

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

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

TUESDAY, JUNE 14, 2016

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

COMMITTEE MEMBERS:

Ms. Priya Mathur, Chairperson

Mr. Michael Bilbrey, Vice Chairperson

Mr. John Chiang, represented by Mr. Grant Boyken

Mr. Rob Feckner

Mr. Richard Gillihan, represented by Ms. Katie Hagen

Ms. Dana Hollinger

Mr. Henry Jones

Ms. Betty Yee, represented by Mr. Alan Lofaso

BOARD MEMBERS:

Mr. Richard Costigan

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

Mr. Alan Milligan, Chief Actuary

Ms. Mary Anne Ashley, Chief, Legislative Affairs Division

Dr. Kathy Donneson, Chief, Health Plan Administration

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

Ms. Renee Ostrander, Chief, Employer Account Management  
Division

Ms. Karen Pales, Assistant Chief, Health Policy Research  
Division

Ms. Cheree Swedensky, Committee Secretary

ALSO PRESENT:

Mr. Tim Behrens, California State Retirees

Ms. Beth Capell, Health Access California

Ms. Sara Flocks, California Labor Federation

Ms. Megan Gamble, Californians Against the Misleading Rx  
Measure

Mr. Rand Martin, AIDS Healthcare Foundation

Ms. Teresa Stark, Kaiser Permanente

Dr. Richard Sun, Medical Consultant to the Board

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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 Pension and Health Benefits Committee  
4 open session to order. First order of business is roll  
5 call.

6 COMMITTEE SECRETARY SWEDENSKY: Priya Mathur?

7 CHAIRPERSON MATHUR: I'm here.

8 COMMITTEE SECRETARY SWEDENSKY: Michael Bilbrey?

9 VICE CHAIRPERSON BILBREY: Good morning.

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

12 ACTING COMMITTEE MEMBER BOYKEN: Here.

13 COMMITTEE SECRETARY SWEDENSKY: Rob Feckner?

14 COMMITTEE MEMBER FECKNER: Good morning.

15 COMMITTEE SECRETARY SWEDENSKY: Katie Hagen for  
16 Richard Gillihan?

17 ACTING BOARD MEMBER HAGEN: Here.

18 COMMITTEE SECRETARY SWEDENSKY: Dana Hollinger?

19 COMMITTEE MEMBER HOLLINGER: Here.

20 COMMITTEE SECRETARY SWEDENSKY: Henry Jones?

21 COMMITTEE MEMBER JONES: Here.

22 COMMITTEE SECRETARY SWEDENSKY: Theresa Taylor?

23 CHAIRPERSON MATHUR: Excused.

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

1           ACTING COMMITTEE MEMBER LOFASO:   Here.

2           CHAIRPERSON MATHUR:   And please also note for the  
3 record that Mr. Jelincic, Mr. Slaton, and Mr. Lind are in  
4 attendance.

5           All right.   Let's move on to Agenda Item number  
6 2, the Executive Reports.

7           DEPUTY EXECUTIVE OFFICER McKEEVER:   Thank you,  
8 Madam Chair, members of the Committee.   Doug McKeever,  
9 CalPERS staff.   Before I make mine, Donna would like to  
10 make a few opening comments as well.

11          CHAIRPERSON MATHUR:   Good morning, Ms. Lum.

12          DEPUTY EXECUTIVE OFFICER LUM:   There we go.   Good  
13 morning.   Good morning, Madam Chair, members of the  
14 Committee.   Donna Lum, CalPERS staff.   I have 2 brief  
15 items that I'd like to give you an update on this morning.  
16 The first is related to our on-line health plan statement  
17 and our open enrollments.   If you recall each month, I  
18 provided a brief update on the status and the engagement  
19 that we've had to ensure that our members are receiving  
20 communication about the changes.   We continue to partner  
21 with our retiree stakeholders to prepare our members for  
22 this year's open enrollment, as well as the on-line health  
23 plan statements.   And just for reference, open enrollment  
24 this year runs from September 12th through October 7th.

25          We've provided a lot of communication to our

1 membership regarding the changes. And just to give you  
2 some insights of some of the more recent communications,  
3 we have a dedicated website -- webpage on our website,  
4 which has had over 4,000 members view the new changes  
5 since it went on-line during the first month. We've also  
6 had 7 social media updates since July 1st. And more  
7 recently, we had one on June 3rd. We have 7 additional  
8 social media updates planned before July 1st.

9 In addition, RPEA, one of our retiree  
10 organizations has done 5 social media posts on the on-line  
11 health plan statements to date, and our other partner,  
12 CSR, has included an article about it in their May  
13 newsletter. This month we had a message of the month on  
14 the retiree warrants at the bottom of the warrants  
15 reminding them of the July 1st deadline to opt in to mail.  
16 And as of last week, we've had about 87,000 subscribers,  
17 or 13 percent, of our subscribers opt to mail.

18 Next month, we'll be sending out a colorful  
19 brochure mailer to all of our members who will receive  
20 their health plan statement on-line to remind them how to  
21 access their information on-line. It will have all of the  
22 information to do so. And in the fall edition of  
23 PERSpectives issued in September, we'll also then provide  
24 additional information on open enrollment.

25 So again, things are progressing smoothly.



1 Again, we continue to look at various ways and options to  
2 engage and ensure that the members are receiving this  
3 information.

4 The second update is related to our CalPERS  
5 Benefit Education Event, which was held on May 20th and  
6 21st in Redding. And once again, this was a very well  
7 attended event. At the same time that the event was  
8 taking place on Friday the 20th, we had an executive  
9 employer visit. Several of the executive staff were  
10 meeting with employers in the northern area. And during  
11 that meeting, they expressed their thanks and appreciation  
12 to CalPERS for bringing the CBEE event up into the Redding  
13 area.

14 Our executive staff were able to stop by and  
15 visit with the staff and mingle with the members at this  
16 CBEE. And it's always enlightening to see how engaged our  
17 staff are during these events with our members.

18 The Redding CBEE was the last of the events for  
19 this fiscal year. However, the next one will be held in  
20 July. Last month, during Board and Committee meetings, we  
21 provided an update indicating that the July CBEE, which is  
22 being held in Los Angeles, was scheduled for July 22nd and  
23 23rd, those dates were incorrect. The actual date for the  
24 Los Angeles CBEE is July 15th and 16th.

25 We've ensured that all the communication that is

1 promoting the CBEE in Los Angeles has the correct dates,  
2 and we've taken some additional efforts to push out  
3 information to employers and members within those -- that  
4 area to ensure that they have the corrected dates.

5 So those are the two brief updates that I wanted  
6 to provide. And I'm available to answer any questions  
7 that you may have.

8 CHAIRPERSON MATHUR: Thank you, Donna. And thank  
9 you for -- to RPEA and CSR, our partners, around getting  
10 the word out to our members around open enrollment. So  
11 thanks for all those efforts.

12 DEPUTY EXECUTIVE OFFICER McKEEVER: Thank you,  
13 Madam Chair. I have just two updates for the Committee  
14 this morning. Obviously, we have a very lengthy agenda  
15 today. And there's some pretty important items on there,  
16 so I'm going to be brief in my comments today.

17 The first is that I'm extremely pleased to  
18 announce that we've hired Sherry Little, as our new Chief  
19 for the Health Policy and Research Division, which was my  
20 former position. Sherry comes from us -- comes to us from  
21 the greater Sacramento Area Economic Council. She brings  
22 over 10 years of executive level experience working for a  
23 very diverse 57-member board. So if you thought we had  
24 challenges with 13, you can imagine what she's been -- has  
25 dealt with with 57. She oversees the organization

1 strategic planning, policy development, data analytics,  
2 and finance and marketing divisions. She also has worked  
3 for the State of California in several areas, including  
4 budgets, program management, and legislation. Sherry  
5 begins officially with us on July the 27th, but she was  
6 kind enough to show up this morning, so that we could  
7 introduce you to her. So with that, Sherry, if you'd  
8 please stand.

9 CHAIRPERSON MATHUR: Welcome, Sherry.

10 (Applause.)

11 DEPUTY EXECUTIVE OFFICER McKEEVER: Ms. Lum just  
12 noted that for the record I may have said July 27th. It's  
13 actually June 27th.

