

MEETING
STATE OF CALIFORNIA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
PERFORMANCE, COMPENSATION &
TALENT MANAGEMENT COMMITTEE
OPEN SESSION

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

TUESDAY, FEBRUARY 14, 2017

2:33 P.M.

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

COMMITTEE MEMBERS:

Mr. Michael Bilbrey, Chairperson

Mr. Richard Costigan, Vice Chairperson

Mr. John Chiang, represented by Mr. Eric Lawyer

Mr. Richard Gillihan, represented by Ms. Katie Hagen

Ms. Dana Hollinger

Mr. Ron Lind

Ms. Theresa Taylor

BOARD MEMBERS:

Mr. Henry Jones, Vice President

Ms. Priya Mathur

Ms. Betty Yee, represented by Ms. Lynn Paquin

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Ted Eliopoulos, Chief Investment Officer

Mr. Doug Hoffner, Deputy Executive Officer

Mr. Matthew Jacobs, General Counsel

Ms. Tina Campbell, Chief, Human Resources Division

Ms. Carol Takehara, Committee Secretary

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

ALSO PRESENT:

Mr. Neal Johnson, Service Employees International Union
Local 1000

Mr. Andrew Junkin, Wilshire Consulting

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

2 CHAIRPERSON BILBREY: Call this meeting of the
3 Performance, Compensation and Talent Management Committee
4 to order.

5 So we're going to begin in open session -- change
6 things a little bit. So we'll start with the roll call,
7 pleaser.

8 COMMITTEE SECRETARY TAKEHARA: Michael Bilbrey?

9 CHAIRPERSON BILBREY: Here.

10 COMMITTEE SECRETARY TAKEHARA: Eric Lawyer for
11 John Chiang?

12 ACTING COMMITTEE MEMBER LAWYER: Here.

13 COMMITTEE SECRETARY TAKEHARA: Richard Costigan?

14 COMMITTEE MEMBER COSTIGAN: Here.

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

17 ACTING COMMITTEE MEMBER HAGEN: Here.

18 COMMITTEE SECRETARY TAKEHARA: Dana Hollinger?

19 COMMITTEE MEMBER HOLLINGER: Here.

20 COMMITTEE SECRETARY TAKEHARA: Ron Lind?

21 COMMITTEE MEMBER LIND: Here.

22 COMMITTEE SECRETARY TAKEHARA: And Theresa
23 Taylor?

24 COMMITTEE MEMBER TAYLOR: Here.

25 CHAIRPERSON BILBREY: All right. So we will now

1 move into the election of Chair and Vice Chair. Since I
2 have no Vice Chair on the Committee, I will be calling on
3 Mr. Lind to run the Chair election.

4 COMMITTEE MEMBER LIND: All right. I will
5 entertain nominations for Chair of the Performance,
6 Compensation and Talent Management Committee.

7 CHAIRPERSON BILBREY: Hold on.

8 COMMITTEE MEMBER LIND: I would call on Richard
9 Costigan.

10 COMMITTEE MEMBER COSTIGAN: Thank you, Mr. Lind.
11 I would be honored to nominate Michael Bilbrey as
12 Chair of the Performance, Compensation and Talent
13 Management Committee. I think Michael has done an
14 extraordinary job running this Committee the last couple
15 years with some very difficult issues. And I think his
16 leader -- continued leadership is needed on this
17 Committee.

18 COMMITTEE MEMBER LIND: Okay. Michael Bilbrey
19 has been nominated.

20 Any other nominations?

21 Any other nominations?

22 Any other nominations?

23 The nominations are closed.

24 I'll entertain a motion to elect Michael Bilbrey
25 by acclamation.

1 COMMITTEE MEMBER COSTIGAN: So moved.

2 ACTING COMMITTEE MEMBER LAWYER: Second.

3 COMMITTEE MEMBER LIND: All in favor say aye?

4 (Ayes.)

5 COMMITTEE MEMBER LIND: Any opposed?

6 Motion carries. Congratulations.

7 CHAIRPERSON BILBREY: Thank you.

8 (Applause.)

9 CHAIRPERSON BILBREY: At this time we'll open up
10 nominations for Vice Chair.

11 COMMITTEE MEMBER COSTIGAN: Call on Dana.

12 CHAIRPERSON BILBREY: Ms. Hollinger

13 COMMITTEE MEMBER HOLLINGER: Well, I am pleased
14 and proud to nominate Richard Costigan as Vice Chair. He
15 has tremendous acumen in this area, next to Katie Hagen,
16 so it's -- and would -- really has been a -- would be a
17 valuable asset to the Committee as Vice Chair. So I'm
18 proud to nominate Richard.

19 CHAIRPERSON BILBREY: Thank you.

20 Richard Costigan has been nominated as Vice
21 Chair.

22 Are there any other nominations?

23 Any other nominations?

24 Any other nominations?

25 Seeing none

1 I'll entertain a motion to elect Richard
2 Costigan, Vice Chair, Performance, Compensation and Talent
3 Management by acclamation.

4 ACTING COMMITTEE MEMBER HAGEN: So moved.

5 CHAIRPERSON BILBREY: So moved by Hagen.

6 COMMITTEE MEMBER HOLLINGER: Second.

7 CHAIRPERSON BILBREY: Second by Hollinger.

8 All those in favor say aye?

9 (Ayes.)

