MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

OPEN SESSION

ROBERT F. CARLSON AUDITORIUM

LINCOLN PLAZA NORTH

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SACRAMENTO, CALIFORNIA

WEDNESDAY, MAY 17, 2017

9:00 A.M.

JAMES F. PETERS, CSR
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A P P E A R A N C E S   C O N T I N U E D

STAFF:

Mr. Brad Pacheco, Deputy Executive Officer

Mr. Scott Terando, Chief Actuary

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

Ms. Mary Anne Ashley, Chief, Legislative Affairs Division

Ms. Kara Buchanan, Board Secretary

Mr. Christian Farland, Chief, Technology Business
Management Division

Mr. Ron Hurle, Acting Chief Information Officer

Ms. Andrea Spears, Assistant Division Chief, Technology
Business Management Division

Mr. Anthony Suine, Chief, Benefit Services Division

Mr. Timothy Taylor, Chief, Enterprise Solutions
Development Division

ALSO PRESENT:

Mr. Jim Auck, Corona Police Officers Association

Mr. Chirag Shah, Shah & Associates
(via teleconference)

Mr. Bryan Snow, Corona Police Officers Association

Ms. Martha Turner, Fossil Free California

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

2   PRESIDENT FECKNER: Good morning. We'd like to

3   call the Board of Administration meeting to order. Thank

4   you all for being here.

5   The first order of business will be to call the

6   roll please.

7   BOARD SECRETARY BUCHANAN: Good morning.

8   PRESIDENT FECKNER: Morning.

9   BOARD SECRETARY BUCHANAN: Rob Feckner?

10   PRESIDENT FECKNER: Good morning.

11   BOARD SECRETARY BUCHANAN: Henry Jones?

12   VICE PRESIDENT JONES: Here.

13   BOARD SECRETARY BUCHANAN: Jeree Glasser-Hedrick

14   for John Chiang?

15   ACTING BOARD MEMBER GLASSER-HEDRICK: Good

16   morning.

17   BOARD SECRETARY BUCHANAN: Richard Costigan?

18   BOARD MEMBER COSTIGAN: Here.

19   BOARD SECRETARY BUCHANAN: Richard Gillihan?

20   BOARD MEMBER GILLIHAN: Here.

21   BOARD SECRETARY BUCHANAN: Dana Hollinger?

22   BOARD MEMBER HOLLINGER: Here.

23   BOARD SECRETARY BUCHANAN: J.J. Jelincic?

24   BOARD MEMBER JELINCIC: Here.

25   BOARD SECRETARY BUCHANAN: Ron Lind?

1   BOARD MEMBER LIND: Here.

2   BOARD SECRETARY BUCHANAN: Priya Mathur?

3   BOARD MEMBER MATHUR: Good Morning.

4   BOARD SECRETARY BUCHANAN: Good morning.

5   Bill Slaton?

6   BOARD MEMBER SLATON: Here.

7   BOARD SECRETARY BUCHANAN: Theresa Taylor?

8   BOARD MEMBER TAYLOR: Here.

9   BOARD SECRETARY BUCHANAN: And Lynn Paquin for

10 Betty Yee?

11   ACTING BOARD MEMBER PAQUIN: Here.

12   PRESIDENT FECKNER: Thank you.

13   Next order of business will be the Pledge of

14 Allegiance. I've asked Board Member Lind to please lead

15 us in the Pledge.

16   If you will all please rise.

17   (Thereupon the Pledge of Allegiance was

18   Recited in unison.)

19   PRESIDENT FECKNER: Well, again good morning,

20 everyone.

21   And Item 3 is the President's Report.

22   I'd like to begin by saying that 10 months out of

23 the year we gather here in Sacramento for three days to

24 receive reports and take action from the CalPERS team.

25 During this time we have discussion and debates on

1   decision before our committees and this Board, and we hear

2   from our stakeholders on what's important to them.

3   You might ask yourself how the members of this

4   Board spend their time between meetings. So I'd like to

5   share a few thoughts as my part of the President's Report.

6   Like you, each of us carries out our daily lives;

7   and many of us have full-time jobs in addition to our work

8   here at CalPERS. But there is one thing we all have in

9   common: We spend countless hours talking about CalPERS,

10   the work we do, and why we believe all workers deserve

11   financial security in their retirement.

12   We talk about the challenges we face and what

13   CalPERS is doing to address them, so that we can continue

14   to pay the benefits that our members have been promised.

15   We do this before our valued stakeholders up and down the

16   State to assure that our members and our employers know

17   that this Board is committed to the long-term

18   sustainability of this system.

19   To give you an idea how we've been engaging our

20   stakeholders, over the past six weeks alone various Board

21   members have attended four CalPERS Benefit and Education

22   events, seven Retiree Council meetings, five Active Member

23   meetings, and four Regional Fire Department meetings.

24   We also dedicate ourselves to continued learning

25   about the financial markets, risk management, health care

1   trends, and environmental sustainability so we can

2   continue to make well-informed decisions. Since

3   March 1st, Board members have attended 13 conferences; a

4   total of 18 have been in attendance. 11 of us attended

5   last week's Diversity and Inclusion Conference put on by

6   CalPERS and CalSTRS. That is all important work. We face

7   headwinds when it comes to the cost of pensions, the

8   investment outlook over the next decade, and drug costs,

9   to name just a few of the challenges. And of course

10   there's no shortage of defined benefit doubters that would

11   like to CalPERS fail at the cost of retirement security

12   for public employees.

13   As President, I think I can speak for everyone on

14   this Board when I say that we take our role and fiduciary

15   responsibility to heart. While our perspective during

16   Board week may be generations out, our focus the other 27

17   days of the month is on building a strong financial

18   foundation for today.

19   I want to thank my colleagues on this Board for

20   their dedication. The countless hours they put into their

21   roles as fiduciaries of this system and the work they do

22   on behalf of our 1.8 million members and their families

23   daily.

24   Now, with that I want to offer that coming in

25   June it's going to be CalPERS night at the River Cats. So

1 a night so we can get out and enjoy each other's company

2 outside of the board room. It's going to be Tuesday, June

3 20th. Gates will be open at 6 p.m. The game starts at 7.

4 Our own CalPERS Patriot Chorus will be singing the

5 National Anthem that night. So hope to see many of our

6 CalPERS team members and our Board members out enjoying a

7 nice event at the ballpark that night.

8   So with that, I see Mr. Jelincic has a comment.

9   Mr. Jelincic.

10   BOARD MEMBER JELINCIC: Yeah, I'd like a point of

11 personal privilege.

12   PRESIDENT FECKNER: Certainly.

13   BOARD MEMBER JELINCIC: Joseph McCarthy had Roy

14 Cohn and his secret lists of commies in the State

15 Department.

16   Bill Slaton has Matt Jacobs and his secret list

17 of charges.

18   I have my own secret file, and I'm going to share

19 some of it with you today.

20   When Jon Ortiz left the Sacramento Bee, it was a

21 great loss to the paper. Here I have a reprint of his

22 article from December 28th, 2013, entitled "Securities and

23 Exchange Commission looking into CalPERS stock purchases."

24   What's really amazing about this story is that

25 Mr. Slaton, Jacobs, and Feckner all believe it was based

1 on my March 14, 2016, comments during an open Investment

2 Committee.

3   Who knew Jon was a time traveler. How did these

4 gentlemen figure it out? Why do I believe they think

5 that? I can't tell you. The belief is based on a super

6 secret document. If I told you, I would undoubtedly be

7 sent to yet another training.

8   On the other hand, Bill Slaton could actually

9 come up with charges. If he did so and would make those

10 charges public, just like he did in his demand for my

11 resignation, I would have the ability to offer a public

12 defense. I think it is called transparency.

13   Thank you.

14   PRESIDENT FECKNER: Thank you.

15   Agenda Item 4 - Chief Executive Officer Report.

16   Item 4a. Ms. Frost.

17   CHIEF EXECUTIVE OFFICER FROST: Good morning,

18 Mr. President and members of the Board. This morning I'll

19 update you on some of our important current priorities,

20 our ongoing outreach activities, and then take a little

21 bit of time to do some employee recognition.

22   And I would like to start off with some good

23 news. And you heard this on Monday in the Investment

24 Committee meeting. The Investment team shared the newest

25 analysis from CEM Benchmarking of our efforts to reduce

1 costs and add value to the fund.

2 This measurement is only one indicator of

3 performance that we use and furthers our commitment to

4 transparency of the costs that we pay externally.

5 The efforts are part of INVO's 20-20 Vision to

6 streamline the portfolio by reducing costs and complexity,

7 cutting manager fees, and increasing the use of our

8 internal team members to further reduce costs.

9 The survey also showed that our Investment team

10 has been able to reduce their operating budget by $402

11 million since the 2010-2011 fiscal year.

12 While those numbers are impressive, I'm

13 particularly pleased with how well we measure up against

14 our peers who report the same data that we do into CEM.

15 The survey says we are cost advantaged compared to our

16 peers. But I would rather just say that we're striving to

17 be as efficient as possible while also increasing the

18 capabilities and utilizing our own team members.

19 You can see the results of that effort in CEM's

20 conclusion that the cost to manage the CalPERS fund -- or

21 the portfolio was 32.5 basis points compared to the CEM

22 benchmark costs which would have been 42 basis points.

23 Again, this is based on the set of activities determined

24 by CEM Benchmarking out of Toronto, Canada.

25 The benchmark also tells us that we're on the

1   right track to running our operations efficiently and

2   effectively compared to what it would cost others to

3   achieve the same results.

4   Now on to our Finance and Administration

5   Committee, where yesterday you heard from our financial

6   team on the employer partner financial health reports.

7   And you will be receiving these reports each quarter, and

8   they closely monitor the status of our participating

9   employers.

10   As you know, the goal is to provide support

11 through education and outreach to help ensure that pension

12 contributions are paid on time; not only the

13 contributions, but also the data.

14   These quarterly reports will highlight proactive

15 work that the team is doing to make sure that we keep the

16 issue in front of us and, more importantly, we keep the

17 issue in front of our members.

18   We will be placing an employer contribution

19 report on our website as one additional step around

20 transparency. I know we have a lot of active partners

21 with our stakeholder groups who will now have access -- or

22 not yet, but will have access within the next couple of

23 months where they can go out and proactively look at

24 employer contributions, the timeliness of that reporting.

25   Turning now to health rates. On yesterday the

1 Pension and Health Benefits Committee heard a presentation

2 on the 2018 health rates. As you know, these are

3 preliminary rates that are still subject to ongoing

4 negotiation. And we certainly heard your feedback

5 yesterday, and will convey those comments to the health

6 plans as we continue our negotiations.

7 And overall I do think they reflect a great

8 effort to contain costs and keep and sustain the quality

9 health care that we've been providing to our members and

10 employers. We do still have one more month to continue

11 the negotiations before the 2018 health rates will be

12 brought back to you next month.

13 While I'm speaking of health I'm pleased to let

14 you know that Liana Bailey-Crimmins has been selected as

15 our new Chief Health Director. She's right behind me, I

16 believe.

17 Liana has been serving in the interim role since

18 December, and immediately in that capacity I think put her

19 successful style of leadership into play and has led our

20 teams through the health rates process.

21 As the Chief Information Officer in her former

22 role in our IT Branch, Liana's service over the years has

23 been invaluable in helping us advance our technology goals

24 as well. And I'm confident that her strong administrative

25 background and leadership skills will serve the

1 organization quite well as we focus on the future cost and

2 quality of health care.

3   Please join me in congratulating Liana on her new

4 position.

5   (Applause.)

6   CHIEF EXECUTIVE OFFICER FROST: And then on

7 another executive recruitment front, interviews have begun

8 for our Chief Financial Officer; and I will keep you

9 posted as that process continues over the next month.

10   We have spent some time talking about the

11 diversity forum over the course of the last two days. But

12 last week CalPERS and CalSTRS did jointly host the 2017

13 Diversity Forum, which brought together members of the

14 investment and business communities from across the

15 country.

16   And it was great to see many of you in

17 attendance, so thank you for that. The day was filled

18 with thoughtfully arranged panel discussions on a broad

19 range of topics addressing diversity and inclusion in the

20 workplace.

21   There were also two meaningful keynote speakers

22 who helped us better understand the role diversity plays

23 in the corporate world: Helena Morrissey, whose efforts

24 to increase the number of women in Board rooms have really

25 earned her worldwide acclaim; and then John Thompson, who

1 is the chair of the Microsoft board. And I think their

2 insights and their observations helped showcase why it's

3 so important that we continue to discuss and support this

4 issue. As you well know, CalPERS has long been an

5 advocate of diversity and inclusion in the businesses that

6 we're involved in; and we believe it does lead to stronger

7 financial performance.