14 CHAIRPERSON MATHUR: Great. We're having a  
15 little trouble with --

16 DEPUTY EXECUTIVE OFFICER McKEEVER: Sherry, did  
17 you take note of that?

18 (Laughter.)

19 DEPUTY EXECUTIVE OFFICER McKEEVER: You don't get  
20 an extra month.

21 (Laughter.)

22 DEPUTY EXECUTIVE OFFICER McKEEVER: Lastly, Madam  
23 Chair, I want to mention we seem to be in procurement  
24 season all the time. As you know, we just completed our  
25 solicitation for the pharmacy benefit manager. As we

1 mentioned last month in a report by Ms. Donneson, we're  
2 launching one for long-term care. And today, I'm bringing  
3 to your attention, we are now launching a third  
4 solicitation, and that is for our Health Care Decision  
5 Support System, better known as our data warehouse.

6 So again, I just wanted to call this out for the  
7 Committee's awareness that we'll be launching that  
8 particular process. The current contract ends in 2018,  
9 and so we're going to be starting that process in earnest.  
10 We're going to use the same solicitation process that we  
11 used on the PBM because it was so successful. And  
12 certainly, as we roll this out, we'll be bringing more  
13 information to the Committee for its awareness.

14 Madam Chair, that concludes my comments for this  
15 morning.

16 CHAIRPERSON MATHUR: Okay. Thank you. I have no  
17 requests from the Committee, so we will move on to Agenda  
18 Item number 3, the action consent items, approval of the  
19 minutes.

20 VICE CHAIRPERSON BILBREY: Move approval.

21 COMMITTEE MEMBER JONES: Second.

22 CHAIRPERSON MATHUR: Moved by Bilbrey, seconded  
23 by Jones.

24 Any discussion on the motion?

25 Seeing none.

1 All those in favor say aye?

2 (Ayes.)

3 CHAIRPERSON MATHUR: All those opposed?

4 Motion passes.

5 Agenda Item 4 are the information consent items.

6 I've had no requests to take anything up.

7 So we'll move on to Agenda Item number 5,  
8 Approval of the 2017 Health Maintenance Organization Plan  
9 Rates.

10 DEPUTY EXECUTIVE OFFICER McKEEVER: Thank you,  
11 Madam Chair. Again, Doug McKeever, CalPERS staff. Before  
12 I pass this on to Kathy, I just want to make a couple of  
13 opening comments relative to the 2017 rates that are  
14 before you this morning for your approval. It has been a  
15 lengthy process since we began this early in 2017, January  
16 to be specific. So this is a very lengthy process that we  
17 go through as you all know on a regular basis. A lot of  
18 work has been done to go into this process. And we're  
19 pleased with where we are at relative to moving into '17.

20 I do want to note that we did run out of copies  
21 in the back of the room. And so for those in the audience  
22 who were not able to get a copy, we are having those made,  
23 and hopefully we'll have those back in the back of the  
24 room shortly.

25 And then secondarily, for those who are unable to

1 attend this morning, we have posted, or they are being  
2 posted right now, to the web the agenda items, so folks  
3 who either are viewing this on the web or could access it  
4 via our on-line systems will have the agenda items for  
5 their use and their review.

6 CHAIRPERSON MATHUR: Great. Thank you.

7 Ms. Donneson.

8 HEALTH PLAN ADMINISTRATION DIVISION CHIEF

9 DONNESON: Madam Chair, members of the Pension and Health  
10 Benefits Committee, Agenda Item number 5 provides the  
11 Committee with the final Health Maintenance Organization  
12 premiums for calendar year 2017 for the Anthem Blue Cross,  
13 Blue Shield of California, Health Net, Kaiser Permanente,  
14 Sharp Health Plan, and UnitedHealthcare basic HMO plans  
15 and Kaiser and United Medicare Advantage plans  
16 single-party rates, as well as the basic and Medicare  
17 rates for the contracting agencies.

18 These recommended rates include the following:

19 Members in the Blue Shield NetValue plan will  
20 automatically be enrolled into Access+, since Blue Shield  
21 will not be providing the NetValue plan in 2017. Members  
22 may opt out or opt to change plans during open enrollment.

23 Approve the health plan request for HMO specific  
24 county expansions as outlined in the agenda item; adopt  
25 the following benefit designs or changes; implement the

1 Centers for Disease Control Diabetic Prevention Program,  
2 which is recommended by the California Department of  
3 Health Care Services.

4 This clarification to the existing contract  
5 requirements will come at no additional cost to CalPERS.  
6 Authorize Kaiser to offer a dental benefit rider to  
7 contracting agency members enrolled in the Medicare plan,  
8 which the member can purchase directly from Kaiser; add  
9 the Silver and Fit benefit to the Kaiser Medicare  
10 Advantage Plan.

11 This concludes my presentation. I'm happy to  
12 answer any questions, after which we request the Board  
13 take action on the HMO premiums and related requests  
14 contained in Agenda Item number 5.

15 CHAIRPERSON MATHUR: Thank you very much, Ms.  
16 Donneson.

17 Any questions from the Committee?

18 Mr. Bilbrey.

19 VICE CHAIRPERSON BILBREY: Thank you, Madam  
20 Chair. Again, I want to thank the staff for all the hard  
21 work on putting this together for this year. While it is  
22 a significant improvement, we still have much work to do,  
23 as we have discussed previously. But with that, I want to  
24 move that the Pension and Health Benefits Committee  
25 approve the proposed 2017 Health Maintenance Organization,

1 HMO, rates for Anthem Blue Cross, Blue Shield of  
2 California, Health Net of California, Kaiser Permanente,  
3 Sharp Health Plan, and UnitedHealthcare and Medicare  
4 Advantage rates for Kaiser Permanente and  
5 UnitedHealthcare.

6 ACTING COMMITTEE MEMBER BOYKEN: Second.

7 CHAIRPERSON MATHUR: Motion made by Bilbrey,  
8 seconded by Boyken.

9 Any discussion on the motion?

10 Seeing none.

11 All those in favor say aye?

12 (Ayes.)

13 CHAIRPERSON MATHUR: All opposed?

14 Motion passes.

15 Agenda Item 6.

16 HEALTH PLAN ADMINISTRATION DIVISION CHIEF

17 DONNISON: Madam Chair and members of the Pension and  
18 Health Benefits Committee, Agenda Item number 6 provides  
19 the Committee with final 2017 Anthem Exclusive Provider  
20 Organization basic plan premiums and the final 2017 PERS  
21 Choice, PERS Select, and PERSCare basic and supplement to  
22 Medicare plan premiums. Both State and contracting agency  
23 rates are provided. Staff requests that the Board approve  
24 the following benefits:

25 Continue the Castlight on-line health care



1 pricing transparency tool for the CalPERS basic PPO plans,  
2 continue the Welvie on-line tool for the PPO plans.

3 This concludes my presentation. I am happy to  
4 answer any questions, after which I respectfully request  
5 approval of these rates.

6 CHAIRPERSON MATHUR: Thank you.

7 Mr. Bilbrey.

8 VICE CHAIRPERSON BILBREY: Thank you, Madam  
9 Chair.

10 I move the Pension and Health Benefits Committee,  
11 approve the proposed 2017 rates for the Anthem Exclusive  
12 Provider Organization, EPO, PERS Choice, PERS Select, and  
13 PERSCare Preferred Provider Organization health plans as  
14 contained in this agenda item.

15 ACTING COMMITTEE MEMBER BOYKEN: Second

16 CHAIRPERSON MATHUR: Motion made by Bilbrey,  
17 seconded by Boyken.

18 Any discussion on the motion?

19 Seeing none.

20 All those in favor say aye?

21 (Ayes.)

22 CHAIRPERSON MATHUR: All opposed?

23 Motion passes. Thank you very much, Ms.  
24 Donneson.

25 Okay. That will bring us to Agenda Item number

1 8 -- I'm sorry, number 7, Legislation. Ms. Ashley, good  
2 morning.

3 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Good  
4 morning. Good morning, Madam Chair, and members of the  
5 Committee. Mary Anne Ashley, CalPERS staff. I'm  
6 presenting Agenda Item 7a, which is an action item. The  
7 complete and detailed analysis of SB 1010 is included in  
8 your Board materials, so I'm going to highlight a few of  
9 the provisions that are included in the bill.

