MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

FINANCE & ADMINISTRATION COMMITTEE

ROBERT F. CARLSON AUDITORIUM

LINCOLN PLAZA NORTH

400 P STREET

SACRAMENTO, CALIFORNIA

TUESDAY, APRIL 18, 2017

12:47 P.M.

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

COMMITTEE MEMBERS:

Mr. Richard Costigan, Chairperson

Ms. Theresa Taylor, Vice Chairperson

Mr. John Chiang, represented by Mr. Eric Lawyer

Mr. J.J. Jelincic

Mr. Henry Jones

Mr. Bill Slaton

Ms. Betty Yee, represented by Ms. Karen Greene-Ross and Mr. Alan Lofaso

BOARD MEMBERS:

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Mr. Michael Bilbrey

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

Ms. Dana Hollinger

Ms. Priya Mathur

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Mr. Ted Eliopoulos, Chief Investment Officer

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Mr. Doug Hoffner, Deputy Executive Officer

Mr. Matthew Jacobs, General Counsel

Mr. Donna Lum, Deputy Executive Officer

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STAFF:

Ms. Marlene Timberlake D'Adamo, Interim Chief Financial Officer

Mr. Scott Terando, Chief Actuary

Mr. Eric Baggesen, Managing Investment Director

Mr. Stuart Bennett, Senior Pension Actuary

Mr. Randy Dziubek, Senior Pension Actuary

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Ms. Simone Parker, Committee Secretary

Ms. Kelly Sturm, Senior Pension Actuary

Mr. Anthony Suine, Chief, Benefit Services Division

Mr. Tim Taylor, Chief, Enterprise Solutions Development Division

Mr. Wylie Tollette, Chief Operating Investment Officer

Ms. May Yu, Senior Pension Actuary

ALSO PRESENT:

Mr. Kathy Ford

Ms. Maureen Lynch

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

ALSO PRESENT:

Mr. Steve Martinez

Ms. Sandra Meza

Mr. Manuel Palmarin

Ms. Theresa Rojo

I N D E X

I N D E X   C O N T I N U E D

P R O C E E D I N G S

CHAIRPERSON COSTIGAN: All right. We'll, good afternoon. We are going to convene, the April meeting of the CalPERS Finance Administration Committee. If you could start with the roll first, please?

COMMITTEE SECRETARY PARKER: Richard Costigan?

CHAIRPERSON COSTIGAN: Here.

COMMITTEE SECRETARY PARKER: Theresa Taylor?

VICE CHAIRPERSON TAYLOR: Here.

COMMITTEE SECRETARY PARKER: John Chiang represented by Eric Lawyer?

ACTING COMMITTEE MEMBER LAWYER: Here.

COMMITTEE SECRETARY PARKER: J.J. Jelincic?

COMMITTEE MEMBER JELINCIC: Here.

COMMITTEE SECRETARY PARKER: Henry Jones?

COMMITTEE MEMBER JONES: Here.

COMMITTEE SECRETARY PARKER: Bill Slaton?

CHAIRPERSON COSTIGAN: He is here, but we're going to go.

COMMITTEE SECRETARY PARKER: Okay. Betty yee represented by Karen Greene-Ross.

ACTING COMMITTEE MEMBER GREENE-ROSS: Here.

CHAIRPERSON COSTIGAN: Just before we get started, just a little logistic. Pam, my -- back there it says 12:46. Up here, it says 12:41, which time is it?

I want to make sure -- well, Mr. Slaton is here. I mean we're fine to go ahead an --

VICE CHAIRPERSON TAYLOR: That's incorrect.

CHAIRPERSON COSTIGAN: Okay. I just want to make sure we're doing everything by the book.

Okay. A couple things before we get started. We're going to take one item out of order. I understand that -- I'm not going to take it up, so don't come up front, but we are going to try to accommodate those who have flights at 3:30. So if there's no objection, I think we're going to take it's Item 9.

INTERIM DEPUTY EXECUTIVE OFFICER TIMBERLAKE D'ADAMO: 9a.

CHAIRPERSON COSTIGAN: We'll take that up in a few minutes, but we're going to go ahead and start with the Executive Report.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Thank you. Good afternoon, Mr. Chair and Madam Vice Chair, members of the Committee, and the Board. Marlene Timberlake-D'Adamo, CalPERS team member.

We have a very -- I was going to say robust. We have a very robust meeting planned for today. In keeping with the -- in keeping with the time of year that this meeting occurs, we have a lot of items. So I'm just going to get right into it, if we can.

The first item is really to review the March Board meeting. And at the March Finance and Administration Board meeting, the Committee took up the matter of East San Gabriel Valley Human Services Consortium. At that meeting, the Committee had directed the team members to do a number of things, three specific things, two of which we will talk a little bit about, but we'll provide more information later, one of which I can speak to today.

The first item was to bring back information regarding any communications we've had with the employer regarding their efforts to bring, or their ability to bring their account current. And so I'd like to report that we have had communications with the consultant for East San Gabriel and have been informed by the consultant that they are unable to bring their balance current.

So therefore, the termination, as was determined at the March meeting, still stands, and we have not received any funds from them.

The second item was for us to come back with some information regarding thoughts on legislative proposals surrounding JPAs. East San Gabriel specifically was a JPA, which is a joint power of authority -- joint power of authority. And so what we are doing is we're not going to be bringing back anything specific today, but to let you know that we are working with our Legislative Affairs, our Legal folks, and our Public Affairs folks to take a holistic view of the universe of employers in looking at some opportunities that we may have for improving or making better some eligibility criteria that we're working on.

The third item, was around the notice provisions that were provided to members regarding terminations. And what we are working on, and as I've mentioned before, we're coming back in May with our quarterly employer financial health report, and in that report, we've talked a lot about the activities that we're doing from February till May, which includes a review of the employer universe, some categorizing of those employers, and identifying risk situations that might exist, and then developing processes really to work with those employers to understand how we're going to manage and monitor those situations.

And so what I would say is that in our may meeting, when we come back, we will definitely bring back some information regarding the notification process. We're working really hard to balance the need to notify members of a potential termination with the -- not unnecessarily alarming folks when it comes to that notice. And so we are actively discussing and working on things along those lines.

That really is about the March meeting. The April meeting is, as I had mentioned, a very full meeting, given the time of the year. We have several actions, several information, several agenda items. And we have -- in terms of our action consent agenda, we have for valuation reports and the semiannual contracting report.

In terms of our information consent items, we have the quarterly IT report, the semiannual financial report, the semiannual budget report, and the annual operational sustainability report.

In terms of action agenda items, we have four items. We have the review of the Finance and Administration delegation. That is an item that we had begun to take up in February that we will hopefully conclude today. We also have the annual review of the employer board member reimbursement percentages. That is an annual item that we take up at this time of year as well.

Item number 6 is our Budget, so we will have the first reading of the budget. Item number 7 is the second reading of the Asset Liability Management Policy, so we will take that up. Item number 8 is two actuarial valuations that will be discussed, as well as item number 9, which Mr. Costigan noticed will be taken up first, but that is the terminated agency valuation item.

And then Item number 10 are a couple of items that we are doing related to policies, and delegation rescissions. And these are actually first readings, but if there are no objections, we'd like to make them action items, as they are basically matters that we're dealing with as we're putting the information into the delegation. So we've essentially put some information into the Delegations. And then as a result of the governance work that we're doing, we're looking to rescind or revise those policies.

The next Finance and Administration Committee meeting is scheduled for May 16th, and will include the second reading of the 2017-18 annual budget, reviews of the Treasury Management and Reserve Policies, the first reading of the CalPERS Budget Policy, reports on the quarterly collections and termination, and annual stakeholder perceptions survey.

Thank you, Mr. Chair. This concludes my report, and I would be pleased to take any questions.

CHAIRPERSON COSTIGAN: Okay. I see no questions on your report. Thank you for that.

I'm going to call on Mr. Jelincic, as it relates to item 3 and 4, because we're going to move a series of items, is that correct, Mr. Jelincic?

COMMITTEE MEMBER JELINCIC: Yeah, I would like to pull in Item 3, the action consents, the semiannual contracting, and the Judges Retirement Valuation, and --

CHAIRPERSON COSTIGAN: So 3b, 3c.

COMMITTEE MEMBER JELINCIC: Yeah, and then in 4, D, the Quarterly IT Officer Report, E, the semiannual financial report, and F the semiannual budget and expenditure report.

CHAIRPERSON COSTIGAN: Okay. All right. We will place those -- I will take those up after we take up Item 9.

Are there any other questions on the consent action item?

So can I get a motion on the remaining items, please?

VICE CHAIRPERSON TAYLOR: Motion.

CHAIRPERSON COSTIGAN: It's been moved by the Vice Chair. Seconded by?

COMMITTEE MEMBER JONES: Second.

CHAIRPERSON COSTIGAN: Mr. Jones.

All those in favor?

(Ayes.)

CHAIRPERSON COSTIGAN: Opposed?

Motion carries.

Item 4 is Consent D. All right. It's just an informational item, but we will take those up shortly.

All right. Let's have the Chief Actuary come up. If there's no objection, we're going to go ahead and move to Item 9. And if you could -- Scott, just one moment before you get started. Would you please tell us the difference Mr. Jelincic has raised between the handout and what's in the iPad? We were given Agenda 9a, attachment 2, is there a difference -- is that your question, Mr. Jelincic?

COMMITTEE MEMBER JELINCIC: Yeah.

CHAIRPERSON COSTIGAN: -- a difference between iPad and the materials?

CHIEF ACTUARY TERANDO: I believe they're the same.

CHAIRPERSON COSTIGAN: Thank you. Great.

All right, please begin.

(Thereupon an overhead presentation was presented as follows.)

CHIEF ACTUARY TERANDO: Good afternoon -- good afternoon, members of the Committee, and fellow Board members. Scott Terando, Chief Actuary.

Item 9 is an information item. And we will be presenting the terminated agency pool valuation as of 63015.

In addition, there have been a number of questions and concerns about how the terminated agency pool works, kind of like the history behind it, and how the calculations are done. In addition, there's also been some questions about the investment policy behind it, how the assets are invested, and the -- how we treat it as a split funding between an immunized portion and a non-immunized portion.

Joining me today is Stuart Bennett, a Senior Pension Actuary, and Eric Baggesen from the Investment Office who will help present the items.

And with that, I'll turn it over to Stuart.

SENIOR PENSION ACTUARY BENNETT: Thank you, Scott. Good afternoon members of the Committee. Stuart Bennett, CalPERS staff.

So this -- this is Agenda Item 9, and it is an information item for the Committee on the financial status of the terminated agency pool, as of the most recent valuation, which is June 30 of 2015. We also thought we'd -- would take the opportunity to, along with reporting the results, go over some of the issues around the terminated agency pool as there's been a number of perhaps misperceptions as well about how that works.

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SENIOR PENSION ACTUARY BENNETT: So just a quick overview. We'll talk about the purpose of the TAP, some of the facts and its financial condition, how those funding calculations are calculated for terminating agencies, some comments on the investment policy, and its current funded status. And then finally, a recap of some of the pertinent legislative history of the terminated agencies.

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SENIOR PENSION ACTUARY BENNETT: So we can start with the basic purpose of the TAP is to secure the benefits of those members in the -- in the -- that have terminated their contracts. And when we say secure, we're really talking about immunizing the investment risk, the interest rate risk of those plans. The assets that back the terminated agencies are fixed income securities. And the idea is that changes in the interest rate environment won't impact the funding of those benefits in the future.

So in addition to prudently managing the short-term and long-term benefit payments, and invested risks, ACTO also, of course, tracks the terminated agencies over time, in terms of their liabilities, and their associated assets. So that's primarily what the TAP is. It is there to secure the benefits of agencies that have already terminated. It has never been designed as an insurance mechanism for plans that have not terminated and is not designed that way.

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SENIOR PENSION ACTUARY BENNETT: So I'll quickly go over some of the results. And unlike some of our other plans, there is no required contribution to the TAP, so we don't calculate a contribution rate. There is no unfunded liabilities that are being amortized. We simply measure the assets and liabilities on a yearly basis to determine the health of the TAP, and just by way of describing what the TAP currently looks like. There are 93 agencies in the TAP. For the most part, these are very small plans with very few members. You can see that total membership is 1,051 lives, of which 716 are retirees currently receiving a benefit payment.

The average monthly warrant that those retirees receive is modest. It's $573 a month. And that's a function of essential frozen salaries, when those benefits are calculated, and for the most part, small amounts of service for those plans.

So we'll just compare quickly then the current year results and the prior results. As of 2015, the market value of assets for the TAP is just short of $220 million, associated liabilities of $88.5 million. So there is a negative unfunded liability, if you will, a surplus in the TAP. It's funded ratio is 248.3 percent. And that has declined from last year. Last year, it was

261.9. The reason it declined was primarily that our investments in the PERF did not do as well. We had two plans join the TAP this year, voluntary terminations. And in addition, the interest rate environment has decreased, and so that increases liabilities.

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SENIOR PENSION ACTUARY BENNETT: So slide 5 here shows a history of the funded status of the terminated agency pool. This goes back to 2004. And if the Committee remembers, this was right around the time where we had implemented pooling. And we have a number of pools. Most of those were based on benefit formula. For the TAP, it's obviously based on the fact that they're terminated. You can see that over time the funded status has been quite high, certainly more than is typical for our other plans or our other pools. But that is not to say that in the future, the funded status will remain that way.

And there are some inherent risks in a TAP. I think one of the most prevalent that I'd like to point out is that any time a new plan joins or is admitted to the TAP, the funded status of the TAP will go down. Now, most of the plans that join the TAP are relatively small, but the implication is that for a large plan, that could have a significant impact on the funded status. And we'll cover that in the next couple of slides.

I would say that the -- I mean, the funded status of the TAP has been high for a number of reasons. Obviously, investment returns over that time have done very well, and have outperformed the growth of the liabilities. We've also been in an interest rate environment that has trended down over time, so U.S. Treasuries and those kind of fixed income assets have appreciated in price.

There's a couple of other potential risks for the TAP. Obviously, we have a contingency load in there for mortality improvements in the future. But if the retirees and the beneficiaries of the TAP, if their mortality improves significantly, that will certainly decrease the funded status, and that is a potential risk.

We should also point out that not all of the members of the TAP have a frozen compensation when the go in. There is the option for plans that terminate at CalPERS to have non-frozen salaries at the time of termination. And so just like the reciprocal agreements we have with various agencies, their final compensation could be higher. So obviously, we do account for that in our salary scales, and so forth, but that is also a potential risk.

And, of course, the biggest risk to the TAP is that once a plan is in the terminated pool, there is no recourse for us to go back to an employer and ask for additional contributions. All of the risk is borne by CalPERS, and the pool itself. So that is probably the most significant factor.

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SENIOR PENSION ACTUARY BENNETT: We just wanted to highlight a couple of things. I mentioned that the funded status of the TAP has been high for many years, but we would like to point out that the funded status is not required to stay up there. And if a plan of significant size was to be admitted to the TAP, that could have a significant impact on the funded status of that TAP.

And so here, we have a plan with $30 million of liabilities and obviously $30 million of assets, because they -- when they joined the TAP, they come in 100 percent funded. Well, you can see that before and after the funded status of the TAP has decreased now from 248 percent to 210 percent. So large plans entering the TAP will have the effect of lowering the discount rate, and that could be fairly significant. Most of the plans, of course, in the TAP are relatively small. And even though we talk about this being a pool, it's comparatively small.

I mean, the TAP itself, even though it has 93 agencies, is about the same relative size as a mid-size non-pooled agency that we would have at CalPERS. So it is a -- it is comparatively small, even though it has a large number of agencies in there.

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SENIOR PENSION ACTUARY BENNETT: The second example, kind of along the same lines is a larger plan, $60 million of assets and liabilities. And there, you can see the funded status would drop below 200 percent just by the admission of a larger plan. And so we just wanted to make that -- make that point.

CHAIRPERSON COSTIGAN: Hold on a second.

Mr. Jelincic. We have couple questions.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Just to give a context, can you give us an agency that has 60 million in assets and liabilities, something in that ballpark? I mean it's obviously bigger than Sacramento, I think, but --

SENIOR PENSION ACTUARY BENNETT: Let me think, I'm trying to --

COMMITTEE MEMBER JELINCIC: I mean, I'll take something in the 50 to 70 million range. I'm just trying to get a context.

(Laughter.)

COMMITTEE MEMBER JELINCIC: And if you don't have it, you don't have it.

SENIOR PENSION ACTUARY BENNETT: I don't have that right off the top of my head, unless one of my fellow actuaries here in the audience can think of a plan -- a comparative plan that has about 60 million.

CHIEF ACTUARY TERANDO: I can't think of one either, but, you know, off the top of -- if you look at East San Gabriel, the liabilities are around 30 million, for the total liabilities without benefit reduction. So, you know, those 200 members -- 200 members had around 3 or 30 million.

COMMITTEE MEMBER JELINCIC: Okay. I just -- for context.

SENIOR PENSION ACTUARY BENNETT: Yeah, the East San Gabriel situation, that would be example number one here. That would be the sort of comparative -- comparative size.

CHAIRPERSON COSTIGAN: Thank you.

Mr. Slaton.

COMMITTEE MEMBER SLATON: Thank you, Mr. Chair. Just so I make sure I understand, in both these examples that you've given, while the funded ratio changes, the negative unfunded liability stays the same.

SENIOR PENSION ACTUARY BENNETT: That's correct.

COMMITTEE MEMBER SLATON: So the actual dollars stay the tame

SENIOR PENSION ACTUARY BENNETT: That's correct. So the surplus would remain in tact. That's because we have this immunized strategy. However, I would say that that surplus is now covering more liabilities in the TAP, right?

COMMITTEE MEMBER SLATON: Okay.

SENIOR PENSION ACTUARY BENNETT: So you're right, we haven't changed or impacted the surplus in dollar amounts. But that same surplus has to protect a larger group of liabilities.

COMMITTEE MEMBER SLATON: Okay. So -- and you mentioned they all go in at 100 percent. I'm not sure that's quite accurate. I think they go in at 107 percent.

SENIOR PENSION ACTUARY BENNETT: Well, that's -- let me clarify that, so a plan that comes in is 100 percent funded. In other words, its assets and liabilities are to match. But when we do the termination calculation, we add a contingency load, mostly for mortality, and that's increasing the liabilities by seven percent. And so the amount of assets that need to come into the plan are 100 percent of the liabilities.

COMMITTEE MEMBER SLATON: Right. So you've got two things going on simultaneously. You've got -- you've create -- you create a surplus going in, but you also have a, what I would call, a fixed surplus. Although it's not fixed, as we can see, because the market changes and that money is in the PERF. But we have a surplus that then has to be spread across a base that as agencies get added to the TAP, a larger base. That fixed dollar amount subject to return fluctuations has to cover a larger base, is that true?

SENIOR PENSION ACTUARY BENNETT: Yes, that's correct.

COMMITTEE MEMBER SLATON: Okay.

SENIOR PENSION ACTUARY BENNETT: Scott, did you want to add something there?

CHIEF ACTUARY TERANDO: Just the point of, like you said, when the -- when we add a new agency or new agencies are added to the TAP, we are increasing both liabilities and the member's -- the number of members in the TAP. And so that contingency reserve that we have, there's $130 million, is now spread over a --

COMMITTEE MEMBER SLATON: Correct.

CHIEF ACTUARY TERANDO: -- growing population and a growing liability.

COMMITTEE MEMBER SLATON: Right.

CHIEF ACTUARY TERANDO: So it actually is -- you know, the buffer is decreasing as --

COMMITTEE MEMBER SLATON: Right.

CHIEF ACTUARY TERANDO: -- as we add more plans to it. We do increase the liabilities about seven -- as mentioned, seven percent to kind of add a contingency for the plan coming in. And they do -- you know, as they go into the TAP, there's some additional reserves to cover the fluctuations that -- you know, the additional risk, because there are a number of risks out there. And I think we've talked to those. And we can kind of go over them some more.

But those additional -- we need the -- that contingency for a number of risks that we -- that are out there that, you know, we can't go back to the employers and recoup.

COMMITTEE MEMBER SLATON: Right. No, I get that. So your seven percent is to cover an individual TAP agency contingency, and the UAL, the negative UAL, that is to cover the entire group, the broad group.

CHIEF ACTUARY TERANDO: Correct.

COMMITTEE MEMBER SLATON: So I'll just pose this as a rhetorical question right. We can get back to it later in more detail, perhaps, which is where do those numbers need to be? Is the 107 the right number? Does it need to be 120?

I'm trying to understand how much protection does one need in an immunized strategy. So I just leave that open. You don't need to answer it right now, but I wanted to pose that question.

SENIOR PENSION ACTUARY BENNETT: So perhaps we can address that at the end.

COMMITTEE MEMBER SLATON: Sure.

SENIOR PENSION ACTUARY BENNETT: That's a broader policy question, but it's -- certainly, your point is well taken.

COMMITTEE MEMBER SLATON: Okay.

CHAIRPERSON COSTIGAN: So we have a few more questions. Just to clarify what Mr. Slaton said. Right now, when someone goes into the TAP, we're truing them up at 107 percent. So in order to come into the TAP, the agency requesting is paying the 100 percent plus the seven percent contingency. We're not doing -- and that is because we, the System, assumes all risk going forward at that point.

SENIOR PENSION ACTUARY BENNETT: That's correct. We assume all the risk. So if we were off in our mortality projections, we would have no recourse to collect additional money.

CHAIRPERSON COSTIGAN: And that goes back to Mr. Slaton's point, that's why we have the second fund -- or the other -- what folks will call, the surplus is to ensure that the benefits are paid and contingencies are met.

COMMITTEE MEMBER SLATON: Okay.

CHAIRPERSON COSTIGAN: Mr. Slaton, you had another question. Go ahead, sir.

COMMITTEE MEMBER SLATON: Just very quickly. I forgot to ask this one. So as you -- as agencies get added to the TAP, the funded status, if your strategy works properly, will never go below 107. In fact, you keep approaching it as you use the larger piece.

CHIEF ACTUARY TERANDO: I think you have to remember when we -- the -- we add a margin, because there are a number of factors, that a lot of --

COMMITTEE MEMBER SLATON: Right.

CHIEF ACTUARY TERANDO: There's some uncertainties. When you look at -- when you're looking at inflation, the forecasted inflation, we can be off on inflation. As Stuart mentioned, the salaries could be a factor. There's also the mismatch between liabilities and the assets.

COMMITTEE MEMBER SLATON: Correct. But your goal is to always -- to not be below 100?

CHIEF ACTUARY TERANDO: The goal is to not be below 100, right. And so we add a little buffer to kind of cover it. There's also fluctuations mortality. And if we're off, we don't want to be in the position of the TAP being underfunded, because it -- that would be a -- you though, an unfortunate situation where we'd have to take a look at what we need to do with that?

COMMITTEE MEMBER SLATON: Okay.

CHAIRPERSON COSTIGAN: Madam Vice Chair?

VICE CHAIRPERSON TAYLOR: Thank you, Mr. Costigan. So, Mr. Bennett I just had a quick question. I think what leads me to this question is what Mr. Slaton was asking. So we funded -- when the $60 million agency just came in, we funded them at 107 percent. I get the 100 percent. How do we get that x-ray seven percent. How did we arrive at that number? What was the policy behind that?

SENIOR PENSION ACTUARY BENNETT: So there is a Board resolution for that seven percent. The actuarial work that would have determined that was done many, many years ago. It's certainly something that we could revisit, but that has been the standard for many years.

VICE CHAIRPERSON TAYLOR: So you don't have an idea how many years ago it was done?

Because I'm thinking the difference in our economy right now, and the way things are moving, maybe we should revisit that. I would take that -- I would leave to the Committee, of course. But do you remember how long that was?

SENIOR PENSION ACTUARY BENNETT: I think we're just going to see if we can --

VICE CHAIRPERSON TAYLOR: Find that right now.

SENIOR PENSION ACTUARY BENNETT: It was certainly before my time here, I can tell you that.