8 The forum was well attended, and I think it was

9 very well organized, and our teams came back with new

10 information on how to advance our work in this important

11 area on human capital.

12 And I'd like to thank the Investment Office and

13 our Strategic Events management and Public Affairs teams

14 for all of their hard work in putting the event together.

15 And many of you may have noticed the Seahawk

16 colors that were in --

17 (Laughter.)

18 CHIEF EXECUTIVE OFFICER FROST: Sorry.

19 (Laughter.)

20 CHIEF EXECUTIVE OFFICER FROST: I couldn't

21 resist. It's what I first noticed when I walked in the

22 room.

23 (Laughter.)

24 CHIEF EXECUTIVE OFFICER FROST: So on to

25 editorial board visits. As I mentioned last month, we

1 have begun meeting with the media organizations around the

2 State. And we will continue that effort tomorrow with

3 visits to two more newspaper editorial boards, the San

4 Francisco Chronicle and the East Bay Times.

5   And I think, you know, it's an opportunity and

6 I'm pleased to be able to meet with these boards because

7 we do have a great story to tell about the importance of

8 defined benefit plans as they relate to financial security

9 and retirement. But it's also this organization's focus

10 on ensuring that this fund is available to generations to

11 come. And there's a great story to tell there.

12   I also had an opportunity to visit our regional

13 office in San Jose, which was really quite fun. It's

14 really an honor and a pleasure to watch our customer

15 service teams in action. And I know many of the Board

16 members have been out to some of the service locations as

17 well and have seen the things that I've seen.

18   The ease and skill with which these teams, who

19 directly interact with our customers -- they share a very

20 deep level of knowledge about the system and have become

21 really these trusted advisors to the members and the

22 customers as they're getting ready for their own

23 retirement.

24   I would say they're highly engaged. And at least

25 the interactions that I've been having with them, they're

1   very candid about what's working well and opportunities

2   where we could possibly make their jobs a little bit

3   easier.

4   And finally this morning I'd like to end with a

5   moment of employee recognition. This is the time of year

6   when we announce the recipients of the annual CalPERS APEX

7   awards. And APEX stands for achieving performance

8   excellence.

9   It is a formal awards that celebrates employees

10 who go above and beyond to embody our core values and

11 display a commitment to the CalPERS overall strategic plan

12 and our success.

13   One of the special I think aspects of this

14 program is it -- it is a peer-to-peer recognition. So

15 they are nominated by their teammates, their peers, who

16 work with them. And not only have the colleagues taken

17 notice of their outstanding performance; they have divided

18 the time -- devoted the time to prepare what I think is a

19 very extensive nomination packet to be considered -- to be

20 considered. So truly peer driven and the recipients of

21 this year's awards should feel proud of this work.

22   In a couple of weeks we will honor the 53 APEX

23 recipients at a ceremony here in the Auditorium, which is

24 traditionally well attended by family -- family members

25 and friends of the award recipients.

1   And so I'd like to take a moment now to celebrate

2   their accomplishments and ask them all to stand and be

3   recognized.

4   (Applause.)

5   CHIEF EXECUTIVE OFFICER FROST: So

6   congratulations again on behalf of all of us here today.

7   And that does conclude my remarks for this

8   morning, Mr. President.

9   PRESIDENT FECKNER: Thank you, Ms. Frost.

10   On behalf of the Board, I want to congratulate

11 all the APEX recipients, and thank you for all the work

12 you did on behalf of our members every day. So

13 congratulations.

14   Leads us to Agenda Item 4b - Chief Investment

15 Officer's Report.

16   Mr. Eliopoulos.

17   CHIEF INVESTMENT OFFICER ELIOPOULOS: Good

18 morning, Mr. President, members of the board. I have a

19 brief update on the performance of the Public Employees'

20 Retirement Fund as of March 31, 2017.

21   The Total Fund performance for the fiscal year to

22 date is 8.0 percent. As we discuss often times, we prefer

23 to examine returns over a much longer period of time, as

24 they -- as we believe they are much more meaningful.

25   In that regard, the three-year return of the fund

1 is 5.2 percent. The five-year -- did I say the three --

2 the three-year return is 5.2 percent.

3   The five-year return is 8 percent. The 10-year

4 return of the Total Fund is 4.6 percent; and the 20-year

5 return of the Total Fund is 7 percent.

6   All asset classes are within their ranges. Total

7 Fund assets are valued as of March 31st at $314.7 billion

8   Mr. President, that is my update.

9   PRESIDENT FECKNER: Thank you.

10   Seeing no requests to speak.

11   Brings us to Agenda Item 5 - Consent Calendar.

12   I see we have two action items.

13   What's the pleasure of the Board?

14   BOARD MEMBER JELINCIC: So move.

15   PRESIDENT FECKNER: I have Mr. Jelincic moving.

16   BOARD MEMBER MATHUR: Second.

17   PRESIDENT FECKNER: Ms. Mathur seconding.

18   Any discussion on the motion?

19   Seeing none.

20   All in favor say aye.

21   (Ayes.)

22   PRESIDENT FECKNER: Opposed, no.

23   Motion carries.

24   Item 6 is the Consent Information Items.

25   I have no request to move any of those items.

1   We'll move on to Item 7.

2   7a is the Investment Committee Report.

3   For that I call the Chair, Mr. Jones.

4   VICE PRESIDENT JONES: Thank you, Mr. President.

5   The Committee met on May the 15th, 2017. The

6   Committee received reports on the following topics:

7   Proposed changes to the Private Asset Class roles

8   and benchmarks; proxy voting activity during the first

9   quarter of 2017; progress on shareowner campaigns and

10   ongoing corporate engagement work; the Investment Office's

11   cost effective strategic objective; the Investment Office

12   Roadmap and Target Operating Model, TOM.

13   The Chair directed staff to do the following:

14   Consider the governance and investment

15   implications of master limited partnerships and provide a

16   summary of the findings at a future meeting;

17   Provide the Committee with a link to the UN

18   Global Principles and provide the Committee with a link to

19   the full CEM report.

20   The Committee heard a public comment on private

21   equity fees and expenses, CalPERS leadership in policy

22   voting -- proxy voting and corporate governance, the value

23   of transparency and reporting private equity fees, and the

24   impact of divestment on fund returns.

25   And by the way, subsequent to the meeting I also

1 asked staff -- since one of the public speakers indicated

2 that the Chair had requested some information but had not

3 received that information, and subsequently we noted that

4 we had received that information, so I asked staff to also

5 provide that information to the Investment Committee.

6   At this time I would like to share some

7 highlights of what to expect at the June Investment

8 Committee meeting.

9   Investment managers engagement program update,

10 CalPERS for California Report 2016, and the adoption of

11 capital markets assumptions.

12   The next meeting of the Investment Committee is

13 scheduled for June 19, 2017, in Sacramento, California.

14   And that concludes my report, Mr. President.

15   PRESIDENT FECKNER: Thank you, Mr. Jones.

16   Mr. Jelincic.

17   BOARD MEMBER JELINCIC: Henry, on your staff

18 direction --

19   VICE PRESIDENT JONES: Yes.

20   BOARD MEMBER JELINCIC: -- you pointed out that

21 you wanted consideration of governance investment

22 implications of master limited partnership. But I think

23 it was larger. It was all of the securities with

24 non-voting or multi-class votings.

25   VICE PRESIDENT JONES: Yeah, I will follow up

1   with staff on that.

2   BOARD MEMBER JELINCIC: Okay.

3   PRESIDENT FECKNER: Thank you.

4   Brings us to Agenda Item 7b, Pension and Health

5   Committee.

6   For that I call on Chair Ms. Mathur.

7   BOARD MEMBER MATHUR: Thank you very much,

8   Mr. President.

9   The Pension and Health Benefits Committee met

10 yesterday on May 16th, 2017. The Committee received

11 several information reports. The first, Customer Services

12 and Support Performance Update, which presented the state

13 of the customer experience and reported on our successes

14 and several of the initiatives being untaken to enhance

15 customer service.

16   This update also discussed the exceptions that

17 fell below the strategic measure threshold; for example,

18 survivor benefit payments, the IRC replacement benefit

19 plan and service credit purchasing; and the reasons why

20 these exceptions occurred. Donna Lum, Deputy Executive

21 Officer of Customer Services and Support, attended the CEM

22 annual benchmark conference last week. CalPERS has been

23 selected to participate on a new steering committee. And

24 Ms. Lum will be the delegate representing CalPERS.

25   The public comment period for the draft

1   regulations on pensionable comp ends on June 5th, 2017,

2   with the final regulation package due in August.

3   Liana Bailey-Crimmins, Chief Health Director,

4   reported out on updates for OptumRx, the Affordable Care

5   Act, and health care beliefs. OptumRx continues to make

6   progress improving the customer -- excuse me -- improving

7   the member experience.

8   On April 17th of this year, the CalPERS team

9   visited the Costa Mesa Center. And OptumRx has expanded

10   the number of sites that members can visit for pharmacy.

11   They've also put a prior authorization-directed team in

12   place.

13   The Affordable Health Care Act is now at the

14   Senate level. And regarding the health care beliefs, a

15   visit was made to Butte County, and they are providing

16   feedback, and we are also soliciting feedback from all of

17   our stakeholders, both employers and members.

18   Within the next 30 days roundtable discussions

19   with stakeholders will be done along with surveys. And

20   this will be presented to the Committee at the July

21   off site with some straw person beliefs to be voted on. A

22   straw poll kind of thing.

23   We also addressed the preliminary 2018 health

24   rates and contracts. And this information item presented

25   information regarding the preliminary unadjusted and

risk-adjusted health benefit plan rates. As noted by our

CEO, we expect that to change by June.

With respect to medical and pharmacy benefit

strategies, staff presented -- the team presented

information concerning potential medical benefit and

pharmacy benefit strategies for the self-funded PPO,

including adding 12 procedures to our value-based

purchasing design; also adding a site-of-care management

program for medical-pharmacy, which should help contain

costs while delivering excellent value to our members; and

adding an educational program designed to reduce the

unnecessary use of emergency rooms, a persistent issue as

was noted by a public speaker yesterday. Continuing the

Castlight tool and expanding Welvie tool and adding the

SilverSneakers program will also continue to add benefits

to our members.

The pharmacy benefit strategies for 2019 and

2022, which are already under development, were also

discussed yesterday.

The Committee received some public comment, first

from Al Darby at RPEA; from Donna Snodgrass at RPEA; from

^^Neal Johnson, SEIU 1000; and from Tim Behrens, CSR,

regarding various agenda items.

The Chair directed staff to provide context and

assist with decision making with respect to impacted

1   members on future benefit design agenda items and to

2   provide a little bit of additional information about not

3   just the dollars but also the number of members impacted.

4   At this time let me share a few highlights from

5   what we'll take up in June. Of course, we will approve

6   hopefully the 2018 health benefit rates. We will also

7   review the medical and pharmacy benefits and the medical

8   coverage areas. We will also review the long-term care

9   contract. And the Committee will hear information on the

10   Transition Care Program pilot, spousal subsidy, and the

11   State annuitant contribution formula.

12   The next meeting of the PHBC is scheduled for

13   August -- scheduled for June in Sacramento, California.

14   That concludes my report, Mr. President.

15   PRESIDENT FECKNER: Thank you.

16   Brings us to Agenda Item 7c - Finance and

17   Administration. For that, I call on the Chair,

18   Mr. Costigan.

19   BOARD MEMBER COSTIGAN: Thank you, Mr. Feckner.

20   The Finance and Administration Committee met on

21   May 16th, 2017.

22   The Committee recommends, and I move, the Board

23   approve the following: Agenda Item 5a, which is to

24   approve the fiscal year 2017-18 annual budget proposal as

25   a second reading in the amount of $1,676,403,000 and 2,875

1   positions and approve the transmittal of this agenda item

2   to the Joint Legislative Budget Committee, fiscal

3   committees of the legislature in accordance with the

4   Budget Act of 2016.

5   PRESIDENT FECKNER: On motion by Committee.

6   Any discussion on the motion?

7   Seeing none.

8   All in favor say aye.

9   (Ayes.)

10   PRESIDENT FECKNER: Opposed, no.

11   Motion carries.

12   BOARD MEMBER COSTIGAN: Agenda item 6a - approve

13 the proposed amendments to the Treasury Management Policy

14 as part of the annual review required by the policy.