10 SB 1010 by Senator Hernandez would require health  
11 plans and health insurers that report rate information to  
12 the Department of Managed Health Care the California  
13 Department of Insurance to also include specified  
14 information relating to prescription drug spending,  
15 including the 25 most frequently prescribed drugs, the 25  
16 most costly drugs by total plan spending, and the 25 drugs  
17 with the highest year over year increase in spending.

18 The measure requires the Department of Managed  
19 Health Care and the Department of Insurance to compile the  
20 submitted information into a report for the public and the  
21 legislature that demonstrates the overall impact of drug  
22 costs on health care premiums, to publish the report on  
23 its website, and to include the report as part of the  
24 public meeting required under the existing large group  
25 rates review law.

1           Additionally, SB 1010 requires large group health  
2 plans as part of their annual filing of information for  
3 rate changes to include information on the share of  
4 premiums and increases in premiums that are attributable  
5 to prescription drug costs, and the specialty drug tier  
6 formulary list.

7           The measure also imposes specified notice and  
8 justification requirements on drug manufacturers,  
9 including requiring drug manufacturers to notify each  
10 State purchaser, health care service plan, health insurer,  
11 PBM, and various State legislative committees in writing  
12 when increasing the wholesale acquisition cost of a  
13 branded prescription drug by more than 10 percent or by  
14 more than \$10,000, when increasing the wholesale  
15 acquisition cost of a generic prescription drug with a  
16 wholesale acquisition cost of \$100 or more per monthly  
17 supply, or by more than 25 percent during any 12-month  
18 period; and when introducing a new prescription drug to  
19 market, at a wholesale acquisition cost of \$10,000 or more  
20 annually or per course of treatment.

21           The measure imposes additional reporting  
22 requirements for drug manufacturers as specified regarding  
23 price increases or new high cost drugs coming to the  
24 market. Drug manufacturers not in compliance with the  
25 notification requirements would be assessed a \$1,000 per

1 day fine for failure to report the required information  
2 within the specified time frames.

3 And the measure also requires the legislature to  
4 conduct an annual public hearing regarding aggregate  
5 trends in prescription drug pricing. CalPERS currently  
6 contracts with the PBM, which negotiates with drug  
7 manufacturers to secure the most favorable drug prices and  
8 rebates. And CalPERS already receives some of the  
9 proposed reporting information required by the bill to be  
10 disclosed.

11 The Bill requires the disclosure of pricing and  
12 utilization data on drug prices to purchasers,  
13 policymakers, and public to enable policymakers to better  
14 evaluate possible cost-containment measures and efforts in  
15 the future. And if enacted, SB 1010 could provide CalPERS  
16 with additional information and provide more transparency  
17 in drug costs, and the resultant impact on health care  
18 premiums and affordability.

19 Staff is recommending a support position on this  
20 measure, and I am happy to answer any questions.

21 Thank you.

22 CHAIRPERSON MATHUR: Thank you.

23 Are there any questions from the Committee at  
24 this time?

25 We do have several members of the public who wish

1 to speak on this item, so I'll call them now.

2 Beth Capell, Sara Flocks, and Teresa Stark. If  
3 you could please make your way up here to the 2 seats on  
4 the left. The mics have been turned on, and you will  
5 have -- if you could please identify yourself and your  
6 affiliation for the record, and you'll have 3 minutes in  
7 which to speak.

8 MS. CAPELL: Of course. Beth Capell on behalf of  
9 Health Access California. We're pleased to co-sponsor  
10 this measure with the California Federation of Labor, and  
11 to have the support of a long list of other organizations,  
12 which your analysis reflects.

13 As your staff has accurately reflected the bill,  
14 it would provide advanced notice before the price of an  
15 existing drug went up 60 days, so that you would have the  
16 opportunity to plan for your budget, and also adjust your  
17 formulary, take other steps. You and other purchasers  
18 would have that opportunity.

19 And it also builds on a series of bills that you  
20 have supported in the past to provide additional  
21 disclosure about increases in prescription drug costs.  
22 And for that reason, we would -- are pleased to support  
23 the staff's recommendation.

24 Thank you.

25 CHAIRPERSON MATHUR: Thank you, Ms. Capell.

1 Ms. Flocks.

2 MS. FLOCKS: Madam Chair, members, Sara Flocks  
3 from the California Labor Federation. We represent 1,200  
4 affiliates that both negotiate and purchase health  
5 benefits for 2 million union members in the State. And we  
6 see SB 1010 as giving purchasers another tool, just one  
7 more tool that we can use in order -- in our ongoing  
8 strategies to try to contain health care costs.

9 This is part of an ongoing series of bills that  
10 we have sponsored and we've been pleased to have CalPERS  
11 support into increased transparency, specifically for  
12 those of us that need -- have to negotiate with various  
13 parts of the health care industry, so that we can contain  
14 costs and keep down premiums for our members. And we  
15 support the recommendation, ask for your support, and  
16 thank you for your time.

17 CHAIRPERSON MATHUR: Thank you very much, Ms.  
18 Flocks.

19 Ms. Stark.

20 MS. STARK: Thank you, Madam Chair and members.  
21 Teresa Stark on behalf of Kaiser Permanente. We are in  
22 strong support of SB 1010, and we support the staff  
23 recommendation today and very much appreciate you  
24 considering the item today. I will echo the comments of  
25 my colleagues. This bill is a modest step to help us

1 begin to understand what is driving the price increases in  
2 pharmaceuticals. As you well know, Kaiser Permanente is  
3 very concerned about the impact of pharmaceutical costs on  
4 our affordability imperative, and we hope that this is a  
5 first step to begin to understand and provide some  
6 information, so that purchasers, public and private  
7 purchasers, can better manage those costs and plan and  
8 prepare for the trend that we are seeing.

9 And I will note we are part of this remarkable  
10 coalition. We don't always -- as you well know, we don't  
11 always agree with the individuals who were here before,  
12 but we are very pleased to be in agreement with them today  
13 and urge your support of the staff recommendation.

14 Thank you.

15 CHAIRPERSON MATHUR: Thank you very much, Ms.  
16 Stark.

17 Mr. Feckner.

18 COMMITTEE MEMBER FECKNER: Is a motion in order,  
19 Madam Chair?

20 CHAIRPERSON MATHUR: Yes, please.

21 COMMITTEE MEMBER FECKNER: Then I will move that  
22 the Committee take a -- recommend a support position to  
23 the full board on Senate Bill SB 1010, because it will  
24 provide greater transparency on prescription drug costs.

25 VICE CHAIRPERSON BILBREY: Second.

1 CHAIRPERSON MATHUR: Thank you. Motion made by  
2 Feckner, seconded by Bilbrey.

3 I think that that is yet another important step  
4 in our efforts -- our ongoing efforts to shine sunlight on  
5 an area of health care which is a significant driver of  
6 the costs for our members. And its -- this is an area  
7 that we're going to continue to have focus on in our own  
8 internal efforts, but this is an important bill that helps  
9 the entire health care purchaser arena.

10 Okay. With that, I see no further requests to  
11 speak. So on the motion, all those in favor say aye?

12 (Ayes.)

13 CHAIRPERSON MATHUR: All opposed?

14 Motion passes. Thank you very much.

15 We'll move on to Agenda Item number 8, State  
16 Annuitant Contribution Formula. Ms. Donneson.

17 HEALTH PLAN ADMINISTRATION DIVISION CHIEF

18 DONNESON: Madam Chair, members of the Pension and Health  
19 Benefits Committee, Agenda Item number 8 provides the  
20 State Annuitant Contribution Formula.

21 The State annuitant contribution amounts are  
22 proposed for the 2017 premium rates and are provided in  
23 the attachment to this agenda item. Government Code 22871  
24 sets forth that the employer contribution for health  
25 benefits for State employees and annuitants shall be based



1 on the principle of a weighted average of the premiums of  
2 the 4 largest health benefit plans.

3 The 4 largest health benefit plans for 2017 are  
4 Kaiser Permanente, Blue Shield Access+, UnitedHealthcare,  
5 and the PERS Choice Preferred Provider Organization.