CHAIRPERSON COSTIGAN: And in the long --

SENIOR PENSION ACTUARY BENNETT: It may have been as far back as the 1980s.

CHAIRPERSON COSTIGAN: And the question on that, and I do think we should probably revisit it, but the severn percent would have also been based on what the mortality rate would have been at the time of the adoption of the resolution.

VICE CHAIRPERSON TAYLOR: Way back then.

CHAIRPERSON COSTIGAN: And since that time, we have adopted longer mortality tables for our members, is that correct?

SENIOR PENSION ACTUARY BENNETT: That's right. We do we have built in improvements in mortality, and we will be revisiting that issue with the experience study coming forward. So perhaps, this is something that we could look at at the same time.

CHAIRPERSON COSTIGAN: So why don't we put it on our list. That's Board direction.

VICE CHAIRPERSON TAYLOR: Perfect.

CHAIRPERSON COSTIGAN: All right. We have a few more questions. Let's go -- I'm sorry, Ms. Hollinger, we're going to go to Committee members first.

Mr. Jones.

CHIEF ACTUARY TERANDO: Real quick to Ms. Taylor's question, it looks like we've been using the severn percent load since 1982.

VICE CHAIRPERSON TAYLOR: Yeah, that --

CHIEF ACTUARY TERANDO: Prior to that, it was over ten percent. So it was a ten percent mortality load prior to 1982. And then it looks like there was some additional loads. I mean, we're going way back in time here. And then it's been kind of like the seven percent. So the seven percent kind of is there to deal with, you know, mortality fluctuations, as well as inflation, because, you know, most benefits we have are indexed with the COLA.

So there's the inflation component that we have to worry about as well as the mortality. And even though, as Mr. Costigan mentioned, we've changed our mortality tables recently, and people are living longer. That seven -- that load is on that longer table. So we're still taking the same percentage. It's just over different tables.

CHAIRPERSON COSTIGAN: Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you Mr. Chair.

Yeah, I'm looking at the long term. You mentioned the mortality rate has an impact on the funded liabilities. Interest rates could go down again. They already are at all-time lows, but they can continue to be there.

And inflation, as you mentioned, are all things that could cause events to affect the reserves of this fund. So long term, if all of those things continue to go the wrong way, and you have now 93 funds that are participating, or agencies participating, and you've got two or three more coming in. And if you go down where you don't have enough money, how is it distributed?

Does the people who put in 107 also have to take a reduction in their monthly warrants as a -- the same as the people that came in who did not put in 100 percent?

CHIEF ACTUARY TERANDO: Right now, you know, since we're not in that position --

COMMITTEE MEMBER JONES: I know we're not, but I'm looking at the long term.

CHIEF ACTUARY TERANDO: Everyone is going -- pretty much going in with the 107 percent load. And we're still in the status where we're funded. If -- you know, since we don't have any recourse right now, the -- if we drop below 100 percent funded, there would be -- I think the two options would be do we reduce benefits further or does the PERF absorb that?

And I think that would be a policy decision we'd have to look at, because right now that's not the find.

COMMITTEE MEMBER JONES: And so -- and my question was going to putting people in the TAP that did not put in 100 percent, or 107 percent.

CHIEF ACTUARY TERANDO: Well, essentially, we always -- we true them up. So, for example, if an agency, like, for example, the City of Loyalton back in last November, they weren't able to true up to the level they needed to be brought into the TAP. So what we do is we bring down the -- you know, we bring down the liability to match the assets going in.

And so we do it via cutting the benefits. By cutting the benefits, we cut the liabilities, so when we add plans to the TAP, they always are at 100 percent no matter --

COMMITTEE MEMBER JONES: Right. So that's the point I'm getting to. If you bring people in now, you -- the only way you're going to the TAP is you reduce the benefit level, so it is 100 percent going in.

CHIEF ACTUARY TERANDO: That's correct.

COMMITTEE MEMBER JONES: You cannot let people continue to receive 100 percent of their retiree benefit and come into the pool. That's the differentiation I'm trying to make, because --

CHIEF ACTUARY TERANDO: Yes.

COMMITTEE MEMBER JONES: Okay. Because that's what the ultimate question is, is can the agency come in and still get 100 percent of the salaries becoming in with a less than 100 percent fund?

CHIEF ACTUARY TERANDO: Right now, we haven't --

CHAIRPERSON COSTIGAN: To date, that has not been an issue.

COMMITTEE MEMBER JONES: No, no, that has -- but I'm just saying, that's going to be the policy question we're going to be dealing with. And so that's why I'm trying to get to that question.

CHAIRPERSON COSTIGAN: I think the question that -- so first of all, what Mr. Jones is posing is a hypothetical.

COMMITTEE MEMBER JONES: Sure.

CHAIRPERSON COSTIGAN: Because up until now, everyone that has come into this system has paid 107 percent, is that correct?

CHIEF ACTUARY TERANDO: Actually, that's not correct.

CHAIRPERSON COSTIGAN: Okay.

CHIEF ACTUARY TERANDO: There were a few plans. I think there were two plans in 2013 that were brought into the TAP as less than 100 percent funded. I believe one plan that was -- it was short around 120,000, and another plan was short around 135 to 140 thousand.

CHAIRPERSON COSTIGAN: How many employees?

CHIEF ACTUARY TERANDO: I think one plan had one, and there was two three employees for the second one.

CHAIRPERSON COSTIGAN: So no more than five employees?

COMMITTEE MEMBER JONES: Yeah.

CHIEF ACTUARY TERANDO: Right. And I do believe going way back in 2006 to -- there was one plan that was admitted to the TAP. And in that case, it was a fairly substantial amount. It was around a million dollars.

CHAIRPERSON COSTIGAN: And if I recall, correctly, it was the prior Chief Actuary that made the decision to allow those two in in 2013?

CHIEF ACTUARY TERANDO: For the two smaller plans --

CHAIRPERSON COSTIGAN: Yes.

CHIEF ACTUARY TERANDO: -- it was the prior Chief Actuary. And then the 2006, it was even before that. It was the Chief Actuary before that.

CHAIRPERSON COSTIGAN: Okay.

CHIEF ACTUARY TERANDO: And concerning the termination in 2006, I do recall that the terminated agency pool was over 300 percent funded both prior to and after the admittance of the plan.

CHAIRPERSON COSTIGAN: Okay.

COMMITTEE MEMBER JONES: Okay.

CHAIRPERSON COSTIGAN: All right. So we'll go with -- stay with the Committee. Mr. Lawyer.

ACTING COMMITTEE MEMBER LAWYER: Yeah. You just mentioned those few agencies that got into the TAP without fully funding it. You mentioned there -- the difference in dollar amounts. Do you have any estimate of what that is in total percentage amounts? Like at what funded status they entered the TAP? If it wasn't 107, then --

CHIEF ACTUARY TERANDO: I think most of -- the funded percentage of those two small plans, I think, were around 40 percent. I mean, it's similar to what we see most plans around today at on a termination basis.

ACTING COMMITTEE MEMBER LAWYER: Okay.

CHAIRPERSON COSTIGAN: Ms. Mathur.

BOARD MEMBER MATHUR: Thank you.

I just want to revisit briefly something that Bill Slaton was asking about earlier. It is possible for the TAP to fall below 107 percent, because while we put in that buffer, it is possible for some confluence of events, very low interest -- investment returns, you know, high salary inflation, mortality, you know, people living longer, all of those things could combine, so that the seven percent wouldn't -- wouldn't actually cover -- wouldn't actually cover the full effect of that?

CHIEF ACTUARY TERANDO: That's correct.

BOARD MEMBER MATHUR: So while we're -- and so I agree that it would be a good idea to revisit that assumption at some point. That sounds -- that seems reasonable within sort of the workplan of your office to revisit that. And maybe that should be put on some periodic review similar to the way we do experience studies and various other assumptions that underlie our funds.

CHIEF ACTUARY TERANDO: Okay. Thank you.

CHAIRPERSON COSTIGAN: Ms. Hollinger.

BOARD MEMBER HOLLINGER: Yeah. I thought I could help clarify this for everyone. The three risks that we face, number one, it's longevity risk. People are, on the average, living about seven years longer. So when you have longevity risk, you also have interest rate risk, because all of a sudden you have liability growing at a longer duration. And the other risk you have is the cost of living adjustment rider, because that exposure has nearly doubled.

So I just wanted everyone to understand it in the context of why 107 percent could not be enough in the context of those risk exposures that the TARP[sic] faces.

CHAIRPERSON COSTIGAN: Mr. Slaton.

COMMITTEE MEMBER SLATON: So on that issue, and as Ms. Hollinger mentioned about the -- those that have an inflation adjustment, does the -- do we differentiate between agencies coming in who have that feature with ones who do not have that feature versus the seven percent? Shouldn't those that have that feature be a higher number than 107?

CHIEF ACTUARY TERANDO: Well, all the -- all the members have a COLA on their benefits. And so all -- all the members are eligible for COLA, and it's factored into the liabilities we calculate. We do have -- we do offer the option of whether we want the compensation frozen or unfrozen. And if the agency elects to have non-frozen, we do -- when we do the evaluation of liabilities, we take into consideration that that -- their salaries aren't frozen, and the liability is -- will be higher when the plan terminates.

And there is some more variability to that, but we -- right now, we're using the same load, whether they -- the plan terminates on a frozen basis or an unfrozen basis. At this point, you know, we've only had about eight percent of the plans elect a non-frozen benefit.

CHAIRPERSON COSTIGAN: Okay. What does non-frozen mean?

CHIEF ACTUARY TERANDO: Non-frozen means we use the final average compensation. So if a plan terminates and say they terminate this year, we would use final average compensation based on years of service, and final average compensation up to this point in time.

If they elect the non-frozen compensation, years of service is frozen at this point. But if they -- the member works in another CalPERS agencies, their pay --

COMMITTEE MEMBER SLATON: Gotcha.

CHIEF ACTUARY TERANDO: -- we would use their pay.

COMMITTEE MEMBER SLATON: Gotcha.

CHIEF ACTUARY TERANDO: So if a young person in their twenties is at a terminated agency, and they elect non-frozen compensation, they could have potential of 30 plus years of salary increases, which would substantially increase the benefit that they get paid through the TAP.

COMMITTEE MEMBER SLATON: So does that mean the initial compensation for that, that goes down going into the TAP?

CHIEF ACTUARY TERANDO: No, no. It doesn't mean -- what it does it just means that when we do the calculation, we would take those anticipated salary increases into consideration when we value the liability for the termination.

COMMITTEE MEMBER SLATON: So that when you value the liability for the entire agency?

CHIEF ACTUARY TERANDO: Correct.

COMMITTEE MEMBER SLATON: Not on an individual basis?

CHIEF ACTUARY TERANDO: Right, because it's either for -- it's either the agency elects whether they want frozen or non-frozen.

COMMITTEE MEMBER SLATON: I see. It's as a group --

CHIEF ACTUARY TERANDO: As a group.

COMMITTEE MEMBER SLATON: -- make that decision. Thank you

CHAIRPERSON COSTIGAN: Okay. No other questions on that. You can keep going.

SENIOR PENSION ACTUARY BENNETT: I think we're at slide 9, so maybe I'll move this along here.

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SENIOR PENSION ACTUARY BENNETT: And this talks about some of the issues that have come up, in terms of how these calculations are done for terminated agencies.

So on -- when an individual plan terminates, the Actuarial Office determines if there's a deficiency or surplus at the date of termination. We do use an immunized discount rate, a market-based discount rate, and not the PERF discount rate, which does increase liabilities for those plans.

Deficiency amounts, if any, are then owed to CalPERS, and must be made -- those payments must be made before we would admit a plan to the TAP. Obviously, the surplus amounts, those would go back to the individual employer in question.

When the Actuarial Office makes these calculations - I think Ms. Hollinger brought it up - we essentially match the duration of the assets and the liabilities. That's a sort of a proxy for the -- for cash flow matching. Certainly, for the TAP investments themselves, they're cash-flow matched. But when we do the calculation, we duration match. And duration is really sort of the average weighted timelines of the cash flows essentially. And again, of course, there is no recourse for us to collect any future money from these agencies.

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SENIOR PENSION ACTUARY BENNETT: So we'll just make a couple of comments on investment policy. And maybe I'll just keep going ahead on this, and you can jump in

Eric, if you want.

So, I mean, the investments are essentially in two pieces, this immunized portion of the portfolio. We essentially cash flow with low risk treasuries and other government issued securities, like STRIPS. And we build in various inflation scenarios to make sure that there would be sufficient cash in the future to make good on these payments. So we factor in future inflationary environments.

Now, the surplus piece, as we're calling it, that's the piece beyond the immunized portion is invested alongside the PERF and it -- you know, gains, as the PERF does well, it loses. You know over the course of the history of the TAP, I think the returns on -- have been around 10 percent. So they have outpaced liabilities, which is one of the reasons that the funded status of the TAP is so much higher, because investments have done very well, and liabilities are much more curtailed.

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SENIOR PENSION ACTUARY BENNETT: I think, Mr. Slaton you asked a little bit about --

CHAIRPERSON COSTIGAN: Mr. Slaton, your mic is on.

SENIOR PENSION ACTUARY BENNETT: -- the funded status in general. So a couple of points here on that.

Obviously, there's a number of reasons that the TAP is much better funded than most of our plans. Obviously, plans that come in are 107 percent funded starting off, right, so they're in a much better position. The performance of the assets that back the TAP have done very well, right back from the 1970s, and have outpaced the growth of the liabilities.

Of course, the TAP benefits are frozen, so there have been no benefit improvements along the way. Certainly, we had a lot of benefit improvements in the early 2000s. That, for the most part, did not happen to the agencies in the TAP.

And there also have been some situations where a terminated agency essentially reactivates, joins CalPERS again. And when they are moved out of the terminated agency pool, they're moved out at 100 percent. And so there can be some surplus that's left behind with the remaining agencies in the TAP.

COMMITTEE MEMBER SLATON: So can I go ahead? Let me ask this question. So you say a 10 percent annual. And, of course, the portion of the PERF over the long term has done quite well, but we're in a different environment right now. And so the question is although leaving that surplus in the PERF I know is the least expensive way to invest, because it's just invested alongside. It's merely an accounting record.

But what would be the trade-offs, the pluses and minuses, and what would your recommendation be regarding whether that surplus really should be back into the TAP rather continuing to sit in the PERF?

SENIOR PENSION ACTUARY BENNETT: So I'll let Eric answer that one, since it's an investment policy question.

MANAGING INVESTMENT DIRECTOR BAGGESEN: Yeah. Good afternoon. Eric Baggesen, Managing Investment Director for asset allocation.

I think the question that you're raising, Mr. Slaton, is the TAP is considered invested alongside the PERF. So literally, it doesn't necessarily share or attempt to spread its risk to the PERF. The status of the TAP from an investment perspective is, in essence, a lucky confluence of market events basically, because literally this thing was invested in the same risk profile that we used for the ongoing PERF, where you do have recourse to the employers. That was invested that way right up until basically the end of 2012.

So this thing was taking all full market risk, which again happened to work out and arrive at the place where you are right now, where you have a surplus funding.

So the recommendation and the recommendation was not brought by me personally in 2012. So I'm only going to speak from my recollection of what happened with Ben Meng and Joe Dear who were brining this item at the time. The staff recommendation was to basically fully immunize the portfolio and take all of the surplus, basically, and invest that in an equivalent conservative portfolio, so that we would not -- the original recommendation was not to take, for example, equity risk with this plan, given that there's no possible source of recourse. And that created quite a discussion across this Board at that time, that went on, I actually think, for a couple of meetings before there was a resolution to that discussion.

And, in essence, the -- we ended up as an organization with a compromise away from the original staff position, where we would immunize the portfolio, we would build a reserve that was equivalent to two years of benefit payments, so that's a further reserve, if you will, on the plan. And then basically the surplus calculated from that point forward would be invested in the same risk profile and alongside the risks that we're taking for the rest of the PERF.

And I think the intent of that was literally again to try to basically, to the extent that the risk is rewarded, build up even a larger reserve at that point for a purpose that I do not think has ever been crystal clear, at least to my recollection. You know, no one ever identified what would that thing be applied to, other than, in essence, just guaranteeing the benefits for the -- you know, the areas of potential variability, such as longevity basically, potentially inflation and whatnot.

So that was the decision of this Board in 2012, and we've been operating ever since that in a manner consistent with that when we rebalance the TAP on an annual basis.

And I would just make one further comment, we put a consent agenda item in front of you in March of this year that showed the effect of the TAP rebalance. So it actually has a graph that shows the staggering of the different cash flows that are estimated from the liability pool that is there, and has been mentioned, that's all invested either in zero coupon government codes, STRIPS, or in Treasury Inflation-Protected Securities, but there is still an element of uncertainty at the end of this. We literally can invest out to a 30-year duration in government instruments --

COMMITTEE MEMBER SLATON: That's not long enough.

MANAGING INVESTMENT DIRECTOR BAGGESEN: -- and yet there is basically liabilities that extend beyond 30 years. So there's an element of risk that attaches to that, and we basically just keep rolling, in essence, a balloon payment at the end of this program every single year into the next maturity of instruments, and building the immunized portfolio.

COMMITTEE MEMBER SLATON: So the question is the unimmunized portion that's outside of the 107, that's outside of the two years extra pay -- you know, set aside for payments, the part that is invested alongside the PERF in 2017 does that still make sense for us to do that or should we reconsider it all going into a more immunized fashion or something in between the PERF and how we invest the immunized portion? So do you all have any recommendation in that regard?

MANAGING INVESTMENT DIRECTOR BAGGESEN: You know -- and you have to acknowledge, my comments certainly could be superseded by Ted's comments, as our Chief Investment Officer. So, you know, certainly he's the appropriate person, I think, to answer that question.

COMMITTEE MEMBER SLATON: He's right there.

MANAGING INVESTMENT DIRECTOR BAGGESEN: But I see nothing from any of the interaction that we've had with staff that would cause us to shift from the opinion that we put in front of this Board in 2012.

But the other element to recognize in this is just the complexity also of running this program. This does not appear to be a place that warrants incremental degrees of complexity that cause any sort of incremental further uncertainty, right, or basically staff time and resources and all the rest of this, you know, required to administer it.

So from our perspective, and we did have an extensive, as I say, discussion in 2012, there were talked about different intermediate steps that you could go between the immunized portfolio and the full on risk profile of the PERF. What you have to recognize is all those intermediate steps would actually take a significant amount of effort to administer, and a whole other body of work, if you will, that the staff would have to absorb to determine whatever that is, given those Intermediate steps.

And given the fact that it was surplus funded, we believe that that was not necessarily the optimal use of staff time to be trying to basically -- you know, I'll use a term that's probably not correct, but split hairs on the risk profile.

COMMITTEE MEMBER SLATON: But to go back to the -- to take the full immunized approach with those funds, would that also dictate more strategy, more people, more time to just essentially take it all back to the immunized strategy?

MANAGING INVESTMENT DIRECTOR BAGGESEN: No, I mean, we have to calculate the immunized, the laddering of the portfolio, that needs to be done whether we're immunizing a million dollars or we're immunizing --

COMMITTEE MEMBER SLATON: Right.

MANAGING INVESTMENT DIRECTOR BAGGESEN: -- $200 million, it's the same body of work.

COMMITTEE MEMBER SLATON: Okay. All right. So you're -- right now, your recommendation would be to stay where we are?

MANAGING INVESTMENT DIRECTOR BAGGESEN: As I say, that's my perspective. And Ted gets to reserve --

COMMITTEE MEMBER SLATON: I think I caused Ted to get and come over.

(Laughter.)

CHIEF INVESTMENT OFFICER ELIOPOULOS: He was doing so well, I didn't want to interrupt the flow of it. I couldn't agree any more with Eric. I do think, similar to the point that Ms. Mathur made previously on a different point, we probably should set a time to review this. Certainly, during the course of our ALM cycle right now would not be the time from a staff -- you know, staffing perspective to do that, but we should probably give some thought as to what would be the normal time to review that somewhere in years five through ten out from the original decision would make sense.

COMMITTEE MEMBER SLATON: Thank you.

CHAIRPERSON COSTIGAN: Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: A couple of points. Scott, you said that, you know, we invest so that changes in interest rates don't impact the assets.

Well, you know, the truth of the matter is they do, because if interest rates rise, fixed income instruments go down. Now, because we're going to hold them to maturity, that's less essential. But our liabilities also are tied, to some extent, to interest, or interest rates. And the COLAs are tied to inflation, which are, you know, driven by interest rates, or -- I'm not sure which way the cause and effect goes, but they're -- they currently move together. So doing it all in fixed income wouldn't completely deal with it.

You can't immunize a 50-year liability. I mean, it's just not -- not out there. So that's not really an option to completely immunize it.

You talked about that eight percent of the members have non-frozen salaries. Do they tend -- do those tend to be higher paid people, lower paid people, and -- or do we know?

CHIEF ACTUARY TERANDO: I don't know off the top of my head.

COMMITTEE MEMBER JELINCIC: Okay. That's fair enough. And I was doing a little looking, because I was trying -- you know, what's a $60 million company. And obviously, I've come to the conclusion it's somebody that's in the risk pool. You know, they're not going to be a stand-alone. But I wound up looking at Hayward, which is where I happen to live, but it's only 149,000, so it's not a very big city. But its assets are $456 million. So to get down to 60 that you used has to be a really, really small city, you know, like a fourth of that. So thank you.

CHAIRPERSON COSTIGAN: All right. So what we're going to do now is we're going to have the public comment, because I know that there are some folks have a 3:00 o'clock flight. I'm inclined to give five minutes, although this is the third time we've discussed this matter over the last three months. So I would ask the folks, as they come down, to recognize, -- so if there's no objection, we'll give you five minutes, but we still have a very long agenda ahead of us, and as a courtesy, we took you all out of order to accommodate your flight schedules. So please recognize the staff still has a long afternoon ahead of them.

So we'll start with Sandra Meza, if you're come down to my left. And Maureen Lynch. And then Theresa Rojo and Kathy Ford, if you guys will come down somewhere near the front row.

Yeah, right there, please. Actually, if all four seats are open, you take the four seats.

Ms. Meza, is that -- you can sit where you want, but you want to go first?

MS. MEZA: Yes.

CHAIRPERSON COSTIGAN: Okay. So just have a seat. The microphones will be turned on for you. There's a clock. So when you all are ready, please begin.

MS. MEZA: My name is Sandra Meza. I'm a retiree of the East San Gabriel Valley Human Services Consortium.

CalPERS accepted the Consortium as a member agency knowing that the Consortium's existence was dependent on grant funding, which is never guaranteed. CalPERS must have known that the member city's legal agreement that formed the Consortium stated that the debts, liabilities, and obligations of the Consortium do not constitute debts, liabilities, or obligations of any member city party to that agreement.

CalPERS staff recently reported that it has stopped contracting with agencies with similar agreements, thus eliminating situations, such as the Consortium's, in future contracts.

Additionally, at the March FAC meeting, the Board instructed CalPERS staff to bring back a discussion on statutory change for JPA contracting agencies. Clearly, the Board is seeking to use statutory authority to fix existing JPA contracts and prevent any further occurrence, such as ours.

The CalPERS Board has already voted to terminate our contract, but the corrections that are now being made to prevent this situation from occurring in the future may mean we are the last agency to enter the termination agency pool under this kind of a situation.

CalPERS may be taking reasonable steps to prevent future problems. However, it should also take reasonable steps to protect participants caught between old and new rulings.

CalPERS should grandfather in participants who came in under earlier approved agreements and continued to provide the benefits that were promised to them. CalPERS does have recourse for the Consortium situation. Section 20577.5 of CalPERS governing code allows for the CalPERS Board to fully fund the liabilities of the Consortium's plan, if the benefit reduction would not impact the termination agency pool's actuarial soundness.

On November 16th, at the Board of Administration meeting, Agenda Item 8 entitled Delinquent Contracting Agency Matters, at which the City of Loyalton was discussed, reads, "In very limited situations regarding involuntary terminations, when a deficiency exists, Section 20577.5 allows the Board to merge a terminated plan into the TAP without benefit reduction".