10 CHAIRPERSON BILBREY: Opposed?

11 Motion carries. Congratulations, Mr. Vice Chair.

12 (Applause.)

13 DEPUTY EXECUTIVE OFFICER HOFFNER: Yes.

14 CHAIRPERSON BILBREY: I know my microphone isn't
15 working yet. We'll take things out of order and go to
16 Item 10.

17 Success. All right. So we're going to go right
18 to Item 10. We're a little out of order, but we're
19 working to accommodate a Valentine request.

20 So 2016-17 Investment Management Plan Design
21 Review, and we call on Ms. Campbell.

22 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Thank
23 you, Mr. Chair and congratulations. Tina Campbell,
24 CalPERS member.

25 CHAIRPERSON BILBREY: Thank you.

1 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Agenda
2 Item 10 is an information item. The purpose of this
3 agenda item is to provide the Committee with an overview
4 of the how the 2016-17 plans for investment management
5 positions were developed in alignment with the Board's
6 adoption of plan design changes in August 2016.

7 This includes Associate Manager classification up
8 to the Chief Operating Investment Officer classification.
9 As a result of the Incentive Compensation Program and
10 policy review conducted by the Board's executive
11 compensation consultant, Grant Thornton, one of the
12 approved recommendations revised the total fund incentive
13 plan measure considerably.

14 Changes included a revised incentive curve, which
15 utilizes the Board's approved policy benchmark for
16 performance measurement, and a 5-year performance
17 measurement period. This measure was approved for use in
18 incentive plans at the CEO and CIO and has been included
19 in the investment management plans as well.

20 In subsequent efforts to align the asset class
21 performance measures with the Board's direction, similar
22 revisions occurred. Mathematically, revised incentive
23 curves were developed by Wilshire, the Board's primary
24 investment consultant, a 5-year measurement period has
25 been adopted, and asset class performance will be measured

1 against the respective policy benchmarks.

2 Andrew Junkin with Wilshire is available to
3 answer any questions regarding the attachment, if you have
4 any.

5 Thank you, Mr. Chair. This concludes my report.

6 CHAIRPERSON BILBREY: Thank you. Mr. Junkin, do
7 you have anything you want to add before we go onto
8 questions?

9 MR. JUNKIN: I think that Tina accurately
10 described the process that we went through.

11 And just for my own part, thank you for moving
12 this up.

13 CHAIRPERSON BILBREY: You bet.

14 MR. JUNKIN: It makes a big difference to me.

15 CHAIRPERSON BILBREY: Mr. Lind.

16 COMMITTEE MEMBER LIND: Just a quick question. I
17 know we -- at the beginning, we got into this whole
18 attempted change in our process around this incentive
19 plan. It was to -- I thought one of the goals was to
20 simplify it. I'm not sure we reached that goal here. It
21 doesn't seem simpler to me, and -- but having said that,
22 my question is on the new plan, is it just the way the
23 curve works, the fact that there -- there is this 0.05 of
24 a point incentive for someone being below the benchmark by
25 15 basis points?

1 MR. JUNKIN: I assume you're looking at the total
2 fund measure.

3 COMMITTEE MEMBER LIND: Just as an example.

4 MR. JUNKIN: That happens to be the case. Yeah,
5 so the total fund measure was developed exclusively with
6 Grant Thornton. We opined on it. PCA opined on it.
7 There is a little kink just right at the bottom. It
8 doesn't zero out precisely at 15 basis points below. It
9 does at 16. And so we've mimicked that with all of the
10 others.

11 But really fundamentally the shape of the curve
12 is the same that it was, the slope, from 0 to the 1.0
13 payout mark. And then from 1.0 to 1.5, it's flatter, and
14 so it's harder to achieve a maximum bonus payout.

15 And so from my perspective, the -- that means if
16 you're in the Investment Office when you get up to 1.0 and
17 you're trying to get higher, you have to be really careful
18 about how you use risk, because the downside is actually
19 more significant in terms of your bonus than the upside.

20 COMMITTEE MEMBER LIND: Okay. Thank you.

21 CHAIRPERSON BILBREY: Any other questions?

22 Seeing none.

23 Have a safe trip?

24 MR. JUNKIN: Thank you again.

25 Happy Valentine's Day to everyone.

1 CHAIRPERSON BILBREY: Same to you.

2 With that, we will now move back into closed
3 session and go through the regular plan of agenda.

4 (Off record: 2:41 p.m.)

5 (Thereupon the meeting recessed
6 into closed session.)

7 (Thereupon the meeting reconvened
8 open session.)

9 (On record: 3:58 p.m.)

10 CHAIRPERSON BILBREY: All right. So we will
11 reconvene the open session once again, and continue with
12 the agenda -- and give me a minute here -- with the
13 Executive Report.

14 Mr. Hoffner.

15 DEPUTY EXECUTIVE OFFICER HOFFNER: Good
16 afternoon, Mr. Chair, Vice Chair, and the members of the
17 Committee. We have a few items for you today, and we've
18 taken things out of order. So I'll make sure I don't
19 misstep here.