6 With that, I ask you to -- or this is an  
7 information item. With that, I conclude my remarks and  
8 I'm happy to answer questions.

9 CHAIRPERSON MATHUR: Thank you very much.

10 Any questions from the Committee?

11 Seeing none.

12 We can move on to Agenda Item number 9, Long-Term  
13 Care Third-Party Administrator Procurement Strategy.

14 HEALTH PLAN ADMINISTRATION DIVISION CHIEF

15 DONNISON: Agenda Item number 9, Madam Chair and members  
16 of the Committee, outlines the solicitation and  
17 competitive negotiation approach for the long-term care  
18 procurement strategy. On March 16th, a Request for  
19 Information for a long-term care third-party administrator  
20 was released to solicit information from current long-term  
21 care third-party administrators about the services they  
22 plot -- provide currently or in contemplating providing in  
23 the future.

24 CalPERS specified areas of interest and received  
25 responses from 8 companies, which are identified on page 2

1 of this agenda item, and a summary of the responses is  
2 provided as Attachment 1.

3           Within this agenda item, we outlined the  
4 long-term care solicitation and competitive negotiation  
5 approach, which is Similar to what we just accomplished  
6 with the pharmacy benefit management solicitation. A  
7 competitive negotiation permits the consideration of  
8 price, technical expertise, past performance, management,  
9 or other factors in assessing the most cost effective  
10 proposals.

11           The solicitation requires proposers to submit an  
12 offer that provides evidence of their ability to meet  
13 CalPERS requirements, to meet minimum qualifications, and  
14 technical, and financial requirements.

15           The structure and process is explained in  
16 attachment 2 of this agenda item. The anticipated release  
17 of phase 1 of the solicitation is mid-June, and phase 2  
18 would be released in August with solicitation offers due  
19 in November 2016.

20           The process, staff procurement milestones, and  
21 timeline is further described in attachment 3 and 3a of  
22 this agenda item. The 5-year contract is effective  
23 January 1, 2018, and expires on December 31st, 2022. This  
24 concludes my presentation and I'm happy to answer  
25 questions.

1 CHAIRPERSON MATHUR: Thank you. Any questions  
2 from the Committee?

3 It seems like you're on the right path.

4 Thank you.

5 HEALTH PLAN ADMINISTRATION DIVISION CHIEF

6 DONNESON: I believe I'm done now.

7 DEPUTY EXECUTIVE OFFICER McKEEVER: You are.

8 (Laughter.)

9 HEALTH PLAN ADMINISTRATION DIVISION CHIEF

10 DONNESON: Thank you.

11 CHAIRPERSON MATHUR: Thank you so much, Ms.

12 Donneson.

13 We'll move on now to Agenda Item number 10, Drug  
14 Price Relief Act.

15 DEPUTY EXECUTIVE OFFICER McKEEVER: Madam Chair,  
16 As Ms. Pales and Dr. Sun come up to the table, let me just  
17 set this up for you all. The initiative is on the  
18 November 2016 ballot. So just for any of you who might be  
19 aware of where it is or isn't, I just want to make sure  
20 that you're aware that it already has qualified and is  
21 going to be on the ballot. We thought it was important to  
22 bring for your attention today our analysis relative to  
23 the initiative and some of the good things about the  
24 initiative and some of the things that we'll point out to  
25 you are tremendous challenges relative to implementation.

1           So the intent again today is to provide you with  
2 just that update, and certainly ask and entertain any  
3 questions that you may have. So with that, I'll turn it  
4 over to Ms. Pales.

5           HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF  
6 PALES: Good morning.

7           CHAIRPERSON MATHUR: If you could turn on your  
8 microphone, please and move the mic in front of you.

9           HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF  
10 PALES: Good morning, Madam Chair, members of the  
11 Committee. Karen Pales, CalPERS staff.

12           As promised at last month's Pension and Health  
13 Benefits Committee meeting, we're providing an information  
14 item on the Drug Price Relief Act, which is an upcoming  
15 statewide initiative that will be part of November 2016  
16 ballot.

17           This initiative aims to lower the price that  
18 State agencies pay for prescription drugs by prohibiting  
19 them from paying more than the U.S. Department of Veterans  
20 Affairs pays for the same drugs.

21           Any attempt to lower drug prices that would have  
22 a positive impact on our overall drug spend is attractive,  
23 and the initiative's approach might possibly provide cost  
24 savings.

25           However, some of the potential outcomes, should

1 the initiative pass and become law, are difficult to  
2 predicts. CalPERS shares the Legislative Analyst's Office  
3 view that the overall fiscal effect is uncertain because  
4 it's unclear if the VA drug prices are publicly available,  
5 and how drug manufacturers might respond in the market if  
6 this measure were to be enacted.

7 In our agenda item, we provide a discussion of  
8 these uncertainties and also address other concerns and  
9 questions as well as these following items:

10 How might drug prices actually be impacted? What  
11 could this do to pharmacy benefit manager and health plan  
12 administration contracts? Will access to drugs be  
13 impacted? In what ways might we be challenged when trying  
14 to comply with the law's requirements and timelines?

15 The item discusses these possibilities in great  
16 detail. So for today, we'd like to share some specific  
17 thoughts about how the initiative might affect CalPERS  
18 members and CalPERS business processes in more tangible  
19 ways, and discuss how the initiative could create  
20 challenges for CalPERS contracts and provide a brief  
21 example of how the initiative might potentially affect  
22 CalPERS drug formulary design, and members access to  
23 certain drugs.

24 I'd like to introduce my colleague, Dr. Richard  
25 Sun, who will present these issues.

1 DR. SUN: Good morning. I will touch on  
2 contracting and formulary issues.

3 Potential effects on contracting.

4 We may need to amend contracts with Kaiser, Blue  
5 Shield, and OptumRx in response to the Act. For example,  
6 as stated in the agenda item, their confidential net price  
7 data would need to be transmitted quote, "to DHCS for  
8 comparison with the lowest net price paid by the VA",  
9 unquote. That process may take a few months after  
10 November 8. If all goes well, the less expensive drugs  
11 will start flowing to our members next year.

12 However, CalPERS staff predicts a rocky road  
13 ahead. It is our opinion that it is unlikely that the  
14 health plans and PBM can obtain the VA prices for all  
15 drugs, in which case CalPERS must obey the following  
16 provision in the Act: Quote, "The responsible State  
17 agency shall enter into additional agreements with drug  
18 manufacturers for further price reductions", unquote.

19 CalPERS has never done this before. Because of  
20 the phrase quote, "responsible State agency", unquote, we  
21 cannot simply ask our sister agencies, such as the  
22 Department of General Services, to do the agreements on  
23 our behalf. To negotiate directly with drug  
24 manufacturers, we would need to hire additional staff or  
25 divert staff from other parts of CalPERS to meet the quote

1 "No later than July 1, 2017" deadline.

2 Another hurdle is that the Act does not require  
3 manufacturers to enter into agreements with CalPERS to  
4 establish the VA pricing. If a drug manufacturer does not  
5 enter into an agreement with CalPERS, then CalPERS would  
6 not be in compliance with the Act. The Act is silent on  
7 what would happen in this circumstance. It merely states  
8 that the State entities required to implement and comply  
9 with the act no later than 7-1-17 and can adopt rules and  
10 regulations to implement its provisions and may seek  
11 waivers of federal law, rule, or regulation necessary to  
12 implement its provisions.

13 It is unlikely that such rules, regulations, and  
14 waivers could be completed by a 7-1-17 deadline. This  
15 creates an unknown risk to CalPERS.

16 Potential decreased access to drugs.

17 The Act does not compel manufacturers to offer VA  
18 prices to CalPERS. And as stated in the agenda item, this  
19 situation quote, "could cause difficult formulary  
20 choices", unquote.

21 Imagine this scenario, we or our health plans or  
22 PBM on our behalf requests that Novartis give us the  
23 lowest VA price for Afinitor, a tablet that is used for  
24 several cancers, including advanced breast cancer. This  
25 is, of course, assuming that we know the lowest VA net

1 price, which could be lower than the price that we can see  
2 on the VA website of about \$6,000 a month.