However, Loyalton was not eligible to be evaluated under section 20577.5, as this section does not apply to voluntary terminations. The Consortium did not voluntarily end its CalPERS contract. Yet, you are treating us as if we worked for a viable organization like the City of Loyalton, which voluntarily withdrew from CalPERS in order to reduce expenditures.

In fact, the TAP was never mentioned by staff to the Board during last month's meeting, or the meeting before that.

From the Actuarial Standards Board, "In rendering actuarial services, if the actuary identifies the process or result as actuarially sound, the actuary should define the meaning of actuarially sound in that context".

The following statement appears in CalPERS TAP rebalance agenda items: "A funded status of over 100 percent indicates the TAP program is adequately funded".

I'm going to read one sentence from Article 16 of the California Constitution Public Employees' Retirement Law, Section 17, "A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty". We are participants and beneficiaries, and the law says you must protect our pensions.

You have many times declared that the JPA cities did not have legal obligation to pay our unfunded liability, but they do have a moral and ethical obligation to do so. What about your moral and ethical obligation?

This is a formal request that the CalPERS Finance and Administration Committee and the CalPERS Board of Administration reopen its deliberations regarding the Consortium and vote to exercise its authority to place the Consortium in the terminated agency pool without a reduction in benefits.

Thank you.

CHAIRPERSON COSTIGAN: Ms. Lynch.

MR. LYNCH: My name is Maureen K. Lynch, and I'm 67 years old. I had been employed with the East San Gabriel Valley Human Services Consortium for 17 years. I've been retired for only a little over two and a half. As a single parent, it rested on me to make all decisions that affected my family and my future.

I did my due diligence prior to accepting the offer of employment in 1997, in good part because there was no Social Security, so I didn't know what CalPERS was, and I learned that Social Security was not an option.

But after that due diligence, and I accepted the position, I also created an account in CalPERS, and I read all the material mailed to me. I also attended a number of retirement workshops held in the Glendale Branch, where future pensioners with a variety of contracts were in attendance, as well as CalPERS staff who were there to help all of us understand what our benefit would be.

In every contact what CalPERS staff, all the way up to signing final papers, I was urged to make the best possible decision, because once it was made, it could not be changed. My benefit would be that amount for the rest of my life. At no time, did I ever hear any type of conditional expression in relation to my benefits, no "as long as", no "unless", no "ifs, ands, or buts".

As a result, I find it very hard to believe that high retirement benefit could be changed at all, much less reduced by the incredible amount of 63 percent. For 17 years, I worked with citizens of California helping adults and youth find or reconnect with employment that entitled -- enabled them to become better California employees, consumers, voters, taxpayers. I encouraged youth to continue in college, and get their degree and continue on.

For 17 years, I paid 100 percent of my obligation into my CalPERS system. For 17 years, I heard nothing negative or conditional with regard to that system. There has been talk of who is morally and ethically responsible to resolve this issue. Given that CalPERS accepted the original contract, and has the terminated agency pool for agencies such as the Consortium which closed involuntarily, such responsibility should fall on you, not the handful of retirees who are caught in the middle.

If there is some fiduciary decisions or wiser investments to make, such as fixing similar contracts to mitigate further issues, you have the time and the expertise, and that is something you can do that will benefit all pensioners.

At 67, my options are limited, and my time is far shorter. I feel pretty much like that passenger on United airlines who was forcibly removed from his paid-for flight. And I believe that CalPERS is likely to experience a PR nightmare much like United Airlines as a result of this situation, if you cannot follow through with providing a solid retirement for your customers.

To repeat, this is a formal request that the CalPERS Finance and Administration Committee and the CalPERS Board of Administration reopen its deliberations regarding the East San Gabriel Valley Human Services Consortium and vote to exercise its authority to place the East San Gabriel Valley Consortium in the terminated agency pool without, without a reduction in benefits.

Thank you.

CHAIRPERSON COSTIGAN: Ms. Rojo.

MS. ROJO: Hi. My name is Theresa Rojo. I'm a 62 year old single mother of four. After 26 years of working for the East San Gabriel Valley Human Services, I was laid off when our agency was no longer being funded. Shortly thereafter, I decided it was in my best interest to retire with CalPERS and seek full-time employment to supplement my income.

In January of 2017, I learned my retirement was with CalPERS is facing a 63 percent -- 63 percent reduction, and I was told there was nothing I could do about it. Now, my future is very uncertain and it's causing me great emotional pain.

I began working at the Consortium in 1999 -- 1988 I'm sorry, as a receptionist on a temporary basis. When I entered employment with ESGVHS, my youngest child was three months old, I had just found the courage to leave a very abusive nine and a half year marriage. I was faced with the challenge of raising four children, 10 years and younger by myself, with no spouse, no child support, and no place to live, and no steady employment.

My family became homeless after the house I owned with my former husband was foreclosed on, and my husband refused to pay child support and abide by the terms of our divorce. I Was left to fend for myself and my children.

I moved in with my mother and my children and I looked for work. I found the Consortium, which became one of my largest blessings of my life. With steady employment, I was able to move out of my mother's home in L.A. and move into a two-bedroom apartment in West Covina to be closer to work, and put my children in public schools in a safe area.

I bought a small car to transport us. However, life was far from easy. My ex-husband continually harassed me, stalked me, and I had to acquire several restraining orders. To top it off, I was still -- still wasn't receiving child support. Coming into work was difficult on a good day.

However, I persisted. I worked as hard as I could at my job, because it was my lifeline for myself and my children. I filed a petition for enforcement of child support with the D.A., L.A. District Attorney Child Support Division. After three years of weekly phone calls to the D.A., my husband finally was paying child support.

And in the meantime, I struggled to pay for daily expenses, such as baby-sitting for my toddler, car repairs, medical and dental expenses above and beyond what insurance would pay, and all the things children need as they grow. Even with the help of -- with that help, we were living paycheck to paycheck. Saving additional money for college for my children who all excelled in school was a dream, and saving extra money for retirement seemed like a luxury, one that I couldn't even afford.

With my life in constant flux, the one constant was my job. I showed up for work. I did my job well. It felt good that I could be so valued as an employee. The fact that I was earning a retirement with CalPERS was something I cherished and was deeply proud of. It gave me a sense of security and piece. My hard work was paying off. My children grew up. They went to college. My steady job allowed me to eventually buy a modest house in Rialto. And I happily commuted to work every day.

So many years after a horrible divorce, I was finally independent. I felt safe, somewhere my ex-husband couldn't hurt me and my family. The recent news about my CalPERS benefits reduction has been overwhelming to me. It will likely cause me to lose all that I have struggled for.

More than likely, it's going to financially devastate me. I won't -- be no longer able to make my mortgage payment. I'll lose my home, and file bankruptcy, lose my financial independence, as I once had. I never had until now. I will have to contemplate moving in with one of my children and working for the rest of my life to sustain myself.

At 62, it's almost impossible to start over again. Yet, I feel that is what CalPERS is expecting me to do. Retirees have made long-lasting financial decisions based on what we were told by the CalPERS advisors. Now, we're faced with a turn-around decision that no -- through no fault of ours, we will be penalized for. We were never told that this could even be a possibility. For had we known, we would have surely planned our financial futures differently.

I will not be able to financially recover from the loss, and I feel as if all my years of service while providing for my family at the time will have been wasted in retirement. Please don't throw away our futures. We have worked hard. We showed up for work. And even in the most difficult of times, we have held our end of the bargain. We, as retirees, deserve not to have what's taken left of our lives thrown away.

Thank you.

CHAIRPERSON COSTIGAN: Hang on a second.

MS. FORD: My name is Kathryn Ford --

CHAIRPERSON COSTIGAN: Hang on one second. Thank you.

Ms. Taylor.

VICE CHAIRPERSON TAYLOR: Thank you.

Theresa, I'm -- I really feel for you, as an employee myself. I'm a State employee. I do want to emphasize to you that CalPERS is not the responsible party for not paying.

MS. ROJO: Right.

VICE CHAIRPERSON TAYLOR: It is your institution that you worked for. So I just want to make sure that you guys are aware and have used the correct recourse by going to the San Gabriel or even the city managers that belong to it. I'm aware that they're not responsible legally. But CalPERS contracts with it, they have to pay it.

That doesn't mean -- we invest it. We don't -- we don't pay it. They pay it.

MS. ROJO: Right.

VICE CHAIRPERSON TAYLOR: So that's where I think that there's -- Theresa, Maureen, and Sandra all are telling us that CalPERS is responsible. And I think it's important to remember we contract with them to invest the funds that the employer pays, and the employee pays. If the employer doesn't holdup their end, it isn't something that we have the funds to go ahead and continue to do, and it puts at risk the rest of the retirees, if we continue to accept agencies that aren't paying their fair share. So I just want to make that clear.

I feel for you. I'm -- if this happened to me in retirement too, I would be devastated. I would have to sell my house, everything else that goes along with it.

So I am right there with you. And I just want to make sure that you guys are going after the right recourse.

CHAIRPERSON COSTIGAN: Ms. Ford.

MS. FORD: Kathryn Ford, East San Gabriel Valley Consortium retiree. Chairman Costigan, and Committee members, thank you for your time hearing our plight. You have heard and read the stories of the Consortium PERS members. My personal story is that this experience of trying to understand what is happening to our pensions has been about as stressful as trying to land a biplane in the fog.

There was no PERS ombudsman to help us through this maze. CalSTRS has one. And while PERS staff have been quick to say kind words, they are only available to answer questions. And that is only useful when we, as the pensioners, are educated enough to know what questions to ask.

Your own FAC Committee was given an education on the TAP during your last meeting, and this meeting appears to be filled with much of the same. In contrast, the Consortium PERS members were given roughly four days notice on the actual agenda, a concern that many of you voiced at the time during the March meeting.

In a short four days, ESGVC members were to try to figure it out and to write testimony in an attempt to stop the steamroller and affect a change of your minds. In that very short time, we tried to assess our circumstances regarding our uninclusion in the TAP. We did understand that the Consortium was being placed in the TAP. But at no time did the Consortium PERS members understand that we were given a final life sentence of 63 percent cut in our pensions without further consideration of the legal ability of both the FAC Committee and the full PERS Board to fully fund our pensions.

We believe there would be a clear and disclosed definition of the soundness test that would eventually be used only when our final TAP termination cost was made public. We believed that after the PERS Actuary disclosed the estimated, and admittedly inflated, termination cost of 19 million, there would be a final real cost calculated to which the soundness test would be applied.

In other words, Consortium PERS members had no idea that the vote last month included the closing of the dungeon doors to any further consideration of lessening our pension reductions.

When the TAP is currently funded at -- and I guess we're now talking 219 million and 242 percent soundness, the impact of the Consortium termination hardly seems as if it will make a dent in the -- in the TAP.

It isn't as if the entire final Consortium pension debt will be pulled from the TAP all at one time. The final amount will be spread over the life of the Consortium account, likely to be 50, 60 years. During that time, it is estimated that the TAP will be earning a very conservative $10 million a year in interest. A Consortium termination hardly has a perilous impact on the soundness of the TAP earning that kind of yearly interest.

To add to our plight, it is only through our own member research that we recently discovered the PERS Board has, in fact, set a precedent of allowing two other entities' pensions to be fully funded when they were unable to pay their termination costs. PERS records show those two entities were placed in the TAP without cuts to their pensions. We are left to question where was the Consortium's due process in a fair and equitable consideration of our situation.

Obviously, our fate is in your hands. We respectfully request the FAC and the PERS Board reconsider ESGVC's situation once the final termination cost is calculated.

By then, we also hope that PERS will provide the Consortium members with the formula, in other words, the basis upon which the determination of the soundness of the

TAP was applied to those two agencies whose pensioners were fully funded.

Thank you for your consideration.

CHAIRPERSON COSTIGAN: So before you go, Ms. Ford, I just want to address a couple things. And first of all, I appreciate you all being here. And understand this is very difficult for us as a fiduciary.

I mean, you have to start with the premise we're the ones that didn't quite paying. The Consortium quit paying. In fact, it was this Board -- the reason you're here is the Board took the extra step of making sure you knew about it. We contacted all four cities and the elected officials. The cities were the ones who said they weren't going to pay.

When you talk about the TAP we're intermingling, the TAP is about taking over 100 percent of all the liabilities and ensuring that they're paid. You're at about 37 percent. What you're asking is those folks -- not -- I'm sorry. Your organizations that quit making your payments, the ones who are actually cutting your benefits, are warning this Board to step in and make you soundly whole for their failure to pay.

The Consortium is the one that did not make the payments. We need to be clear on that. The TAP -- I'm very familiar and it's permissive. And it's permissive in that it allows us on both the collections and to look at potentially reducing benefits on the amount that are paid. You're asking for us to keep you 100 percent whole, even though the Consortium over two years ago quit paying.

And the Consortium -- I mean, this Board took the extra step to make sure you did know, and to notify you, which was not required, but the Board felt it was necessary. Because as soon as those city managers put us on notice that they weren't going to pay, the fiduciary obligation shifts to us to address the financial circumstance.

So I appreciate the emotion. And I think you can hear from both sides, because it is very difficult to sit here and hear, as a retiree, the fact that we're going to cut your benefit. I think you see us in the abstract as though this is something that we're doing either light-hearted, or that it's easy do. It's difficult.

And the fact that we're having this discussion is, you're right, there were two, and there was a process as to why the two other organizations were let in. That didn't come to the Board. That went through the Chief Actuary, and we're changing that process.

Also, as you heard our Chief Actuary say, there were less than five employees. In this case, we're talking over 100 employees, and over -- and whether it's

19 million or 17 million or 21 million, it's more than 10 million, and it's less than 50 percent.

And I think that's the difficulty is your recourse. And I think we've made it clear. I think the comment you made about being the Delta or the United passenger, I think at our March Board meeting, we made it clear. I believe Mr. Slaton said there was the moral obligation of the cities to step in and pay this. We have called out the Mayor, I believe, of Monticello of the Consortium. We've reached out to them to ask them why.

And they're using the JPA is the process to say there's no contractual obligation for us to pay. So I understand -- direct your frustration at us, but your anger should be at those city managers, and those city councils that formed this Consortium that two years ago quit paying.

MS. FORD: But, Mr. Costigan, we had nothing to say in the original contract that was written where the cities were not held liable for in perpetuity for a PERS liability.

CHAIRPERSON COSTIGAN: And the issue for -- I'm sorry.

MS. FORD: So I understand what you're saying to us. We're asking you to consider us, as you considered apparently two other entities. I know our numbers are large. We don't have control over that. We had no control over the decision that was made 35 years ago to enter a PERS contract with an entity that could never pay the PERS bill should something happen to it.

CHAIRPERSON COSTIGAN: And that's a different recourse.

MS. FORD: So I'm not here to argue with you, sir, so please understand that. We're here to ask for your consideration. There is something you can do for us. Where the cities have written themselves off legally, there is something we understand written into the law you can do for us.

CHAIRPERSON COSTIGAN: No, what you're ask --

MS. FORD: That's what our request is.

CHAIRPERSON COSTIGAN: And I understand. And the request -- the request is for us to allow an agency who has -- is at 37 percent funded to come into the TAP, which is not actually -- it's not the process, and make you all whole, even though the assets aren't there from your employer.

MS. FORD: You have the right to do that. That's your decision, sir?

CHAIRPERSON COSTIGAN: And again, I appreciate you all being here. I mean, I -- we'll never understand what you all are going through. I want you all to understand it. It is very difficult, as any Board member on here of these decisions that we make, because the question is we didn't make the decision on those two other organizations. And the -- you look at it as precedent.

Now, the problem is we sit here and have to make another decision, and now we set a precedent going forward. And so you have to now look at what is the implication of every decision that we make? That -- and it is to hear about you losing your house or the fact you may have to move back in with your kids. That's heart-wrenching.

The question is as a fiduciary, what is our obligation, and what is it we're supposed to do? And we've been put in the untenable position, because the Consortium is the one that failed to pay.

MS. FORD: And it's our bad luck that we were a group of 100 or more versus a group of five. I mean honestly, we're in the same position as those five. We're in no different position. Us personally, your PERS members are in no different position between those who were fully funded previously and us.

CHAIRPERSON COSTIGAN: That's right, as an individual --

MS. FORD: We just drew bad luck of being a large group.

CHAIRPERSON COSTIGAN: As an individual, you are absolutely correct that you should all be treated equal, the difference is the circumstances before us. I know we have two more public comments. I am -- would like to know, have you appeared before the city councils down there?

MS. MEZA: Yes, we have.

CHAIRPERSON COSTIGAN: I'm sorry, would you please turn her mic back on.

Hang on a second.

Okay.

MS. MEZA: Yes, we have. And the bottom line is they have no legal responsibility to pay for us and they don't intend to. Not only that, the agency we work for no longer exists. It hasn't existed since 2014.

CHAIRPERSON COSTIGAN: Now, my understanding is the Consortium is winding up, and has an outside consultant.

MS. MEZA: That's correct to close things down. There's no money.

CHAIRPERSON COSTIGAN: And the four founding -- I think one of the terms we used today is the founding mothers and sis -- or mothers and fathers of your Consortium still exist.

MS. MEZA: The four cities do.

CHAIRPERSON COSTIGAN: That's right, the founders --

MS. MEZA: Azusa, Covina, Glendora, and West Covina.

CHAIRPERSON COSTIGAN: -- and have the revenue source, and the ability to pay.

MS. MEZA: There should have been a contract that was backed by a revenue source between CalPERS and the Consortium. That should have happened from the beginning --

CHAIRPERSON COSTIGAN: Those aren't the type of contracts we --

MS. MEZA: -- then we would not be in this situation.

CHAIRPERSON COSTIGAN: And that's a fair point. And that's exactly why we're having these discussions, because --

MS. MEZA: Right. And that's why you're fixing it for the future.

CHAIRPERSON COSTIGAN: -- what we've --

MS. MEZA: And I commend you for that.

CHAIRPERSON COSTIGAN: We haven't made that -- we're looking at what to do, because quite honestly if you had seen at our March Board meeting, I raised an issue to many -- to some organizations that are inside of CalPERS.

I mean, I think the term I used was --

MS. MEZA: I understand.

CHAIRPERSON COSTIGAN: -- the barnacles on the barge, because there are some, when you take away the revenue source, the question that then arises is how do you make the obligation if they cease to exist? In this case, you're right, there was no revenue source. It was a contractual obligation, and they walked away.

And now the difficulty is they're taking the position of shifting it to us saying, oh, the TAP is overfunded and therefore you have recourse, and putting you all in the position and having to come in front of us, which we appreciate, and expressing the difficulties, the frustration, and the hardships you're going to face.

But it's, to a degree, your -- it is the -- it's the circumstances you find yourself into. You're not one of one or one four, you're one of 191. And that's the difficulty, because it's not just -- and then the question is we're -- you're asking us to put you in the TAP, and then we would be assuming liability from here until the last of your beneficiaries passes away.

MS. FORD: Understood.

CHAIRPERSON COSTIGAN: And that's the difficulty.

I know. Thank you. All right. Two more, Mr. Palmarin and Mr. Martinez.

The microphone is on.

MR. MARTINEZ: That's mine. Okay. Thank you for your time. You know, I don't have any written statements. I'll just make a few comments. I don't -- I want to say, you know, we don't come here to blame you. And I think that would be a mistake. And that's not what at least I think we're trying to do.

I think if we did that, you would get defensive, and that's not what we want, but we do feel you have the power to help us. It's kind of a victim that's laying in the street, and everyone is bickering about who should help the victim. And meanwhile, the victim is still laying in the street.

And one party is saying, well, that's not my jurisdiction, and the other party is saying, well, that's not my street, and the other party is saying, well, you started it. And they work for you. Yeah, but you funded them. And so everybody walks away literally, and the victim is still lying in the street.

And so I guess at some point, we're just asking for someone ethically to step forward and to help us. And so I don't come here to blame you. We're coming here to ask for your support, if possible.

You may not have started the problem, but you have -- you possibly have the means to provide the solution. I do feel it necessary -- just so you know a little bit about us. I hear a lot of discussion today about liabilities, about risks, about mortality rates, and that can be difficult to hear, but we know it's life. But yet, in reality, you're -- we're dealing with people, and that's us.

You discussed term like "surplus", and we're hoping that that's something that would benefit us.

I obviously came to speak for myself. I feel kind of like an adopted child who, I'm hearing technically our organization should not have been included in CalPERS for those comments. And so like an adoptive child comes into a family, and then 20 years after being in your family, the parents say, well, you never should have been a part of our family anyway, and we're no longer going to assist you in any way.

And yet, as an adopted child, there are legal obligations when someone is adopted into a family. So I thought we were a part of a family, and now I feel like we're being kind of kicked out of the family. So I understand there's cities involved. I understand there's other entities that do play a role.

And like, once again, I'm not putting all the blame on CalPERS. I'm not trying to do that, but just a few things I'd like to make a comment on. The work that I did at -- for the Consortium was very unique. It was the greatest organization I've ever worked for. And I don't think I'll see another organization like it.

The contract that I helped run was to help young men who had been recently -- who were incarcerated who got out of prison and jail, probation/parole, and I would interview them. I would hire them. I was their caseworker. We had contracts with local cities to perform housing, painting, roofing, weatherization. These were gang members that were working in communities improving low-income housing. I was the counselor.

I devoted almost 20 years to the company, and to society to make it better. I loved that job, and I still do that kind of work. I don't have full-time employment, but I still work with gangs. I work in a city of only 22,000 people part time for the Public Safety Office. And we have one of the highest shootings and mortality in the nation with dive-by shootings literally that are happening almost as we speak. And I am still devoting my time to improving society.

And so -- and from a personal view, it hurts a little bit to know I have poured my heart into improving people's life and society, and to -- and for public safety for all of us. And yet, I'm, in a very small sense, almost like a war veteran who -- I'm not being supported or having an effort made to help support me and my family.

I know what it's like to see a family be supported. My mother has Alzheimer's and my dad had dementia. And my dad had a good pension, and so my dad's pensions is able to provide for my mom. We cared for her in our home, and now she's been able to provide. So as you know, the retirement is extremely important.

And so the last two things I just want to mention is loyalty. We've been loyal to CalPERS. I know our agency stop funding, stopped paying. I understand that. But we have been loyal, and so we -- we have worked hard.

And so the last thing I'll say, which in some -- so currently, I'm also a new chaplain with the Monrovia Police Department. It's not a paid position, but I'm still continuing to serve the community in many ways, and that will not stop.

And so I'll go forward to work and to help the community, in any way that I can, regardless. And so as a chaplain, I would hope to say that there are some things written that are -- that would supersede CalPERS and many other things, in terms of the Bible.

The Bible says in Proverbs 3:27, do not withhold good from those who deserve it when it is in your power to help them.

Thank you.

CHAIRPERSON COSTIGAN: Thank you.

MR. PALMARIN: Thank very much. My name is Manuel Palmarin. I'm a retiree also at the East San Gabriel Valley Consortium.

I came to you last month confused and perplexed as to the reason this Board is contemplating reducing mine and other retirees' benefits. To date, I have not been able to ascertain the reason. Yet, you're in the process of making a decision that will affect hundreds of us, and potentially losing our homes or filing bankruptcy.

With this in mind, I'd like to express to you the events that have occurred to us during this difficult period that has caused considerable confusion. During recent weeks, those of us in the East San Gabriel Valley Consortium of CalPERS plans, have been trying to understand the threat to our pension, CalPERS staff reassured us that they understand that this is a difficult situation for us.

Yet, we have not received the kind of assistance we would like to -- we have expected. We are just regular people who do not understand CalPERS policies and procedures. We look to CalPERS for this information that is so important to us, but here are some examples of what we have received.

One of our retirees in our group has submitted a public records request for documents related to the Consortium's case. The request was submitted on March 16th, and CalPERS replied that the estimated date to mail the records is May 20th, 2017. Yet, the contract terminates date effect of -- is May 15th.