20 The first item up today will be the approval of
21 both the CEO and CIO semiannual status reports, which
22 you've just talked about. We're also going to seek
23 Committee direction related to a biennial salary survey.
24 And then finally, we have one other additional action item
25 related to seeking approval for implementation of a

1 methodology change related to the performance measures
2 around operational enterprise effectiveness.

3 This is part of the -- the metrics that were
4 approved by the Committee and full Board in August of
5 2016. And there's a couple implementation tweaks we want
6 to bring before you today for approval. And that
7 concludes my report today.

8 CHAIRPERSON BILBREY: Very good. Seeing no one
9 wishing to ask any questions, we on move to 4a, action
10 consent items. Do I have a motion?

11 COMMITTEE MEMBER TAYLOR: I'll make the motion.

12 ACTING COMMITTEE MEMBER LAWYER: Second.

13 CHAIRPERSON BILBREY: Motion by Taylor, seconded
14 by Lawyer to approve the minutes.

15 Any discussion on the motion?

16 Seeing none.

17 All those in favor say aye?

18 (Ayes.)

19 CHAIRPERSON BILBREY: Opposed?

20 Motion carries.

21 Item 5, information consent items. I've had no
22 requests to withdraw any.

23 So we will move then on to Item 6, Semiannual
24 Status Reports on Performance Plans of the Chief Executive
25 Officer and Chief Investment Officer.

1 Ms. Campbell.

2 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Tina
3 Campbell, CalPERS team member. Agenda Item 6 is an action
4 item. As discussed earlier in closed session, the
5 Executive Compensation Policy provides the executives will
6 prepare a status report on their respective performance
7 plans for the Performance, Compensation and Talent
8 Management Committee on a semiannual basis.

9 These reports provide a means of informing the
10 Committee of progress forward achieving the quantitative
11 and qualitative measures in the performance plans.

12 Presented in this item are the semiannual status
13 reports for the CEO and CIO covering the time period of
14 July 1st to December 31st, 2016. The status report of the
15 CIO includes proposed minor edits for Committee approval,
16 which would re-weight the measures to better align with
17 the responsibilities of the CIO as a leader of the
18 organization, and incorporate the leadership priorities
19 that are included in all other Deputy incentive plans.

20 As they were for the item in closed session, Ms.
21 Frost and Mr. Eliopoulos are available should you have any
22 questions you'd like to ask them.

23 Thank you, Mr. Chair. This concludes my report.

24 CHAIRPERSON BILBREY: Thank you.

25 Mr. Costigan.

1 VICE CHAIRPERSON COSTIGAN: Thank you, Mr. Chair.

2 I move that this Committee adopt the action taken
3 in closed session, in which the Committee accepted and
4 discussed the first semiannual status updates of the CEO
5 and CIO, and accept the changes to the CIO's plan as
6 amended by the Committee.

7 ACTING COMMITTEE MEMBER HOLLINGER: Second.

8 CHAIRPERSON BILBREY: Second by Hagen.

9 Oh, I'm sorry. Hollinger.

10 (Laughter.)

11 CHAIRPERSON BILBREY: Any discussion on the
12 motion?

13 Seeing none -- we don't need to put that comment
14 down.

15 (Laughter.)

16 Seeing none.

17 All those in favor say aye?

18 (Ayes.)

19 CHAIRPERSON BILBREY: Opposed?

20 Motion carries. Thank you.

21 Next item, the Biennial Salary Survey.

22 Ms. Campbell.

23 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Agenda
24 Item 7 is also an action item. The purpose of this agenda
25 item is to gain Committee direction regarding the

1 conducted of a comprehensive salary survey for positions
2 covered under Government Code section 20098.

3 In accordance with policy, a salary survey should
4 be conducted every 2 years or as the Board deems
5 appropriate to determine if existing salary ranges are
6 competitive with the current market environment.

7 The last salary survey results were presented to
8 the Committee in August of 2015 by McLagan. The survey
9 included base pay policy provisions, incentive award
10 schedules, and salary data. Minor adjustments to selected
11 salary ranges were made at that time for classifications
12 which had incumbents compensated in the 4th quartile.
13 Attachment 1 arrays the current positioning of incumbent
14 salaries.

15 Should the Committee direct staff to conduct a
16 salary survey, staff, with input from the Committee Chair,
17 would determine the parameters of the survey and the
18 findings, along with any other recommendations would be
19 presented at a future meeting.

20 Thank you, Mr. Chair. This concludes my report.

21 CHAIRPERSON BILBREY: So to understand correctly,
22 the Committee can either approve for a salary survey to be
23 done, give direction of no salary survey to be done, if
24 they choose to, or to ask for information to be brought
25 back, is that the third part I heard?

1 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: So --
2 so the Board can ask for us to do a survey. You could
3 also ask, based on the 2015 survey and any other
4 information we have that we could bring back that would
5 suggest that we do something differently with the
6 salaries, or you can ask us to not do one at this time,
7 because it's at your discretion at what time you want to
8 do it, but we revisit it every 2 years.

9 CHAIRPERSON BILBREY: Thank you for the
10 clarification.

11 Mr. Lind.

12 COMMITTEE MEMBER LIND: I think we've refined
13 this thing in what the survey looks like pretty well over
14 the last several kind of time periods. I make a motion we
15 do the survey without change.