3 Novartis refuses. To avoid not being in  
4 compliance with the Act, we remove Afinitor from our  
5 formulary. Therefore, a member with advanced breast  
6 cancer, for whom Afinitor is medically necessary, may not  
7 have access to this drug through their CalPERS coverage.

8 In conclusion, the stated purposes of the Act,  
9 such as quote, "To enable significant cost savings",  
10 unquote are noble and commendable. However, should the  
11 Act become law, CalPERS staff is concerned that compliance  
12 would be very difficult. Furthermore, the law may have  
13 adverse effects, not only for CalPERS members, but also  
14 for entities such as the Veterans Administration.

15 We're happy to answer questions.

16 CHAIRPERSON MATHUR: Thank you very much.

17 Mr. Jones.

18 COMMITTEE MEMBER JONES: Yeah. Thank you, Madam  
19 Chair. What, if any, penalties may be forthcoming if we  
20 were not in compliance by the due date?

21 DR. SUN: There are no penalties specified in the  
22 law. However, it could subject us to lawsuits, for  
23 example.

24 COMMITTEE MEMBER JONES: And those lawsuits from  
25 the manufacturers, or from members, or from where?



1 DR. SUN: That is unknown. It is possible it  
2 could be all 3 sources.

3 DEPUTY EXECUTIVE OFFICER McKEEVER: Mr. Jones, it  
4 could also be from the proponents of the initiative by  
5 which, if it were to pass, then they would say that we're  
6 out of compliance with the initiative. So it could also  
7 stem from some of those individuals and groups as well.

8 COMMITTEE MEMBER JONES: And the waiver process,  
9 you said it is unknown at this time?

10 DR. SUN: The Act would allow us to seek waivers.  
11 However, the chance of the federal government approving  
12 such waivers staff feels is low.

13 COMMITTEE MEMBER JONES: Thank you.

14 DEPUTY EXECUTIVE OFFICER McKEEVER: Yeah. Mr.  
15 Jones, I think it's important to note that this is a  
16 statewide California Initiative, so there isn't anything  
17 that would require the federal government to either  
18 support and/or not support this particular initiative.  
19 And that's what makes this so challenging for us. And  
20 it's not just CalPERS who's impacted by this, there are  
21 other State entities who find themselves in a similar  
22 situation, whereby the initiative's intent is genuine, as  
23 we've mentioned. If we can lower drug costs for our  
24 members, we're all for it. The implementation challenges  
25 are what are really perplexing to us and others. And

1 those were also called out in the LAO report that we  
2 included in the agenda item.

3 One final point that I would like to make on this  
4 is part of our due diligence. We did reach out to the  
5 Veterans Administration and had a conversation with them  
6 about the initiative in general terms. We didn't ask  
7 whether they're in support or opposition. We didn't feel  
8 that that was our place to ask them that particular  
9 question. But we did want to understand from their  
10 viewpoints some of the -- some of the impacts that they  
11 might get out of this, if it were to pass.

12 And I think what's instructive to note, which is  
13 also included in the agenda item, was back in 1990 when a  
14 budget bill was passed, which would have given certain  
15 other governmental entities the best price available from  
16 the manufacturers to any wholesaler or retailer of drugs,  
17 what happened with that is the manufacturers actually  
18 increased those drugs, and so the VA saw their prices  
19 actually go up, rather than go down. And in our  
20 conversations with them, they're concerned that a similar  
21 situation may result, if this initiative were to pass.

22 COMMITTEE MEMBER JONES: Okay.

23 CHAIRPERSON MATHUR: Thank you. We do have 2  
24 members of the public who wish to speak. Ms. Megan Gamble  
25 and Mr. Rand Martin, if you could please make your way to

1 the front to these 2 seats here on my left. The mics will  
2 be turned on for you. And if you could identify yourself  
3 and your affiliation for the record. You will each have 3  
4 minutes to speak.

5 MS. GAMBLE: All right. I will go ahead.  
6 Thanks.

7 CHAIRPERSON MATHUR: Go ahead, Ms. Gamble.

8 MS. GAMBLE Thanks. Is my --

9 CHAIRPERSON MATHUR: Your mic is on.

10 MS. GAMBLE: Okay. Hello. My name is Megan  
11 Gamble, and I'm with the Californians Against the  
12 Misleading RX Measure. I'm here on behalf of a coalition  
13 that is diverse, including labor unions, patient advocacy  
14 organizations, health care, seniors, and other groups  
15 opposed to the prescription purchasing measure.

16 And as you have concerns, many of these  
17 organizations are concerned with prescription prices.  
18 However, they have taken a look at this initiative and  
19 looked closely and have found that it won't deliver on its  
20 promises. We thank your staff for their thoughtful  
21 analysis. And, you know, just wanted to repeat that the  
22 Legislative Analyst's Office has also found concerns with  
23 the measure as well, and came to similar conclusions.

24 They -- you know, this measure is going to be  
25 unworkable, and it could actually increase prescription

1 costs and reduce access to medications.

2 So thank you so much.

3 CHAIRPERSON MATHUR: Thank you for your comments.  
4 Mr. Martin.

5 MR. MARTIN: Madam Chair and members, Rand Martin  
6 on behalf of the AIDS Healthcare Foundation, the  
7 proponents of the Drug Price Relief Act.

8 Needless to say, we're pretty disappointed in the  
9 analysis. We find it is pretty one-sided. It starts off  
10 very well talking about how the initiative is very  
11 attractive and might probably -- or possibly generate cost  
12 savings, but that's the last nice thing that's said about  
13 the initiative for the remainder of the 5 pages.

14 It goes on in 2 primary paths relative to their  
15 reaction to it. Number 1 is relative to what might happen  
16 if the drug companies actually follow through on the  
17 threats that they've been making the last few months  
18 relative to this initiative, such as leaving the State of  
19 California, such as trying to raise drug prices at the VA,  
20 which, by the way, to finish the story that you just heard  
21 from the conversations with the VA, that 1990's situation  
22 ended up with Congress stepping in and protecting the VA.  
23 We believe that the drug companies cannot unilaterally go  
24 to the VA and increase the drug prices without going  
25 through Congress first.

1           Some of the other challenges that we've heard  
2 from staff are issues of implementation, not issues of  
3 policy, issues about the July 1st deadline for emergency  
4 regulations. There are always ways to deal with problems  
5 like that. If that's one of the biggest problems that the  
6 CalPERS staff has, then I think we can find a way to work  
7 around deadlines, as long as the objective here is to get  
8 drug prices down.

9           The talk about limiting drugs on formularies,  
10 that would be a unilateral decision on the part of a State  
11 agency to use that as a way to affect the measure. And  
12 with all due respect to, you know, this very wonderful  
13 organization, we're really concerned that the response is  
14 more about the hard work that it would take to restructure  
15 what CalPERS does and how it implements its drug pricing  
16 strategies. We recognize that there are unique ways that  
17 this entity operates. But if the voters of California  
18 believe that the prices of drugs statewide are too high,  
19 that they're impacting the State of California and the  
20 ability of the State of California to actually provide  
21 fiscal -- responsible fiscal stewardship, then it's up to  
22 CalPERS and the other agencies to find ways to make that  
23 work.

24           We are so used to, in this state, legislators and  
25 others crafting very detailed laws. What we have done

1 here is actually putting forward to the voters a policy  
2 matter, a policy decision, and leaving it up to the State  
3 of California to figure out how to implement it.

4 The goal has been noted is worthy, and we think  
5 that you should be partnering with us to achieve that  
6 goal, rather than finding excuses for not -- for not  
7 implementing it.

8 I want to point out 2 quick things at the end.  
9 One is that there's a provision in the measure that says,  
10 "Only to the extent permitted by federal law". So if  
11 there are problems with federal law, the initiative does  
12 give the State some out --

13 CHAIRPERSON MATHUR: I'm sorry your time has  
14 expired. Thank you for your comments.

15 We do have one member of the Committee who wishes  
16 to speak. Mr. Jelincic.

17 BOARD MEMBER JELINCIC: Can the first speaker  
18 restate her affiliation.

19 MS. GAMBLE: Sure. We are the Californians  
20 Against the Misleading Rx Measure. It's a coalition  
21 opposed to the initiative.