15   PRESIDENT FECKNER: On motion by Committee.

16   Any discussion on the motion?

17   Seeing none.

18   All in favor say aye.

19   (Ayes.)

20   PRESIDENT FECKNER: Opposed say no.

21   Motion carries.

22   BOARD MEMBER COSTIGAN: Agenda item 6b, to

23 approve the proposed amendments to the Treasury Management

24 Reserve Policy as part of the annual review required by

25 the policy.

1   PRESIDENT FECKNER: On motion by Committee.

2   Any discussion on the motion?

3   Seeing none.

4   All in favor say aye?

5   (Ayes.)

6   PRESIDENT FECKNER: Opposed, say no?

7   Motion carries.

8   BOARD MEMBER COSTIGAN: Let me just state it

9 quickly, I do want to thank the Budget staff. Again, I

10 think, Mr. Feckner, as you've said before, great work.

11 Once again, fourth year in a row the costs have gone down

12 and we've continued to increase the amount of information

13 that's available.

14   The Committee received reports on the following

15 topics: Participating public agency employer

16 demographics, general information on funded status as well

17 as information on employers with inactive rate plans, the

18 annual stakeholder perception survey report. And then the

19 Chair directed staff to revise the April 18, 2017, meeting

20 minutes to reflect that Mr. Jelincic receives 100 percent

21 reimbursement because he is a CalPERS employee. And as

22 Mr. Jelincic will say, he would get paid regardless,

23 whether he was on the Board or was an employee.

24   Refine the funded status breakdown to include

25 increments of 10 percent number of employees as well as

1   rate plan types. Survey employer and employee

2   stakeholders about their views on when members retirees

3   should be contacted in the collection process. And in

4   June we're going to bring back -- staff is going to bring

5   back options for potential action on management neutrality

6   for employee union organizing activities in contracts.

7   The Committee heard public comment on the

8   following topics: Reporting on participating employers in

9   contract language on management neutrality for employee

10   union organizing activities.

11   At this time I would like to share some

12   highlights of what to expect at the June Finance and

13   Administration Committee meeting. Staff will provide the

14   Committee with options to consider in pursuit of contract

15   language on management neutrality for employee union

16   organizing activities.

17   The next meeting of the Finance and

18   Administration Committee is scheduled for June 20th, 2017,

19   in Sacramento.

20   Thank you, Mr. Feckner. That's my report.

21   PRESIDENT FECKNER: Thank you.

22   Ms. Mathur.

23   BOARD MEMBER MATHUR: Thank you.

24   I just wanted to note, yesterday at the Committee

25   the annual stakeholder perception survey was presented,

1 and we didn't get a lot of time to talk about that

2 particular item. But I just want to note what remarkable

3 scores we have on customer service. And that's the result

4 not just of the dedication of our team, which it certainly

5 is, but also all of the efforts that CalPERS has

6 undertaken to improve, refine, focus our efforts on

7 delivering truly excellent best-in-class customer service.

8 And you can see that we have scores that I think are

9 really unheard of in the private sector.

10   So I just wanted to make a special note of that.

11   Thank you.

12   PRESIDENT FECKNER: Thank you.

13   Mr. Costigan, did you have something else?

14   BOARD MEMBER COSTIGAN: No, in case she had a

15 question.

16   PRESIDENT FECKNER: Thank you.

17   All right. Brings us to Item 7D, E, and F.

18 There were no committees meeting, so no report.

19   Item 8 - Approval of Committee Delegations.

20   Mr. Jacobs.

21   GENERAL COUNSEL JACOBS: Good morning, President

22 Feckner and Board members.

23   This item gathers together all of the recommended

24 changes to committee delegations that the various

25 committees have reviewed and approved - or recommended, I

1   should say - to this Board over the last several months

2   for Board approval. The substantive changes have been

3   laid out in the agenda item. There are some

4   non-substantive changes that have been -- that are laid

5   out in the red-lined exhibits that are attachments to the

6   agenda item. And this is an action item.

7   And with that, I would take any questions.

8   PRESIDENT FECKNER: What's the pleasure of the

9   Board?

10   BOARD MEMBER LIND: Move adoption.

11   BOARD MEMBER COSTIGAN: Second.

12   PRESIDENT FECKNER: Moved by Lind, seconded by

13 Costigan.

14   Any discussion on the motion?

15   Seeing none.

16   All in favor say aye.

17   (Ayes.)

18   PRESIDENT FECKNER: Opposed say no.

19   Motion carries.

20   Item 9 - Proposed Decisions of Administrative Law

21 Judges.

22   I will say that Chirag Shah, the Boards

23 independent counsel for administrative law matters, is on

24 the line.

25   Good morning, Mr. Shah.

1   MR. SHAH: Good morning, Mr. President and

2   members of the Board.

3   PRESIDENT FECKNER: It's good to have you with

4   us.

5   So if there's any questions, Board members,

6   Mr. Shah is here to help us and lead us through that.

7   Mr. Jones.

8   VICE PRESIDENT JONES: Yeah, thank you,

9   Mr. President.

10   I move to adopt the proposed decisions at agenda

11   items 9a and 9c through 9o, with the minor modifications

12   argued by staff to agenda item 9e and 9i; and remand

13   agenda item 9b for the taking of additional evidence

14   regarding, A, whether the members' actual job duties

15   constitute their own group or class of employment or,

16   alternatively, B, whether members' classification should

17   determine whether the pay at issue meets the definition of

18   holiday pay under PERL Regulation 57185.

19   PRESIDENT FECKNER: All right. On the motion, is

20   there a second?

21   BOARD MEMBER GILLIHAN: Second.

22   PRESIDENT FECKNER: Moved by Jones, seconded by

23   Gillihan.

24   Seeing any requests on the motion?

25   Seeing none.

1   All in favor say aye.

2   (Ayes.)

3   PRESIDENT FECKNER: Opposed, no.

4   Motion carries.

5   Item 10. Mr. Jones.

6   VICE PRESIDENT JONES: Yeah, thank you,

7   Mr. President.

8   I move to deny the petitions for reconsideration

9   on agenda items 10a through 10d.

10   PRESIDENT FECKNER: On motion by Jones.

11   Is there a second?

12   BOARD MEMBER HOLLINGER: Second.

13   PRESIDENT FECKNER: Seconded by Hollinger.

14   Any discussion on the motion?

15   Seeing none.

16   All in favor say aye.

17   (Ayes.)

18   PRESIDENT FECKNER: Opposed say no.

19   Motion carries.

20   Thank you, Mr. Shah.

21   Mr. SHAH: Thank you, sir. Have a good day.

22   PRESIDENT FECKNER: You too.

23   Brings us to Agenda Item 11, IT Governance

24   Overview.

25   Mr. Hoffner, et al.

1   (Thereupon an overhead presentation was

2   Presented as follows.)

3   DEPUTY EXECUTIVE OFFICER HOFFNER: Thank you, Mr.

4   Feckner - Doug Hoffner, CalPERS team member - and Board of

5   Administration. I'm going to let the team introduce

6   themselves and present this presentation on IT Governance

7   Enterprise projects, and look forward to the presentation,

8   along with the program team members.

9   ACTING CHIEF INFORMATION OFFICER HURLE: Good

10 morning, Mr. President, members of the Board. Ron Hurle,

11 Team CalPERS. We're here to give you an exciting tour on

12 IT governance and project management. And before we get

13 started I'd like the team to introduce themselves. And

14 we'll start with Andrea.

15   It's an IT thing.

16   (Laughter.)

17   ACTING CHIEF INFORMATION OFFICER HURLE: These

18 bells and whistles.

19   TECHNOLOGY BUSINESS MANAGEMENT DIVISION ASSISTANT

20 CHIEF SPEARS: Good morning, President, members of the

21 Board. My name is Andrea Spears, CalPERS team member.

22 And I am the Assistant Division Chief of Technology

23 Business Management Division and I oversee project

24 oversight, governance, and the more senior project

25 managers who oversee our enterprise level projects.

1   TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF

2 FARLAND: Good morning, Mr. President, members of the

3 Board. I'm Christian Farland. I'm the Chief of

4 Technology Business Management Division.

5   BENEFIT SERVICES DIVISION CHIEF SUINE: Good

6 morning, Mr. President, members of the Board. I'm Anthony

7 Suine, CalPERS team member, co-sponsor of Functional

8 Optimization Project with Tim, and chairman of the

9 my|CalPERS Steering Committee.

10   ENTERPRISE SOLUTIONS DEVELOPMENT DIVISION CHIEF

11 TAYLOR: Good morning. Timothy Taylor, Chief of

12 Enterprise Solutions Development Division within IT. And

13 as Anthony mentioned, I'm the IT counterpart on the

14 Functional Optimization Project.

15   PRESIDENT FECKNER: Welcome.

16   ACTING CHIEF INFORMATION OFFICER HURLE: So for

17 over the last three and a half years per Marcie's comment

18 under Liana's control we've been improving and developing

19 the discipline as well as the expectations of IT

20 governance in project management.

21   Today what I'm going to have is Christian and

22 Andrea are now going to take you through the governance

23 actions and the activities that we do and how we perform.

24 And then Tim and Anthony are going to work through on the

25 F&O and what we've been doing with the functional

1   optimization.

2   So with that, I'm going to turn it over to

3   Christian.

4   TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF

5   FARLAND: Good morning.

6   So when we talk about governance, we're talking

7   really about three separate phases, the first of

8   which is the concept how something goes from an idea to

9   becoming approved project. So there's a whole level of

10 governance that goes around that.

11   Then we're talking about the governance of, once

12 something is a project, how do we manage that through to

13 completion so that we get the outcome that we intended.

14   And then ultimately there's optimization, which

15 is the investment we've made in that product or service,

16 how do we ensure that it is as relevant on the day we

17 retire it or sunset it as it was on the day we implement

18 it? So there's also a level of governance that goes

19 there.

20   So we're talking about today three separate

21 really phases of governance.

22   Within those phases there are four levels. We

23 have the foundation, which is the program level of

24 governance; we have senior leadership, which is the next

25 level of governance; executives; and then ultimately the

1 Board of Administration.

2   --o0o--

3   TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF

4 FARLAND: Beginning with the foundational level, CalPERS

5 has six program governance councils that we manage today.

6 Each of them is specific to a particular set of business

7 or needs. And those particular programs -- when I say

8 program, I want to define that, because there's often

9 confusion. In the portfolio world when we talk about

10 program, we're talking about a set of similar projects --

11 like projects that are grouped together for a similar

12 outcome.

13   So, for example, in our security program, we have

14 three projects going on this year. Those three projects

15 are with the intent of moving and maturing our security

16 posture in the organization.

17   The focus in this particular program level is

18 really about making sure that the decisions and

19 recommendations here are about, you know, meeting the

20 specific program needs and outcomes. So that -- I don't

21 want to say tactical, but I'm going to say tactical where

22 they're contributing to the overall strategy.

23   --o0o--

24   TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF

25 FARLAND: The next level is the senior leadership level.

1   And this is a -- particularly the -- generally the same

2   level or the same participants, but we change roles. So

3   in this particular case, for example, I would take my

4   division chief hat off - I'm no longer looking at my

5   particular division, my particular program and needs - and

6   I'm working with my partners across the organization to

7   look at what are the enterprise needs. And so the level

8   of responsibility and the breadth of the things that we

9   take into account, strategically, et cetera, are evaluated

10   at this level.

11   --o0o--

12   TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF

13   FARLAND: At the executive level, the third level, is

14   really about approval authority. So at those lower levels

15   we're making recommendations, and at the executive level

16   it's really about the approval and frankly sponsorship of

17   things as they go forward.

18   --o0o--

19   TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF

20   FARLAND: And then, lastly, at the Board of

21   Administration, we're looking to you for strategic

22   guidance and input. And ultimately certainly you're -- we

23   just got done doing the budget approval. There's a

24   fiduciary responsibility and making sure that we're all

25   accountable on that front.

--o0o--

1

2   TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF

3   FARLAND: So I mentioned the three phases, and then I show

4   you a slide like this that has four phases, which is the

5   budget process, which is a whole different set of

6   governance principles and responsibilities. I'm not going

7   to go into any detail on that today. But I will point out

8   a few points where that's where we touched that process or

9   where that process touches the rest of our governance.

10   --o0o--

11   TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF

12 FARLAND: So we begin with a concept. And the whole

13 process here is about moving from concept all the way

14 through to an approved project.

15   And formally this process begins in March. We

16 call it the BTPPP, or Business Technology Project Proposal

17 Process. I won't refer to that because it's more than a

18 mouthful and I'll stumble on it.