One of our beneficiaries in our group, who happens to be my mother-in-law, was informed in the phone conversation with CalPERS staff that she could expect her pension to be reduced by 15 percent. This was a source of great relief to her, but it is confusing, since the Consortium was her late husband's only CalPERS employer. And throughout your presentation, you have discussed a much greater cut up to 63 percent.

Another participant in the plan was also given a figure of 15 percent. We recognize that calculations are not complete and things could change, but we cannot understand why we are not receiving clear and consistent information at each step of the process.

Back in February, CalPERS staff told us that our members -- that our matter would not be voted on in March. Yet, it was. At the late moment when we realized the vote was on the agenda, and our members in Southern California could not make a formal plans to be here, we were told that we could submit written statements and would be read in the March meeting.

None of the statements were read, though I recognize that they were made part of the public record. On March 2nd, retirees were sent a letter stating, quote, "If you wish to consider taking a refund of your pension contribution instead a reduced pension, we encourage you to contact us to discuss", unquote.

When some of us called to ask about that, we were advised that retirees did not have that option. Now, we realize that the letter might have been a form letter that went to all people in the plan, including those of us who are not retired, but it was confusing, and not helpful.

Above all, throughout the years of employment with CalPERS agency, and during my retirement planning workshops and meetings, we were never told that our pensions would be reduced. We understand that CalPERS benefits were lifetime benefits that could be calculated based upon a simple formula that applied to everyone in the System. Years of employment times employer's benefit factor, times years of service.

Please find a way to stop the process of devastating cuts that are so totally inconsistent with the information we received through the years. And please find a way to improve the communications and assistance provided to CalPERS members in a difficult and rare situation.

Again, thank you very much for listening to us. I appreciate the time and effort that all of you have taken. I realize that it's going to be a difficult decision for all of you, but it also a difficult decision for us to recognize that our benefits are being cut. And again, because when you hear from 15 percent to potentially 63 percent, even adds more confusion, because it makes it difficult for us to plan what we're going to do next.

Thank you very much for your time.

CHAIRPERSON COSTIGAN: Thank you.

Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Mr. Chair. I feel for the plight that you have before you. It's really not imaginable to be in your position. I just can't imagine having worked for those many years, and then all of a sudden someone tells you that your retirements are going to be reduced to 63 percent. I just can't imagine the impact that's going to have on your lives.

But I think my colleagues have also said that we have an obligation to 1.8 million members. And so we have to protect the System, even though there are many different components of the system, but our fiduciary responsibility is to protect the System.

However, I do believe that if you need additional information, that's something that we can provide for you. If -- you know, you mentioned that you asked for documentation that we said we can get to you, at a later date, then I would suggest -- see if we can get it to them sooner. Anything that we can do that way to make your lives a little bit -- and I can't imagine, like I said -- a little bit better, I'm sure we would be willing to do that, such as information that you may need to move forward. Like you said, there's confusion about what percent you can get. So we can clarify that. Those kinds of things we can help.

But I think we still have to remember that we're here to protect the whole system. So I would suggest, Mr. Chairman, that we follow up on those things that we can.

CHAIRPERSON COSTIGAN: I believe Mr. Pacheco, as I'm watching him over here, is having a discussion on the PRA, and see if we're going to be able to get that sooner than the May date.

COMMITTEE MEMBER JONES: Yeah.

CHAIRPERSON COSTIGAN: We will -- what we're probably going to do is we're going to go a few more minutes, then we may take a short break, and let you all have the opportunity to talk to some staff to make sure that we've got at least a little contact on it, rather than continue the meeting on it, but we do have some more questions or some more comments.

Mr. Slaton.

COMMITTEE MEMBER SLATON: Thank you, Mr. Chair. I want to add my comments to Mr. Jones. I also cannot imagine facing this kind of situation with your families, your loved ones with what you've tried to build over the years. It's just horrible. I don't know any other word to use for it.

And I appreciate your -- all of your comments about being caught between bureaucracies. You know, that, to me, is -- adds insult to injury to be caught like that.

I still have a thread I'd like to continue to pick up. And it's not directly related to your comments, but it's related to the problem. And so my questions are for Scott, who's our Chief Actuary.

And I want to just address the issue of soundness, because were I sitting in your shoes, I would look at the presentation that we had today, and look at the $131 million there, and look at your $19 million, and say, well, why can't you just take 19 million from the 131, put it in there and fully fund the benefit? It sounds pretty simple to do.

But we have actuaries and we have a fiduciary responsibility. And so -- but I want to work with Scott for a moment to explore the issue of soundness, because my contention is, and hopefully this is the only agency that will face this, but I suspect that is not going to be the case. And that these kinds of challenges are going to continue in some form or fashion.

And so there may come a time due to a lot of different factors, some of which have nothing to do with anymore agencies going into the terminated agency pool, but go to life situations happening, interest rates, mortality, you name it. There's a lot of things, factors that could change it.

At some point in time, that $131 million could well be less than $131 million. We could be sitting here ten years from now, and it could be $50 million. And at some point, the actuary is always going to have to come to us and say whether or not it is sound.

So I think what I've heard you say before, Scott, is that we are sound now, at $131 million, plus being 107 percent or so funded?

CHIEF ACTUARY TERANDO: That's correct. And, you know, I think we're kind of talking about this whole question about actuarial soundness, and I think in particular 20577.5. You know, I think to give some context around that section of the law. The purpose of that section primarily wasn't to necessarily let plans in that were unfunded. The purpose was -- of that section was to allow plans to come on the payment plan, where say a particular agency couldn't give us the --

COMMITTEE MEMBER SLATON: Cash.

CHIEF ACTUARY TERANDO: -- amount that they owed us, but came to us with a viable plan that said we can pay this over the next three to five years. In that situation, we would have a plan coming in unfunded, but it wouldn't affect -- it wouldn't impact the soundness.

COMMITTEE MEMBER SLATON: Correct.

CHIEF ACTUARY TERANDO: And so clearly, in that case, that section of the law was talking about bringing plans in without impacting the soundness. And then continuing on the discussion, it doesn't really say whether -- it's like a litmus test that the plan is unhealthy or healthy or sound or unsound. It just says will impact the soundness.

And so when you add a plan to the TAP that's unfunded, with there's -- with no recourse on payments, it is having a negative impact on the soundness. I mean, there's no way around that.

And yes, in the past, there was some smaller plans that were allowed in. I think we talked about those two plans around 120,000. To put them in perspective, they're only 1/100th of the liabilities in this case.

Now, in terms of actuary -- the soundness of a plan, you know, today, we talked about it being healthy. But those -- that situation changes. It's just like you have to take a look at the environment today, and the number of risks out there, as well as the possibility that more plans are terminated in the future.

I think Mr. Jones, and, in fact, Ms. Hollinger talked about the number of risks, as well as what will happen if the current surplus, you know, diminishes over time. And so, given that, I don't think we want to be in the position of -- you know, I think in the health section, we talked about actuaries being prudent and risk averse.

And so in terms of being a prudent decision, we don't want to further accept -- make the situation worse by speeding up the process and eliminating -- eliminating any contingency reserve.

COMMITTEE MEMBER SLATON: So as long as a detriment to soundness happens, not through our actions, that's all right, but if it happens through our actions, it's not okay.

CHIEF ACTUARY TERANDO: Well, there's certain things we can't control.

COMMITTEE MEMBER SLATON: Pardon me?

CHIEF ACTUARY TERANDO: We can't control certain things.

COMMITTEE MEMBER SLATON: Right. So our fiduciary duty --

CHIEF ACTUARY TERANDO: I mean --

COMMITTEE MEMBER SLATON: I'm just trying to make sure, it's to -- if we have -- if we take an action that negatively impacts the soundness --

CHIEF ACTUARY TERANDO: I mean, because when you think about it, the funds in the plan were -- they exist from the employers who left previously, left to ensure the benefits for their employees.

COMMITTEE MEMBER SLATON: So they own that surplus.

CHIEF ACTUARY TERANDO: I don't want to say they earned that contingency, but, you know, that money is set aside for the safety of those members. And what you would be doing is you'd be taking -- just because it's overfunded, you'd be taking the money to safeguard those benefits and pay the money for an employer who didn't own up to their responsibility and walked away.

So you know, you'd be encouraging somewhat of bad behavior where there's no repercussions.

COMMITTEE MEMBER SLATON: Okay. One more question.

CHIEF ACTUARY TERANDO: Yes.

COMMITTEE MEMBER SLATON: Let's suppose that I'm part of this group, and I get a letter saying I'm -- it's going to be a 63 percent decrease, is there any reason I couldn't have the option to take 100 percent until it runs out?

CHIEF ACTUARY TERANDO: Well, there's a number of retirees -- or there's a number of members who haven't retired, so you would be giving them zero possibly. Someone who has not retired, and is not eligible to retire for several years, you would be -- you'd now be creating inequity among members of East San Gabriel, and you'd be, you know, jeopardizing benefits to the younger employees to those who are already in pay status.

COMMITTEE MEMBER SLATON: So because it's not an individual record?

CHIEF ACTUARY TERANDO: Correct.

COMMITTEE MEMBER SLATON: Okay. And that is impractical?

CHIEF ACTUARY TERANDO: Yes, it is.

COMMITTEE MEMBER SLATON: I'm sorry. I'm trying. I'm trying.

CHAIRPERSON COSTIGAN: Anything else, Mr. Slaton?

COMMITTEE MEMBER SLATON: No, that's it. Thank you.

CHAIRPERSON COSTIGAN: Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: I wasn't going to comment. We heard six very heart-rending stories today. I am absolutely sure there's another 150 of them out there, and my heart goes out to all of you.

But we need to remember that PERS has no money. The assets are all in trust funds. They are all somebody else's money. What we do with that is not really our choice. We have a legal obligation.

We have to recognize that we -- that the System's obligations going forward exceed the assets we have. That's why we have less than 100 percent funded status. And it is -- the only way we are going to make those future payments is assuming that the employers continue to make their contributions.

So I wish -- you know, I wish I had the money that I could take out of my pocket and give to you, but I don't have that much money either. But the truth of the matter is, as -- this Board has no money. PERS has no money. We manage trust funds. We manage other people's money. And it is unfortunate, but that's simply the way it is.

As I said, my heart goes out to you. But, you know, like the victim in the street, my heart would go out to them too, but there may not be much I can do about it.

Thank you.

CHAIRPERSON COSTIGAN: Mr. Bilbrey.

BOARD MEMBER BILBREY: Thank you, Mr. Chair.

The bottom line is for myself, as a Board member, is to say I'm sorry to all of you. I understand in listening to you what is going to happen. I know other Board members who have said, they can't fathom it, I can fathom it. Being a worker myself, and knowing what would to me if that happened. But I also think you can see that the Board members here are -- have, and have been thinking over the last several months of a way to help you, and it's not there unfortunately for us. We're bound by statute.

And sometimes it's hard for people to understand when you have, as you say, to do an ethical and moral and what fiduciary is. It's two separate things for us. And we're bound by fiduciary. It's not that we don't want to help you. We do. Everyone of us sitting at this table want to help you in some way.

As Mr. Jelincic said, I'm -- and I can assure you other Board members, if we had it in our own pocket, we would give it to you, but we don't. And we wish there was a way, and we've been trying to think of a way, and it just isn't happening.

But whatever, as Mr. Jones said, we can do outside of that, we will do, information, anything you can do to try to push the cities that we can provide some sort of information, we're happy to do that. But bottom line, I'm very sorry for what is happening.

CHAIRPERSON COSTIGAN: Are there any further questions?

We do appreciate you all being here today. I hope you understand, and I think Mr. Bilbrey summed it up very well, it is a very difficult decision, and -- well, the decision has been made.

I think we're going to break for 10 minutes. I look to -- Marlene, who should they be the point of contact, just you? Who should they talk -- why don't you all talk to Marlene, who's going to stand up right now. And so we're going to break until 2:50. Does that give you enough time?

Okay, 13 minutes. We're going to break till 2:50. Thank you.

(Off record: 2:37 p.m.)

(Thereupon a recess was taken.)

(On record: 2:54 p.m.)

CHAIRPERSON COSTIGAN: All right. We're going to get started again, please.

All right. If we could call the members back together please, we're going to get started.

We're going to wait on -- Mr. Jones is right here, and then Mr. Slaton. All right. So we are all back here.

So what we're going to do is return back to the top of the agenda, and we're going to take up the consent items that Mr. Jelincic had asked to be put over.

So we're going to go back to Item 3. I'm sorry?

3b. 3b.

And we're going to go through those. All right, Ms. Malm, is that you?

All right, Mr. Jelincic, we're going to start with you, sir.

COMMITTEE MEMBER JELINCIC: 3b is the contracting -- the prospective contracting out report. I have pulled it every time. I think maybe we ought to consider --

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

Thank you.

COMMITTEE MEMBER JELINCIC: -- whether we ought to leave it as a consent item. But I had a number of questions.

On page one of seven, human resources management, number three there. When I read the description so Hosted HRMS Solution to replace PeopleSoft, it sounds like we've pre-picked the vendor.

DEPUTY EXECUTIVE OFFICER HOFFNER: No, we have not.

COMMITTEE MEMBER JELINCIC: So Hosted HRMS Solutions is not a vendor. It's --

DEPUTY EXECUTIVE OFFICER HOFFNER: It's a human capital system. And actually it's a little bit premature to have the discussion, but we have not picked a vendor, and we have not gone out for solicitation. It's some internal work that we're still doing to look at what prospectively we might have as a replacement to the organizational system in the Human Resources Division.

And I forgot to identify myself. Doug Hoffner, team member.

COMMITTEE MEMBER JELINCIC: Okay. I would request that we be a little more careful about the description going forward.

DEPUTY EXECUTIVE OFFICER HOFFNER: Thank you.

COMMITTEE MEMBER JELINCIC: On page two, the Altus, number 3, attribution -- performance attribution services for assets of real estate assets.

We -- on the next page, we have two more evaluation management and consulting for real -- how do those combine, and why are we contracting it all out, especially since we're looking at, you know, $3 million a year?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Wylie Tollette, CalPERS team member, Investment

Office. The first Altus contract, the Altus Group contract there on page two of seven relates to a new real estate attribution platform that Altus has developed. And we are evaluating that service. It's one of the -- as you know, Mr. Jelincic, you've been a strong proponent of providing attribution information to the Investment Committee. And that is something we have been able to provide in our public asset classes, because we have the information.

It's been extremely challenging to provide in the private asset classes, because the level of data transparency is not the same. Altus has developed a solution for that, that we would like to evaluate and consider. So that's what the first contract relates to.

The second contracts that you're referring to, I think, you might be referring to the Real Estate Research Corp or the RERC contracts on page three of seven.

COMMITTEE MEMBER JELINCIC: Yeah.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Those contracts relate to the appraisal, coordination, management, and contracting services that we use for our real assets portfolio. As you might know with one of the larger institutional real estate portfolios, we have to contract with literally hundreds of appraisers. Following the difficulties with the Real Estate Program in the mid-2000s, this Board directed staff to provide and contract with an outsourced appraiser selection service, to not have staff select appraisers, to actually effectively contract out for that, so as to create a degree of independence between the selection of -- around the selection of appraisers on properties that we may have done the due diligence on.

RERC is the agency that has recently won the bid to do that. And in addition to selecting appraisers, they also pay them. So all of the underlying fees to those hundreds of appraisers run through that appraisal coordination service.

One other recent change to our a appraiser coordination service is that you might recall last year, we moved from an annual appraisal to actually a quarterly cycle, where the appraisers are split up in -- the appraisals are split up into four separate buckets, ratably throughout the year.

That increases slightly the coordination costs. And that's reflected in the contract value. The other element that's reflected in the contract value is the fact that the real estate portfolio has been growing. You might recall that your Board -- your Investment Committee, excuse me, approved a one percent increase in the size of that portfolio, and that increases the appraisal costs overall slightly.

COMMITTEE MEMBER JELINCIC: And property appraiser is a State classification. It is an ongoing function. We're going to do even more of it, so I at least want to raise the issue that maybe it ought to come in-house.

Can you explain the difference between accounting book of records, and an investment book of records for private equity?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Absolutely. The accounting book of record reflects the -- essentially, the end of day valuations that include any postdated accounting entries. So as you might know, accounting books can stay open following a period end, so that as you receive invoices, bills, other changes in valuations, they can be back-dated into an accounting book of record.

An investment book of record can be regarded almost as the snapshot in time. Think of it as the opening of the market. And it's frozen. It can't be -- you can't go back in time and recreate it, because you have to use it to make investment decisions. That's the key distinction. An accounting book of record has that ability to be postdated into. And an investment book of record is essentially the snapshot used to make investment decisions.

COMMITTEE MEMBER JELINCIC: And on top of page four, we're going to contract out advisory services for complex investment transactions for global fixed income. Why can't staff handle complex transactions?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Actually, staff does handle complex transactions.

COMMITTEE MEMBER JELINCIC: That's what I thought.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Yeah, this is a -- this is a continuation of a service that the fixed income team has had for many years. It essentially revolves around the analysis and complex legal structuring issues around distressed debt and certain high-yield bonds that require specials analytical services. And that's what this contract relates to.

COMMITTEE MEMBER JELINCIC: Okay. And then we've -- on six and seven, there's a number of services for data analytics. They're all IT. You know, we've spent a lot of money on consultants, and we've always put provisions in there for knowledge transfer. And yet, you though, here we go again with another six, seven million dollars. How come we can't get it in-house?

CHAIRPERSON COSTIGAN: He's referring -- on page six of seven, the test -- for example two, three, four.

COMMITTEE MEMBER JELINCIC: Yeah one, two, three. Yeah, four, for that matter.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Are you referring to the data analysis services --

COMMITTEE MEMBER JELINCIC: Yeah.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: -- for the my|CalPERS for the next fiscal year, the $1.5 million dollars --

COMMITTEE MEMBER JELINCIC: Yeah.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: -- is that the one you're referring to, Mr. Jelincic?

COMMITTEE MEMBER JELINCIC: Yeah, well, that one. The next one down is talking about testing, you know.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Yeah, and then the testing and then the application development?

COMMITTEE MEMBER JELINCIC: Yeah. Why can't we do it in-house?

INTERIM DEPUTY EXECUTIVE OFFICER BAILEY-CRIMMINS: Mr. Jelincic, related to the data analysis, we built a data warehouse. And this is the final year that they are providing knowledge transfer to the staff. So we have slowly been moving away from contractors and moving that work to staff -- to State staff. So this is the last and final request related to specifically the data warehouse.

COMMITTEE MEMBER JELINCIC: Okay. You know, we have these ongoing spring-fed pools, where we create pools of people that we're going to contract out, but we don't know what we're going to pay them or exactly what we're going to ask them to do, and I continue to have problems with that.

But those were my questions on the item.

CHAIRPERSON COSTIGAN: Okay. We have some more questions on this item, Mr. Jelincic, before you go to your next one. Are you done with this item, Item 3b?

COMMITTEE MEMBER JELINCIC: I am done

CHAIRPERSON COSTIGAN: Okay. Ms. Taylor.

VICE CHAIRPERSON TAYLOR: I'm sorry, Doug, could you reiterate what you told Mr. Jelincic a minute ago on Human Resource Management Solution, what was that for, on page --

DEPUTY EXECUTIVE OFFICER HOFFNER: So you're asking what is it for? Yeah, yeah, yeah.

DEPUTY EXECUTIVE OFFICER HOFFNER: It would be for a new solution in the future. That's something we're still considering within the organization related to the PeopleSoft that we have in our current system right now for human capital management.

VICE CHAIRPERSON TAYLOR: So we have a Human Resources Department. Is this different?

DEPUTY EXECUTIVE OFFICER HOFFNER: This is a technology solution --

VICE CHAIRPERSON TAYLOR: Technological.

DEPUTY EXECUTIVE OFFICER HOFFNER: -- related to the Human Resources Division for all sorts of time and other reporting issues for the organization for the employees for payroll, those kinds of things, so...

CHAIRPERSON COSTIGAN: It's not personnel. It's software.

DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah.

VICE CHAIRPERSON TAYLOR: So it's a software solution to be put in effect for your personnel?

DEPUTY EXECUTIVE OFFICER HOFFNER: Correct.

VICE CHAIRPERSON TAYLOR: Got it.

DEPUTY EXECUTIVE OFFICER HOFFNER: We have one in existence today. This is a prospective idea going forward.

VICE CHAIRPERSON TAYLOR: Okay. Thank you.

CHAIRPERSON COSTIGAN: Mr. Gillihan.

COMMITTEE MEMBER GILLIHAN: Thank you, Mr. Chair. I would just ask that -- and perhaps, you're not aware, but CalHR in coordination with the Controller's office, and our colleagues at the Department of Technology have developed a roadmap for State HR IT going forward, and we're looking to build a system based on a common data dictionary and shared services that it would be nice if CalPERS would consider playing ball and joining the broader State effort, rather than sort of doing a one-off. We're a little sensitive of one-offs these days.

DEPUTY EXECUTIVE OFFICER HOFFNER: Completely understand. And this is not a solution yet, so it's prospective. I appreciate those comments, Mr. Gillihan.

COMMITTEE MEMBER GILLIHAN: Thank you.

CHAIRPERSON COSTIGAN: All right. Mr. Gillihan -- or Mr. Jelincic back to you on your next item.

COMMITTEE MEMBER JELINCIC: 3c, which was the Judges' Retirement System.

CHAIRPERSON COSTIGAN: And I just want to say as we're shuffling staff, I do want to give credit to Ms. Mathur, and to the Acting Health Officer, you guys did a great job on Optum, although I know that was a consent item contract.

I had heard from another -- a number of senior staffers in the legislature on the transition, and you all did a fantastic job. It has all been resolved. So while it was a consent item, I just did want to point out you guys did a great job. A little bumpy start, but nice work.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: On the Judges' Retirement System, we use a discount rate of three and a quarter. But when we price the options, we use a six and a half, so we're obviously not charging the full freight on it. And I was wondering if you can explain that.

SENIOR PENSION ACTUARY DZIUBEK: Mr. Chair, Committee members, good afternoon. Randy Dziubek, CalPERS team.

That's a great question, Mr. Jelincic. And let me, first of all, make sure everybody is aware that even though we are proposing a change to the interest rate used for optional forms down to six and a half, that that change is consistent with the practice that's been in place for many careers, and that's to -- for this Judges' plan to use the interest rate that's used for the Judges' II plan.

And so because the Judges' II plan is lowering their investment return assumption, it would result in a corresponding change for the Judges' plan. So it's not a change in current practice.

Now, the reason that this is done, you have to remember that this plan is a bit unique, in that it's a pay-as-you-go funded plan. There is no buildup of assets, as in a more traditional plan. Under those plans, as you know, there's a build up of assets, there's investment policy, there's asset allocation policies, and there's a very clear method that we use to take that information into account, and then determine an expected investment return assumption for that plan, which would then be used in the valuation, and typically translates to use for optional forms of payment. So we can't really follow that process for the Judges' plan, because there are no assets.

Now, the way we picked the three and a quarter percent interest rate for the valuation, was that we made an additional assumption, and stated it in the report, that should the State begin to pre-fund this plan, that we're making the assumption that the money will be investing in fixed income investments, which we believe have an expected return of around three and a quarter percent. So that was the basis of selecting the discount rate for the valuation.

Of course, if a prefunding plan developed, and the money was invested differently, we would have to immediately reevaluate that assumption and most likely change it.

So, you know, it certainly is a bit problematic to then try to take the rate that we used for the valuation and use it to base calculations for actual members on. So in place of that, it was decided many years ago to just use the interest rate used by Judges' II.

COMMITTEE MEMBER JELINCIC: Okay. And I did notice that it's got a 1.2 percent funded ratio.

SENIOR PENSION ACTUARY DZIUBEK: Right.

COMMITTEE MEMBER JELINCIC: And, you know, we have been told that if you hit 50 percent, you -- you're going to go out of existence. But as I pointed out the other day, we really are dependent on the employer making future payments.

SENIOR PENSION ACTUARY DZIUBEK: That's correct.

