address
7 the transition and the potential disruption?

8 DR. SUN: As mentioned -- this is Richard Sun,
9 medical consultant. As mentioned previously, there's an
10 entire transition plan that's been developed with each of
11 the vendors. And there are literally thousands of steps
12 that are going to be taken by any of the vendors in order
13 to make the transition smooth.

14 They -- you asked about formulary, and I wanted
15 to address that. In an earlier analysis done by Mercer,
16 they compared the Express Scripts and Optum formularies to
17 the CVS formulary. And in the Express Scripts formulary,
18 there would be approximately 65,000 positive changes.
19 That is approximately 65,000 CalPERS members will
20 experience a change in tiers that's beneficial to them, a
21 lower copay or they would experience a drug that was
22 excluded on the CVS formulary that they could now take,
23 because it's not excluded on the Express Scripts
24 formulary.

25 However, if the decisions to go with Express

1 Scripts, the analysis -- no, I'm talking about Express
2 Scripts right now. If the decision is to go with Express
3 Scripts, then there would be disruption in terms of prior
4 authorization. Express Scripts in the Mercer analysis has
5 far more drugs on prior authorization than does CVS. And
6 prior authorization, while it's important for controlling
7 costs and for assuring evidence-based practice, is
8 something that our members do not necessarily like.

9 On the Optum side, there were approximately
10 27,000 positive tier changes. That is, on the Optum
11 formulary, approximately 27,000 people would have lower
12 copayments, or they would have non-excluded drugs.
13 However, there were approximately 60,000 negative
14 formulary changes.

15 And in contrast, for OptumRx, there were only --
16 there are only 25 drugs that we're aware of on prior
17 authorization. So members would have a positive
18 experience in having fewer drugs subject to that
19 utilization management.

20 On the whole then, there are pluses and minuses
21 when dealing with -- when changing formularies from CVS to
22 either Optum or ESI.

23 COMMITTEE MEMBER JONES: And you -- I thought I
24 heard also that the medical exception that the member can
25 go to their physician and get an exception. And what if

1 that is denied, what's the next step?

2 DR. SUN: Yes, if the member's physician or other
3 prescriber requests an exception, that would go through
4 the process in either ESI's or Optum's utilization
5 management team. If that is denied, there is a appeal
6 process that is mandated by the Affordable Care Act, which
7 involves internal and external components.

8 In addition, should the external review deny the
9 drug, there is still a CalPERS administrative review
10 process, which is led by Dennis DeVore and his staff in my
11 unit. And if the administrative review were to continue
12 to deny the drug, there is the administrative hearing
13 process.

14 COMMITTEE MEMBER JONES: Okay. Thank you.

15 CHAIRPERSON MATHUR: Thank you.

16 Any further requests from --

17 HEALTH PLAN ADMINISTRATION DIVISION CHIEF

18 DONNESON: Oh, I would like to add one more --

19 CHAIRPERSON MATHUR: Yes, please. Go ahead, Ms.

20 Donneson.

21 HEALTH PLAN ADMINISTRATION DIVISION CHIEF

22 DONNESON: -- to answer Mr. Jones question --

23 CHAIRPERSON MATHUR: Please.

24 HEALTH PLAN ADMINISTRATION DIVISION CHIEF

25 DONNESON: -- on the copays. There's no effect. The

1 copays do not change, so the copays remain the same for
2 both.

3 CHAIRPERSON MATHUR: They'll be the same
4 regardless of which PBM we select.

5 HEALTH PLAN ADMINISTRATION DIVISION CHIEF
6 DONNISON: Correct.

7 CHAIRPERSON MATHUR: Thank you. I see no further
8 requests from the Committee, so I will call up public
9 comment at this time.

10 We have two members of the public who wish to
11 speak Gerald Carrig and Diane Galo.

12 And I'll ask you to take one of these seats here
13 to the left. The mic will be turned on for you. And if
14 you could identify yourself and your affiliation --
15 actually, sorry to the left -- to my left. Sorry about
16 that. If you could identify yourself and your
17 affiliations for the record, please. And you'll have
18 three minutes to speak.