19   And submissions are due back from the different

20 business areas in early April. And the first gate we go

21 through here is management approval. So anyone can submit

22 their proposal up through their management team. But the

23 first step it goes through is a division chief. Division

24 chief has to evaluate that to say, "Is this a value to my

25 particular business, to my division? Is it going to, you

1   know, provide the outcome that I believe it's going to

2   accomplish?"

3   Then it has to go the deputy executive officer.

4   They ultimately have to sign off on it from a different

5   level, the executive level, to say: Does this really meet

6   where we're going? Does it help us achieve our enterprise

7   strategic initiatives?

8   Once it gets into the process, we go into what's

9   called the program decision. And so, as I mentioned,

10   those six program committees each get a distribution of

11   the relative projects or proposals that come to them. And

12   they go through a very thorough evaluation, analysis,

13   prioritization of those -- of those particular proposals,

14   scoring them on a variety of things from risk, the

15   different content, regulatory compliance, mission and

16   goals, et cetera. And they provide that initial program

17   prioritization. Based on that prioritization, it goes

18   into a process again of analysis with business and IT

19   representatives. We do alternatives analysis. In that

20   alternatives analysis, we look at should we build, should

21   we buy, is there something we can leverage in other

22   organizations, is there something we can leverage

23   internally that we're already doing so that we can

24   maximize the benefit?

25   We're doing cost evaluations. We're looking at

1   all of resource to say, "Is this something that we can

2   absorb? Are we organizationally ready?" There's a whole

3   bunch of analysis that goes into that. And that process

4   runs from May all the way through early July.

5   Once that's complete, it comes back to the

6   program committees again. And they now have more

7   information to perhaps go back and rerank their

8   information or rerank their proposals. And at this point

9   this is where you'd see the first -- really the first time

10   where a lot of the proposals might drop out, they may be

11   withdrawn, because the value wasn't there that we thought

12   was going to be there, the cost benefit isn't necessarily

13   there. And so that's the first sort of the -- the

14   third -- really the third gate that we go through.

15   Those groups then make their recommendations, and

16   those go forward to the senior leadership. Every other

17   week there's a group -- there's a senior leadership group

18   called the senior leadership council that meets. But in

19   this particular case, the late July meeting is dedicated

20   to again reprior -- or prioritizing, using the same

21   criteria, now collectively all of the proposals that have

22   come forward into the organization.

23   And so based on that, they're now looking at all

24   of the information across the enterprise. And again,

25   we've taken off our division chief hats, our program hats,

1   and we're looking at what is best for CalPERS.

2   That team makes recommendations then to the

3   executive committee, which we call the IT Governance

4   Council. We meet five times a year. And the August

5   meeting then is dedicated to the discussion of these

6   proposals as they come forward. And they evaluate the

7   overall cost and things about these things. And this is

8   really where the approval happens, the approval to

9   proceed.

10   Now certainly, there's -- you know, funding is

11 still a question. And so that's where their approval

12 results in these proposals coming forward into the budget

13 process which initiates in September, October time frame.

14 And that's really the first touchpoint. That's really

15 where you begin to see these things. You'll see them in

16 the budget book. It goes through a whole level of

17 governance around that and reevaluation of costs and

18 things between that point in time and then when you see

19 that in first and second readings. But that's the next

20 level of approval.

21   Typically when we go through this process, on an

22 average year we get 30 to 40 of the concepts come through.

23 After it goes through the first couple of gates, you know,

24 we've reduced that, we've combined things, we're down to 7

25 to 10. And so by the time you see things in the budget

1   book, it's around 3 to 5, sometimes a little more,

2   projects that are moving forward for consideration.

3   --o0o--

4   TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF

5   FARLAND: So that bounces us back out to the overall

6   governance lifecycle. We talked about enterprise

7   governance. We talked about the budget process.

8   So let's jump into project governance. So this

9   is where a project has been approved. Approved, it's been

10   funded. Now it's time to execute, it's time to deliver on

11   the promise that we made.

12   And so this is really -- a focus here is on

13   monitoring and controlling. It's -- we're focusing on

14   managing the work again to make sure that what was

15   promised in the concept, in the proposal, we're delivering

16   on the other end within scope, schedule, and budget.

17   But that's not the only thing. At the end of

18   this we also do a post-implementation evaluation. So

19   there's a whole evaluation of not only how well did we run

20   the project, how well did we do from a management

21   perspective, but there's an evaluation of did we receive

22   what we intended to receive at the end? So there's a

23   measurement perspective on that.

24   --o0o--

25   TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF

1 FARLAND: With that, I'm going to turn it over to Andrea

2 to talk a little bit about project oversight.

3   TECHNOLOGY BUSINESS MANAGEMENT DIVISION ASSISTANT

4 CHIEF SPEARS: Thank you, Christian.

5   So at CalPERS we are a very structured process

6 for project governance and oversight. And it really

7 emphasizes the strong partnership between the business and

8 IT so that we have a shared accountability and leadership.

9   All of our projects, each of them has an IT and a

10 business project sponsor that ensures governance and

11 decision making at the highest level. And in addition, an

12 IT and a business co-director who work together to make

13 certain that the project is guided and directed at a more

14 tactical level. And a great example of this really is the

15 partnership between the Actuary Office and IT Services

16 Branch under the AVSRE project, which Christian's going to

17 give you a few details about later.

18   All projects have formal steering committees.

19 And in those steering committees they meet monthly, they

20 guide and direct the projects to ensure that they

21 understand the progress and that issues are managed and

22 that risks are managed.

23   They have a dedicated project manager, who is

24 dedicated to managing the work and the resources to make

25 sure that the project delivers on those project

1   objectives.

2   All of our projects are managed in accordance to

3   our -- with our project management policy, which really

4   uses a managed process to determine the level of project

5   oversight and project management rigor that's required for

6   each of our projects. And that's really dependent upon

7   the size of the project, the amount of risk, and its

8   complexity.

9   In addition, we use the CalPERS project

10   management methodology itself, which is a formal process

11   that is in very close alignment with industry best

12   practices, with the Project Management Institute, and with

13   our statewide California project management framework.

14   Also, we -- all of our projects are required to

15   use our standardized project management tool so that we

16   are capturing our metrics and our project status in a very

17   consistent way for project reporting and governance.

18   So we use all these measures to make sure that we

19   can maintain our focus on some very particular things.

20   Our biggest focus is making sure that we are achieving our

21   project goals and objectives and we're delivering business

22   value for the IT project investment.

23   We want to make sure that we're managing and

24   controlling our scope, schedule, and budget. I mean, that

25   is something that we do with all projects. And we're

1 making sure that the organization is really ready and

2 prepared to take on the change that that project will

3 bring. Through organizational readiness assessments, and

4 through our organizational change management.

5   And then at the end, we're making sure that we're

6 managing project risks; you know, making sure that there

7 are solid mitigations in place, managing issues and

8 managing change. So that in the end we're delivering what

9 was promised under the project and we're keeping on track.

10   --o0o--

11   TECHNOLOGY BUSINESS MANAGEMENT DIVISION ASSISTANT

12 CHIEF SPEARS: Thank you, Christian.

13   In terms of monitoring and controlling. So what

14 I just described to you is really the internal project

15 governance that's happening during that monitoring and

16 controlling phase. But there's a lot of governance and

17 oversight that occurs outside really of the scope of the

18 project. And what you see here on this chart are some of

19 the entities or the governance entities that are involved.

20   The program steering committees are focused on

21 achieving the program strategies and objectives. And

22 they're overseeing our project portfolios and making sure

23 that good decision making is happening on those

24 committees. We have project steering committees that

25 really are there to make sure that we're delivering the

1   business outcomes and the value that are needed by those

2   program steering committees to be successful.

3   And in addition to that, we have the project

4   sponsors who represent their IT projects to these

5   committees to ensure that there's good solid

6   representation for governance and oversight.

7   In terms of our senior leadership at the

8   enterprise level, what we do is we do reporting to the

9   senior leadership council on a regular basis to make sure

10 that they understand what projects are in the hopper right

11 now, what are the active projects we're doing today, how

12 well are we doing those projects, what's the value that

13 we're delivering, and what is the status of those

14 projects.

15   Our executive leaders are kept in the loop

16 through the IT governance council. The IT governance

17 council meets about five times a year. More if we

18 think -- you know, if they think or if we think that it's

19 needed because we need to place more focus on a particular

20 project.

21   They receive reporting on our IT Project Health

22 portfolio. And in particular, we provide additional focus

23 on any projects which have a project health status of

24 yellow or green. And at times those projects require a

25 bit more focus and we have some lengthy discussions about

1 that, and receive direction from them in terms of what to

2 do on those projects.

3   Finally, we provide reporting on a quarterly

4 basis to the Board, making sure that under our CIO report

5 and to the Finance and Administrative Committee that we're

6 providing you that information on our portfolio health.

7 And actually Christian is going to give a little bit more

8 detail on that, as I turn over our talk to him to talk

9 about key governance decisions that are happening on our

10 project.

11   --o0o--

12   TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF

13 FARLAND: So Andrea referenced the actuarial valuation

14 system redesign and enhancement, otherwise known as AVSRE.

15 And I think that's a really good example of where this

16 project oversight has really been effective in the

17 organization.

18   As she mentioned, we have the structure in place,

19 we have the co-sponsors, we have the co-directors, we have

20 the steering committee made up of members of the Actuarial

21 Office, ITSB, and the Financial Office. And we have the

22 dedicated project manager.

23   And over the life of this project there have been

24 some really good collaborative decisions made that have

25 come from the structure and rigor. For example, one of

1 the things that the project did was bring in an

2 independent third party to perform a readiness assessment.

3 And in that readiness assessment they identified some

4 things, both on the business end and IT, that were risks

5 to that project being successful.

6 And so the project took those things on, both --

7 the governance committee decided to address those things

8 to ensure that success. And so we pursued those,

9 mitigated those risks, while at the same time continuing

10 some of the critical path activities so that we could stay

11 on course.

12 Secondly as a result of that assessment, it was

13 an opportunity for the team and particularly the customers

14 to go back and reassess what it took to be successful in

15 that. So you -- I believe you would have seen about last

16 August a restructure of that project. And we've reduced

17 that project from a five-year project down to a three-year

18 project.

19 All of those things happened while there was

20 going through some organizational change within the

21 Actuarial Office. So the structure and rigor that we had

22 in place ensured that there was a -- you know, a backup to

23 all of this and decisions could continue to get made in an

24 appropriate fashion so that we could continue the project

25 on schedule.

1   And then lastly, from a long-term sustainability
2 perspective, this co-ownership responsibility really
3 contributed to a decision for us to move the development
4 of this particular project into Java as opposed to
5 Fortran. This allows us the ability to maintain this --
6 develop and maintain the system in house with CalPERS
7 staff, as opposed to -- and reducing our reliance on
8 consultants long term that we've been doing in the past.
9   So some good successes as a result of AVSRE.
10   --o0o--
11   TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF
12 FARLAND: I want to move to the reporting that we do for
13 you. And on a quarterly basis Andrea mentioned that we
14 provide the CIO quarterly report. And we've made some
15 changes to that report in the information we've provided
16 to you over the last couple of months. And the latest
17 rendition is some examples of what you see.
18   Attachments 3 and 4 are some specific examples
19 that we've added the content that we've heard from you.
20 But what we're going to be adding into each of your
21 reports every quarter is this enterprise project
22 dashboard. It's a quick oversight, a summary of the
23 portfolio that has the start and end dates, have the total
24 budget, total expended to date, and overall health status.
25   So as Andrea mentioned, at the executive level we

1   focus on those projects that are in a yellow or a red

2   state. Those are the ones that need our attention. If

3   it's green, things are generally going fine. There may be

4   something that we're looking at. But you'll have that in

5   the backup reports behind that.

6   But if it's yellow or red, that's where we really

7   need to pay attention. And so those are the things that

8   you'll see on the enterprise -- or on the dashboard.

9   And then, like I said, there are two examples in

10   your packet, attachments 3 and 4, of a project that is in

11   a green state, which is AVSRE, and a project that is in a

12   yellow state. And you'll see some additional information

13   about the risks and what's contributing to that status and

14   what we're doing to particularly mitigate those risks and

15   issues in the content of those particular reports.

16   So that's what we'll be doing going forward.

17   DEPUTY EXECUTIVE OFFICER HOFFNER: If I could

18   take a second there, Christian, just chime in a little

19   bit.