COMMITTEE MEMBER JELINCIC: And I have this sneaky suspicion that the Judges will make sure that we do that.

The other question was in -- on page 11 of 26, attachment 2, the present value of benefits -- we made some actuarial assumptions. Present value of benefits increased, under the new assumptions, by about 13 percent, but the present value of normal costs increased by 240 percent. The discrepancy caught my attention.

SENIOR PENSION ACTUARY DZIUBEK: Yeah. As it would, yes. I think to best answer that, I want to take just a little time and refresh everybody's memory on a few actuarial terms, and just describe from a very high level how we calculate those, but I will be brief.

So at the beginning of the valuation process, for this plan and any plan that we work on for CalPERS, we start with estimating the value of projected benefits for the membership. Once that number has been estimated, we use an actuarial cost method. And there are several cost methods that can be used for this purpose, but we select the actuaries, the Board selects an actuarial cost method that then takes that total present value and splits it into three subpieces.

The first is the accrued liability. And that corresponds to service earned through the valuation date. The second is the normal cost, which corresponds to service in the current year. And the third would be present value of future normal costs, which corresponds to future service. And that's the piece that you're seeing the large increase in.

Now, with regard to the Judges' plan, we made some demographic assumptions. And one of them was fairly significant. What we had been seeing over the last many years is that the judges were not retiring at the rates we were previously expecting them to.

And so we felt it was time to lower those rates, which leads to now a much longer projected average career for the active judges than we would have assumed previously. So now our funding period is much longer than it was previously, because we've extended out the expected date of retirement.

So what's happened is the actuarial cost method that we used the attained age normal method has re-allocated that total present value between accrued liability and future normal costs, and has actually shifted liability away from the accrued liability and into the future normal costs.

So that's what you're seeing. It's that -- and you can see on that same page there is a reduction in the accrued liability for active members, because it's been shifted to future normal costs.

COMMITTEE MEMBER JELINCIC: Yes, I can see that. I don't know if the differences add up, but okay, but thank you.

SENIOR PENSION ACTUARY DZIUBEK: Yeah, you will see the accrued liability plus the future normal costs will always add to the total. So it's just -- it's just been shifted between the two.

COMMITTEE MEMBER JELINCIC: Okay. Thank you.

CHAIRPERSON COSTIGAN: Anything else on that item?

COMMITTEE MEMBER JELINCIC: Not...

CHAIRPERSON COSTIGAN: All right. So want to then move to 4.

COMMITTEE MEMBER JELINCIC: Since those were action items, I will move 3a and b, even though I'm not real happy with all the contracting out.

CHAIRPERSON COSTIGAN: Okay. Items 3a and b. It's been moved by Jelincic.

VICE CHAIRPERSON TAYLOR: Second.

CHAIRPERSON COSTIGAN: Seconded by Taylor.

All those in favor?

(Ayes.)

CHAIRPERSON COSTIGAN: Opposed?

Motion carries. Thank you.

4d, I believe is the next item, Mr. Jelincic, which is the information consent on the quarterly Chief Information Officer IT report.

COMMITTEE MEMBER JELINCIC: Yes. The --

CHAIRPERSON COSTIGAN: Is someone going to come up, please? Ron, you want to come on up.

All right, Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: And again, this is one that I think periodically we need to take off consent. But looking at attachment one page one of six, 174 of the iPad, the business optimization. We're in the fifth year of this project, and we've pushed back the due date. And the description says due to various delays in initiating the project. You know, we're in the fifth year of a project, how are we delaying the initiation of it?

ACTING CHIEF INFORMATION OFFICER HURLE: So I hate to do this, but I am going to ask Donna and Tim to help with this, because there is some history with this. I think it gives you some context.

CHAIRPERSON COSTIGAN: I'm sorry, identify yourself first, for the record.

ACTING CHIEF INFORMATION OFFICER HURLE: Oh, I'm sorry, Ron Hurle, team CalPERS. Forgive me.

May ask I either Donna or Tim to join me. I just want to make sure the context is there for you.

COMMITTEE MEMBER JELINCIC: Okay. And while she's coming, you may also want to look at the technical optimization, which is on the same page, the next one down. We also have pushed that back

ACTING CHIEF INFORMATION OFFICER HURLE:

Certainly.

COMMITTEE MEMBER JELINCIC: And it's -- we did negotiate a no cost extension of the contract, which I thought was a good thing. It would have been better if, we had our own people doing it, but we completed the testing in my|CalPERS performance improvements by removal of the disabled table index, which sounds to me like we completed the performance improvements by eliminating part of what we were trying to improve.

CHAIRPERSON COSTIGAN: Ms. Lum.

DEPUTY EXECUTIVE OFFICER LUM: Good afternoon, Donna, Lum CalPERS team member.

So I'll address the question with regards to the extension of the completion date of the Functional Optimization Project. Just for clarification, this was not an ongoing part of the original my|CalPERS development. This was a separate initiative that was specific to functional optimization, which were items that were intended to either streamline or improve customer service.

We're entering into year four of the four-year optimization project. And the reason being -- the reason for the extended time frame is that on the onset of the project, we put out an RFP. We had a protest on the RFP, which caused a six-month delay in the start time right out of the gate. And so that is the delay there.

In addition to that, I believe in year two, we had some additional functionality that was needed to implement the single Medicare project along with some other initiatives that came through that were unanticipated.

And being that we had the resources and the capacity within the optimization project, we took on those functionalities that were really necessary to move business forward, while we deferred other functions.

While we did that, we reprioritized what our needs were. And so although we did extend the due date of the project, it did not result in any additional funding requests being requested. It was a matter of reprioritizing what we set out in the original scope due to the initial delay of the start.

COMMITTEE MEMBER JELINCIC: So this is not related to the $8 million that we're seeing in the budget in...

DEPUTY EXECUTIVE OFFICER LUM: The $8 million that you are going to see in the budget request is the year four budget. So when we set out to do the project in the initial year, we identified that there would be about 73,000 -- 73 million for a four-year project. The $8 million is the cost of year four.

COMMITTEE MEMBER JELINCIC: Okay. And we'll deal with that in the budget. And the technical? I mean, completing the performance by removing the disabled index. I mean, that sort of sounds like...

ENTERPRISE SOLUTIONS DEVELOPMENT DIVISION CHIEF TAYLOR: Good afternoon. Timothy Taylor, CalPERS team member.

In answer to your question on that, I think part of the problem is the CIO report is -- it's our intention to be brief and try to get to the point and establish some of the significant milestones that. I think that one in the search for brevity was a little misleading.

It's actually a much bigger accomplishment than what's reflected there. When my|CalPERS originally implemented back in 2011, we had to pursue various things in order to ensure that we would launch as scheduled and as anticipated.

There is a standard practice best practice from a database modeling design to where you want to have foreign keys established within the database to ensure an even higher degree of date integrity. You rely on the application to do a lot of that, but you can also impose some of that on the database as well.

There was some concern about implementing that at that time that would result in performance issues. And so that was identified as an active deferral. As Donna spoke, the Functional Optimization Project, it represents and opportunity for business to get enhanced functional optimization, but it's also an opportunity for IT to do technical optimization as well, and this is one of those.

So in this regard, we re-enabled all of the foreign key constraints. And then in order to alleviate any sort of performance issue there would be, we turned on all the table indexing that was appropriate, and we dedicated all those that weren't to ensure long-term sustainability.

COMMITTEE MEMBER JELINCIC: So is the disabled table index keys in or out?

ENTERPRISE SOLUTIONS DEVELOPMENT DIVISION CHIEF TAYLOR: The ones that are appropriate that provide the greatest sense of performance and are necessary to support those foreign key constraints are in. Those that were unnecessary, confusing me have added to a decrease in performance, those were removed.

COMMITTEE MEMBER JELINCIC: Okay. And on three of six, the CEC redesign update. You know, there's a warning. Can you shed a little light on what the problem is.

ENTERPRISE SOLUTIONS DEVELOPMENT DIVISION CHIEF TAYLOR: So the existing CalPERS education center application that we currently are using was built nine years ago. It was built before my|CalPERS. It tried to anticipate a lot of the functionality that would come out with my|CalPERS, but it was by no means designed to be fully integrated into it.

So this is a rebuild of that application to provide great integration with my|CalPERS to allow back-office efficiencies, also greater customer service.

A lot of it will be self-surface. It will be focused toward the member, so we do have a user-experience team participating in that as well.

They'll be able to have all their training and their appointment information directly integrated within my|CalPERS, an not have to require rekeying and things of that nature. It's also planned to be used for all the Benefit Education Events for registering for those and doing on-the-site registration and check-in.

COMMITTEE MEMBER JELINCIC: Okay. But you gave us a warning.

ENTERPRISE SOLUTIONS DEVELOPMENT DIVISION CHIEF TAYLOR: Oh, you want an indication of the warnings. I'm so sorry.

COMMITTEE MEMBER JELINCIC: Yeah, what's the warning about? And I will also point last it says that the pilot's completion, March 31, the revaluation will be made. How is that going, so --

ENTERPRISE SOLUTIONS DEVELOPMENT DIVISION CHIEF TAYLOR: So we --

COMMITTEE MEMBER JELINCIC: What's the warning about and what it -- how is the re-eval.

ENTERPRISE SOLUTIONS DEVELOPMENT DIVISION CHIEF TAYLOR: So the warning on that trigger due to a delay in schedule. We're 45 days behind schedule at the time that the alert was formed. The mitigation steps were to reconvene and determine whether or not some efficiencies that we're identifying in our system development life cycle process would be able to close that gap.

We have a strategy in place. We're confident in that. At this time, we can't say whether or not it will show up the 45 days, we're actively working in that, but we are confident.

CHAIRPERSON COSTIGAN: Just before Mr. Jelincic asks another question. My understanding is, while this was a consent item, we intend to have a broader discussion next month or in June on IT?

Hit the mic again.

ACTING CHIEF INFORMATION OFFICER HURLE: Yes, we will be -- next month will be more of a workshop of what we're doing on a total basis, so you'll get a lot more detail than what we're probably able to provide today.

CHAIRPERSON COSTIGAN: Okay.

COMMITTEE MEMBER JELINCIC: Okay. So I've got a couple more. And if -- if the appropriate response is we'll talk about it next month, that's perfectly fine.

ACTING CHIEF INFORMATION OFFICER HURLE: Sure. Go right ahead.

COMMITTEE MEMBER JELINCIC: On infrastructure modernization again, we've got a warning. What's driving the warning?

ACTING CHIEF INFORMATION OFFICER HURLE: Yeah, so the information modernization -- easy for me to say. The delay on that right now has been a skill set. We did have that addressed, and so we have the skill set back in place. We are moving a couple items for about a four to five month delay.

COMMITTEE MEMBER JELINCIC: And the skill set, we've trained our staff, so that they can do it or --

CHAIRPERSON COSTIGAN: You are having --

ACTING CHIEF INFORMATION OFFICER HURLE: I knew you were going to go there.

CHAIRPERSON COSTIGAN: Wait a second, you are having an IT open house next -- this Saturday or next Saturday in employment?

ACTING CHIEF INFORMATION OFFICER HURLE: Correct, we are having an IT open house.

CHAIRPERSON COSTIGAN: What day is it?

ACTING CHIEF INFORMATION OFFICER HURLE: Yeah, I'd like to address just really quickly on the staff. We recognize the dependency on consultant is probably a little bit beyond what it should be. We are working to mitigate those in a number of different areas, including if you use the AVSRE as a good example. In negotiating with that -- with Scott and his team, we moved from what was a Fortran type of capability into the Java which is what our shop is.

Though we needed to hire some consultants for burst capacity, our ability to now move that into the State staff capabilities is important. And so we're looking to all different avenues. It's not just State staff, it's also the technology you might use and what kind of -- what specialty you might be. But that's a good example of us paying attention to the concern about consultant dependency.

COMMITTEE MEMBER JELINCIC: And I will tell you, I do hear from staff that says the consultants get all the interesting work.

(Laughter.)

COMMITTEE MEMBER JELINCIC: On six of six there's another warning on the multi-factor -- yeah --

ACTING CHIEF INFORMATION OFFICER HURLE: The multi-factor authentication.

COMMITTEE MEMBER JELINCIC: Yeah.

ACTING CHIEF INFORMATION OFFICER HURLE: Yeah, that what as another situation where we made some adjustments on the schedule. And that we are -- I think we're going to be able to get back under control of that one, and that will come back in line.

COMMITTEE MEMBER JELINCIC: Okay. That was all I had on that one.

CHAIRPERSON COSTIGAN: Mr. Gillihan.

COMMITTEE MEMBER GILLIHAN: Thank you, Mr. Chair. I think it was the last quarterly report before this Committee, where I raised concerns about the level of detail, included in these reports. And I thought there was some consensus on adding it, but I don't see it added it here. So I'm a little concerned about that.

But some of the things that we pointed out before were we don't have a start date for these projects. We don't have an idea of estimated cost at the time of the project, how much has been expended to date, what your burn rate is, what your earned value is, to the extent we track those things. And I don't see any listing of significant risks tied to these projects, and what mitigating factors we might do.

And I appreciate you have to condense some of this stuff for purposes of Board consumption, but some of those metrics are things that are consistent in all properly managed Projects. I'm sure you have them in-house. And I think they'd provide more context to my colleagues on the Board about how the project is proceeding.

You know, are we -- is this a six-year project or a six-month project. And if we're halfway through, have we expended 80 percent of the estimated budget or are we at 30 percent and is that okay, because that's what the project plan called for.

So that's the kind of information I think this Board needs to make informed decisions and provide oversight of over IT expenditures. And so I, again, Mr. Chair, I would ask that the staff be directed to include these kinds of data points in subsequent reports.

CHAIRPERSON COSTIGAN: And I --

ACTING CHIEF INFORMATION OFFICER HURLE: May I just real quick respond?

CHAIRPERSON COSTIGAN: Go ahead.

ACTING CHIEF INFORMATION OFFICER HURLE: We have not lost that at all. That is a topic for us. We did include the risk and the mitigation activities on this particular one. To Tim's point this is a -- probably a little bit too limited landscape in regards to be able to really give you the detail I think you're looking for. We also want to double check, and I think that's what we're going to try and do also with the May workshop is to make sure we give you the detail you're looking for. It's not that we've lost that as a task. We definitely look at that as something we have to provide to you guys and we will take care of that.

CHAIRPERSON COSTIGAN: So Mr. Gillihan, we did take to heart you comments. In fact, Ron and I, we had a conversation on Thursday was we -- regardless of Mr. Jelincic pulling this item or not, we were going to pull it, just so we could address your concerns, make sure that Ron understood it again, and that we were going to take this up in May, which we're going to have a much more lengthier discussion.

So, yes, you will see that -- hopefully, we'll see that level of detail, but I wanted Ron again to hear from you.

ACTING CHIEF INFORMATION OFFICER HURLE: And I think in the workshop gives us that alignment opportunity as well rather to just keep coming with different iterations. So that's where the opportunity is.

COMMITTEE MEMBER GILLIHAN: All right. Well, thank you.

ACTING CHIEF INFORMATION OFFICER HURLE: You bet.

CHAIRPERSON COSTIGAN: All right, Mr. Jelincic, you have one more item.

COMMITTEE MEMBER JELINCIC: At least one. E, and it's actually a fairly simple question. On page -- attachment 1, page 1 of 1, the investment income -- investment and other income. Some of that obviously is appreciation, some of it is cash coming in. Do we have information on how much is catch and how much is appreciation. And if we don't, can we get it in the future?

CONTROLLER MONTGOMERY: Good afternoon. Kristin Montgomery, CalPERS team. We do have that information. For the unrealized, it's about 1.9 billion, and for the realized it's about 9.6 billion. The realized includes selling of our assets, the realized gained losses and also includes dividend income and interest income.

COMMITTEE MEMBER JELINCIC: And would include distributions from the private equity portfolio and the real estate portfolio. And I see the guy behind you shaking his head saying yes.

CONTROLLER MONTGOMERY: Yes.

COMMITTEE MEMBER JELINCIC: Okay. And the other thing was the investment management fees. And the description says, "That incentive fees for real estate decreased as unrealized gains reported by partnerships decreased". Can you explain what's going on?

CONTROLLER MONTGOMERY: Sure. So it goes hand-in-hand with when the real estate value, the net asset value goes down, the investment fees go down with it, so it's the relationship of the value with the investment management fees.

COMMITTEE MEMBER JELINCIC: Okay. So it's losses -- it's unrealized losses.

CONTROLLER MONTGOMERY: Right, right.

COMMITTEE MEMBER JELINCIC: Okay. Thank you.

CONTROLLER MONTGOMERY: You're welcome.

CHAIRPERSON COSTIGAN: Okay. Any other items on that, Mr. Jelincic?

COMMITTEE MEMBER JELINCIC: No.

CHAIRPERSON COSTIGAN: Okay. All right. So now we're going to go to item, because those were just informational items. So now, we are on action item on delegation, Marlene.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Thank you.

(Thereupon an overhead presentation was presented as follows.)

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Item 5a is the Finance and Administration Delegation. This item was originally brought in February, and amongst some discussion and a conversation in Governance, we have brought it back now to be hopefully approved at first reading. The delegation item makes a few changes to the actual delegation, and nature of the changes are to try to improve the governance function around policies, putting items that are in stand-alone policies in the delegation where appropriate, and therefore having one spot where you can actually go to see where your authority for certain items are.

And so the -- in the delegation itself, there is -- the track changes will show where we have made certain additions -- sorry -- in the delegation, and that would be the reason for those additions.

CHAIRPERSON COSTIGAN: Okay. Any questions?

I have Mr. Jelincic, you've got push your button.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Pure editorial. The -- when you do this in the future, I would like to request that you do the strike-out and underline first, because that's actually the one we tend to work off, and then the clean one as attachment 2.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Okay. Switch the order.

COMMITTEE MEMBER JELINCIC: That was my sole comment.

CHAIRPERSON COSTIGAN: Great. Thank you.

Ms. Mathur.

BOARD MEMBER MATHUR: I just have one question and it's not a -- I don't have a strong feeling about it, but with respect to under -- I guess on attachment 1, page three, one of the duties or the delegated responsibilities of this Committee is to approve and oversee the Board election process. I wonder if the Board Governance

Committee would actually be a better spot for that. I think at other agencies, that is where it's housed. So just raise that for consideration. It's not an urgent issue necessarily, but something that maybe we can --

CHAIRPERSON COSTIGAN: Would that be spoken as the Vice Chair of Governance Committee?

(Laughter.)

CHAIRPERSON COSTIGAN: I think we'll move right along to the next item.

(Laughter.)

BOARD MEMBER MATHUR: I'm not trying to -- anyway I think that might be an appropriate place for it is -- I guess is what I'm trying to say.

(Laughter.)

CHAIRPERSON COSTIGAN: Good point. We will revisit that with the Governance Committee Chair, since the Governance Committee Chair is also the Vice Chair of the Finance Committee.

So all right. That's an action item on 5a.

Any other questions?

Oh, I'm sorry, Mr. Jones.

COMMITTEE MEMBER JONES: Move approval.

CHAIRPERSON COSTIGAN: It's been moved by Jones.

ACTING COMMITTEE MEMBER LAWYER: Second.

CHAIRPERSON COSTIGAN: Seconded by Lawyer.

All those in favor?

(Ayes.)

CHAIRPERSON COSTIGAN: Opposed?

Motion carries. Thank you.

Next item.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Agenda Item 5b --

CHAIRPERSON COSTIGAN: 5b.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Yes. 5b is the -- this is an annual item that this Committee does every year. And it's the review of Board member employer reimbursement percentages.

CHAIRPERSON COSTIGAN: Okay. I think everybody has read the materials. Any questions?

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah, I just want to point out, so we have it on the record, that the reason I get 100 percent is I am a PERS employee, and they don't always want me hanging around the office.

CHAIRPERSON COSTIGAN: Thank you, Mr. Jelincic.

If there is no other -- this is an action item. Can I get a motion?

VICE CHAIRPERSON TAYLOR: I'll make the motion.

CHAIRPERSON COSTIGAN: Moved by Taylor.

Seconded by?

COMMITTEE MEMBER JONES: Second.

CHAIRPERSON COSTIGAN: Jones.

All those in favor?

(Ayes.)

CHAIRPERSON COSTIGAN: Opposed?

Motion carries. Thank you.

Item -- next item is Item 6. So we're going to take up the budget now.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Item 6a is the Budget. I'll ask Rose to come up.

(Thereupon an overhead presentation was presented as follows.)

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: And just as Rose is coming up, I'd like to -- oh, no -- I'd like to thank the organization and the budget group specifically for their hard work on the budget. It was a lot of work and we're very happy that everyone put in the extra effort to deliver something that we can be proud of.

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: Thank you, Marlene.

Good morning, Mr. Chair and members of the Committee. Rose McAuliffe, CalPERS team member.

Today, I'm presenting Agenda Item 6a. This is the 2017-18 annual budget proposal, first reading. And it is an action item. The budget is an enterprise effort that starts in October of every year with our budget kick-off meeting. We then meet with all the division chiefs on their individual budgets.

Strategic resource requests are discussed with the senior leaders in a budget subcommittee forum, where there are representatives from each branch. The requests are also analyzed by our budget team. Our division chiefs then present their requests to the Deputies and the Deputy Reviews Panels. And then the Deputies have multiple discussions to finalize their requests to go forward. And they have to make a lot of tough decisions. But it was a very collaborative process, and so I'm proud to present this budget this year.

And what's in front of you is our budget document. And this document serves as an annual financial plan that guides our organization and our resource requests, which are in line with our overarching CalPERS Budget Policy approved by the Board this last March.

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FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: The agenda for this presentation starts with a current year summary of our current year 2016-17 budget forecast. This will provide an estimate of where our expenditures are in comparison to what our budget is.

We then will move into 2017-18 CalPERS total budget proposal with detail in the analysis behind the numbers to provide an understanding of the resources being requested.

And finally, we'll conclude with what we will aim to achieve with the result and outcomes from this budget proposal.

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FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: The current year 2016-17 forecast is 1.77 billion. It's 16.9 percent below our budget of 1.787 billion. This is primarily due to surplus in our higher vacancies, and reduction of temporary staff. That accounts for 8.4 of it.

We also have lower than anticipated outside counsel costs this year. We have reduced operating consulting costs. We have reduced headquarter building costs due to year-to-date spending trends and operational efficiencies identified in that budget.

And in our enterprise project cost, we have savings of about 1.5 million, primarily due to the infrastructure modernization project, where they were able to identify licenses that did not need to be purchased by Oracle and Guardian.

This is our current year forecast.

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FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: This slide is a presentation of our CalPERS budget proposal for 2000 --

CHAIRPERSON COSTIGAN: Sorry, Rose?

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: Yes.

CHAIRPERSON COSTIGAN: Mr. Jelincic has a question.

COMMITTEE MEMBER JELINCIC: Yeah. Before we get into the detail, because I don't think these issues came up in the detail. The combination of the Contingency Reserve Fund and the Health Care Fund, can you talk a little bit about what that involves?

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: Sure. I have that later in the slide presentation but I can talk about it now.

COMMITTEE MEMBER JELINCIC: Okay. If you have it later in the slide presentation, that's fine.

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: That's okay.

COMMITTEE MEMBER JELINCIC: I just didn't remember it being there.

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF

McAULIFFE: Okay.

COMMITTEE MEMBER JELINCIC: And I am -- you've heard me say the risk and budget -- or risk and benefit sections of these reports. I'm glad that we have so little risk in PERS that, you know, this budget has almost no risk to it. We got everything right. There -- we didn't have any real contingencies. So beef it up.

Thank you.

CHAIRPERSON COSTIGAN: I'm sorry, Mr. Jelincic. I guess, I'm -- in the budget document, when your addressing -- this is about just operations, contingency if something happens to the building. I'm not at that -- the budget is, as put together, is put together very similar to the State budget, PYs, expenditures, costs. When you refer to risk, what are you referencing?

Please push your mic again, and I'll turn it on.