19 MS. GALO: Okay. Diane Galo, group head of
20 employer sales with CVS Health. Madam Chair and Board
21 members, CVS health would like to thank the CalPERS Board
22 and staff for the opportunity to support your quality
23 access and cost savings goals through the service to your
24 membership for the past four and a half years. We are
25 also grateful for the opportunity to have participated in

1 the CalPERS 2017 PBM procurement.

2 With our clients and members in mind, CVS has a
3 long history of industry leading innovation to make health
4 care more affordable, such as being the first PBM to
5 address held on the unsustainable inflation rates for
6 brand prescriptions by introducing a new formulary in
7 2012. This innovation caps price increases for more than
8 90 percent of manufacturer contracts.

9 By offering mail pricing through our retail
10 channel in 2008, and by stepping away from tobacco,
11 removing it from our shelves in the CVS stores in 2014.

12 We fulfill our mission to help people on their
13 path to better health when we interact with your members
14 across our entire enterprise. Every day we fill over
15 2,700 90-day prescriptions at our CVS pharmacies, saving
16 the plan money as well as providing members a convenient
17 alternative to mail service.

18 Every day, we talk with 830 CalPERS members. And
19 more than 98 percent of the time, we resolve their
20 questions or issue in that first call.

21 Every day our specialty pharmacy dispenses 80
22 high cost, high touch prescriptions to highly sensitive
23 patients who have complex conditions, such as MS,
24 Hepatitis C, and rheumatoid arthritis. And every day, CVS
25 mail service dispenses over 2,200 prescriptions to CalPERS

1 members' homes. And every day, we interact with nearly a
2 thousand patients and an average of 650 physicians,
3 helping members to stay adherent to important medications
4 they need to treat chronic conditions.

5 We have a proven record of successfully guiding
6 your members through difficult health decisions resulting
7 positive outcome for your plan and membership. In 2012,
8 our clinical solutions helped deliver \$200 million in
9 direct savings to the CalPERS plan. By helping CalPERS
10 maximize CMS subsidies for the retiree population, we
11 helped CalPERS save \$186 million over the past three
12 years. And since 2013, CVS health has delivered \$384
13 million of savings through rebates, exceeding our
14 guarantees by 60 percent.

15 With more than 23,000 employees living and
16 working in the State, CVS Health is committed to
17 California and take pride in our ability to service
18 CalPERS members.

19 On behalf of the senior leadership team, the
20 entire CVS Health organization, I respectfully request
21 that the Board vote to award us the 2017 contract, so that
22 we can continue to build on the outstanding results we've
23 delivered --

24 CHAIRPERSON MATHUR: Thank you, Ms. Galo.

25 I will now entertain a motion.

1 Mr. Bilbrey.

2 VICE CHAIRPERSON BILBREY: Thank you, Madam
3 Chair. I move to award the five-year contract in
4 connection with the Solicitation 2015-7755 Pharmacy
5 Benefit Manager to Optum.

6 CHAIRPERSON MATHUR: Is there a second?

7 COMMITTEE MEMBER HOLLINGER: Second.

8 CHAIRPERSON MATHUR: Motion made by Bilbrey,
9 seconded by --

10 COMMITTEE MEMBER HOLLINGER: Hollinger.

11 CHAIRPERSON MATHUR: -- Hollinger. Sorry.

12 Any discussion on the motion?

13 Seeing none.

14 All those in favor say aye?

15 (Ayes.)

16 CHAIRPERSON MATHUR: All opposed?

17 Motion passes.

18 Okay. We will now move on to agenda item number
19 11, which is summary of Committee direction.

20 DEPUTY EXECUTIVE OFFICER McKEEVER: Madam Chair,
21 I don't believe there was any direction provided by the
22 Committee this morning.

23 CHAIRPERSON MATHUR: I don't think there was.

24 We'll now move to Agenda Item number 12, Public
25 Comment. I don't see any requests.

1 Is there any member of the public who wishes to
2 speak at this time?

3 Seeing none.

4 We are adjourned.

5 (Thereupon the California Public Employees'
6 Retirement System, Board of Administration,
7 Pension & Health Benefits Committee open
8 session meeting adjourned at 12:10 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, 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 23rd day of May, 2016.

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