20   The reporting and discussion about things that

21   are yellow, red status is really going to coincide with

22   the work we're talking about at our July offsite in terms

23   of enterprise performing management and measures. And so

24   the -- that's really going to have the consistent feel for

25   the Board reporting across both strategic and operational

1   dashboards that we'll be sharing with you and getting your

2   input on.

3   So in terms of the timing and how this look and

4   feel will play itself out, we definitely want your input

5   but it's also going to coincide with that presentation

6   then and input at the July offsite. So very much a

7   cohesive presentation going forward.

8   --o0o--

9   TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF

10 FARLAND: So the project's done. It's delivered what it

11 promised, it delivered it on time, it delivered it within

12 budget. But we've made an investment in that system or

13 that product. And so just like your house, you don't just

14 buy the house and let it deteriorate over time and then

15 hope that you get to the end of the life of that home.

16 You're continually investing in that. You might redo the

17 kitchen, redo the yard, those kinds of things that are

18 improving the value and making sure that it still is

19 relevant the day you move as the day you purchased it.

20 And so we do the same thing with projects.

21   So this is a typical post-implementation

22 lifecycle. And there's governance around this as well.

23   You know, coming out of the implementation, like

24 I said, we've done the post-implementation assessment. So

25 we're looking at those things that potentially could be

1   done in addition. We're stabilizing.

2   But what are those things that we need to do to

3   optimize? And so we'll be talking in a moment about an

4   example of where we did optimizations, the my|CalPERS

5   optimization project where we continued that investment.

6   But that's not to say -- enhancements are going to go on

7   through the lifecycle of this -- of the entire life of the

8   particular project. So you'll see -- this is how it goes.

9   --o0o--

10   TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF

11   FARLAND: An example of that governance that we've

12   provided, as I mentioned, is my|CalPERS optimization. We

13   ran this as a project, because there were a lot of things

14   that we found we could do to optimize them. We've done a

15   lot of really fantastic implementations as a result of

16   this.

17   Back in 2014, you would have seen the

18   presentation on what we had proposed around this project.

19   This was back in February of 2014. Then we came to you

20   for that budget proposal. And then from thereafter, as we

21   mentioned, you get the quarterly reports. And then in

22   November of 2015, Donna Lum and Liana Bailey-Crimmins

23   provided you a status update on the project as well as

24   some of the benefits realization. And we've continued to

25   provide you the quarterly reports.

1   And today we have Anthony Suine and Timothy

2   Taylor here to give you an additional update on that

3   project and some of the benefit realizations that we've

4   made.

5   --o0o--

6   DEPUTY EXECUTIVE OFFICER HOFFNER: I just want to

7   interrupt and see if there's any questions before we go to

8   the second phase of the presentation.

9   PRESIDENT FECKNER: Ms. Mathur.

10   BOARD MEMBER MATHUR: Thank you, Mr. President.

11   I do have a few questions.

12   First of all, I just want to say this has been so

13   far a very -- and I'm sure it will continue, a very --

14   (Laughter.)

15   BOARD MEMBER MATHUR: -- a very cogent and

16   thoughtful presentation, and I really appreciate all

17   the -- I really appreciate the sort of robust process that

18   you all have laid out. I do have a few questions though.

19   One is sort of the preconcept phase when you're

20   sort of developing those concepts. What is the ideation

21   process? How do you come up with the concepts? To what

22   extent do you involve the entire IT team, or, you know --

23   could you just talk a little bit about that.

24   TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF

25   FARLAND: So projects -- when we're talking about this

1 whole process, these are really business technology

2 projects. So I refer to the business technology project

3 planning proposals. It's really about how IT can help

4 facilitate the business functions.

5   So a number of things can come out of the

6 business plan. Some of these can be part of the strategic

7 plan. Some of these can be business process problems that

8 come out of the business area. In some cases -- and the

9 reason we have the different program committees is -- you

10 know, for example, IT. There are things that we need to

11 do in IT to keep the foundation correct. So we'll come up

12 with projects there looking at the lifecycle of systems,

13 things like that, looking at the industry, that will

14 create some projects there.

15   Investments will have investment specific. The

16 enterprise project -- or enterprise group does things or

17 presents things that are more broad in nature that affect

18 the rest of the organization.

19   Pension and health typically is more my|CalPERS.

20 But the actuarial project as well as the CEC project that

21 you've seen in the current portfolio falls in there.

22   So it -- they come from a variety of different

23 areas based on business need.

24   BOARD MEMBER MATHUR: Okay. Thank you.

25   And then with respect to -- so with respect to

1 project implementation, I have a couple of questions.

2 One is, to what extent do we collaborate with

3 other state agencies and departments where there might be

4 crossover where something we are doing might have some

5 value elsewhere as well? And how do we identify those

6 opportunities?

7 TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF

8 FARLAND: So up front and before a project, we even

9 initiate the project, way up in that enterprise

10 governance, that's one of the things we're looking at, to

11 say, is, you know, rather than reinvent the wheel, "Is

12 somebody else already doing this?"

13 But we're also, you know, in constant contact

14 with all of our peers within the State about the efforts

15 that we're going -- we're very involved in those things --

16 and sharing our information so that they can reference

17 that as well.

18 BOARD MEMBER MATHUR: Okay. Thank you.

19 And also with respect to implementation, if

20 a -- if a project sort of has a hiccup, how do we make

21 sure that the environment is such that it encourages sort

22 of early identification of problems and early -- you know,

23 addressing it early, is that a cultural thing or do you

24 have a process that facilitates that?

25 TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF

1 FARLAND: I'll let the other folks chime in. But my

2 perspective is, we really stress identifying risks. So,

3 you know, how extensive can we identify those risks early,

4 so that, you know, there's not a -- it's not a judgment as

5 to somebody did something wrong; it's, we anticipated

6 these things and we put the mitigations in places so if

7 and when they do arise, we are prepared and can respond to

8 them.

9   BOARD MEMBER MATHUR: Okay. Thank you very much.

10   PRESIDENT FECKNER: Mr. Slaton.

11   BOARD MEMBER SLATON: Thank you, Mr. President.

12   Very impressed so far with what you've presented.

13 I spent 30 years observing and being involved in public

14 sector IT projects. Some of them didn't go very well. I

15 think, you know, government has a history of maybe not

16 meeting expectations when it comes to IT projects. And

17 I'm a firm believer that it is solely not a function of

18 whether it's government or private sector. It's about

19 governance, about oversight, it's about paying attention

20 to the details; and also making sure that you're well

21 coordinated with the operational side, so that you're not

22 going off creating something that the operations side

23 says, "Wait a minute, you didn't listen to what I had to

24 say."

25   So it's very clear from what you have been saying

1 that we are addressing those kinds of issues. And in

2 fact, delivering projects that are on time, on budget, and

3 meet the expectations of the requirements.

4   So only one -- I only have one question. As I

5 look at the dashboard, the completion dates -- you have

6 eight projects listed, and five of those projects you have

7 your completion date on a fiscal year boundary. Is that

8 artificial? I mean why on a fiscal year boundary?

9   TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF

10 FARLAND: For the most part I would attribute that to the

11 way that we fund the projects. They're funded on a yearly

12 basis. We're continually looking at, you know, our

13 estimation and how can we get that better. That's

14 certainly something we need to go look at. Thank you for

15 pointing that out.

16   BOARD MEMBER SLATON: Okay. Thank you.

17   Good work. Keep it up.

18   PRESIDENT FECKNER: Mr. Jelincic.

19   BOARD MEMBER JELINCIC: Yeah, you've raised a

20 number of issues. And I'm going to ask the question. But

21 if the answer is "Well, we're going to get to that,"

22 that's a perfectly acceptable response.

23   One of the issues you raised is that when we

24 finish a project we do an evaluation. What are the

25 results if the ex -- if what we were expected were not

1   there?

2   TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF

3   FARLAND: Certainly we would have to go -- I mean, that's

4   when we go back into the lifecycle and say, "What else do

5   we need to do? What additional investment do we need to

6   make in that particular project?"

7   BOARD MEMBER JELINCIC: Okay. And I remember

8   with CalPERS, which was a massive project, we contracted

9   out a review, we contracted it out with the consulting

10   firm that had a contract with the project people, and so

11   that, you know, there was a certain conflict there.

12   So the -- but the other thing -- and let me point

13   to -- it was on attachment 1, slide 15. But it's actually

14   bigger on attachment 3, 531 of the iPad, "Business

15   Benefits: Reduce hardware and software licensing; reduce

16   business risk; improve customer service." How do you

17   quantify those? I mean, we've got a budget here of, you

18   know, $3,700,000, and we've got in some ways very soft

19   targets. And so how do you quantify that? And how do you

20   really look at creating a return-on-investment

21   calculation?

22   TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF

23   FARLAND: So each one of those is different. And I think

24   we'll have some examples for you in -- when we talk about

25   my|CalPERS in a little bit.

1   But, you know, one of the things that we -- that

2   I can tell you is we're continually looking at how do we

3   improve our metrics of those things and how do we drive

4   better evaluation of that?

5   One of the things we put in place - and I think

6   Andrea mentioned it - is -- for the larger projects in

7   particular, we do what we call an internal feasibility

8   study where we're really looking at what are the cost

9   benefits and what are the changes in costs over time. So

10   what does it cost us to manage it today? What are we --

11   what does it cost us to manage it tomorrow?

12   We're evaluating, you know, as part of the

13   alternatives analysis, what are the savings that we're

14   going to be achieving? It's part of the questions up

15   front in the submissions.

16   So I don't know if I answered your question,

17   but...

18   ACTING CHIEF INFORMATION OFFICER HURLE: Let me

19   make a quick comment.

20   So a couple things on all three of the questions.

21   First of all, there is a level of diligence here

22   based on each one as the project actually goes through the

23   process itself.

24   Secondly, when you look at the summaries that

25   have like "customer services improved" or there's a cost

1   savings in that, there is a diligence that goes behind

2   that. Customer service could be either a speed to an

3   answer. It could be a result on a more -- I was about to

4   say robust, but I won't say it -- more complete answer.

5   And that there can be offered to the member, it could be a

6   member self-service improvement. So there are details in

7   that. And so I think some of that might need to -- in

8   order to satisfy some of the questions on how we get into

9   that intimate detail. And I think there will be some good

10   examples and Anthony will be able to represent it for you

11   as well.

12   BOARD MEMBER JELINCIC: Okay. And the other

13   observation I have is I think Priya raised the issue of

14   how do we get things -- if things are going off track, how

15   do we draw attention to it?

16   And it is not in fact our culture to bring

17   problems forward. You know, it could be a little

18   unpopular. It can be lonely. It can be isolating. It

19   can lead to, you know, some forms of harassment.

20   But that's really a cultural problem. As I've

21   said for years, when we start awarding an APEX to somebody

22   who brought a problem forward, we will have shown a change

23   in culture. Because bringing those problems forward

24   serves our members by drawing attention to it so that we

25   can allocate the resources we need to fix it rather than

1   let it fester.

2   ACTING CHIEF INFORMATION OFFICER HURLE: What

3   else I want to follow your lead. I mean, there's been --

4   I think the questions that have come to us to challenge

5   something what we're doing with our governance. I think

6   there's other challenges. I think we even talked about

7   the security. Those challenges require us to come to you

8   and be more transparent.

9   I will tell you that culturally it's difficult to

10 bring a problem forward because of the, to your point, the

11 unpopularity of it. I will tell that Liana had a

12 different approach on how she established that culture,

13 and I think that culture's evolving.

14   I will say also, in just my short period of time

15 here, what I watch the teams do is that they do bring the

16 problems forward. We do have to be careful. As leaders,

17 you can react inappropriately, and then that shuts it

18 down. So we have to keep catching ourselves.

19   But as of right now I would say your culture's

20 evolving.

21   And to your point, I hope you do get an APEX that

22 comes that way. But I do think that we're on the track

23 for it.

24   DEPUTY EXECUTIVE OFFICER HOFFNER: As follow-up.

25 I think a good example would be the AVSRE. As it was

1   mentioned earlier without the specific details, as we

2   launched into that project, we had significant senior

3   leadership change. Our chief actuary retired. From a

4   people and process perspective, we brought a third party

5   entity in to help us evaluate that. So it was an

6   independent evaluation to understand what those challenges

7   might be. And then as we move forward, even with

8   Mr. Terando in the acting role because it was right at the

9   cusp of him taking that responsibility on, we had to shore

10 up some things from a people process perspective in order

11 to meet -- have a successful project launch.