COMMITTEE MEMBER JELINCIC: Yeah. We have risks that we're not allocating to the right priorities. We have -- you know, in this case, you know, if we don't approve this budget, we're going -- you know, potential resources shortfall, it can inhibit our ability.

If we simply rolled over last year's budget, we'd have five more people and more money. The -- and so I think there are real -- we need to think about what are the risks that really get built into these programs, so that's the point I'm trying to make.

CHAIRPERSON COSTIGAN: Okay.

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: Okay.

On this slide displays the CalPERS total budget by category, totaling a total request for this year of 1.676 billion. This is 110.5 million dollar, or 6.2 percent, decrease compared to the current year's budget of 1.787 billion.

This is also the fourth year of a consistent reduced budget request that's being presented in front of you. There are corresponding increases and decreases in the various budget categories that we will discuss in further detail shortly. There's --

CHAIRPERSON COSTIGAN: Henry, did you want to speak?

COMMITTEE MEMBER JONES: I can wait.

CHAIRPERSON COSTIGAN: Okay.

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: Okay.

There are also -- this is also a reduction of five positions in the budget. We're going from 2,880 positions 2,875 positions.

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COMMITTEE MEMBER JELINCIC: A quick question.

CHAIRPERSON COSTIGAN: Push the button. You've got to push your microphone.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: On this slide, the Finance -- the fiscal year '16-'17 approved budget, is that the original budget or is that after the mid-year?

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: It's the mid-year.

COMMITTEE MEMBER JELINCIC: Okay. Thank you.

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: The main cost drivers identified in this 2017-18 proposed budget relate to increased costs in our personnel services for salaries and benefits related to statewide negotiations through collective bargaining, MOU agreements with the unions. This is also the last year of the my|CalPERS optimization to continue to increase our operational efficiencies in the system. And that budget is 8.8 million.

We're also continuing to have enhancements to the actuarial valuation system to provide capabilities needed to keep the current -- keep current with our evolving practices and comply with new GASB standards. And that budget is for 3.9 million. We also have data security and recovery and back-up services for seven million that we're going out to procure for a new and expanded system to mitigate risk of loss -- data loss and service interruption due to potential Unanticipated disasters.

And the final cost driver is the increase in the health program third-party administration costs. 7.5 of it is due to increased costs in our health plans, and 2.3 is tied to an increase in our contract with pharmacy benefit manager with Optum.

I did want to mention that as part of our provisional language in the 2016 Budget Act, CalPERS, in conjunction with DOF, conducted a zero-based budgeting exercise as part of building the 2017-18 budget build. This exercise was focused on examining the administrative expenses of the CalPERS Health Benefits Program.

And what came out of that was a collaborative agreement that our two health funds be consolidated into one for purposes of administrative costs, and for purposes of streamlining our operations and reducing complexity.

So we would -- in this budget we're presenting our total administrative costs for the health program in the CRF fund only, and nothing in the C-- HCF fund.

COMMITTEE MEMBER JELINCIC: And as Bill said earlier, health benefits is really confusing. What were the differences between the two funds? And, you know, since I never quite figured it out, consolidating it seems to make sense, but what were the differences?

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: Sure. There was just a difference of interpretation between our CalPERS understanding and Department of Finance's. We allocated costs based on membership. And so membership for the wholehearted HMO plans were allocated to H -- the CRF fund. And our PPO and self-funded plans were allocated to the HCF. And DOF said hey, what if we were just to consolidate it into one, simplify things, and that way you don't have to work on that allocation split every year. So we agreed.

COMMITTEE MEMBER JELINCIC: So one was towards PPOs and the other was towards the HMOs.

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: (Nods head.)

COMMITTEE MEMBER JELINCIC: Okay. Thank you.

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: Sure.

COMMITTEE MEMBER JELINCIC: I wished I'd had that explained a couple years ago.

Thank you.

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: You're welcome.

CHAIRPERSON COSTIGAN: Okay. Rose, go ahead.

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FINANCIAL PLANNING, POLICY & BUDGETING CHIEF

McAULIFFE: These are now the details in the corresponding increases and decreases in our total budget, of -- which ultimately ends up being a decrease of 110.5 in our net. So the cost decreases are mainly attributed to 119.2 million in the investment external management fees, mainly due to more accurate costing inthe private equity and accounting reporting system, the PEARS system.

We have a reduction in our enterprise project costs. That budget is going from 37.7 million in the current year to 23.3 million in this proposed year. And the majority of the reason for that is the last year of the my|CalPERS optimization. That project budget is going from 23.5 down to 8.8 million this year in the last year.

The other budget that's showing savings and reductions is in the headquarter's building costs. Were showing a reduction of 4.2 million. That budget is coming down to 27 million this year. It's due to efficiencies identified in the operations, and also to extension of time on general maintenance schedules.

So these cost reductions were offset by increases of 27.3 million due to the administrative operating costs of 15.6 million, as already discussed in our personnel costs due to collective bargaining agreements.

We also have an increase in our investment operating cost of 1.7 million, as the Investment Office continues to invest in their infrastructure to be able to support their managed assets in-house. And there was an increase of 10.3 million at -- in the Health Program, which is 7.5, and then again in the 2.3 for the pharmacy benefit. I just wanted to break those costs down by budget categories for you.

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FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: This slide shows the five year budget trend with two years of actual expenditures in '14-'15 and '15-'16. Our proposed budget of 1.676 billion again represents a reduction of 110 million from the previous year. But I also want to mention that within the last five years, our budget has reduced by $212 million.

Those are things to be proud of as we continue to work to be more operationally efficient. And this is an enterprise effort, so they should all be complimented for that.

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FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: I also wanted to point out on this slide, the number of blankets and temporary positions in this organization have been steadily declining. The reason we had temporary positions, and we ramped -- kind of got them on board was to help us with our my|CalPERS system. And now that that is kind of, you know, going away, we're reducing our temporary blankets as well.

So over the last four years, we've gone from 347 blankets in February of 2013 down to 45 in February of -- I'm sorry '13 to 2017. So this is a successful result of the enterprise-wide efforts to reduce reliance on temporary staffing.

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FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: This chart displays the trend lines of the Investment Office's external management fees and their in-house operating costs. The proposed 2017-18 external management fees of 777.5 million represent an overall decrease of 119.2 million, or 13.3 percent, from the previous year's budget of 896.7. That's the blue line.

And this was offset by a slight increase of 4.2 million in the investment operating and administrative staffing costs from 160.7 million to 164.9 million.

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FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: The enterprise project's budget is showing an overall decrease of 38 percent, or 14.4 million. And this is just kind of giving you a trend line of how we are in our project budget and how it's coming down. Again, the main focus being the last year of the my|CalPERS optimization, commitment to our data back-up, restoration, and disaster recovery, continuing to invest in our actuarial valuation system.

The long-term care third-party administrator for 1.4 is we're going out to procure. So if we do end up going with a new vendor, that is placeholder for those resources, should we decide to go with a new vendor.

And this is the last year of the CalPERS education center, which was the redesign and modernization of the current system to improve education delivery, efficiencies, streamline, scheduling, and appointments, improve the registration process, and improve the data integration with the my|CalPERS system, as was previously discussed in the IT status update.

And last is the -- well, the business intelligence for 600,000, and the business continuity for 250,000.

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FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: So the results of this proposed budget, in addition to this being the fourth year that we bring our budget down, is that we are continuing to reduce our positions and our temporary staffing. We're continuing to reduce our consulting costs. We're committed to business process improvements. We're committed to strong risk mitigation and ongoing data security. We're closing out on our my|CalPERS optimization. And this budget proposal is aligned with the strategic plan and our business plan objectives.

So thank you, and I am happy to answer any questions.

CHAIRPERSON COSTIGAN: Great. Well, we have a few. But first, Rose, I just want to thank you and your staff. I mean, you guys -- I know it's late in the day and everybody is little tired, so it sort of shows. But you guys have done a great job.

I mean, one is the organization has continued to get more complex. We've gotten larger. The fund has gotten bigger. We've got more members. You've reduced the cost. I mean, you haven't lost sight of our two primary objectives. One is make sure the benefit is paid to our members. And the other is that it's our members' assets, not ours.

And that's a great chart up there or bullet points of what we've accomplished. But the fact is the trend has been to save money and deliver a high level of service.

So I don't want that lost. I mean, you guys have done a great job. I think, as we've talked -- and I know Mr. Gillihan, when he was here, was the blankets. As you said, we're almost done. It's been a slow grind. But the fact is, it's back to the transparency. And you skipped over, again at the beginning of your presentation, that we received yet another award on budget transparency. So really, you guys, a fantastic job all around, so --

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: Thank you very much.

CHAIRPERSON COSTIGAN: With that, we will take a few questions.

I didn't tell her that. I'll tell you that later.

Mr. Jones.

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

The -- I want to also indicate what a great job that's been done on the budget process. It seems as though each year there's been improvements, and specifically the cost reductions over the last four years, and especially with the $199 million in fees in the Investment Office. I think that we should really publicize that, and let people know that we are being more efficient in what our investment strategy is.

Also, I -- on Mr. Jelincic's comment about risk built into the budget. Dealing with risk, I don't think you deal with risk in individual departments and individual line items. That's an enterprise-wide approach. And so that should be at the CEO level. Maybe have a reserve for economic uncertainties or things that you -- that come up that you may not have anticipated. And so that money then could be transferred to deal with those emergencies during the year. If the emergencies do not occur, then that money just roles over to each year. So that's how I would suggest the reserve for the risk be approached.

The other thing I wanted to mention is the position vacancies, $8 million. Now, we started putting a credit in the budget to reflect these vacant positions, so how does that credit equate to this $8 million.

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: You mean, in the current year budget?

COMMITTEE MEMBER JONES: Yeah.

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: So as far as how many positions?

COMMITTEE MEMBER JONES: Yeah, I'm just trying to get a sense of how close this eight million and the vacancy that you showed --

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: Well, I have the percentages.

COMMITTEE MEMBER JONES: Okay, that's okay.

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF

McAULIFFE: So we originally, when we presented the budget last year for 2016-17, we applied a five percent vacancy factor.

COMMITTEE MEMBER JONES: Okay.

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: And then at the mid-year, we took out another six million and applied a 6.6 percent factor. So now that we're coming through the end of the year, we're showing an additional eight million surplus.

COMMITTEE MEMBER JONES: Okay. Good. And that helps your budget comparability because you're not -- the budget there you're not spending it, and then you go back next year, your actual expenditures go down and your budget goes back up. So when you put those credits in, it helps reflect a more smooth budget transition.

And I also would like to suggest that your projections for '18-'19, that's going in the right direction. I think we requested that you look at long-term projections, because there are costs out in the future, that as long as it's on your radar screen, you could begin to prepare for it. So you have a strategic plan for five years, so why not have a budget projection for five -- because I'm sure that strategic plan has cost elements in it maybe going out in the future.

So to the extent you could extend the projection beyond '18-'19, I think it may be helpful for planning purposes. So otherwise, very good job, and keep up the good work.

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: Thank you.

CHAIRPERSON COSTIGAN: We'll go to Mr. Jelincic and then to non-members of the Committee. Go ahead, Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: On attachment 1, page 20 of 47, 236 of the iPad, training. You've heard me harp a little bit about we need to get the consultants out of here. We need to get our people trained. And yet, I notice the training budget is going down. Why is it going down?

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: So it's actually going down because that was what was actually requested of the organization at 1.6 million. Pretty much everything that was requested in training was given to the organization. You're noticing that it went down from 1.75 million in the previous budget.

But if you look at the actual first column, the '15-'16 Actual column, we only spent 952,000. So I feel pretty good with the 1.66 million in training.

COMMITTEE MEMBER JELINCIC: So the fact that we haven't trained our people, and we haven't had the skill transfers, and we have people without the skill sets we need is because we're not spending our training budget? And if we -- and if this training budget is actually accurate, then I would expect that we will have no consultants around here in a year.

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: I'll defer to Doug Hoffner.

COMMITTEE MEMBER JELINCIC: And you can't keep a straight face while I say that.

DEPUTY EXECUTIVE OFFICER HOFFNER: Doug Hoffner, CalPERS team member.

So I think we do a fantastic job of training, succession planning, talent development in this organization. We talk about it as one of the pillars of the six -- of our strategic plan, the talented workforce.

To that point, Mr. Jelincic, we have put additional dollars in there. It is slightly down from the prior year, but we've -- I do a tremendous amount related to knowledge transfer in terms of IT and other areas of the organization. We continue to build those things out. And that I would expect that we would meet the expectations of this budget in hitting those markers in terms of the development of our people, based upon the requests that each of the 32 divisions that put forward.

So always more to be done, but I think in looking a this organization, comparable to others, we do a fantastic job. And I expect that to continue.

CHAIRPERSON COSTIGAN: I will just say, Mr. Jelincic, I know you raised the consultant issue often, and I agree with you on our use of outside consultants. But I do want to say what the organization is doing from the IT work -- the job fair that we're going to be trying to do. There are some things that just aren't also in the control of CalPERS staff, that both the State Personnel Board and CalHR are working on from onboarding issues to -- on Wednesday I have a series of classes that -- we're going to be taking up a series of classifications we're going to continue to eliminate in order an attempt to onboard.

So I think your comments are well taken, both on the use of consultants and knowledge transfer. At the same time, when you look at trying to onboard folks and the difficulties we've had in the Investment Office from a pay perspective, we're trying to find that blend. So I get the point you're making on training. What I understood is we used all the dollars that came back and said an appropriate amount was 1.6 million. Not to micromanage the staff, but that's that what you thought was appropriate in training dollars, and we're going to fully fund the request this year, is that correct?

DEPUTY EXECUTIVE OFFICER HOFFNER: Correct.

COMMITTEE MEMBER JELINCIC: One of the ongoing problems is we have become too comfortable with consultants, and we need to break that. And part of the -- and so part of what we actually need to do is figure out someway to get staff to increase --

CHAIRPERSON COSTIGAN: You can ask Mr. Jacobs how I thought of the consultant this morning.

Ms. Taylor.

VICE CHAIRPERSON TAYLOR: So let me ask you a question, Doug in response to J.J. here.

DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah.

VICE CHAIRPERSON TAYLOR: The 1.7 reduced to $1.6 million, and we spent 952,000. As I understand it, when I look at my own agency's budget, when we do succession planning, et cetera, that doesn't cost training dollars necessarily, unless you're actually paying for a class, paying for soft skills training, other types of purchases that pay for training or educational classes outside of CalPERS.

Am I thinking correctly, or are you actually break that out? Like when you take, I don't know, Joan aside and say, hey, I want to train you to be my replacement, do you take her salary as --

DEPUTY EXECUTIVE OFFICER HOFFNER: No, so this is more about the looking at the classes that we have off-site.

VICE CHAIRPERSON TAYLOR: Okay.

DEPUTY EXECUTIVE OFFICER HOFFNER: So we have -- we do have providers. We use the University of California at Davis --

VICE CHAIRPERSON TAYLOR: Right.

DEPUTY EXECUTIVE OFFICER HOFFNER: -- they do provide a lot of training for us. We do a whole series of trainings related to leadership. There's new requirements by the State of California in terms of leadership, training at all levels of the organization that's built in. These are the hours that are associated to the dollars for the, you know, nearly 2,800 employees in the organization on an annual basis.

VICE CHAIRPERSON TAYLOR: Right.

DEPUTY EXECUTIVE OFFICER HOFFNER: And there's plans associated with that by division. They, of course, have unique needs for that training, whether it's in IT or the Financial Office, or Investments, or actuaries. Some of those are required outside of the services we can provide, to other courses and conferences and things like that that provide that continuing education, et cetera.

VICE CHAIRPERSON TAYLOR: Right.

DEPUTY EXECUTIVE OFFICER HOFFNER: So those are additional services than just the stuff I mentioned before about succession planning, team development of our own folks, et cetera.

VICE CHAIRPERSON TAYLOR: Yeah, because at our agency we actually have something we can do on our computer --

DEPUTY EXECUTIVE OFFICER HOFFNER: Right.

VICE CHAIRPERSON TAYLOR: -- but the agency bought it, so it still has to be paid for yearly. The licensing of the -- so, yeah, I get what you're saying.

CHAIRPERSON COSTIGAN: Okay. Thank you.

Ms. Mathur.

BOARD MEMBER MATHUR: Thank you. I just want to express how -- how proud I am of the organization. I mean, $100 million decrease is -- that's no small potatoes. And I know that it reflected, you know, a real commitment on the part of the entire enterprise to think, not just about my own little, you know, square of the world, but what is best for the enterprise as whole and how can we make trade-offs that are going to deliver the most value for our members.

And so I just want to say how much I appreciate all of the effort from your team, Rose, but also across the entire organization to get us to this point. And this is a time -- if there ever was a time for us to really focus on efficiency, this is it. So good job, everybody.

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: Thank you.

BOARD MEMBER MATHUR: Thank you.

CHAIRPERSON COSTIGAN: Ms. Hagen.

ACTING BOARD MEMBER HAGEN: Thank you. I think pretty much all my points have been covered. But I, too, just wanted to congratulate the staff on a couple of things. The blanket reduction is laudatory. Congratulations.

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: Thank you.

ACTING BOARD MEMBER HAGEN: The investment management fee reductions also very impressive to Henry's point. And I am particularly proud of the enterprise position pooling concept that it sounds like you're just embarking on. And I'd be very interested in knowing how that turns out, because I think it's a model that other departments should be using statewide. So congratulations on that.

And I just can't help myself. On the training discussion, I have to put two cents in. You know, CalPERS is a leader in this State in terms of providing training by its own staff. And I don't want that to be lost. We have a great training team here, both in HR and in the program areas. There are trainers throughout. And so 1.6 doesn't really touch the cost -- you know, the value of training coming out of this organization.

Thank you.

CHAIRPERSON COSTIGAN: Thank you.

Mr. Jelincic

COMMITTEE MEMBER JELINCIC: Yeah. On page 25, the postage goes up. There's an election this year. I've heard something about that. But one of the things that caught my attention is that the mail-outs will continue through the next election cycle. And, you know, sending out the material is kind of a key function. And when I read that we may not be doing mail-outs, that raises some questions. Now, I do realize we're going to Internet and phone voting, and so that would cut the mail coming in, but I was concern about that.

And I will tell you that there has been work in corporate America that says that moving to Internet voting actually reduces participation, and that the maximum way of getting full participation is to mail out the whole proxy statement. And I will point out that PCW has done a fair amount of work on it. And since Kayla Gillan used to work for us and she's into corporate governance, they may be more than willing to share that information. But is that really the intent to stop sending out the statements and...

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Kim Malm, CalPERS team member.

Mr. Jelincic, the out year comment in the Board budget books, I believe it says in four years, you know that's -- that would be something we'd look at. And Ms. Jones mentioned earlier, if it's something that's on your horizon that you are thinking about, it's my understanding that's the point of the budget book. And certainly, we want to get through, you know, our first election and hope for a great early adoption of internet and telephone voting. And that's what happens and we find the interest in internet and telephone voting, I'd like to come back in front of this Committee or Governance Committee in a couple of years and take a look at whether or not we would be able to do that.

I will tell you with the numbers that we've calculated, if we were to stop doing any mailing at all, we could save over 55 percent of the cost of our elections over the cycle -- the cycle of the five elections. So it's worthwhile evaluating.

COMMITTEE MEMBER JELINCIC: Okay. I will agree that it's worthwhile evaluating. I don't think it's going to be worthwhile adopting.

Consultants, information technology consultants, we've managed to reduce by $400,000. That strikes me as a terribly insignificant number, given what we pay on IT consultants. Why is it so low?

CHIEF EXECUTIVE OFFICER FROST: So, Mr. Chair, if I could answer -- begin to answer that question. Marcie Frost, CalPERS CEO. So I think, you know, there have been a number of questions around the use of consultants within the organization. And I want to make sure that we have a consistent expectation moving forward.

There will be appropriate places for consultants for us in our future. And when I think about where those areas would be, IT would certainly be an area as we're developing our own team. I think a $400,000 reduction, based on this is something we need to ramp our own team up into would make some sense. And I'm going to have Ron talk about that a little more specifically in his comments.

But there will be times that we will need to bring skilled development in. Consultants are one way that we can do that. Training and development would be another way we could do that.

We will always use consultants to do external audits, a review of our work, similar to what we do with our actuarial valuations. So we will continue obviously to use consultants in that area.

So I just want to make sure that we know that consultants will have a place in the organization at some point. But we also have a belief system within the culture, and we think about it in terms of IT, that if we build it or buy it, we want to be able to support it on our own.

So with that culture, a $400,000 reduction is still, I think, a significant move in that direction.

COMMITTEE MEMBER JELINCIC: And I agree that we will always have consultants in here. But if it's an ongoing function, we need to get the staff and skill set in here. And, you know, 400,000 is a drop in the bucket on what we're doing with consultants.

CHIEF EXECUTIVE OFFICER FROST: Right. And we are in agreement with that direction. It will take us some time to get there. And I know Ron and the team and Liana had this started when she was there as well. But we will reduce and start tapering off our reliance on consultants for again supporting anything that we build or buy.

COMMITTEE MEMBER JELINCIC: Okay. And because Ron is coming up, I will raise the next issue, because he's going to respond to it too. The equipment, it looks like we're really creating kind of a boom-and-bust cycle on equipment. We cut back on equipment purchases, then we go on a big spending spree, and then we cut it back. There seems to be a pattern. And why can we not have a more consistent ongoing refresh. So you can answer both the questions

ACTING CHIEF INFORMATION OFFICER HURLE: Ron Hurle, team CalPERS. So first of all, it is cyclical to some degree, depending on the devices that we're looking for. And that -- and you'll see that as kind of the burst at one point in time, and then a lull in the other years. We look at that as a lifecycle for the equipment.

We also made a conscious decision in this particular year on not going full fledge on some of the refresh activities. And the reason for that is on two things, one is that there was an opportunity what we were just complimented on and that is a reduce in reduction of costs.

The other side is we're looking at how we acquire systems. And that may change. And as that changes, it also will change other results of what we refer to as support costs. So we also are going to more of a mobile environment. And that mobile environment gives us a chance for us to see how that mobile environment is rolling out by reducing what we did this year in the number of devices that we're securing.

COMMITTEE MEMBER JELINCIC: Okay. And on invest -- on the investment external management fees, significant cut there. And that's a good thing. But I notice it's based on the fact that we're assuming private equity doesn't do very well. And so we're going to have less returns.

And I also noticed that there are no performance fees for private equity in the budget. I hope that we pay some, but I noticed we have budgeted zero. And while you're up there, I've got to -- you know, this is -- I've got a little report here from the fiscal year '89-'90, where the asset management costs for the whole fund was ten basis points. We're proud of getting it down to 47, but here's '89, where it was ten basis points, and that does include the external manager.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Wylie Tollette, CalPERS team member, Investment Office. I'm happy to examine the source of that document, and its archaeology. The -- but I might need to see it in order to examine the underlying data and compare it to our current cost structures.

The -- I would also indicate that in May in the Investment Committee, I believe we'll be presenting our cost -- our annual cost effectiveness report from CEM. So that's a very thorough and comprehensive breakdown of the cost to run the investment portfolio.

Relative to this year's budget estimates around expected investment external management fees, the one thing I would highlight is that they are generally asset based, and so are largely determined by actually how the invest markets do, and the size of our assets under management. And so they -- roughly, they are not necessarily budgetable in the same sense as other numbers. They change. These estimates are based on -- for example, in the private equity space, they're based on what we actually paid last career, in terms of base fees, net of waivers.

Also, consistent with last year, and also consistent with current GASB reporting standards that you see in the CAFR, carry, or profit sharing, in the private equity space is not necessarily reported as part of your ongoing expenses. It's deducted from returns. However, Mr. Jelincic, as you're aware in our November private equity review, we do disclose carry, and we will -- we have, consistent with last year's CAFR and going forward, be disclosing it as part of the required regulation under SB 2833. So you'll be seeing carry information disclosed. However, it's not budgeted for in this document.