22 BOARD MEMBER JELINCIC: Okay. Thank you.

23 MS. GAMBLE: Sorry.

24 CHAIRPERSON MATHUR: Thank you.

25 Any further discussion by the Committee or the

1 Board members?

2           Seeing none. I thank you. Thank you all for  
3 your presentation.

4           CHAIRPERSON MATHUR: Okay. That brings us to  
5 Agenda Item number 11, Financial Literacy Update.

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

9           Agenda Item number 11 is an information item.  
10 And today, I'm pleased to share with you our plans to  
11 enhance the education that we offer to our members related  
12 to financial literacy, and retirement security. So  
13 financial literacy is important, because it impacts the  
14 knowledge that may improve financial behaviors that are  
15 necessary for individuals to make sound financial  
16 decisions.

17           As you've no doubt scene, CalPERS offers quite a  
18 significant amount of information to our members regarding  
19 the benefits of our system. However, PEPRRA brought  
20 changes to CalPERS benefit package, both in terms of what  
21 members pay into and what they expect to receive from the  
22 system.

23           Furthermore, our membership is changing. We've  
24 her a lot about the different generations and what  
25 generation -- what the different generations need in terms

1 of their ability to plan for their retirement. And  
2 younger members balance their careers and lives  
3 differently, and change is continuous as they oftentimes  
4 move jobs more frequently as well.

5 CalPERS is not alone in recognizing the need to  
6 raise financial awareness. In April of 2016, the  
7 Department of Treasury released its strategy to increase  
8 awareness of and access to effective financial education.  
9 Our plan is nicely aligned with this strategy. Here at  
10 CalPERS, we want to advance the conversation about what it  
11 takes to be ready for the golden years, and also raise our  
12 member's awareness of financial concepts, so that they can  
13 decide whether or not they need to save more money to  
14 achieve their financial goals and retirement.

15 This includes suggesting our members begin to  
16 consider potential new expenses going into retirement,  
17 things such as insurance, elderly parents, and when  
18 setting retirement goals in thinking about ways to protect  
19 quote, "their nest egg".

20 Staff has engaged external stakeholders,  
21 including representatives from active schools, State  
22 employees, peace officers, engineers, and retired  
23 associations. And we got quite a lot of feedback to  
24 consider as we go forward in our implementation.

25 Some of the feedback that we received is the need



1 to engage the early and mid-year career workforce. They  
2 also suggested that we develop specific events focused on  
3 financial awareness for younger members, and something  
4 that we can consider incorporating in our CBEEs. In  
5 addition to that, they strongly encourage that we use all  
6 of the methods of delivery -- delivering education that we  
7 use today, which includes on-line tools, instructor-led  
8 training, publications, as well as compute-based training.

9 We plan to do this over the next year by  
10 leveraging all of the existing outreach channels that we  
11 have, including social media, to educate our members on  
12 basic retirement plan information, including our defined  
13 benefit plan, our supplemental saving options, Social  
14 Security, and retirement health care.

15 We've also incorporated the financial literacy  
16 initiative into our 2015-17 business plan. And so future  
17 updates on this initiative will be included in the  
18 business plan updates that are provided to the Committee.

19 Before I conclude, I just wanted to take a moment  
20 to thank all of the staff that have been involved in the  
21 research and the planning for the implementation and  
22 roll-out that will begin in July of 2016. This was a  
23 widespread cross-divisional effort. Representatives from  
24 many different divisions came together and did a lot of  
25 research, looked at a lot of best practices, engaged with

1 our sister partner agencies, including CalHR and CalSTRS  
2 to look at and review what they've been doing in this  
3 area, and again to pick up best practices.

4 So again, I just wanted to take a moment to thank  
5 the staff that have been involved in this. And with that,  
6 I am available to answer any questions that you have.

7 CHAIRPERSON MATHUR: Thank you very much, Ms.  
8 Lum.

9 Mr. Boyken.

10 ACTING COMMITTEE MEMBER BOYKEN: Thank you.  
11 Thanks for the update, Ms. Lum. A couple of years ago,  
12 you, or I think it might been Stacie Sormano's research  
13 group came out with this paper that showed for post-PEPRA  
14 employees kind of what they would need to do to catch up  
15 to the same benefit level as classic members. And I  
16 thought that was really great, and I like the work you're  
17 doing.

18 But I was wondering, in terms of our own  
19 supplemental income plans, have we thought about how to  
20 build features, you know, calculators that educate  
21 members, or even -- I mean, this is -- there's probably  
22 many barriers to this, but, you know, thinking about  
23 automatic enrollment or other features that can give  
24 people the nudge to save more?

25 DEPUTY EXECUTIVE OFFICER LUM: Yes. Those are

1 very good questions. And, in fact, that's part of the  
2 research that we're going to continue to do. We recognize  
3 that there are many financial institutions that have  
4 calculators that we could possibly link to and provide  
5 information to our members, so that they can go to these  
6 providers as needed for financial advice, which is not  
7 what we're providing this initiative. Just to be really  
8 clear, what we're providing is access to financial  
9 awareness -- or financial awareness.

10 We also are looking at the possibility of  
11 leveraging our partnership with our existing SIP vendor,  
12 as we know that they have partnered with other agencies to  
13 be able to provide some of the education and advice as  
14 well.

15 So those are all the things that we will continue  
16 to look at. Our immediate interest is taking the  
17 materials that we currently have and enhancing them by  
18 adding additional information that will lead to greater  
19 awareness. We do believe that there are additional tools  
20 that we can consider implementing in the future. And it  
21 will just take some additional time and research to do  
22 that.

23 CHAIRPERSON MATHUR: Thank you.

24 Mr. Costigan.

25 BOARD MEMBER COSTIGAN: Thank you, Madam

1 President -- or Madam Chair. I just want to say a shout  
2 out to CalHR. And I think, first of all, this is  
3 fascinating what you guys are doing. One is, I -- CalHR  
4 and the new Savings Plus website has a lot of this  
5 information on it. Part of it is understanding it. And I  
6 really do wish, and I commend this Committee and you, Ms.  
7 Lum, on trying to get ahead of this. Because as you  
8 approach retirement and as you start looking at savings,  
9 you don't realize what you should have been doing 20 or 25  
10 years ago.

11 And I will have to say, on like the CalHR and the  
12 Savings Plus website, it's fascinating, but you're still a  
13 little bit of doing it yourself. And because I work and  
14 get to work with great people, I now understand it more.  
15 And I think as we're working towards financial literacy,  
16 it's really trying to understand.

17 Just one quick point. I was having a  
18 conversation. There's a radio talk show host, third most  
19 syndicated, who talks about financial planning, don't be  
20 in debt and all this. And he's always throwing out, oh,  
21 yeah, you should be able to get 7 percent. And sometimes  
22 I wish people would challenge him, because that is very  
23 difficult to achieve, particularly for an individual  
24 investor. And so I just, again, Ms. Mathur just want to  
25 praise you and Ms. Lum and CalHR, this is very important,

1 because I do think, as we've talked before, this is a  
2 pending crisis that's coming. People are not paying  
3 attention.

4 Every day I stress over the fact that the Schwab  
5 rule of withdrawal 4, earn 5, and I'm sitting there  
6 struggling figuring out how to earn 5, and not withdraw 4,  
7 and watch Mr. McKeever deal with rates, and suddenly  
8 you're really struggling. So I think this is a great,  
9 great priority. I just wanted to chime in.

10 Thank you.

11 CHAIRPERSON MATHUR: Thank you. Thank you.

12 I also agree that this is a very important  
13 effort. And it is very challenging to try to reach the  
14 younger generation who's just starting out their career.  
15 And I can't say that I have the answer for how to do that,  
16 but the earlier you start thinking about this -- we all  
17 know, the earlier you start thinking about this, and start  
18 planning, and acting, the easier it is in a way. So it's  
19 a very important effort, and I appreciate all the work  
20 that your team is doing.

21 DEPUTY EXECUTIVE OFFICER LUM: Thank you. One of  
22 the things that I would add is as part of our  
23 transformation, we've done a lot of work with regards to,  
24 what we call, event-triggered events, where we are  
25 proactively reaching out to different members at different

1 age groups to provide information that they should  
2 consider at various points in their career.