12   And so I think, you know, we identified those

13 things, we responded and reacted to them based upon the

14 input from that third party. And I think we've put

15 ourselves in a very good position moving forward. I think

16 that's a very good example of how to take on those

17 challenges as they emerge.

18   TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF

19 FARLAND: I'll just chime in at the very end of this. And

20 I think one of the things that really brings it all

21 together is the fact that we have put this rigor in place.

22 And the more rigor we have, the more transparent we are;

23 and therefore the risk of bringing issues forward, the

24 risk of bringing problems forward, is lessened from a

25 personal perspective.

1   So the process is really set up to identify those

2   things early and often so that we can address them before

3   they truly become problems.

4   BOARD MEMBER JELINCIC: Thank you.

5   PRESIDENT FECKNER: Ms. Paquin.

6   ACTING BOARD MEMBER PAQUIN: Thank you.

7   Thank you for the report. I really appreciate

8   hearing more about the governance programs, the IT

9   projects.

10   I think somebody made the point of saying that

11   one of the risk factors you're looking at is, will the

12   business side be ready to implement using the new

13   technology? So I was just curious. When does the

14   training process start? Is it three months before

15   implementation, or is it sooner than that? And what about

16   post-implementation and training and usage issues?

17   TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF

18   FARLAND: So I think that's entirely dependent on the size

19   and scope of the project. The particular project manager

20   will build that in in conjunction with the program area

21   into their schedule. So I don't know that there's a

22   particular recipe for it, but we do take that into account

23   as to what -- you know, how are we going to leverage

24   existing training? Do we need internal training, external

25   training?

1   For my|CalPERS we did an extensive pre-training

2   and post-training for that as well. So...

3   ACTING BOARD MEMBER PAQUIN: Okay. Thank you.

4   PRESIDENT FECKNER: Mr. Gillihan.

5   BOARD MEMBER GILLIHAN: Thank you, Mr. President.

6   First of all, I was one of the people asking

7   questions about your process. I just wanted to say, this

8   is a thoughtful governance model that's entirely

9   consistent with State standards and what you'd expect in a

10   mature organization.

11   And I also appreciate the enhanced reporting, as

12   one who's been asking for it.

13   The one thing I would ask that I don't see in

14   there is if there's any dependencies between projects, if

15   those would be included. And I think it's fair that if

16   there's nothing said, that that implies there's no

17   dependencies. But to the extent there is, that's helpful

18   to know as well.

19   But otherwise I just wanted to commend you all on

20   a good presentation and having a mature project governance

21   model.

22   Thank you.

23   DEPUTY EXECUTIVE OFFICER HOFFNER: Thank you.

24   And that's something to take into account. We do have

25   those discussions about the capabilities of both the

1   program and the technology teams as we look at these

2   projects and the capability to take them on so we could

3   have a line item in there, just have a discussion about

4   those interdependencies should there be some.

5   Thank you for the feedback.

6   PRESIDENT FECKNER: Mr. Costigan.

7   BOARD MEMBER COSTIGAN: Thank you, Mr. Feckner.

8   Just a few points. I may have some comments when

9   you're all done.

10   First of all, great report. I think fantastic.

11 As you all may know, I live in lots of different worlds,

12 and I will just say the reputation of CalPERS, and

13 particularly in a started or as continued is fantastic. I

14 don't hear as -- CalPERS as a problem child, so to speak.

15 I mean particularly in this space, you guys do fantastic

16 work, do big projects. I know we've been critical over

17 my|CalPERS in the past, more in the cost-containment

18 issues.

19   But just a few questions that may -- you could

20 touch on, some other was -- Ms. Mathur raised.

21   One, what's our role vis-à-vis DGS? I mean, talk

22 about the T's and C's a little bit, which is one of the

23 complaints I often hear on procurement contracts is that

24 T's and C's are non-negotiable in the enforceability. How

25 much is the problem for you? How big of an issue is

1   19130? Because this is one of the things I often see on

2   IT contracts is personnel versus actual technology. I

3   mean -- and I think sometimes the rest of the Board may

4   not understand all of it because this one of the

5   difficulties: You know, is it a software? Is it

6   consulting? Is it technology? Is it billing up -- which

7   is it?

8   I would like a little expansion on the Amy Tong,

9   how we're interplaying with Department of Technology. And

10   I know we're not governed by many of the same rules.

11   And also the play with Mr. Kim and his staff at

12   DGS on the procurement side.

13   Just a little expansion, because I think part

14   of -- your discussion used to be how difficult this is.

15   And then with all respect to Mr. Jones, we often talk

16   about how difficult it is with the Investment Office in

17   recruiting. I actually understand more in your world of

18   how difficult it is actually to recruit and get someone

19   like Ron from Intel; because as much as we're going to

20   compete with the Goldman Sachs of the world on the

21   investment side, we're competing with the programmers in

22   Facebook and Twitter and Yelp who aren't sitting here in

23   ties in front of us answering questions, and they're

24   playing pool instead in their spot with their dog. And

25   that's the -- so I'd like you all to expand. I didn't see

1   that in the presentation. We don't often get to hear from

2   IT. But I think it's important to talk about some of the

3   other barriers you are facing. Again, contracting out the

4   T's and C's and recruitment. And I just didn't see that

5   in the presentation. So...

6   Mr. Hoffner.

7   DEPUTY EXECUTIVE OFFICER HOFFNER: So I'll start

8   with I guess T's and C's. So as you know, we have a whole

9   contracting team that Ms. Malm runs and operates here from

10   like a procurement technology contracting perspective. We

11   have our own set of terms and conditions that model what

12   the State does. We've gone through several terms and

13   conditions reviews. I think I started here nearly five

14   years ago. It was one of the first things I know we saw

15   on the minds of a lot of participants, not just in the

16   technology arena, in terms of doing business with us. And

17   so we actually put together an overview of sort of a risk

18   assessment in terms of the type of contracts we do, based

19   upon what we have in our standard terms and conditions.

20   And there was various things - I think three

21   popped out - to be the most common challenges for vendors,

22   again not just with IT but with us. And we looked at how

23   to reduce the level of -- it's actually increased the

24   level of rigor but look at how we applied those terms and

25   conditions so that they were more appropriate to the types

1   of work that we're doing. We had some language about

2   everybody has to adhere to the fiduciary standards even if

3   it was a contract for, you know, software, right, or

4   something.

5   So it didn't apply to the sort of rules that were

6   there.

7   We have frequent discussions with the Department

8   of General Services; the state agency, Government

9   Operations, the teams there. I know the teams here work a

10 lot with the leadership with the Department of Technology

11 and our sister agencies. So there's a lot of that

12 dialogue occurring right now.

13   In terms of processes, we definitely exchange

14 lots of information with them.

15   And then you turn -- your question about in 19130

16 and with the contracting, we have to look at what the

17 necessity of a project will entail. And really the goal

18 here - and I think Ms. Frost mentioned this in a prior

19 discussion in one of her comments as the CEO report, is

20 how do we build the capabilities of the team. Right? And

21 sometimes we're able to do that, sometimes with a skill

22 set, and sometimes we need to further enhance and develop

23 that.

24   And really the goal of these projects at the end

25 of the day is for us to be able to maintain, operate, and

1 enhance our own projects and our own systems and

2 technologies that we have here at CalPERS. If that's not

3 necessarily possible in every case, then we have to go out

4 and seek the necessary support, which may get into

5 recruiting issues and challenges. But that's something

6 we're striving to do. And as you'll hear in a later

7 presentation, there's been a significant effort on

8 knowledge transfer. We've embedded language about

9 knowledge transfer in all of our contracts. We've done

10 that for the last three years in order to help ensure that

11 we have the capabilities internally from those consultants

12 we've had to use historically to transfer that over to us.

13 And so there's an added feature we've added a couple years

14 ago to the projects going forward.

15   Recruiting's always a challenge. It's a

16 challenge for us, the private sector, our sister agencies.

17 You know, we would say we are a destination employer. We

18 think we have a leg up in some respects. But it's always

19 going to be an opportunity to overcome whatever those

20 hurdles are going to be.

21   So we have used consultants. I think the model

22 would be to essentially look for a skill set if we do not

23 have it, but try to get off the reliance of individual

24 consultants as best we can going forward. And that's just

25 not with technology. That's in other arenas around this

1 organization, and that's part of our mission to be less

2 complex and more efficient in our resources.

3   ACTING CHIEF INFORMATION OFFICER HURLE: And I

4 always have to take opportunity here once again, just at

5 the example at the table here. We are very fortunate. We

6 may have challenges in recruiting. But the team that we

7 have in place is really solid. And even the example of

8 the report we just gave today and that, so you always have

9 to do a plug for the team that we already have. And we

10 definitely want new people, but the team that's in place

11 right now does excellent work.

12   BOARD MEMBER COSTIGAN: Thank you, Mr. Feckner.

13   PRESIDENT FECKNER: Thank you.

14   Ms. Taylor.

15   BOARD MEMBER TAYLOR: Thank you, Mr. President.

16   So I know we have more to go, but I just wanted

17 to ask a couple of additional questions.

18   But first I wanted to say that I'm also very

19 impressed with the project governance model that you guys

20 have proposed here.

21   And as an employee of an agency that has gone

22 through several large IT project governance models,

23 Ms. Paquin talked about when you start your training

24 process. But I think one thing that I didn't see in here

25 was -- and maybe that's because it's a little too

1   granular. But your change management. Because as your

2   users start to, you know, use it after they're trained,

3   the change management has to come in because people aren't

4   real cool with change. So I don't -- I'm sure it's, you

5   know, part of it. And this may be just too granular for

6   you, but I would love to hear you address that a little

7   bit.

8   TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF

9   FARLAND: Sure. And I don't recall exactly which page,

10   but when we were talking about the structure of the actual

11   project governance itself, that is one of the things that

12   we take into account and that's one of the things that we

13   ask of our project managers to build into their plan is

14   what is the change management strategy? Virtually every

15   project's going to need it.

16   BOARD MEMBER TAYLOR: Right.

17   TECHNOLOGY BUSINESS MANAGEMENT DIVISION CHIEF

18   FARLAND: Like you said, the people don't like to change.

19   And so that is one of the things that we ask them to build

20   in. In fact, many of the smaller projects that I can

21   think of recently, that's been almost a bigger part of

22   what we focused on than some of the true implementation

23   because, I don't want to say it's easy, but sometimes the

24   change is harder.

25   BOARD MEMBER TAYLOR: Exactly.

1   Okay, great. Thank you.

2   PRESIDENT FECKNER: Seeing no other requests.

3   Mr. Suine.

4   ACTING CHIEF INFORMATION OFFICER HURLE: Are you

5   sure you want to go now?

6   (Laughter.)

7   PRESIDENT FECKNER: I'm sure he wants to go, but

8   he doesn't want to talk.

9   (Laughter.)

10   BENEFIT SERVICES DIVISION CHIEF SUINE: Aren't we

11   out of time?

12   (Laughter.)

13   --o0o--

14   BENEFIT SERVICES DIVISION CHIEF SUINE: Hopefully

15   it's not all downhill from here.

16   So this is a great opportunity to talk about one

17   of the projects that was approved through the governance

18   process, and that's the my|CalPERS Functional Optimization

19   Project. And I'd like to share a little more detail about

20   the initiatives that we have implemented through the

21   project and some of the benefits that we realized as a

22   result.

23   --o0o--

24   BENEFIT SERVICES DIVISION CHIEF SUINE: Christian

25   shared a version of this slide earlier that was a more

1   general overview of the project lifecycle. This slide is

2   more specific to the Functional Optimization Project. And

3   this actual slide was presented to the Board in February

4   of 2014 when we set out to launch the project.

5   This slide, actually these are the original goals

6   that we set out to accomplish in our project initiatives,

7   including customer service improvements, reductions of

8   risk, making our operations more efficient, and

9   streamlining our back-office business processes.

10   As we launched the project, these goals helped us

11   prioritize the initiatives we would set out to accomplish

12   throughout the project. As Ms. Mathur brought up about

13   how do these ideas get generated. And these -- this is a

14   good example of -- these were really homegrown initiatives

15   within the Functional Optimization Project. As Christian

16   mentioned, the business drove many of these projects.

17   --o0o--

18   BENEFIT SERVICES DIVISION CHIEF SUINE: And then

19   to translate it back to some of the other questions about

20   change management and training, because they were

21   homegrown, they were ready for the change, they wanted

22   some change, they had an opportunity to experience

23   my|CalPERS for about two years and then were id -- easier

24   to identify some of the needed changes that could make

25   their lives easier. So that's a great thing.