COMMITTEE MEMBER JELINCIC: And it's an issue that I raised a year ago and two years ago. I mean, we ought to have some guess on what we're going to pay. And if we're doing a budget, we ought to estimate what it is. One of the things that is highlighted is we really cut down on fees. Well, we cut down on fees by assuming we're going to have less performance, and significantly less assets. And I'm not sure what the basis for assuming significantly less assets is going to be. So -- and I will share this report with you when we get done.

CHAIRPERSON COSTIGAN: Thank you.

Mr. Lawyer.

COMMITTEE MEMBER JELINCIC: I'll give up the mic for the time being.

ACTING COMMITTEE MEMBER LAWYER: Well, at the risk of beating a dead horse, I wanted to join my colleagues in commending CalPERS -- the CalPERS team, and the Financial Office in particular, for delivering yet another budget that is less than last year's annual budget. And it's a clear sign that you all continue to do more with fewer resources. So good job.

CHAIRPERSON COSTIGAN: Mr. Slaton.

COMMITTEE MEMBER SLATON: Thank you, Mr. Chair.

I just want to comment on a couple things. One is it's always nice to see a lower budget, but the reality is, is it a smart budget? And I think here you've hit the mark, so I want to compliment you in that.

On the issue -- a couple of issues that Mr. Jelincic raised. On the technology refreshes, you know, a lot of that's out of our control. You know, part of it is the waves of technology of where it's going, what the product cycle is, how it gets implemented. I've never seen an organization that didn't have ups and downs in implementation, because you've got to match it against your own strategic plan, and your own deployment plan as well. So I don't -- I wouldn't expect it to be a levelized approach.

The other thing is bringing IT in house. That's certainly fine, and we certainly should be trying to do that. But again, there are things outside of our control that make that challenging to do. And the main one is compensation in that technology field. And for particular skill sets, it's a tough market out there to bring people in, particularly people who are younger and may not be focused so much on the other benefits of working in the public sector versus the private sector.

So I think you're doing a good job of doing it. I understand that there are challenges to making that happen.

ACTING CHIEF INFORMATION OFFICER HURLE: And a quick comment to that. I think that there is -- oh, Ron Hurle, team CalPERS, excuse me -- that there are opportunities for us to be better at what Mr. Jelincic is saying in regards that we have a dependency that's long term rather than just using it for what we need it to get up to speed, and then taking it on ourselves. I think that's an opportunity. It's not lost.

COMMITTEE MEMBER SLATON: Clearly.

ACTING CHIEF INFORMATION OFFICER HURLE: I think that we have an opportunity here to improve.

COMMITTEE MEMBER SLATON: Yeah, clearly. Thank you.

CHAIRPERSON COSTIGAN: Okay. I do just want to say a thing. Having someone like Ron - Mr. Slaton, following on your comments - in your prior life being at Intel and other tech companies is now bringing in-house for us the fact that we went out and found someone who actually understands the world. We really appreciate the fact that you chose to come in for public service.

ACTING CHIEF INFORMATION OFFICER HURLE: Yeah, I'd like to make a quick comment.

CHAIRPERSON COSTIGAN: Um-hmm.

ACTING CHIEF INFORMATION OFFICER HURLE: I wouldn't trade the team that I have around me for anybody that I worked with before. You really do have a tremendous team. You know, kudos to Liana and the rest of the group on what we've built, and that there is a lot of challenges with what we've done with my|CalPERS and how we have to address it. But you've got the team for it, and I'm looking forward to continuing to hone that and have the opportunity to work with them.

So thank you.

CHAIRPERSON COSTIGAN: Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you.

While Wylie is at the table, I just want to ask him this question about trying to budget for carry. If you allocate $10 million to a project, and the provisions of the carry is they have to get beyond a hurdle rate first. And so depending on what the returns are, you won't know that until that's accounted for throughout the year, right?

Because if they get a 10 percent return and have to cover eight percent hurdle rate, the two percent is the earnings or the carry for them. If they get 12 percent return, four percent is for them. So that's uncertain when you -- even though you project how much you want to earn from that asset, but you really don't know that until the due date, right?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Yeah, that's accurate --

COMMITTEE MEMBER JONES: Mic.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

That's accurate, Mr. Jones. In order to project carry, you'd essentially have to do some projection of the returns. And that is extremely challenging to do with the idiosyncratic nature of private equity investing.

COMMITTEE MEMBER JONES: Okay. Thank you.

CHAIRPERSON COSTIGAN: All right. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: On 36 of 47, we've got the presumed and of the business optimization. What do we get for the first seven -- or the first 34 -- or $64 million? And what do we expect to get for the next basically nine -- what --

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: I'll defer to Donna and Anthony.

COMMITTEE MEMBER JELINCIC: You know, what's been on our return on investment? What have we actually gained from it?

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: Donna.

COMMITTEE MEMBER JELINCIC: And before I give up the mic, one other point. I want to point to the actuarial valuation, because it's on the same page. One of the things that's nice is at the bottom, there is a how much is going to consultants, how much is going to backfill, how much is going to hardware. And I think it would be helpful to see that on numerous projects, rather than that being the exception, but that's a presentation issue.

Anyhow, but back to the question, what did we get?

DEPUTY EXECUTIVE OFFICER LUM: That's a great question, and I'm actually very happy to be here to share with you what we have achieved out of the Functional Optimization Project.

I apologize. Donna Lum, CalPERS team member.

So for the past three years, we have implemented well over 30 major initiatives. All that were part of the project scope. And as we set out to do this project, we had very specific requirements in terms of what the criteria would be for the projects that we selected.

And those were centered around initiatives that would -- that would result in either personnel savings, budget savings, risk avoidance, compliance, simplifying our business, and technical processes, and most of all improved customer service.

I think as you all have acknowledged in the slide that Rose showed earlier, in terms of the number of temporary positions, you very well know that many of those positions were in the customer service area shortly after the launch of my|CalPERS.

Now, that the system has been stabilized for several years and the outcome of the initiatives that we have implemented under functional optimization, the vast majority of those limited term or temporary positions in the area of customer service have been eliminated.

As you've also indicated, there are many areas in the services that we provide in which the amount of service or the inventory or the requests continue to exceed or -- excuse me, continue to rise in terms of our membership with regards to retirements, death benefits, and other areas that we serve. And yet, over the last several years during the budget process, we've come forward with very few requests for permanent ongoing positions as a result of the ongoing benefits and cost savings that we're seeing from both the Functional Optimization Project, as well as my|CalPERS.

But just to give you an idea of some of the savings, we have replaced a number of manual -- manual processes with automation. And we've been able to take those resources -- if they were temporary, we eliminated them. If they were permanent resources, we redirected them to areas where there are other increased workload.

Through the single Medicare-payer project, for example, we have achieved more than $21 million cost avoidance on an annual basis ongoing. And other projects, such as the on-line health statements, where we will achieve more than a million dollars per year ongoing in the cost of mailing.

So there are many initiatives again that we have undertaken that have clearly demonstrated a significant amount of benefits. Moreover, we do see that there is potential of opportunity for us to continue to streamline our operations. And so as we are looking forward, I believe in the agenda item, we do identify a number of initiatives that are scheduled in this -- in this final phase. The other things that we'll be doing in this final phase is the continued work that we call in-stream or in-flight. That is already underway from the third year of the project.

So Mr. Jelincic I hope that that gives you some insight into what we've been doing over the last few years and the benefits that our members and our employers have achieved through this journey and this effort along with us.

COMMITTEE MEMBER JELINCIC: And what have we automated the used to be manual, other than when we came out of my|CalPERS and first put on-line and everything was essentially manual?

BENEFIT SERVICES DIVISION CHIEF SUINE: Good afternoon, Mr. President, members of the Committee. Anthony Suine, CalPERS team member.

Mr. Jelincic, we -- just some examples. For instance, we have -- we mail out 600,000 warrants every month. We have a vendor bank that maintains our direct deposits into those. And we used to get a faxed report from them every day about any accounts that were closed, any -- any rejected monies that came back. And that fax report would come, and then the team would work that fax report and dial into each account through my|CalPERS, and go and place a hold on that account, and then work to reissue the money to that individual.

Through this project, we built a file transmission with our vendor bank that comes to us every day, and automates that process. So it updates the member's account with the hold, it generates the automated letter that goes out to the member to tell them to contact us to claim their monies. So that's just one example of automating a manual process.

COMMITTEE MEMBER JELINCIC: And how much did it cost to develop that transfer?

BENEFIT SERVICES DIVISION CHIEF SUINE: I don't have that hours on hand for that particular process or initiative.

COMMITTEE MEMBER JELINCIC: A guess?

BENEFIT SERVICES DIVISION CHIEF SUINE: But we -- we did save --

CHAIRPERSON COSTIGAN: Mr. Suine, rather than guessing, maybe in May this could be part of our discussion in a little more detail. I think Mr. Jelincic is just wanting to ensure that the dollars that we're paying that we are getting a return on it. And so rather than guess the number of hours, just a brief report on that.

All right. Thank you, Mr. Suine.

BENEFIT SERVICES DIVISION CHIEF SUINE: Yeah, I was just going to speak to the stage. We saved resources.

CHAIRPERSON COSTIGAN: Great. Thank you.

COMMITTEE MEMBER JELINCIC: And that's fine. And throughout this IT, I mean what resources do we actually save? What is our -- I haven't seen a return on investment calculation anywhere. And once you give it, I'm going to ask you to defend it, so I warn you of that.

But if we're going to be spending -- you know, we spent a billion dollars my|CalPERS. You know, when you look at all the staff time that we diverted. And so we spent a billion dollars, and now we have spent -- you know, we're into our $73 million to improve it.

And, you know, give some concretes on what we, got and not just, well, better service.

So okay. Thank you.

CHAIRPERSON COSTIGAN: Okay. So --

DEPUTY EXECUTIVE OFFICER HOFFNER: Mr. Chair.

CHAIRPERSON COSTIGAN: Yes, Mr. Hoffner.

DEPUTY EXECUTIVE OFFICER HOFFNER: Doug Hoffner, CalPERS team.

CHAIRPERSON COSTIGAN: Mr. Hoffner, isn't today your birthday?

DEPUTY EXECUTIVE OFFICER HOFFNER: It is my birthday.

CHAIRPERSON COSTIGAN: Don't you want to, at some point, go home and celebrate with your wife and family?

(Laughter.)

DEPUTY EXECUTIVE OFFICER HOFFNER: She's probably at soccer practice, but it would be nice.

(Laughter.)

COMMITTEE MEMBER JONES: He can't yet. J.J.'s not done asking questions.

DEPUTY EXECUTIVE OFFICER HOFFNER: It's also Tim Taylor's birthday as well --

(Laughter.)

DEPUTY EXECUTIVE OFFICER HOFFNER: -- and a handful of others here at the organization.

Why don't we, at the May meeting, part of the IT Governance session, we could chunk out each one of the phases --

CHAIRPERSON COSTIGAN: Yes.

DEPUTY EXECUTIVE OFFICER HOFFNER: -- and the years, and provide the detail that Mr. Jelincic and others are asking for in terms of ROI, what we got, what the partners or employers got, what the members got in terms of those kinds of activities in a very concrete way.

We got a lot of data here, but it doesn't get to the level that you're looking for in terms of either annual or ongoing one-time cost savings, and then the benefits realized. So let's maybe do that, if that's appropriate?

CHAIRPERSON COSTIGAN: No, and I understand that that was going to be part of our May meeting was --

DEPUTY EXECUTIVE OFFICER HOFFNER: Right.

CHAIRPERSON COSTIGAN -- we were going to have a much more detailed discussion, because we were going to treat it as a workshop and try and give folks the opportunity to talk on the project.

DEPUTY EXECUTIVE OFFICER HOFFNER: Correct. Yeah.

CHAIRPERSON COSTIGAN: So Mr. Lofaso.

ACTING COMMITTEE MEMBER LOFASO: Thank you, Mr. Chair.

Piling on. Good job. Also interested in hearing about the pooling that Ms. Hagen referred to, and happy birthday, Mr. Hoffner. Thank you.

CHAIRPERSON COSTIGAN: All right. One more time, Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: In honor of Doug's birthday, I will cutoff the questions, but I do want to acknowledge getting down the outside attorneys. We still have the -- so, Legal, wherever you are, you helped -- Matt, you got it down. Get it down more. You know, a lot of this legal work is ongoing and we need to hire the skill sets.

CHAIRPERSON COSTIGAN: And, Mr. Jelincic, just so you know, Mr. Jacobs and I had that very conversation this morning, along with our CEO, about consultants. We're using lawyers we're using in other committees, retainers, and fees. And I know that Mr. Jacobs in his shop is going to be continuing to look at that.

In fact, I know that our consultant earlier this morning one of the issues is that there had been a fee reduction, and we were trying to get a further fee reduction out of them. So I know we still have several more items, so I know we're not close to wrapping up.

Any other questions on the --

COMMITTEE MEMBER JELINCIC: I did want to acknowledge it.

CHAIRPERSON COSTIGAN: Great.

No. Mr. Jacobs and I that's how our day started

together didn't it, Mr. Jacobs?
Any other questions on the budget?
All right. This is an action item for first reading.
COMMITTEE MEMBER JONES: Move it.
CHAIRPERSON COSTIGAN: Okay. It has been moved by Jones.
Seconded by?
Taylor.
Say second.
VICE CHAIRPERSON TAYLOR: Second.
CHAIRPERSON COSTIGAN: Seconded by Taylor
(Laughter.)
CHAIRPERSON COSTIGAN: All of those in favor say aye?
(Ayes.)
CHAIRPERSON COSTIGAN: Opposed?
Motion carries.
And we are going to have a very robust, Ron, discussion workshop on tech. So maybe we can also look at some of that --
INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: I put that down for direction.
CHAIRPERSON COSTIGAN: All right. Item 7a.
INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

D'ADAMO: Okay. Item 7a -- actually, Item 7a is the second reading of the asset liability management policy.
Did you want to say something?
CHIEF RISK OFFICER GRIMES: Sure.
INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: So Forrest Grimes will present that.
CHIEF RISK OFFICER GRIMES: Good afternoon.
Good afternoon, Mr. Chair and Committee members. Forrest Grimes, CalPERS team.
While there were no questions during the first reading, we made two changes that include alignment with fund sustainability language included in the new strategic plan that the Committee approved in February and the addition of the actuarial contribution allocation policy that the Committee approved in February as well.
With that, I'll stop for questions and request that the Committee move to approve the policy.
CHAIRPERSON COSTIGAN: All right. We have a couple questions.
Ms. Taylor first. Mr. Jones.
Ms. Taylor.
VICE CHAIRPERSON TAYLOR: Sure. It looks like attachment 2, page two of nine, under strategic objective, it looks look you have been moving the word "fund" after "pension" every time, except for under strategic

objective, where you said, "A key process supporting this objective..." -- oh, I went too far, sorry. "Strengthen the long-term pension fund sustainability of the system", I think is what you probably want, because you had been putting "fund" all throughout this after "pension". I don't know if you want to keep that in, you know.

CHIEF RISK OFFICER GRIMES: Would you like the language aligned with the --

VICE CHAIRPERSON TAYLOR: I think it needs to be aligned, because it looks like you changed it to be aligned all the way through the doc.

CHIEF RISK OFFICER GRIMES: Okay. Your change is noted and we can make that change to be consistent.

VICE CHAIRPERSON TAYLOR: Okay. Great. Thank you.

CHIEF RISK OFFICER GRIMES: Um-hmm.

CHAIRPERSON COSTIGAN: This is a second reading, so we need to take action on it today.

Okay.

CHIEF RISK OFFICER GRIMES: Yes.

COMMITTEE MEMBER JONES: So moved.

CHAIRPERSON COSTIGAN: All right. It's been moved by Jones.

COMMITTEE MEMBER JONES: With the changes.

VICE CHAIRPERSON TAYLOR: With the changes.

Second.

CHAIRPERSON COSTIGAN: With the changes.

Okay. Seconded by Taylor.

All those in favor?

Oh, I'm sorry. I'm so sorry. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: I'm going to vote for the policy, because I think it reflects what the Board has decided. But I think that we again need to put some emphasis on the good things we're walking away from, not just the bad things we're avoiding. But to date, I haven't convince the Board of that, so this reflects the Board's position. So I will support the motion.

Thank you.

CHAIRPERSON COSTIGAN: All right. So all those in favor?

(Ayes.)

CHAIRPERSON COSTIGAN: Opposed?

Motion carries.

Great. All right.

CHIEF RISK OFFICER GRIMES: Thank you.

CHAIRPERSON COSTIGAN: Thank you, Forrest.

Item 8a.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: 8a.

CHAIRPERSON COSTIGAN: Did I miss one? Sorry.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Nope, that's right.

CHAIRPERSON COSTIGAN: Okay. We're going to go back to the Actuarial Office. This, too, is an action item.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Yes.

CHAIRPERSON COSTIGAN: And, Scott, welcome back.

CHIEF ACTUARY TERANDO: Good afternoon, Mr. Chair and members of the Committee. Scott Terando, CalPERS team member.

Today, we're going to be presenting the State valuation along with the employer and employee contribution rates for the '17-'18 fiscal year. Joining me today is Kelly Sturm, who will be presenting the details along with -- of the State valuation.

SENIOR PENSION ACTUARY STURM: Good afternoon, Mr. Chair and members of the Committee. This agenda item is for the regular annual valuation of the State plans as of June 30th, 2016. If you'll remember in December 2016, the Board lowered the discount rate from seven and a half percent to seven percent over a three-year period.

This valuation, which produces the 2017-18 contribution rates was produced using the discount rate of 7.375.

After the discount rate change was approved, we sent out a circular letter that had projected contribution rates that used the new discount rates. For most of the plans, the recommended contribution rates are coming in lower than was projected in that circular letter, but the rates are still increasing from 2016-17 to 2017-18.

The one plan that is an exception to this was the California Highway Patrol plan. And the recommended contribution rates for that plan is higher than what was in the circular letter. The reasoning for that is because the payroll for the plan decreased slightly from 2015 to 2016, so the costs as a percentage of payroll are a little bit higher than were projected.

So the expected contributions in dollars for 2017-18 are anticipated to be around $5.9 billion. This is an increase of about 521 million from the previous year.

There's three main reasons why the costs are increasing, the first of which is the progression of the amortization basis. If you remember back to our amortization policy, we do ramp costs in over five years. So we're still ramping in some past asset losses and other costs. And these increases were expected.

Secondly, the investment return from the 2015-16 fiscal year was less than the assumed rate of return of seven and a half. So that caused an asset loss, which increases the contributions. And the last main reason for the increase in contributions is due to the discount rate change from seven and a half to 7.375.

Now, staff is recommending the rates to be adopted are on page two of the agenda item. The rates that are expected to appear in the Budget Act are expected to be a little bit higher than what is adopted by the Board. Pension reform added Government Code section 20683.2, that increased the member contribution rates for many of the State members, but also requires that the State still contribute the amount that they would have saved as an additional contribution on the unfunded liability.

These additional contributions are subject to a appropriation by the State and are not included as part the actuarially required contributions.

The impact of this additional contribution is shown on page five as a rate, and is in Attachment 5 as a dollar. So the average funded status across the plans as of June 30th, 2016 was 65.1 percent. This reflects a 4.3 percent decrease from the prior year. And the two major contributing factors to this decrease in funded status are due to the investment return from 2015-16 being less than expected, and also due to the discount rate change down to

7.375.

The unfunded liability in dollars, as of June 30th, 2015 was about 50 billion, and now that's increasing to about 60 billion as of June 30th, 2016. Also included in this agenda item is a preliminary projection of contribution rates for the future. It includes the rate increases that we're expecting due to the ramping effect of our amortization policy, as well as the anticipated cost of the next two phases of the discount rate change.

The full report is expected to be prepared and publicly available this summer, and it will include information on the assumptions and the participant data, as well as the full valuation results.

It will also include a more comprehensive projection that will include the estimated impact of the investment return as of June 30th, 2017, as well as the progression of the normal cost decrease due to new hires entering into the PEPRA formulas.

And I'd be happy to answer any questions at this time.

CHAIRPERSON COSTIGAN: You have a couple.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: The purpose of this preliminary evaluation is to set the employer rates, is that correct?

SENIOR PENSION ACTUARY STURM: Yes.

COMMITTEE MEMBER JELINCIC: Because as you're well aware, GASB says you either use the long-term bond rate or the expected return. Long-term bond rate for us is probably in 2.75, our expected return is seven -- or is 5.8. And yet, this is using a 7.375, so -- but the purpose for which it is, is to set the rate. And so I am troubled, but I will look forward to your formal evaluation where you actually put your little Hancock -- John Hancock on there saying this complies with our ethical and professional standards.

SENIOR PENSION ACTUARY STURM: Sure.

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON COSTIGAN: Anything else on this item?

Scott.

CHIEF ACTUARY TERANDO: No.

CHAIRPERSON COSTIGAN: You were looking perplexed.

All right. This is an action item, so Kelly, thank you for your presentation

VICE CHAIRPERSON TAYLOR: Move it.

COMMITTEE MEMBER JONES: Second.

CHAIRPERSON COSTIGAN: Moved by Taylor, seconded by Jones.

All those in favor?

(Ayes.)

CHAIRPERSON COSTIGAN: Opposed?

(No.)

CHAIRPERSON COSTIGAN: Motion carries.

Please note Mr. Jones -- or Mr. Jelincic voted no.

All right. Item 8b is also an action item.

CHIEF ACTUARY TERANDO: Scott Terando, CalPERS team. Item 8b is going to be presenting the schools valuation. It will be the 6/30/16 valuation. And this sets the employer and employee contribution rates for the '17-'18 fiscal year. Joining me today is Ms. May Yu, who will be presenting the details of this agenda item.

SENIOR PENSION ACTUARY YU: Thank you, Scott.

Good afternoon, Mr. Chairman, member of the Committee. My name is May Yu, CalPERS team member.

First, I would like to point to you one key difference for this valuation compared to the State. In this valuation, the discount rate used is still 7.5 percent. We'll start lowering the discount rate to 7.375 for the next valuation and gradually to seven in the 2019 valuation. This is consistent with what the Board adopted in December last career.

On page one of the agenda item, you can see all the clear results of the valuation. This is market value of asset, accrued liabilities, and unfunded liability.

The funded status for the schools pool dropped from 78 percent last year to 72 percent this year. The main reason for that is the investment return for the fiscal year '15 and '16 is less than we expected.

We asked you to adopt an employer contribution rate of 15.531 percent for the schools pool employer. This is hire than what they're paying now for the current fiscal year, and -- but less than what we projected in our last valuation.

So the reason for it's lower than the projected because the payroll increase for the schools is higher than our assumption.

Keeping in mind the key reasons for the increase of the contribution rate is the amortization policy we adopt at CalPERS, we phase in the impact of changes on the employer, either increase or decrease, over a five-year period. So in this valuation, we're still phasing in the assumption change -- 2014 assumption change what was implemented last year for the school pool. This is only the second year. We still have three more years to go, so that will continue to increase the employer rate.

And also, we have prior investment experience still factor facing into the rate. And the last is the less-than-expected investment return for the '15 and '16 year.

Overall, the dollar amount contribution for the school pool for the next year we estimate to be just over $2 billion, which is $342 million more than what we expected for the current year.

So now we're going to look ahead for what's coming next year. We're going to gradually lower our discount rate from 7.5 to 7. Because of that, our accrued liability will gradually to increase us then expected, and will further lower the funded status, and at the same time we'll see an increase in the employer contribution.

On page five of the report, you can see a preliminary estimate of what the rate is heading. Potentially you can see a 27 percent of employer contribution for the schools pool in '24-'25 fiscal year. This is when the effect of the assumption change will hit at max.

Last, I'm going to ask you to adopt the PEPRA member contribution rate of 6.5 percent for the coming fiscal year. This is 0.5 percent higher than what they're paying right now. I'm going through a little bit brief to refresh your mind of PEPRA. The PEPRA was put in for all members, new members hired after January 1st, 2013.