16 CHAIRPERSON BILBREY: Is there a second?

17 VICE CHAIRPERSON COSTIGAN: I'll second.

18 CHAIRPERSON BILBREY: It's been moved by Mr. Lind
19 and seconded by Mr. Costigan to do a salary survey.

20 And we'll continue on -- with the motion.

21 Discussion?

22 Mr. Costigan.

23 VICE CHAIRPERSON COSTIGAN: So now that I've
24 seconded it, but I have a question about expanding it. So
25 I know this only relates to those employees that are

1 covered by 20098. At some point, and I've raised this
2 before, is we need to look, as was shown with our recent
3 changes with Covered California, there is a discrepancy in
4 other positions inside the organization that would be
5 senior as well, that are not necessarily captured by this
6 statute.

7 And Covered California has exposed that this is a
8 significant problem, not only at CalPERS, but the
9 Department of Health Care Services and Health and Human
10 Services as well. How do we either expand the salary
11 survey or you -- or do you only do it, because it's
12 related to the Government Code section?

13 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: You
14 could ask to include other positions that you feel are --
15 that should be included under 20098. We could ask that of
16 McLagan to include those positions.

17 VICE CHAIRPERSON COSTIGAN: Because one of the
18 things, Mr. Hoffner, I know we've spoken - and I see
19 you're about ready to speak is - it's not just the health
20 care. It's also the CIO on the information technology
21 side. I mean, there's a little bit of not only private
22 sector, but now I'm not sure how we're competing with
23 other State agencies, when you look at FI\$Cal, or you look
24 at -- do it, some of these other folks, their salaries, we
25 don't have a good comparison for our organization.

1 And maybe it would be appropriate if you say
2 that's not -- it should be the jurisdiction of this
3 Committee. But I do think, Mr. Chair, at some point, we
4 need to expand it, not just to the Government Code
5 employees, I think this Committee needs a better
6 understanding of what we're competing.

7 And Covered California truly exposed one of the
8 flaws within inside civil service right now. So I support
9 Mr. Lind's motion. Although, I would be interested, Mr.
10 Chair, from hearing other members of the Committee, if we
11 want to potentially broaden it.

12 CHAIRPERSON BILBREY: Did you want to, Mr.
13 Hoffner?

14 DEPUTY EXECUTIVE OFFICER HOFFNER: I was just
15 going to go to the point, I mean, the survey and the
16 purpose of doing it was really historically around the --
17 those positions you have the ability to change the
18 compensation, either performance or base salary, for. The
19 study that we're seeking, and it sounds like the Committee
20 may approve, is really data collection.

21 And then the question would be, is there other
22 things you want data to be collected on, and if so, you
23 know, let us know? We're working with the Chair and Vice
24 Chair on that.

25 But the second step is what do you do with it

1 once you collect the data and once you have it available?
2 We've also looked at some other organizations like NASRA.
3 There's some surveys they've done recently that we've been
4 able to compile some additional information that may cover
5 some other positions, not necessarily those all within the
6 20098 of the Government Code. We'd be happy to share that
7 at the appropriate time with you as well.

8 So I just wanted to bring that forward. We don't
9 ultimately control those other levers, which we've talked
10 about the last few years, in terms of those other
11 positions, but, you know, the data will be the data. It
12 should be collected per your request.

13 CHAIRPERSON BILBREY: Ms. Mathur.

14 BOARD MEMBER MATHUR: Thank you.

15 Well, Mr. Costigan has stated my concern very
16 well. I think there are some positions which are very
17 hard to recruit for at the current salary levels, and it
18 would be helpful to benchmark those positions against the
19 market, so that we can decide how to proceed around those
20 key positions.

21 And so I guess I would -- I would urge the
22 Committee -- I don't sit on the Committee any more, but
23 I -- so I'd make a substitute motion, if I did. But I
24 would urge the Committee to consider expanding the list,
25 and maybe turning it back over to the team to -- to

1 identify which positions it might be worth benchmarking
2 against the market.

3 So clearly, some in health might be appropriate,
4 but there -- I'm sure there are others in the organization
5 that I -- that don't readily come to my mind that should
6 be included, so -- otherwise, I -- I, otherwise, support
7 the motion. I do think benchmarking is important, and
8 doing it regularly is important, particularly given that
9 some of our -- some of our individuals are at the top of
10 their range in the fourth quartile.

11 Thank you.

12 CHAIRPERSON BILBREY: Thank you. Ms. Hagen.

13 ACTING COMMITTEE MEMBER HAGEN: I believe that
14 the 2015 McLagan data that was collected included some of
15 those comparable classifications. I remember some
16 discussion around some of the other Deputy level
17 positions. So I would ask the staff, if my memory serves
18 me correctly, that there -- that the existing data that we
19 still have access to contains comps for, I believe it was,
20 the executive team level.

21 CHAIRPERSON BILBREY: I remember a discussion,
22 but I didn't remember --

23 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: We're
24 checking real quick. We have a copy of it.

25 DEPUTY EXECUTIVE OFFICER HOFFNER: We're trying

1 to confirm that with the slide deck right here.