1   And then a lot of the training would be

2   incorporated to our individual program trainings in our

3   respective program areas. And so that they could roll it

4   out to all the team members through their normal training

5   process.

6   So we -- we looked at all of our initiatives that

7   we accomplished throughout this project. And this chart

8   shows four of the key categories of where we included

9   those initiatives; and it's proportional to the budget

10   that was allocated to each of these areas. So we have

11   operational efficiencies, program directives, online

12   services, and technical optimization, which we'll talk a

13   little bit more in detail about. And then a portion of

14   our budget was also allocated to knowledge transfer of our

15   IT staff, which Tim will talk about in a little bit. And

16   then a portion of the budget was support and oversight for

17   the project.

18   These -- these goals helped us -- the goals

19   helped us prioritize our projects as well.

20   --o0o--

21   BENEFIT SERVICES DIVISION CHIEF SUINE: So as we

22   get into each of these categories a little more

23   specifically, these drove which initiatives would rise to

24   the top, because always the program area, as the IT folks

25   will tell you, have way more demand than they can satisfy.

1   So we have to go through a prioritization process, and

2   these goals helped us get there.

3   So operational efficiencies were our largest

4   allocated initiatives, and these initiatives were focused

5   on improving our business processes and our program areas.

6   And so while the return on investments, we really

7   looked at risk reduction and improved customer service in

8   streamlining those business processes; but as a result, we

9   did recognize cost savings even though that was not an

10   initial driver of operational efficiencies.

11   So each of these initiatives that we did had some

12   impact on reducing permanent-, temporary-, and

13   limited-term positions, over 160 of those in the last few

14   years, which equated to a $12 million savings.

15   So these initiatives helped us get through

16   that -- get through that transition.

17   Some of the specific -- as Mr. Jelincic said, it

18   is hard to really categorize what the dollar value is on

19   risk reductions and customer service and streamline

20   business processes. But we look to our audit findings:

21   Have we resolved audit findings? We look to our service

22   levels and what we're improving there. And then also our

23   stakeholder surveys, like Ms. Mathur mentioned earlier,

24   and the feedback from our stakeholders and how we're doing

25   to try to gauge that we're getting that return on

1 investment.

2   And just also internally. So, for example, in

3 risk reduction, our final compensation initiative that we

4 implemented reduce significant risk by eliminating many

5 manual overrides and manual calculations that the team had

6 to do in calculating a benefit. When final compensation

7 was incorrect, we used to exchange emails, and then had to

8 manually calculate the end result. We implemented this

9 initiative where valid final compensation amounts could be

10 input into the system, and then the automated calculation

11 could happen, eliminating those overrides and manual

12 worksheets.

13   In the area of improved customer service -- we

14 talk a lot about our replacement benefit plan and some of

15 the issues, but we were able to make significant customer

16 service improvements. These initiatives help us

17 transition our participants in this plan from getting paid

18 quarterly to getting paid monthly. It also improved

19 customer service by expediting the invoices that were

20 going to our employers, allowing them to pay earlier, and

21 therefore us turning around and paying our participants in

22 this plan earlier.

23   And then the Redesign Medicare Process initiative

24 saw us take a manual process of mailing letters to those

25 members who were age eligible for Medicare and asking them

1 to return those letters to us even though it was a

2 mandatory opt in process. This allowed us to

3 electronically opt those members in and eliminate a

4 significant burden on our internal team as well as our

5 membership.

6   --o0o--

7   BENEFIT SERVICES DIVISION CHIEF SUINE: In the

8 area of program directives: Program directives were

9 driven by legislation or Board policy or compliance issues

10 and were able to be accomplished throughout the life of

11 this project because of the bandwidth of the Functional

12 Optimization Project.

13   One in particular, the single Medicare payee

14 where we migrated many of our Medicare individuals into

15 united, this helped us with a cost savings of over $21

16 million annually that were seen in the premium savings to

17 our members and employers.

18   The accounts receivable initiative helps us

19 reduce the risk of delinquent employers by tracking their

20 receivables by their member population as opposed to them

21 kind of self-reporting the receivables that they owe us.

22   And the retirement options simplification

23 initiative allowed us to reduce the complexity of the

24 number of retirement options from 13 to 7. This helped us

25 do all that internal functionality and integrate the

1   system so that we can focus on those most financially

2   sound options for our members.

3   And lastly, our interest payment initiative

4   improved customer service by providing us the authority

5   and ability to pay interest on delayed benefits when the

6   member is deserving of those interest payments.

7   --o0o--

8   BENEFIT SERVICES DIVISION CHIEF SUINE: The

9   enhancements of online services. We saw a number of

10 initiatives that added or improved functionality for our

11 customers to do business with us on line. One area of

12 cost savings was the million dollars annually that we will

13 be saving by transitioning our members for the second year

14 now into the online health statements, providing them more

15 relevant information on line and easier access to that and

16 not mailing those statements.

17   We have also allowed our employers to more easily

18 track and manage their receivables on line through our

19 member self-service, which is reducing the risk of timely

20 payments or less timely payments and really getting those

21 funds into our system faster.

22   And then enhancements to our home page have

23 improved the customer service to our members who use our

24 online functionality.

25   It's given them the functionality to get to what

1 they need to more easily on line and make things more

2 accessible to them.

3   And then lastly, we streamlined our internal

4 business processes by offering a new member self-service

5 function called modification of life option beneficiaries.

6 And this is where our retirees can now go on line, and if

7 they have a life event such as a divorce or a new

8 marriage, they have the opportunity through the law to

9 change their benefit option. They would mail these

10 requests in. And ultimately it can be expensive, so they

11 often choose not to elect those. Now they can go out on

12 line -- this was just implemented recently, and we're

13 already seeing where they're going out there, they're

14 getting their cost estimate themselves. And then that

15 when they choose not to elect, it didn't relate in any

16 back-office work. So it's really streamlined our business

17 processes.

18   So with that I'm going to turn it over to Tim to

19 talk about the benefits of our technical optimization

20 improvements and discuss the next steps.

21   ENTERPRISE SOLUTIONS DEVELOPMENT DIVISION CHIEF

22 TAYLOR: Thanks, Anthony.

23   --o0o--

24   ENTERPRISE SOLUTIONS DEVELOPMENT DIVISION CHIEF

25 TAYLOR: In addition to numerous business functional

1   optimizations, we also wanted this as an opportunity to

2   invest in technical optimizations as well.

3   I'm going to take the slide a little bit out of

4   order. When we saw the breakdown of where the budget was

5   fundamentally partitioned out for the various aspects,

6   there was a "knowledge transfer" slide.

7   When my|CalPERS originally implemented and we

8   were going through that two-year stabilization period, we

9   have a -- we had a heavy reliance on consultants, not just

10 from a capacity standpoint but, more importantly, from a

11 capability standpoint; which was a concern for us. So the

12 first two years of this project of functional optimization

13 effort was to really invest in that knowledge transfer to

14 wean ourselves off of requiring that -- that capability

15 dependency on consultants.

16   So we had a sizable budget. We did a lot of

17 cross-training, a lot of different channels in which we

18 were able to educate existing staff in order to maintain

19 the system, create on-boarding programs to ensure that not

20 only were we transferring knowledge to existing resources,

21 but we were bringing that into the enterprise; so when we

22 did suffer any sort of turnover, we had the ability to

23 bring new folks up to speed.

24   Through that, we've witnessed a reduction in

25 consultants. We'll have seen a reduction of 35 by this

     1   June 30th. We have been rolling consultants off

     2   throughout the life of the project, but as of June 30th

     3   we'll be up 35. And at the end of the calendar year we'll

     4   be reducing another -- an additional 11.

     5   Knowledge transfer is also important not just for

     6   understanding what was in the system at the time that we

     7   took ownership of it. But we also recognize the fact that

     8   as we're pursuing these new functional optimization

     9   aspects, that we needed to ensure that knowledge transfer

    10   is occurring there. And so we actually approached this

    11   exercise very differently than the original my|CalPERS

    12   situation.

    13   Previously we had a lead integrator. We let them

    14   do what they wanted to do, and then we shared acknowledge

    15   after the fact.

    16   This approach reemphasized a blended team

    17   approach. Even though we had a primary systems

    18   integrator, every single initiative team, every single

    19   effort that we've done is done in a blended fashion. So

    20   all disciplines that are contributing to a particular

    21   initiative, whether they're analysts, testers, developers,

    22   architects, it's blended. We have CalPERS representation

    23   on all those efforts. And at the moment, we actually lead

    24   50 percent of the functional optimization initiatives with

    25   State resources. So we're sharing that with the

1   consultant as well. And so that dovetails nicely with our

2   reduced reliance on consultants.

3   We also had specific initiatives that we wish to

4   tackle to ensure sustainability to reduce complexity. A

5   couple notable ones were when we inherited the system

6   there was a lot of third-party software that the system

7   relied upon and it was tightly integrated with the overall

8   system. So we've spent this opportunity to wean ourselves

9   off of those third-party reliances as well. We've removed

10   a third-party business processing language for work-flow

11   management. It was an internally managed activity for us

12   to do so. We've converted it to a non-proprietary

13   solution, into an open standard solution. And by doing

14   so, we've reduced our reliance on purchasing software both

15   one time and annual.

16   We also have -- are in the process of removing

17   our rules engine. We're replacing that with on open

18   standard as well. That is another State-led initiative.

19   Both of these activities, not only do they reduce

20   the number of technologies that we have in play, but it

21   also allows us to no longer have a very specialized

22   knowledge need. Before the two solutions required highly

23   specialized skills that would be difficult at times for us

24   to recruit for, and then difficult for us to retain those

25   positions. In doing so, now we have a standard that we

1   can have a larger team maintaining those systems; and

2   collectively they've resulted in those cost savings there.

3   A lot of the optimizations that we've done to

4   date too has allowed us to reduce our number of

5   limited-term or blanket positions. We've done 14 through

6   the first three years of this project.

7   And all of the -- cool stuff?

8   And Anthony wanted me to remind you that the

9   teams allow our employees to work on cool stuff as well.

10   (Laughter.)

11   ENTERPRISE SOLUTIONS DEVELOPMENT DIVISION CHIEF

12   TAYLOR: So it's not just the consultants that get to work

13   on the cool stuff.

14   But we really -- it's been mentioned before,

15   recruitment's difficult, retention is difficult. We

16   recognize that. And so the blended team format and the

17   opportunity for them to work on more compelling

18   activities, cutting-edge activities is one of the things

19   that we can do in order to attract and retain those folks.

20   --o0o--

21   ENTERPRISE SOLUTIONS DEVELOPMENT DIVISION CHIEF

22   TAYLOR: So the final funding of this project budget was

23   approved. We're in the final year. The project ends at

24   the end of -- or the fiscal year of 2018, June 30th, 2018.

25   So our next steps from a functional optimization

1 standpoint is: We have seven releases currently

2 scheduled. We have all the initiatives that have been

3 identified as part of the functional optimization slotted

4 for each of those. We have teams actively working to

5 complete those.

6   And then we'll continue to track the project

7 through the governance model attrition that Andrea spoke

8 of earlier.

9   --o0o--

10   ENTERPRISE SOLUTIONS DEVELOPMENT DIVISION CHIEF

11 TAYLOR: Once we complete the functional optimization

12 period, however, we'll have end the typical optimization

13 portion of the system lifecycle. But as has been

14 mentioned, there will always be an ongoing need for

15 enhancements, a need to continue to make notable

16 investments in order to ensure sustainability and

17 viability of a solution, and so we'll be monitoring future

18 needs collectively.

19   Thank you. And if you have any questions,

20 we'll --

21   PRESIDENT FECKNER: We do have a few.

22   I'll start with one.

23   Mr. Suine, the enhancements going forward at the

24 my|CalPERS, are they going to help catch the inaccuracies

25 coming from the employers as well?

1   BENEFIT SERVICES DIVISION CHIEF SUINE: Yes, we

2   have initiatives that focus on the employers. And anytime

3   we find any issues with those, I think those accounts

4   receivable tracking will really help us in monitoring any

5   risk in those areas.

6   And we do have several of the edits and audits

7   built into their reporting functions, so we can catch as

8   many of them as possible.

9   PRESIDENT FECKNER: Good. Thank you.

10   Ms. Mathur.

11   BOARD MEMBER MATHUR: Thank you.

12   Well, first let me just say I really appreciate

13   the grounding in risk, which clearly is an area that we as

14   an organization are focusing more and more on. But how do

15   we mitigate the risks moving forward? And so I appreciate

16   that that is such -- so fundamental to the work that

17   you're doing.