They're hired into the PEPRA benefit formula and they're required to pay 50 percent of the total PEPRA benefit formula's normal cost. And there's a provision that if there is normal cost -- total normal cost change by more than one percent, it will trigger a change in the employee contribution.

The change of our assumption happened last valuation almost increase the total normal cost for PEPRA formula by one percent. And the demographic shift for this valuation pushed the normal cost over the threshold. So we're asking you to adopt the 6.5 percent for our PEPRA member for the next fiscal year.

Since January 1st, 2013, there's a steady increase on the number of active PEPRA members in the school pool. As of June 30th, 2016, there are 82 -- more than 82,000 PEPRA members in that pool. So those are the members going to be affected by the increase of this contribution rate.

The change of the discount rate will have an impact for the PEPRA member's contribution rate. Using what we have now, the data that were for the past valuation, we do not expect this rate will change for a lower discount rate to 7.375 percent, and 7.25 percent.

However, when the discount rate is lowered to seven percent, we estimate that member contribution rate could be 7.25 percent. And I would like to point to you that is higher than the classic members contribution rate, which is seven percent by law.

So this conclude my presentation. I'm happy to answer any questions.

CHAIRPERSON COSTIGAN: All right. Great presentation. Just one -- and we were having a side-bar, and you may not know the answer to this, and that's okay. Are these contributions with inside of Prop 98 or are they outside of Prop 98? I believe they're inside of 98. And if you don't know, that's fine. We're just having a budget question.

Okay. That's okay. We'll move on to Mr. Jelincic. I had an easy question.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: The -- on page five of six, there's a projection of future contributions. Built into that is obviously the change in the discount rate. But is the change -- the ramping up of the other assumptions also built into that?

SENIOR PENSION ACTUARY YU: Correct.

COMMITTEE MEMBER JELINCIC: Okay. Thank you.

And then on page two, the employer normal cost is going down even though -- so can you explain why the employer normal cost is going down?

SENIOR PENSION ACTUARY YU: That, like Kelly mentioned in the State valuation result, is because the increase of PEPRA member hired into the plan has a positive impact to push down the overall total normal cost. That's why the normal cost is decreased from prior year, because we have more people as active members hired under PEPRA formula now.

COMMITTEE MEMBER JELINCIC: So as more people get lower benefits, the normal cost goes down.

SENIOR PENSION ACTUARY YU: Correct.

COMMITTEE MEMBER JELINCIC: And I will make the same observation about the discount rate, but I'll leave -- I won't repeat it.

CHAIRPERSON COSTIGAN: Ms. Taylor.

VICE CHAIRPERSON TAYLOR: So thank you very much for the report both of you. It was very good. And I would was just talking -- PEPRA, and the PEPRA employees, you said for school employees will go to 7.25 percent, their share of normal cost.

SENIOR PENSION ACTUARY YU: Using our current data and valuation, it could go to 7.25 percent when we lower the discount rate to seven percent.

VICE CHAIRPERSON TAYLOR: So around 2024 or so?

SENIOR PENSION ACTUARY YU: Oh, excellent question. I have to prepare that for the -- that will happen in -- when we do the valuation of 2019, that we'll set the rate for '20 and '21. So you're -- we're looking at in the fiscal year '20 and '21.

VICE CHAIRPERSON TAYLOR: Okay. Okay. And then -- and you said that was more than what classic employees -- school employees are currently paying?

SENIOR PENSION ACTUARY YU: Correct.

VICE CHAIRPERSON TAYLOR: Okay. And then you sort of drew a correlation for State employees, so I'm -- and I'm a State employee, so I'm going to -- I, however, am a classic employee. So where -- on State employees, where are the normal costs for the PEPRA employees about, and when do they start kicking in, because I don't think I saw that?

SENIOR PENSION ACTUARY STURM: So for the State employees, the ones that are covered under the bargaining units, the classic and the PEPRA members have the same contribution rate. The groups that are subject to the 50 percent of total normal cost are your California State University employees, and then the ones covered by, like the Senate Rules, Assembly Rules, Judicial Council.

Right now, their miscellaneous members pay six and a half percent. We have not done the analysis for the next two discount rate changes. But for the first one, it did not trigger a change, because they actually had a change last year.

There's a few in the POFF Plan as well, and I believe they're paying -- actually, that's part of the agenda item.

VICE CHAIRPERSON TAYLOR: So our PEPRA employees did not have an increase?

SENIOR PENSION ACTUARY STURM: No, not for this --

VICE CHAIRPERSON TAYLOR: All the way through?

SENIOR PENSION ACTUARY STURM: Not for the State this year. Last year, the miscellaneous had an increase from six to six and a half percent.

VICE CHAIRPERSON TAYLOR: Okay.

SENIOR PENSION ACTUARY STURM: So right now, the POFF members that are subject to that pay 11 percent.

VICE CHAIRPERSON TAYLOR: Pay 11 percent.

SENIOR PENSION ACTUARY STURM: Yes.

VICE CHAIRPERSON TAYLOR: Okay. All right. Thank you.

CHAIRPERSON COSTIGAN: Mr. Jones.

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

The outyears that you have here for '24-'25, after this is adopted, schools will know -- have this information, so they can go ahead and plan for multi-year requirements.

SENIOR PENSION ACTUARY YU: That's correct.

COMMITTEE MEMBER JONES: Okay.

SENIOR PENSION ACTUARY YU: And I want to emphasize all this is assumed there are no future gains and losses.

COMMITTEE MEMBER JONES: Okay. Right. And on the Prop 98 issue, Mr. Costigan, if the law hasn't changed, in my former job, the Prop 98 just guaranteed 40 percent of the State budget to go to education. Once the schools receive that money, they have to pay all their bills, including his.

CHAIRPERSON COSTIGAN: That's inside of 98. All right. Thank you.

COMMITTEE MEMBER JONES: I move approval.

VICE CHAIRPERSON TAYLOR: Second.

CHAIRPERSON COSTIGAN: Moved by Jones, seconded by Taylor.

All those -- further discussion?

All those in favor?

(Ayes.)

CHAIRPERSON COSTIGAN: Opposed?

(No.)

CHAIRPERSON COSTIGAN: Please note Mr. Jelincic voting no.

Okay. We covered 9a. I just want to, for the record, I did receive -- Mr. Feckner and I did receive an email from Jane Buck, whose comments very similar to the comments of the folks that came on public comment. I sent that to you. We'll make that part of the public record as well. I don't think she was able to make it, but she did take the time to email us. I just wanted to note that.

We're going to go to Item 10a, which is an information -- I'm sorry, Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: On 9, there was a legislative -- we got a handout that wasn't part of the -- it turns out it wasn't just different, it wasn't even part of the iPad. But there was a thing on legislative review, legislation. Did you have anything to add other than what's in the presentation itself?

CHIEF ACTUARY TERANDO: Not really.

COMMITTEE MEMBER JELINCIC: That's fine.

CHIEF ACTUARY TERANDO: The legislation was kind of giving the history of it. And I think that one -- I think that the highlight or the focus would have been the last section on the benefit reduction possibility where we talked -- and I think we had a pretty thorough discussion on that portion.

CHAIRPERSON COSTIGAN: And I know that you will be coming back, at some point in the future, seeing what we need to do, if there needs to be a statutory change.

CHIEF ACTUARY TERANDO: Yes.

CHAIRPERSON COSTIGAN: All right. Thank you.

All right. Item 10a, which is informational, which is back to the Financial Office.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Yes. So items 10 a through c are information, but we do request that should the Board so desire, we'd like to move them to action.

CHAIRPERSON COSTIGAN: All right. Here's what I would recommend to the Committee. We're coming up on 2 hours since our last break, I think if we're going to take an action item, we're going to need to hear them.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Okay.

CHAIRPERSON COSTIGAN: And so how much time do you think you'll need to present them.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Well, what they are is the governance items surrounding the result from the delegation, so not long at all actually.

CHAIRPERSON COSTIGAN: Okay.

COMMITTEE MEMBER JELINCIC: I would say let's just accept it as a first reading.

CHAIRPERSON COSTIGAN: Well, but they're wanting to move it to a second reading and have it done, is that right?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: We are.

CHAIRPERSON COSTIGAN: Yeah, so we're going to have to have a discussion on it. So why don't we break for 10 minutes, get everybody set, and then we will just close out these last four items, since we -- I am -- if the Board is -- or if the Committee is supportive of actually making these a second reading item, otherwise, does anybody object to eventually taking them up as a second reading?

Okay. So why don't we just break for 10 minutes. And so we'll reconvene at 4:55.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Thank you.

CHAIRPERSON COSTIGAN: Thank you.

(Off record: 4:45 p.m.)

(Thereupon a recess was taken.)

(On record: 4:55 p.m.)

CHAIRPERSON COSTIGAN: All right. If we could get set, we're going to get started in a minute.

So we'll go ahead an give folks in the back an opportunity to get back in.

All right, Mr. Lofaso. Okay. Mr. Jelincic is here. I saw Mr. Jones go in the back, so we've gut one more minute and we'll get started.

All right. We do have a quorum, so -- oh, wait a second. We have to wait one more minute. I'm sorry, because I said 4:55.

Oh, it's 4:55, we're going to reconvene.

Go ahead Marlene.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Thank you. And I thank you for indulging our request to consider this as a second reading. Agenda Item 10a is a proposed rescission of the policy for approval of reimbursement to State school and public agency employers. And this item is being presented to you in keeping with our ongoing efforts to streamline our governance processes.

And so if you recall, as part of Agenda Item 5a, the Finance and Administration delegation, we put forward to you proposals in the delegation that included some new items, one of which was new paragraph number 4. And new paragraph number 4 was the authority to do the percentage review that you do every year at this time.

And so what we've done is taken the authority that's contained in this proposal -- this policy, excuse me, and have put the authority in the delegation in one spot where your roles and responsibilities are. And now, we're asking you to move forward with a rescission of that policy.

I'll also note that we have, in terms of this specific policy, taken the operational aspects out an included them into our own operational procedure. So I will note that the work that we do does not change. We continue to do the same things that we were doing before. We're really trying to make sure that the information is contained in one document, and it's available at one source.

I would be happy to take any questions

CHAIRPERSON COSTIGAN: Ms. Taylor.

VICE CHAIRPERSON TAYLOR: Thank you. So I think this is another one. As the Board Governance Committee Chair and Vice Chair of Finance and Administration, I think this might be another thing that should probably go over to Board Governance is just my thought.

But otherwise, I think this is fine.

CHAIRPERSON COSTIGAN: So before I call on Mr. Jelincic, the -- one of the questions I have is on five of five, are we doing away with this form or are we going to continue this form?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: So for now, we are continuing to use the form.

CHAIRPERSON COSTIGAN: Okay. Because again, the only concern I have with it again is -- I've expressed before is it says, "Information contained herein had been reviewed and verified by the Board. It should just be -- I don't want to put Board staff or staff in the position. Who's verifying the information is correct, when this is being reviewed by?

I'll throw those as an open question, Ms. Montgomery.

CONTROLLER MONTGOMERY: Kristin Montgomery, CalPERS team.

There's a whole process in reviewing it. It is really the Board that -- the Board member that is putting in the time. And by their signature, they're saying that their information is accurate on the form.

CHAIRPERSON COSTIGAN: I'm sorry. I'm actually more concerned about the staff signature on the bottom right where it says, "Information contained herein have been reviewed and verified by Board Services Unit".

CONTROLLER MONTGOMERY: And then the Board Services Unit, I don't know -- my understanding is what they're doing is they're looking to make sure that if the Board member has attended the meeting, they look to say that they have attended the meeting.

CHAIRPERSON COSTIGAN: Okay. So they're verifying -- are they verifying the information as accurate?

CONTROLLER MONTGOMERY: They are just verifying the information that they can provide accurate. The attached documents that you see, one through five, that's really -- you know, they can't verify that the hours that the Board member spent what they put that detail in, but they can verify did they serve as Board President, did they serve as the Chair, and they were attending the meetings.

CHAIRPERSON COSTIGAN: Okay. I just wanted to make sure from a staff perspective that as they're attesting to this, they're just attesting to the fact the form has been completed --

CONTROLLER MONTGOMERY: That is correct.

CHAIRPERSON COSTIGAN: -- and that they're not verified --

CONTROLLER MONTGOMERy: That is correct.

CHAIRPERSON COSTIGAN: -- because that falls on the Board member.

CONTROLLER MONTGOMERY: That the form is completed correctly, yes.

CHAIRPERSON COSTIGAN: Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: This is ongoing, but I think there's real value in having policies where we specify the criteria, and the evaluation that we use to evaluate it. You know, staff can do it in their own procedures manual, but it doesn't help the public understanding what's going on. So I think keeping the policy actually has some value.

And those comments will be, for the record, repeated at every other case by saying "policy".

Thank you.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Understood.

CHAIRPERSON COSTIGAN: All right. Any other this infor -- on this item?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: No.

CHAIRPERSON COSTIGAN: All right. So this is a second reading item now. And so it is an action item.

VICE CHAIRPERSON TAYLOR: So moved.

CHAIRPERSON COSTIGAN: It's been moved by Taylor.

COMMITTEE MEMBER JONES: Second.

CHAIRPERSON COSTIGAN: Seconded by Jones.

All in favor?

(Ayes.)

CHAIRPERSON COSTIGAN: Opposed?

(No.)

CHAIRPERSON COSTIGAN: Mr. Jelincic, please record as voting no. This item passed.

10b.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Thank you. Item 10b is a proposed rescission of the delegation resolution for the discharge of accountability of uncollectible debt. This is also in keeping with our ongoing efforts to streamline governance. And in the FAC Delegation, new paragraph number 5, is the information related to this particular agenda item.

And so what we've done has taken the authority that's contained in this resolution, moved it into the delegation, and now we're asking you to rescind the delegation resolution as it relates to this particular item.

CHAIRPERSON COSTIGAN: But we're not doing away with the discharge of any debt. It's just the --

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Correct.

CHAIRPERSON COSTIGAN: Okay. Any questions?

Mr. Jelincic

COMMITTEE MEMBER JONES: Move approval.

ACTING COMMITTEE MEMBER LAWYER: Second.

CHAIRPERSON COSTIGAN: All right. It's been moved by Jones, seconded by Lawyer.

All those in --

COMMITTEE MEMBER JELINCIC: Policy.

CHAIRPERSON COSTIGAN: I'm sorry?

COMMITTEE MEMBER JELINCIC: Policy, same comment.

CHAIRPERSON COSTIGAN: Okay. All those in favor?

(Ayes.)

CHAIRPERSON COSTIGAN: Opposed?

(No.)

CHAIRPERSON COSTIGAN: Note Mr. Jelincic voting no. Thank you.

CHAIRPERSON COSTIGAN: Item 10c.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Agenda Item 10c is the proposed revision of the discharge from accountability policy. Again, this is in keeping with our ongoing efforts to streamline governance. And for this one, I will actually turn it over to Kristin to talk about.

CONTROLLER MONTGOMERY: Okay. So I'm just going to highlight some of the changes. What we did is we moved some of the -- or removing some of the operational type of detail in the policy, which is talking about what the Division Chief does, what the Assistant Chief Executive Officer does, but the intent of the policy has not changed, and the intent of the work has not changed at all.

So it still is showing that the Board's delegation and what we have to do with regards to coming to Finance and Admin Committee with regards to the 20 --

anything over 20,000.

CHAIRPERSON COSTIGAN: All right. Any questions?

Okay.

COMMITTEE MEMBER JONES: Moved.

CHAIRPERSON COSTIGAN: Okay. Moved by Jones. Seconded by?

VICE CHAIRPERSON TAYLOR: Theresa.

CHAIRPERSON COSTIGAN: Taylor.

Any further discussion?

All those in favor?

(Ayes.)

CHAIRPERSON COSTIGAN: Opposes?

(No.)

CHAIRPERSON COSTIGAN: Mr. Jelincic voting no, please.

Okay. Item 10d.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Agenda Item 10d is the semiannual health plan financial report. I feel like I should apologize to you for being last.

(Laughter.)

CHAIRPERSON COSTIGAN: Now, this is just an info -- there's no action item on this one?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Correct, this is an information item.

CHAIRPERSON COSTIGAN: Information only. Okay.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Mr. McCollum.

SENIOR LIFE ACTUARY McCOLLUM: Good late afternoon, members of the Board. I'm Gary McCollum, CalPERS team member. This is Agenda Item 10d. The semiannual health plan financial report. It is an information item. I will try to be quick. I'll only point out a couple of the things that I think you need to hear.

Attachment 1 has the summary results for the PPO plans. And the actual reserves above the required reserves are 104 million. That is -- oh, I'm sorry, the actual reserves above are 104 million. The -- all of that excess is in the Medicare plans. There is no excess in the basic plans. We will use that information as we go about setting the rates for the Medicare plans for 2018.

That is a ratio -- overall, there's a ratio of assets to reserves of 118 percent. Just for your information, at the end of 2015, the ratio was 114 percent.

Claim costs are generally favorable. Medical costs were in the low single digits for 2016. Pharmacy costs were in the mid-single digits. And total enrollment went up modestly by three and a half percent, but Medicare plans on the PPO side went up about 10,000 people or about nine percent increase.

So we'll move to the HMO plans quickly. And at the end of calendar year '16, the assets for HMO plans totaled 93.4 million, which is an increase of 23 million from the end of 2015. And there's two plans I want to talk about in the HMO side, Blue Shield and United.

You'll note on the exhibit, attachment 2, that both of those plans have negative asset balances at the end of 2016. The Blue Shield NetValue plan terminated as of 12-31-2016. We anticipate that we will have sufficient funds going forward to successfully wind down that NetValue plan, and to finish also the wind down of the Medicare plans that terminated at the end of 2015 from Blue Shield.

For United, the negative asset balance is currently improving in the new 2017 year, and we anticipate that it will continue to improve. So we do not consider that to be a area of grave concern. But we will monitor both plans as we continue, and also take into account their situation as we move along in the rate development process.

So the plans -- the HMO plans are still through 2016 exhibiting a lot of enrollment fluctuations and changes. They almost doubled their enrollment from 2015 to 2016. So it makes analysis of claims costs very difficult to interpret. But in total, the medical costs increased 5.8 percent from 2015 to 2016.

So that concludes my report. I'll answer any questions, if you have any.

CHAIRPERSON COSTIGAN: Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Attachment 2, page one of six, the negative assets.

SENIOR LIFE ACTUARY McCOLLUM: Yes, sir.

COMMITTEE MEMBER JELINCIC: You said we don't particularly have to worry about it, but where is the money going to come from to take the assets to zero?

SENIOR LIFE ACTUARY McCOLLUM: On -- taking the plans separately?

COMMITTEE MEMBER JELINCIC: Yeah.

SENIOR LIFE ACTUARY JELINCIC: So for Blue Shield to begin with?

COMMITTEE MEMBER JELINCIC. Yeah. Might as well take Blue Shield.

SENIOR LIFE ACTUARY McCOLLUM: Okay. If you turn to the next page, which is the Medicare plans --

COMMITTEE MEMBER JELINCIC: Yeah.

SENIOR LIFE ACTUARY McCOLLUM: -- you'll see that the Blue Shield Medicare plans have almost 100 million in assets.

COMMITTEE MEMBER JELINCIC: So we're going to offset.

SENIOR LIFE ACTUARY McCOLLUM: And they are essentially done with -- there's very little run-out left, maybe $100,000 or so. So there's that money available there. And the Access+ plan is looking strong, as we finish 2016 and go into 2017. So we do not anticipate any problems with winding down NetValue.

And United has continued to improve. As it went through 2016, it ended with a negative seven million, I believe. And it's improved even more in the first three months of 2017. We anticipate that to be okay too.

COMMITTEE MEMBER JELINCIC: Blue Shield has 110 in the Medicare and a negative 180 in the basic. Where is the 70 million coming from?

SENIOR LIFE ACTUARY McCOLLUM: Well, the Access+ plan has 138 million in assets.

COMMITTEE MEMBER JELINCIC: Okay. So we're going to take part of it out of the Access+. Okay. Thank you.

CHAIRPERSON COSTIGAN: Ms. Taylor.

VICE CHAIRPERSON TAYLOR: Just a quick question.

SENIOR LIFE ACTUARY McCOLLUM: Sure.

VICE CHAIRPERSON TAYLOR: I know what happened with NetValue. What happened with United, why did it go down? What happened? What was the background to that?

SENIOR LIFE ACTUARY McCOLLUM: It was a combination of a mis-estimation on their cost as they started out. They grew very quickly. They started out rather slowly in 2014, but then they -- if I remember right, I think they tripled their enrollment from '14 to '14 then double '15 to '16. And so it makes it real tough to try and get a consistent baseline when you have growth that big.

VICE CHAIRPERSON TAYLOR: Was '16 the year that they started the Medicare? Was that the year or was it '15?

SENIOR LIFE ACTUARY McCOLLUM: Sixteen was -- yeah, '16 was the year they started the single Medicare provider.

VICE CHAIRPERSON TAYLOR: And then they also made themselves available in more areas in California, correct? Is that -- or is that always -- they've always been around?

SENIOR LIFE ACTUARY McCOLLUM: I don't remember any increase in their footprint in the basic side.

VICE CHAIRPERSON TAYLOR: Okay. I just -- I was thinking maybe that had to --

SENIOR LIFE ACTUARY McCOLLUM: Their medicare plan is in all 58 counties, but their basic plan is in 19, I think, if I remember right.

VICE CHAIRPERSON TAYLOR: And that's always been the case?

SENIOR LIFE ACTUARY McCOLLUM: Yes.

VICE CHAIRPERSON TAYLOR: Okay. I thought maybe that had something to do with it. Okay. Thank you.

SENIOR LIFE ACTUARY McCOLLUM: Okay.

CHAIRPERSON COSTIGAN: Okay. I think we have come -- unless, there are no questions, we've come to the end of the agenda.

Ms. Frost, is there anything you want to say or we're good? Make sure you had no comments or anything.

Any other Board members before we go to our closing.

All right. I know this has been a long meeting. We actually -- it was a very emotional day. And then a very structured day, so it's been a long day. So why don't we go through very quickly Board direction, at least what you have. So, Marlene, you want to start. And yes, I'm giving you the eye for us to have the conversation.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Summary of Committee Direction. I have two items, look at mortality load to determine whether seven percent is the right level. And the second item I have is more detail around the IT report.

VICE CHAIRPERSON TAYLOR: For May, right?

CHAIRPERSON COSTIGAN: For May.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: For May, correct.

CHAIRPERSON COSTIGAN: And that's both for Mr. Jelincic and for Mr. Gillihan.

COMMITTEE MEMBER JELINCIC: That's related to both the quarterly IT report and the budget, more detail on the IT stuff.

CHAIRPERSON COSTIGAN: Correct.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Okay. So say that again about the budget.

CHAIRPERSON COSTIGAN: More detail, similar to the -- Doug -- Mr. Hoffner knows.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Okay.

CHAIRPERSON COSTIGAN: The one that's contractors, technology and personnel, that chart.

Okay. What else have you got?

We had a few more things.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Okay.

CHAIRPERSON COSTIGAN: We were going to revisit the -- I think, Mr. Slaton at some point, we're going to need to revisit the 107. We have not updated that.

VICE CHAIRPERSON TAYLOR: No, that's what she said.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: That was the first item.

CHAIRPERSON COSTIGAN: Oh, I'm sorry.

Since 1982. So we need to go back and revisit that. I'm trying to look at my notes.

Anything else, Ms. Taylor?

VICE CHAIRPERSON TAYLOR: That's all I can remember.

CHAIRPERSON COSTIGAN: Did I -- anything else?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: The only other item I had written down which I think is taken care of is the PRA requests for the East San Gabriel members.

CHAIRPERSON COSTIGAN: Yes. Mr. Pacheco is taking care of that.

All right. With that, thank you all for a very long day. I appreciate the hard work.

We're adjourned.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Thank you.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Finance & Administration Committee meeting adjourned at 5:11 p.m.)

C E R T I F I C A T E O F R E P O R T E R

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

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 24th day of April, 201

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