3 And one of the things that we've really taken  
4 note of during the CBEEs, the CalPERS Benefit Education  
5 Events, this past fiscal year is we had a very large  
6 attendance of, what we would call, our mid-career members.  
7 And so I think the efforts that we've undertaken to really  
8 reach out and to promote information, education,  
9 retirement planning to all level -- all age levels in our  
10 membership is really starting to payoff.

11 CHAIRPERSON MATHUR: Terrific. Thank you very  
12 much. I see no further requests.

13 Okay. Let's move -- we'll move on to Agenda Item  
14 number 12, the California Public Employees' Pension Reform  
15 Act -- An Update Since Implementation.

16 Mr. McKeever.

17 DEPUTY EXECUTIVE OFFICER McKEEVER: Good morning,  
18 Madam Chair, Members of the Committee. Doug McKeever,  
19 CalPERS staff. Mr. Milligan and I will cover this  
20 particular information item, which is the last one of the  
21 day for us.

22 So by way of background, the Public Employees  
23 Pension Reform Act of 2013 was signed into law by the  
24 Governor back in September of 2012, within an effective  
25 date of January of 2013.

1           We thought it would be helpful to review what has  
2 happened since the passage of the Act. So I'll cover some  
3 of the initial efforts that were undertaken by CalPERS to  
4 implement, Alan then will cover some of the data on PEPRA,  
5 and then I'll close by summarizing the 3 areas that we  
6 need to close the loop on relative to the Act itself.

7           So what is it that we undertook to ensure  
8 implementation of PEPRA since the passage was aligning our  
9 processes to meet all of the requirements of the Act  
10 itself. Included in that was extensive communication  
11 efforts to our stakeholders, in particular employers, to  
12 ensure that we would use multiple venues to get that  
13 message out to them, so that they would understand what  
14 the impacts are, what the system changes needed to be to  
15 account for the new formulas.

16           As part of the new formulas, we had to modify our  
17 systems internally to do that. And so staff spent a great  
18 deal of time modifying our systems to ensure that those  
19 formulas were inputted, that we could start to account for  
20 those new formulas and the rates themselves.

21           We introduced regulations to clarify some of the  
22 areas in the statute, such as our scope and authority to  
23 administer those definitions of new terms, and calculation  
24 processes. One regulatory effort specific to pensionable  
25 comp did not get submitted to the Office of Administrative

1 Law and is one of the 3 items that I will highlight after  
2 Alan goes through some of the analysis that we've  
3 conducted to date.

4 So with that, I'll pass it over to Alan.

5 CHIEF ACTUARY MILLIGAN: Thank you and good  
6 morning. It's been 3½ years since PEPRA came into effect.  
7 And in that time, we've actually seen a considerable  
8 portion of our membership covered under the new PEPRA  
9 formulas. At this point, PEPRA is fully implemented with  
10 the 3 exceptions that Doug will go into a little bit  
11 later. And about 29 percent of our -- of the member --  
12 our membership is -- of our active members are already  
13 covered by the new benefit formulas.

14 This may be surprising to some, because the early  
15 communication on PEPRA really stressed -- a lot of the  
16 press stories really stressed how long this Act was going  
17 to take before it fully -- was fully implemented. In  
18 fact, the level of take-up is maybe a bit higher than we  
19 had anticipated. And I think that was attributable to the  
20 fact that local government employment was suppressed at  
21 the time PEPRA was passed, the economy rebounded a bit,  
22 and some, I think, local governments may have rehired some  
23 of their staff that they had let go during the recession.  
24 So the take-up was probably a little bit higher than we  
25 had anticipated.



1           But I think really the point I would like to make  
2 is that the membership has -- a good portion of the  
3 membership has turned over already, and probably  
4 significantly higher than many were -- would have  
5 expected.

6           With all of the other provisions of PEPRA, this  
7 is beginning to bend the cost curve. I'd like to point --  
8 I'd like to mention that the savings for the new members  
9 covered under PEPRA generally range from 1½ percent of  
10 payroll to 5.1 percent of payroll for the State plans.  
11 And this is for the new members covered under the PEPRA  
12 formulas, about 1.7 percent savings for school members.  
13 There is more variation in the level of savings for local  
14 agencies because they have much more diverse benefit  
15 formulas, or at least they had much more diverse benefit  
16 formulas.

17           But we generally believe that the savings for  
18 local public agencies will be higher than the savings for  
19 the State. And the reason for this is that the State had  
20 actually taken some actions prior to the passage of PEPRA  
21 to control pension costs in particular. State members  
22 were already -- new State employees were already coming in  
23 under the 2 percent at 60 benefit formula, instead of 2  
24 percent at 55, which had been the standard for State  
25 employees before.

1           And certainly, the State never got to the -- some  
2 of the AB 616 formulas for miscellaneous members. So that  
3 offered more room for savings for local agencies.

4           And also, the State moved to a 3-year final  
5 average -- final earnings calculation for all new hires  
6 prior to the implementation of PEPRA, so the -- that did  
7 suppress the amount of savings that the State was able to  
8 get. They got the savings. They just got them -- we just  
9 can't attribute it to PEPRA because they had already acted  
10 to address that.

11           Some of the other provisions of PEPRA also have  
12 an impact on cost. The prohibition on picking up member  
13 contributions is something that we are not really able to  
14 quantify, because we generally do not -- did not know if  
15 employers were picking up employer contributions.

16           So since we didn't know if they were to start  
17 with, the fact that they're not doing it now, we still  
18 don't know what the level of that is. But certainly, that  
19 resulted in -- has resulted in savings and will continue  
20 to result in savings for employers.

21           In addition, PEPRA did provide more ability to  
22 negotiate cost sharing with employees. And so that will  
23 be having an impact on the cost as well. So, in short,  
24 PEPRA is almost fully implemented. About 29 percent of  
25 the members are already under the new benefit formulas.

1 And PEPRA is beginning to bend the cost curve and will  
2 continue to do so for many years.

3 With that, I'm going to pass it back to Doug.

4 DEPUTY EXECUTIVE OFFICER McKEEVER: Thank you,  
5 Alan.

6 CHAIRPERSON MATHUR: Could we -- Doug, could we  
7 pause for a question here?

8 DEPUTY EXECUTIVE OFFICER McKEEVER: Certainly.

9 CHAIRPERSON MATHUR: Thank you.

10 Mr. Jelincic.

11 BOARD MEMBER JELINCIC: Alan, you mentioned that  
12 29 percent of the active members are now covered by PEPRA.  
13 And I share your kind of surprise at that. But is that 29  
14 percent equally distributed across the State schools and  
15 public agencies, or is there a difference between those 3  
16 groups?

17 CHIEF ACTUARY MILLIGAN: I'm not sure -- I'm not  
18 sure, but I believe Renee has the answer.

19 CHAIRPERSON MATHUR: She always does.

20 EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF

21 OSTRANDER: Good morning. Renee Ostrander, CalPERS staff.

22 It's fairly equally distributed, but there is a  
23 little more weight in the schools area.

24 BOARD MEMBER JELINCIC: Okay. Thank you.

25 CHAIRPERSON MATHUR: Thank you.

1 All right, Mr. McKeever.

2 Oh, I'm sorry. Mr. Jones had a question as well.

3 COMMITTEE MEMBER JONES: Thank you, Madam Chair.

4 Yes. Alan, you mentioned that the progress is  
5 greater than anticipated. And so my question is do you  
6 see the progress that's being made in the forecast to  
7 continue to gain momentum having an impact on our ALM  
8 process in a couple years?

9 CHIEF ACTUARY MILLIGAN: The progress that has  
10 been made will certainly impact the ALM process, and, in  
11 fact, has already impacted some of the results in the ALM  
12 process. It won't be that visible to you as a Board  
13 member, because it will be built in incrementally, as we  
14 do each of these things. But certainly, that will be one  
15 of the factors that -- will be one of the factors that  
16 helps us get those risk considerations under control.

17 It's not, I don't think, sufficient in and of  
18 itself to really address that, but it will mean that down  
19 the road, we will get their a little bit sooner than we  
20 would have without the implementation of PEPRA.

21 COMMITTEE MEMBER JONES: And originally the  
22 assumption was we would get there in 30 years? And so  
23 now, it will be shorter?