2 ACTING COMMITTEE MEMBER HAGEN: And while we're
3 checking that, I just -- I believe that the data collected
4 back in 2015 would still be informative. I'm not sure
5 that the -- the Board needs to direct another salary
6 survey at this point in time. I just wanted to add that
7 feedback to the discussion.

8 DEPUTY EXECUTIVE OFFICER HOFFNER: So we just
9 checked. It was just the covered position that are in
10 Government Code 20098. So I think we did discuss it, but
11 it wasn't the direction of the Committee at that point in
12 time.

13 ACTING COMMITTEE MEMBER HAGEN: Okay. And the --

14 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: That's
15 the Associate Investment Managers and above.

16 ACTING COMMITTEE MEMBER HAGEN: Yeah. And I
17 would just add to what Mr. Hoffner said. You know, the
18 salary survey is outlined in our Executive Compensation
19 Policy for this Committee, and is restrictive of the 20098
20 classification. So if you did it, it would just be
21 informational only. There really would be no practical
22 use to the data.

23 Thank you.

24 CHAIRPERSON BILBREY: Ms. Taylor.

25 COMMITTEE MEMBER TAYLOR: So since we have run

1 into a situation where we are having some difficulty with
2 recruiting for positions at the top level, I would think
3 the first step would be the data gathering for the
4 positions.

5 So I'm going to make the substitute motion that
6 we include in this salary survey for our Chief of Health
7 Benefits - is that the correct term? - and our Chief of
8 IT. I think most State agencies have a chief of IT, so
9 that might not be too difficult to recruit for, but
10 definitely Chief of Health Benefits would be difficult.

11 So I think in a first step towards getting that
12 position put in the 20098 would be to gather the data. So
13 again, I make a substitute motion to include the Health
14 Benefits and IT executives.

15 COMMITTEE MEMBER HOLLINGER: I'll second that.

16 CHAIRPERSON BILBREY: All right. So we now -- to
17 be clear on your motion, you want to expand the salary
18 survey, substitute motion, to include the health benefits,
19 what is the title?

20 DEPUTY EXECUTIVE OFFICER HOFFNER: It's the
21 position that Doug McKeever previously held I think is
22 what we're referring to.

23 CHAIRPERSON BILBREY: Right. I don't remember
24 what the exact title was, but that --

25 DEPUTY EXECUTIVE OFFICER HOFFNER: It's been

1 advertised as the Chief Health Officer.

2 CHAIRPERSON BILBREY: Right --

3 COMMITTEE MEMBER TAYLOR: Chief Health Officer.

4 CHAIRPERSON BILBREY: -- as well as --

5 DEPUTY EXECUTIVE OFFICER HOFFNER: Director.

6 CHAIRPERSON BILBREY: -- the Direct -- Director
7 of IT or the executive --

8 COMMITTEE MEMBER TAYLOR: Chief Information
9 Technology Officer, is that what you guys call it?

10 DEPUTY EXECUTIVE OFFICER HOFFNER: We do, and
11 it's a currently filled position. So I think the question
12 is, maybe from our perspective, is maybe working with the
13 Chair and Vice Chair, are there -- are these the 2
14 positions you're only looking for, or are there any other
15 things --

16 CHAIRPERSON BILBREY: Or you're looking for all
17 that level.

18 COMMITTEE MEMBER TAYLOR: We could look for all
19 of that level.

20 Go ahead.

21 DEPUTY EXECUTIVE OFFICER HOFFNER: But we're
22 trying to fill the Chief Information Security Officer,
23 which has been challenging, but we currently have a
24 position filled that's the CIO.

25 CHAIRPERSON BILBREY: Mr. Costigan.

1 VICE CHAIRPERSON COSTIGAN: So, first of all,
2 okay, I agree with Ms. Hagen. I mean, it's informational
3 only. I think this is part of a larger discussion to
4 have. That sort of, again, was exposed a little bit by
5 Covered California.

6 On one hand, I don't want to necessarily limit,
7 because there might be other -- from an informational
8 gathering, because we still would have to work with CalHR
9 and the administration to add additional positions. But I
10 think right now, one of the flaws we have is we don't have
11 all the information. And it may just be, Ms. Campbell,
12 Mr. Hoffner, is we don't need McLaughlin[sic] to do this.
13 It could be present the data to us from what other State
14 agencies are doing.

15 It would have been nice to know, for example -
16 and I should have known - but the spread -- or for Ms.
17 Mathur to know with her committee, the spread between the
18 Covered California folks and our folks. I mean, that's
19 a -- there's a nice easy comparison without having to
20 bring in something from outside is who are we competing --
21 our employees compete inside of State civil service.

22 So there's a little bit, maybe that we do nothing
23 with it, and that's just it. But I just think the
24 health -- Mr. McKeever's departure sort of showed, along
25 with Ms. Johnson's departure at Health Care Services

1 points out that, at least inside of State civil service,
2 there's an issue going on right now on pay, and now we're
3 trying to backfill the recruitment.

4 So Ms. Hagen is absolutely correct. It's just
5 informational on it. But I'd like to have a broad -- Mr.
6 Chair, I think a broader discussion, as we've said over
7 the last year. I know we focused on investments last
8 year. I think, at some point, how do we have a broader
9 discussion as it relates both to information technology
10 and to Health Benefits.