24 CHIEF ACTUARY MILLIGAN: It's going to take, you  
25 know, really a full working lifetime before all members

1 are under the PEPRA benefit formulas. So the rate of new  
2 members coming in under the benefit formula will slow  
3 down. And that's partly because some of the turnover that  
4 we will experience in the future will be from people who  
5 are already under PEPRA, and that will obviously not  
6 generate new PEPRA members, so that will tend to slow  
7 down.

8 In terms of the impact on getting to a level of  
9 risk characteristics that we -- we would be more  
10 comfortable with, we may well get there a little bit  
11 sooner than we were previously projecting. And it may be  
12 that -- it may be that it just -- we get to -- we may not  
13 have to go to quite as low a volatility on the  
14 investments, if the PEPRA turnover continues to be at a  
15 higher rate than we were anticipating. But most of that  
16 turnover was already built into the ALM. So I would  
17 caution you not to expect too much.

18 COMMITTEE MEMBER JONES: Thank you.

19 CHAIRPERSON MATHUR: And for the benefit of the  
20 audience, ALM is the asset liability management study that  
21 we do every four years now in conjunction with the  
22 Investment Office and the Actuarial Office and the CFO's  
23 office.

24 All right. Was that your point, Mr. Jelincic?

25 BOARD MEMBER JELINCIC: Yes.

1           CHAIRPERSON MATHUR:   Okay.   Okay.   Now, Mr.  
2 McKeeever.

3           DEPUTY EXECUTIVE OFFICER McKEEVER:   All right.  
4 Thank you, Madam Chair.   So to conclude the item, there  
5 are 3 items remaining to be implemented in PEPRA.   The  
6 first is to provide an updated regulatory package to this  
7 Board for consideration on pensionable comp.   The second  
8 is to provide a new regulatory package to address the  
9 excessive liability statute.   And this is employer  
10 specific.   And as an example, this is when an individual  
11 leaves an agency to go to another one, they've left to now  
12 get a substantial and significant upgrade in their  
13 compensation, but yet the prior employer is responsible  
14 for the benefit.   And then the third resolution is on the  
15 transit worker members.

16           And so that -- those are the 3 items that we're  
17 going to be working on.   I think what's important to note,  
18 relative to those 3, and the first two in particular, is  
19 the absolute active engagement that will have with our  
20 stakeholders to discuss these with them, best approaches  
21 moving forward, before we bring them back to the Committee  
22 for consideration.

23           And that concludes our report.

24           CHAIRPERSON MATHUR:   Thank you.

25           Mr. Boyken.

1           ACTING COMMITTEE MEMBER BOYKEN: Thank you.  
2 Thanks for the update.

3           Alan, you kind of referred to this, but in the  
4 steady drum beat for pension reform that continues  
5 post-PEPRA, one of the criticisms of PEPRA is that the  
6 savings are far in the future. And year when you give us  
7 the State and the school's rates, you show what the  
8 reduction is based on higher than expected number of  
9 employees covered under the PEPRA formula. And you just  
10 told us that 29 percent of active members now fall under  
11 the PEPRA formula.

12           And then also with the -- as more and more  
13 employers move toward equal cost sharing, I'm sure there's  
14 savings there. It's immediate. It's significant. So if  
15 there's anyway -- and I'm sure it's difficult because we  
16 have so many different agencies, but if there's anyway you  
17 can quantify what the savings year over year are, you  
18 know, I think that would really help to say these are real  
19 numbers, and it's -- there's immediate savings now.

20           CHIEF ACTUARY MILLIGAN: I will have some  
21 discussions with my colleagues, both within the Actuarial  
22 Office, also within our Retirement Research Planning  
23 Division to see whether or not there's anything that we  
24 can do to address that.

25           ACTING COMMITTEE MEMBER BOYKEN: Thank you.

1           CHAIRPERSON MATHUR: I wonder if some of the  
2 public agency affiliate groups, you know, the county  
3 groups or the city groups, if they are collecting some of  
4 this data. They might also be looking at this issue.

5           CHIEF ACTUARY MILLIGAN: To get the -- to get any  
6 sort of estimate on some of the issues like no longer  
7 picking up member contributions, or the level of cost  
8 sharing, we would almost certainly require -- have to  
9 partner with some of the employer associations to survey  
10 their members to find out what level of activity has  
11 happened.

12           CHAIRPERSON MATHUR: Yeah. Okay. Well, I'm just  
13 thinking back to when PEPRA was adopted and what our staff  
14 had 3 to 4 months to implement PEPRA. And I just think  
15 back to how -- to our staff's dedication, the knowledge  
16 that they brought to the table, and their problem-solving  
17 skills that really got us to a place where we were able to  
18 implement it in a timely way. And I really credit our  
19 staff with that. That was a yeoman's job. So thank you,  
20 everyone.

21           Okay. I see no requests to speak on this item  
22 from the public, so that brings us to Agenda Item number  
23 13, the summary of committee direction.

24           DEPUTY EXECUTIVE OFFICER McKEEVER: Madam Chair,  
25 I don't believe that there was any direction provided this



1 morning.

2 CHAIRPERSON MATHUR: I don't believe there was  
3 either. And so that brings us to Agenda Item number 14,  
4 public comment. We do have one member of the public who  
5 has requested to speak.

6 Mr. Behrens, if you would please make your way up  
7 to the mics here. The mic is on. If you could identify  
8 yourself and your affiliation for the record. And you  
9 will have 3 minutes to speak.

10 MR. BEHRENS: Thank you, Madam Chair and members  
11 of the Committee. Tim Behrens, President of the  
12 California State Retirees.

13 California State health benefits committee  
14 submitted a question to the PBM procurement team about 3  
15 weeks ago, after discovering in media articles that the  
16 new Optum 5-year contract was for about \$4.9 billion. The  
17 current CVS contract over a 5-year period cost 58 million.  
18 CalPERS staff has confirmed that rather than having price  
19 control structures alone, as is customarily done in PBM  
20 contracts, that they actually included the total cost of  
21 the drugs as well.

22 The contract authorizes nearly 1 billion per year  
23 for drugs. This seems extraordinarily high, since the PBM  
24 contract only covers 486,000 members, or about one-third  
25 of the 1.4 million covered members. And since the highest

1 annual total cost for drugs for all 1.4 million members  
2 has been reported by CalPERS to be 1.8 billion. We  
3 understand a written response to our inquiries will be  
4 sent to the chair of our health benefits committee by the  
5 end of this week, and we're looking forward to getting  
6 that information.

7           Along with that, I'd also like to speak about the  
8 new Optum contract. I was around 5 years ago when we  
9 awarded the contract to CVS. CVS promised to have a  
10 seamless change from the old contract to the new contract.  
11 And having been a CVS person, that was right in the middle  
12 of that, they had promised to move our prescriptions right  
13 over into CVS from our old vendor.

14           That didn't occur. There was a 2-week lapse  
15 between January 1st and the time we got our cards from  
16 CVS, so we could go into CVS and get our drugs. So I'm  
17 looking forward to partnering with CalPERS staff and  
18 trying to overcome some of these issues that occurred 5  
19 years ago.

20           We had a meeting yesterday with staff, and they  
21 were very diligent in listening to all of our questions.  
22 We had many questions, and I'm sure we'll have more  
23 questions. We want to make sure that we actually have a  
24 seamless change to Optum this time, and that our members  
25 know if they have to go back to their doctor and get new

1 prescriptions, that they do that 30 to 60 days before the  
2 changeover happens, so nobody will go without their drugs.

3 Thank you very much.

4 CHAIRPERSON MATHUR: Well, I thank you Mr.  
5 Behrens and your organization for your partnership on  
6 this. It's an important issue.

7 Okay. That brings us to the end of the agenda.  
8 I see no further -- nobody is waving their hands wanting  
9 to comment publicly, so the open session is adjourned.

10 (Thereupon the California Public Employees'  
11 Retirement System, Board of Administration,  
12 Pension & Health Benefits Committee open  
13 session meeting adjourned at 10:53 a.m.)  
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## C E R T I F I C A T E O F R E P O R T E R

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

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 20th day of June, 2016.



JAMES F. PETERS, CSR  
Certified Shorthand Reporter  
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