11 COMMITTEE MEMBER TAYLOR: And information
12 security.

13 CHAIRPERSON BILBREY: So can we --

14 COMMITTEE MEMBER TAYLOR: So what do we do?

15 CHAIRPERSON BILBREY: -- actually look at this in
16 2 parts. One is to do the salary survey as directed per
17 the agenda time. Secondly, bring back an informational
18 item at some point that the staff puts together on that
19 level of positions. The CEO can work with the others and
20 bring back as an informational item on the agenda whatever
21 information you're able to gather to show the differences
22 in those positions, salaries, et cetera. I think the CEO
23 understands what I mean.

24 CHIEF EXECUTIVE OFFICER FROST: Yes, I do. My
25 only comment was there are a couple other positions I

1 would like to do some salary survey work on as well.

2 CHAIRPERSON BILBREY: Right.

3 CHIEF EXECUTIVE OFFICER FROST: And your approach
4 would certainly allow us to do that.

5 CHAIRPERSON BILBREY: And those are direct
6 reports to you.

7 COMMITTEE MEMBER TAYLOR: I withdraw my
8 substitute motion.

9 CHAIRPERSON BILBREY: Okay. Got it.

10 So the motion on the floor about doing a salary
11 survey. Any further discussion on that motion?

12 Seeing none.

13 All those in favor say aye?

14 (Ayes.)

15 CHAIRPERSON BILBREY: Opposed?

16 (No.)

17 CHAIRPERSON BILBREY: Please record no for CalHR.

18 And the motion passes. And the direction is at a
19 later date, working with the CEO, we'll bring back
20 information on the CEAs -- whatever -- yeah, I think CEAs.

21 DEPUTY EXECUTIVE OFFICER HOFFNER: Understood.

22 CHAIRPERSON BILBREY: Got it. So I think we're
23 clear, right?

24 Are you okay, Ms. Hagen?

25 Oh.

1 ACTING COMMITTEE MEMBER HAGEN: Yes.

2 On the second item, I think that's a great idea.
3 And I just would like to offer to CalHR staff to have a
4 discussion with CalHR as representative of the
5 administration. Because as you likely know, this is a
6 very complex issue, and there are a number of agencies
7 within the State that have different salary-setting
8 authorities. And it's important to understand those in
9 this kind of an environment, so I would offer that.

10 CHAIRPERSON BILBREY: Thank you, Ms. Hagen.

11 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Thank
12 you.

13 CHAIRPERSON BILBREY: And I think we'll gladly
14 accept it.

15 All right. So the next item on the agenda, Item
16 8, Review of the Performance, Compensation and Talent
17 Management Committee Delegation.

18 Ms. Campbell.

19 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Tina
20 Campbell, CalPERS team member.

21 Agenda Item 8 is an action item. Am I on the
22 right one?

23 Yes.

24 The delegation resolution for the Performance,
25 Compensation and Talent Management Committee is reviewed

1 on an annual basis. I do want you to note that the agenda
2 item recommended -- recommendation section incorrectly
3 states the revisions are proposed. Staff has reviewed the
4 delegation resolution for Performance, Compensation and
5 Talent Management Committee and recommends no revisions at
6 this time.

7 If the Committee wishes to make revisions to the
8 delegation resolution, they will be incorporated and
9 brought back for Board consideration and approval in
10 April.

11 This concludes my report, and I'm happy to answer
12 any questions you may have.

13 CHAIRPERSON BILBREY: Thank you.

14 What is the pleasure of the Committee?

15 COMMITTEE MEMBER LIND: Move adoption.

16 ACTING COMMITTEE MEMBER LAWYER: Second.

17 CHAIRPERSON BILBREY: Moved by Lind, seconded by
18 Lawyer.

19 Any discussion on the motion?

20 Seeing none.

21 All those in favor say aye?

22 (Ayes.)

23 CHAIRPERSON BILBREY: Opposed?

24 Motion carries.

25 Mr. Hoffner

1 DEPUTY EXECUTIVE OFFICER HOFFNER: I just -- we
2 didn't make any changes, so I don't know if we had to
3 approve it, but...

4 CHAIRPERSON BILBREY: Oh. Well, now it's
5 official.

6 DEPUTY EXECUTIVE OFFICER HOFFNER: I don't know.

7 CHAIRPERSON BILBREY: We're good.

8 DEPUTY EXECUTIVE OFFICER HOFFNER: That's right
9 It is what it was.

10 (Laughter.)

11 DEPUTY EXECUTIVE OFFICER HOFFNER: Perfect.

12 CHAIRPERSON BILBREY: Item 9, 2016-17 Enterprise
13 Operational Effectiveness Metric.

14 Ms. Campbell.

15 DEPUTY EXECUTIVE OFFICER HOFFNER: Actually, I'm
16 going to jump in on this one. So this is an item that is
17 going to make 3 prospective changes to the incentive plans
18 that were approved back in August of last year. This
19 relates to the enterprise effectiveness operation. So
20 it's essentially considered the administrative costs of
21 the organization outside the Investment Office using
22 the use of CEM.

23 And so as we work with the consultants Grant
24 Thornton, we came up with this data that was approved by
25 the Board back then. As we went to implementation of this

1 policy, we came forward with 3 minor changes, one of which
2 relates to the 3-year variance or an average for the 3
3 years of administrative costs.

4 What we found is we didn't actually have a full 3
5 years in terms of costs for the administrative expenses
6 that were consistent related to -- and that relates to our
7 flex funded plans that came in 2 years ago or so. So we
8 wanted to modify this to the 2 years for this 1 year of
9 the cycle. At the end of this fiscal year, we'll have the
10 3 years of data to move forward. And that will be in
11 concert with the approved policies.

12 So we want to tee that up for you just to
13 acknowledge that it -- in this 1 year it's a 2-year look
14 back.

15 Any questions on that?

16 CHAIRPERSON BILBREY: So to be clear, we're using
17 2 years for this 1 year, and then we'll revert back to the
18 3-year.

19 DEPUTY EXECUTIVE OFFICER HOFFNER: Correct.

20 CHAIRPERSON BILBREY: And I wanted to note that
21 Grant Thornton has opined in a letter.

22 DEPUTY EXECUTIVE OFFICER HOFFNER: Right. And
23 there's a --

24 CHAIRPERSON BILBREY: That was part of the agenda
25 item, which they agree.

1 DEPUTY EXECUTIVE OFFICER HOFFNER: Correct. And
2 so the second one relates to the actually scoring
3 methodology related to this issue. In the incentive
4 hurdles, we had a year-to-year discussion - actually, I
5 think I just talked about that one - looking at the
6 average target. And so we have a dynamic here where we
7 propose, which is actually showing the 3-year average as
8 an example, and you'll see in the Attachment -- Item 9,
9 Attachment 1 that has represented actual percentages of
10 our admin costs.

11 And so in terms of implementation, we realized
12 we'd have to change those numbers every year in the
13 policy. And so what we thought would make more sense was
14 to put a proposed range in above and below the target,
15 which is identified in the materials here for
16 simplification purposes, and that the payouts and averages
17 are still there. But we thought it would be a better
18 representation of the overall goals above and below the
19 targets that were identified.

20 So any questions about that?

21 CHAIRPERSON BILBREY: All right.

22 DEPUTY EXECUTIVE OFFICER HOFFNER: Seeing none.

23 And then the --

24 CHAIRPERSON BILBREY: Wait, wait. Ms. Hagen

25 ACTING COMMITTEE MEMBER HAGEN: I'm sorry, did

1 you call on me?

2 CHAIRPERSON BILBREY: Yes, Ms. Hagen.

3 ACTING COMMITTEE MEMBER HAGEN: Hi there.

4 So I'm -- I don't have any questions with the
5 second one. It was actually the first one that I had a
6 question on. So you indicated that you didn't have 3
7 years of consistent data.

8 DEPUTY EXECUTIVE OFFICER HOFFNER: In terms of
9 the health care components and costs. So we changed the
10 flex-funded health plans in a prior year, and therefore we
11 don't have 3 years of how we applied that funding, from a
12 budget perspective, that would apply to the 3 years for
13 this plan.

14 ACTING COMMITTEE MEMBER HAGEN: Okay. So it's a
15 year-to-year comparison that's --

16 DEPUTY EXECUTIVE OFFICER HOFFNER: It's a 3-year
17 average is what was adopted by the Board.

18 ACTING COMMITTEE MEMBER HAGEN: A 3-year average.

19 DEPUTY EXECUTIVE OFFICER HOFFNER: And so that
20 was conceptually adopted. We went to implement it. We
21 realized that we had 1 year. We had 2 years of the data
22 that was effectively consistent and 1 year where the
23 implementation of this flex-funded plan kicked in, and
24 that changed the overall scoring. And so I don't think
25 that was necessarily consistent with what we intended to

1 do in terms of a 3-year average. And so we're looking to
2 sort of amend and rectify that with what we're proposing
3 today.

4 ACTING COMMITTEE MEMBER HAGEN: Okay. There
5 isn't a lot of detail in the item, and so I just want --
6 I don't -- I want to frame this in the right way. Please
7 take my comments as constructive feedback, that it feels
8 like, although we say in the item that, you know, it's a
9 trans -- we're doing this for transparency purposes. It
10 feels like the numbers didn't yield the performance that
11 you anticipated, and therefore you're wanting to change
12 it. And so I just hope --

13 DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah, I hear
14 you. So I think -- I think the issue is the way that we
15 previously funded the health care plans was done
16 differently, as we changed the methodology. If that flows
17 through, we're going to see spike and/or a change in the
18 overall structure of these 3 years. So we don't have the
19 consistency.

20 So I hear what you're saying. I don't think
21 that's -- it's clearly not the intent of what we're
22 proposing here, and that's why we also had Grant Thornton
23 opine in terms of their perspective on this issue. And
24 again, at the end of this fiscal year in a few months,
25 we're going to have 3 years of full data.

1 ACTING COMMITTEE MEMBER HAGEN: Right.

2 DEPUTY EXECUTIVE OFFICER HOFFNER: So I think
3 we're trying to meet the intent of what was proposed by
4 and approved by the Committee and Board last year.

5 ACTING COMMITTEE MEMBER HAGEN: And I hear that.
6 And I only raise this concern because I know one of the
7 goals of our redesign was to make this more transparent,
8 and take the equation -- you know, the piece of the
9 equation out that people are impacting their own
10 pay-for-performance programs.

11 So I just -- I guess I'm just raising this as a
12 perception that might be there, and that we also talked a
13 lot about, as I recall, that we want to look at more
14 long-term performance. And so I was a little worried that
15 this was going to be a permanent change, but I understand
16 that it's just a temporary change.

17 DEPUTY EXECUTIVE OFFICER HOFFNER: It's for
18 this -- this one fiscal year. So essentially, we're going
19 to have 2 and a half years of data that's -- we're just
20 don't have the 3, and so we wanted to bring this back and
21 identify the challenge from an implementation perspective,
22 understanding what you're talking about.

23 It is a 5-year plan going forward, which is what
24 was discussed in Agenda Item 10 when Mr. -- Andrew Junkin
25 was here earlier, an elongation of the plan. So

1 effectively this is just one component piece. It will
2 still tie to the overall -- the intent of what the Board
3 adopted in terms of the percentage.

4 So we're either going to meet, exceed, or be
5 below the threshold. You know, at the end of the day, I
6 don't know where we sit right now. We Don't have an
7 approved budget for this point in time, but as we move
8 forward, the next year we'll see what that looks like.

9 But the goal is drive to, of course, hitting
10 performance while not sacrificing our customer service and
11 response to our membership. And that was Yin and Yang of
12 the overall plan as well.

13 ACTING COMMITTEE MEMBER HAGEN: Thank you.

14 CHAIRPERSON BILBREY: Seeing no one else.

15 DEPUTY EXECUTIVE OFFICER HOFFNER: Excuse me.

16 And then the last piece was essentially looking
17 at the metric from a percentage. This is more closely
18 aligned with how we report things out traditionally, in
19 terms of payout ratios. And that was using a percentage
20 metric up or down versus the overall percentages that were
21 adopted in the plan which we're used for illustrative
22 purpose.

23 So what we effectively tried to do is to identify
24 the interpolation method versus a banded method. And this
25 is consistent with what you've seen in other plans. So we

1 thought from a consistency standpoint, as well as from a
2 level of complexity reduction, this was helpful.

3 And overall, all the plans that have been
4 adopted, these are the 3 minor changes that have come
5 forth from an implementation perspective. So I think at
6 the end of the day, we think it's quite successful.

7 CHAIRPERSON BILBREY: All right. This is an
8 action item. What's the pleasure of the Committee?

9 VICE CHAIRPERSON COSTIGAN: I'll move the item.

10 CHAIRPERSON BILBREY: Moved by Costigan.

11 COMMITTEE MEMBER HOLLINGER: Second.

12 CHAIRPERSON BILBREY: Seconded by Hollinger.

13 Any discussion on the motion?

14 Seeing none.

15 All those in favor say aye?

16 (Ayes.)

17 CHAIRPERSON BILBREY: Opposed?

18 (No.)

19 CHAIRPERSON BILBREY: Oh, one -- record one no
20 from CalHR, Ms. Hagen.

21 Motion passes.

22 Summary of -- we took care of Item 10 earlier in
23 the day. So Item 11, Summary of Direction.

24 Mr. Hoffner

25 DEPUTY EXECUTIVE OFFICER HOFFNER: I didn't take

1 any notes so far, but I think it's generally working with
2 the CEO on Agenda Item 7, in terms of the second half
3 component, which we talked about. And I didn't see any
4 other feedback that related to summary of Committee
5 feedback.

6 CHAIRPERSON BILBREY: Right, that was the one.

7 DEPUTY EXECUTIVE OFFICER HOFFNER: Okay.

8 CHAIRPERSON BILBREY: All right.

9 And public comment. We have one person wishing
10 to speak. Mr. Neal Johnson.

11 Come on down. We'll turn on the microphone, and
12 you'll have your 3 minutes.

13 MR. JOHNSON: Thank you. My name is Neal
14 Johnson. I represent the Service Employees International,
15 Local 1000. And I have 2 comments.

16 One was we're supportive -- Ms. Taylor made a --
17 was trying to make a substitute motion about the salary --
18 collecting a salary survey. And our data -- clearly -- I
19 mean we've got a -- as we've said to CalHR for a number of
20 years, we have broken civil service system, both in the
21 sense of number of classes, job specs, but also
22 compensation.

23 And to the extent, you know, that we can gather
24 data and have a more cohesive system, we're very
25 supportive and willing to help you in that fashion.

1 The other was more a technical thing. In Agenda
2 Item 4, apparently I joined another local. In your -- in
3 the minutes of the last meeting, I was in local 100. It's
4 Local 1000.

5 (Laughter.)

6 CHAIRPERSON BILBREY: All right. We'll make that
7 correction.

8 Thank you, Mr. Johnson.

9 All right. This meeting is adjourned.

10 (Thereupon the California Public Employees'
11 Retirement System, Board of Administration,
12 Performance, Compensation, & Talent Management
13 Committee meeting adjourned at 4:26 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, Performance, Compensation & Talent Management Committee meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California;

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 21st day of February, 2017.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
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