18   My second question is with respect to large

19   projects like my|CalPERS, where obviously we invested

20   quite a lot of money to deliver what we -- you know, a new

21   solution that -- and integrating a number of legacy

22   projects. Maybe this is really for you, Ron. But how

23   frequently do agencies -- do you have to reboot or redo

24   those types of big projects? How far can enhancements and

25   refinements take you? Because obviously those legacy

1 programs were at one time state of the art. So I guess

2 that's a more conceptual question.

3   ACTING CHIEF INFORMATION OFFICER HURLE: Well, if

4 I go back from history, it took us I don't know how many

5 years to get rid of the mainframe at Intel. And so...

6   I'll let the team respond to it, because there

7 are certain things that have started to turn archaic on

8 you, other things you're going to have as far as the

9 system that even the platform it sits on it starts to

10 deteriorate on you, which causes you to move. There's

11 going to be things you'll see that's going to change in

12 your overall environment that you'll do enhancements for.

13 And that's -- so...

14   But I'll let these guys think of what their --

15 what your think of a lifetime is for the sunset here on

16 my|CalPERS.

17   ENTERPRISE SOLUTIONS DEVELOPMENT DIVISION CHIEF

18 TAYLOR: A long time.

19   (Laughter.)

20   ENTERPRISE SOLUTIONS DEVELOPMENT DIVISION CHIEF

21 TAYLOR: A long time.

22   (Laughter.)

23   BOARD MEMBER MATHUR: I'm not anticipating we

24 need to do this any time soon. I'm just curious, you

25 know. And then how do you plan --

1   ACTING CHIEF INFORMATION OFFICER HURLE: It won't

2   be tomorrow.

3   BOARD MEMBER MATHUR: -- for that in advance so

4   that you don't end up having -- you know, it hits you in a

5   very significant way over a shorter period of time?

6   ENTERPRISE SOLUTIONS DEVELOPMENT DIVISION CHIEF

7   TAYLOR: So the short answer, actually the slides, the

8   information on the slides. Well known. It's advertised

9   quite a bit. There actually is a sunset time frame and

10 it's around the 25-to-30-year mark. We pulled that out,

11 because that's what's been observed over time.

12   But it gets back to this notion of -- Christian

13 used the house analogy. I'll use a car analogy. If you

14 are investing in the system to maintain it, if you are

15 staying aggressive and diligent in ensuring that you're on

16 top of all the maintenance activities and you're keeping

17 everything up-to-date, you could extend that lifespan.

18   It's impossible to have, you know, a date in mind

19 as to when something might become obsolete.

20   The other benefit is, the way systems are being

21 architected today and the things we're attempting to do

22 with my|CalPERS and decoupling all these things so they're

23 discrete pieces, that if one piece becomes obsolete, you

24 can replace that with the latest for a lower cost and more

25 quickly, while you're keeping the rest of the system

1   running. And then when another piece then becomes

2   obsolete a few years later, you can do that replacement.

3   The legacy systems were all entwined; and the

4   minute it hit that age of passing, it was over.

5   BOARD MEMBER MATHUR: Thank you. That's very

6   helpful

7   ENTERPRISE SOLUTIONS DEVELOPMENT DIVISION CHIEF

8   TAYLOR: Sure.

9   PRESIDENT FECKNER: Mr. Jones.

10   VICE PRESIDENT JONES: Yeah, thank you, Mr.

11   President.

12   Yeah, that was kind of a similar question I had,

13   is the obsolescence of the system when you actually have

14   to make a significant capital outlay to replace a major

15   portion. And I was going to ask the question whether or

16   not you look at it as an incremental funding process, so

17   that when that time comes, you don't have to have this

18   large outlay of capital but you can start funding it like

19   two or three years in advance. If you know for sure you

20   have a useful life of 25 years, as you indicated in your

21   data -- and by the way time, Tim and Anthony, you're still

22   on a roll. Congratulations.

23   (Laughter.)

24   VICE PRESIDENT JONES: Okay. And so that was one

25   of my questions is this funding mechanism for these large

 1 capital outlays that can be, you know, done incrementally

 2 and it won't have the same impact.

 3   And the second question I have is -- Rob touched

 4 on it in terms of business rules that you change. And I

 5 was wondering -- I know when my|CalPERS was -- you hit

 6 that button go and local agencies, the employers, say,

 7 "Wait a minute, I can't handle it." So I was wondering

 8 how do you keep them apprised of these changes going

 9 forward so that they won't have that outcry like we had

10 when we pushed the button on my|CalPERS?

11   ENTERPRISE SOLUTIONS DEVELOPMENT DIVISION CHIEF

12 TAYLOR: So I'll address the first part of your question,

13 and then I'll let Anthony address -- or do you want to

14 trade? You want to answer?

15   BENEFIT SERVICES DIVISION CHIEF SUINE: Go ahead.

16   ENTERPRISE SOLUTIONS DEVELOPMENT DIVISION CHIEF

17 TAYLOR: The way we go about funding significant

18 enhancements - and it was mentioned previously before

19 according to the slide - even once we implemented where

20 we're introducing system changes, even during the course

21 of functional optimization and the reason why we have so

22 many capacity consultants, is the fact that there is

23 day-to-day things that we need to do in order to maintain

24 the system.

25   So the little things we do to invest in keeping

1   it healthy, and sustainable does not always require a

2   large investment or a large project. So what we typically

3   do is we identify those activities, we utilize existing

4   resources in order to provide the enhancements or

5   whatever, or maintenance activities we need to do for that

6   sustainability; and then strategically thinking we'll

7   reach out if we are aware that there's going to be a

8   significant technology shift or something's going to

9   become obsolete soon, we'll begin the process and we'll go

10 through the budget or the project's -- the BTPPP in making

11 a recommendation of what's necessary from an IT

12 perspective: We need to do this. This is what we think

13 it's going to cost. And then when they're more notable,

14 they'll come through the budget process.

15   VICE PRESIDENT JONES: Yeah, because your house

16 analyses that, when my roof go out, I can go get a loan.

17 But, you know, you have to plan ahead. So...

18   ENTERPRISE SOLUTIONS DEVELOPMENT DIVISION CHIEF

19 TAYLOR: Correct.

20   DEPUTY EXECUTIVE OFFICER HOFFNER: Maybe I can

21 inject a little bit.

22   So the other thing we did at that time was the

23 Big Bang approach, right? So I think how we rolled this

24 system out would be something that we've definitely

25 learned from; and how we've done things differently going

1 forward from that point, it's more of an agile approach.

2   I just think, to your point, there's the cost

3 side of it is also the people process side of it and

4 change; and those things that we've learned from and we'd

5 do differently going forward. So...

6   BENEFIT SERVICES DIVISION CHIEF SUINE: To

7 address the business partner question, Mr. Jones. We --

8 as these initiatives come along, right, they're not quite

9 as large as what we attempted to do in 2011. And that was

10 a huge transition. But we continue -- we have a CSOD --

11 customers outreach area has a business partner training

12 team that goes out, I want to say almost every month, to

13 our various regional offices, inviting our employers to

14 learn about the new functionality in my|CalPERS and making

15 sure they're prepared.

16   We also have a business partner support team that

17 our employers have a direct line to to help them with

18 technical issues with the system, answer any questions

19 that they may have, and provide us ideas on how to enhance

20 their experience.

21   And then we also have a team of division chiefs

22 that do outreach through our employer response dialogues

23 to let them know about some bigger things, like

24 transitioning them all to electronic fund transfer rather

25 than sending us checks.

1   So we're -- we use several mediums to transition

2   that change for our employers and make sure they're well

3   communicated to well educated and that we're responsive to

4   their needs.

5   VICE PRESIDENT JONES: That's great. Thanks.

6   PRESIDENT FECKNER: Mr. Jelincic.

7   BOARD MEMBER JELINCIC: I want to make an

8   observation that the INVO grad did good.

9   In 2004, I was appointed to the California

10   Performance Review; the last time I was ever appointed to

11   anything by a Republican.

12   But one of the things that they did and -- they

13   looked at IT functions. And they gave a lot of credit and

14   used Virginia as an example. And so I reached out, you

15   know. I've got a long history - this goes back to '04 - a

16   long history of reaching out and looking for information

17   that's not necessarily coming, you know, directly from

18   staff; looking at other sources of information. So I

19   talked to the head of their IT and asked, "Well, what

20   did" -- you know, "they're telling us you did really good.

21   What did you do?"

22   And his answer was, "We fired all the consultants

23   and brought it all in-house."

24   Because the consultant comes in, does the job,

25   goes away. And if it doesn't work, that's your problem,

1 and I'll be happy to come back for a change order.

2 　　　　The State employee has to live with the system.

3 And if he doesn't or she doesn't have to live with it,

4 their peers do. And their peers will come to them and

5 say, "What did you do to me?"

6 　　　　Now, you know, that was 2004. You know, the

7 State hasn't learned a lot from that. We're making some

8 progress. But one of the things I wanted to emphasize is

9 we really do need to figure out how to bring more of these

10 projects in-house.

11 　　　　One of the things that we have in the budget is a

12 significant amount of money for training. We are not

13 spending our training budget. And that is not a good

14 thing. We put it there so we can get the skill sets, so

15 we can get the consultants out of here, so that we can

16 have more internal control. And so if we need to train

17 State employees, then we need to spend that money.

18 　　　　So off the soapbox.

19 　　　　But we recently did a recruitment fair. How did

20 that go?

21 　　　　ENTERPRISE SOLUTIONS DEVELOPMENT DIVISION CHIEF

22 TAYLOR: What was the day? It was April 29th -- 28th?

23 　　　　So on April 28th we had our second ever ITSB

24 CalPERS career fair. It followed the format very similar

25 to the first one that we had. But the climate was very

1 different this time.

2   The last time we did it, we had basically 99

3 vacant positions and there was a push to bring in a bunch

4 of folks to help man some of these.

5   And entirely different situation now. At the

6 time I believe we had about 8 or 9 vacancies. We had

7 applied a lot of the lessons that we had learned from the

8 first go-round. We had a good turnout: Approximately 500

9 folks, very diverse crowd, a lot of professionals down to

10 recent grads or soon to graduate.

11   We set it up to where people can go and visit

12 different disciplines within IT to learn more.

13   HR was great. They were on hand to coach people

14 on the State hiring process, which is a difficult thing

15 for us to do. They provided a lot of insight to these

16 individuals. We collected resumes. Allowed us to build a

17 little CRM system with prospective candidates, with the

18 possibility of student position in -- student positionings

19 becoming a possibility. There were some current students

20 that would be interested in things like that.

21   It was very successful.

22   We do recognize the fact that we need a pipeline

23 of talent. That was our intent this time, to get CalPERS

24 out there identified as a destination employer, not just

25 from a building perspective or that we have a gym, but the

1 fact that we do very sophisticated IT projects and we do

2 invest heavily in our staff and we do have robust training

3 plans within IT. And it gives us an opportunity to

4 establish that.

5   BOARD MEMBER JELINCIC: And did we get some

6 resumes from people that if we can get them on staff, we

7 can get rid of a few more consultants?

8   ENTERPRISE SOLUTIONS DEVELOPMENT DIVISION CHIEF

9 TAYLOR: Yes.

10   BOARD MEMBER JELINCIC: Thank you.

11   PRESIDENT FECKNER: Thank you.

12   Mr. Costigan.

13   BOARD MEMBER COSTIGAN: Thank you, Mr. Feckner.

14   I'll go in reverse order.

15   You're in the unique position of having both

16 CalHR and SPB on this Board. So from the standpoint of

17 talking about recruitment, onboarding and all that, you

18 have two Board members you can talk with, because we want

19 to hear about it. I mean, as you know, Secretary Batjer

20 really working on civil service improvement and

21 onboarding. And so I again my very impressed that you had

22 the IT followed on social media. You guys did a fantastic

23 job.

24   I just -- I did ask our staff at SPB were we

25 there. Just kind of one in the future, when you do an IT

1   recruitment, definitely having CalHR and SPB there because

2   we can help sometimes folks understand the archaic process

3   of trying to get in.

4   Maybe you all can expand a little bit on the

5   difference between enhancement and display of information.

6   Because here's a problem. And I've talked to Anthony

7   about this.

8   I often struggle with the Cal -- the my|CalPERS.

9   And I don't want to use it as a "beat-up" today, but since

10   it's been part of your presentation, I find it to be

11   fairly static. It provides basic information to me: How

12   long I've worked, whether I vested for defined benefit,

13   and potentially what my benefit will be.

14   Where I struggle -- and we spend a lot of money,

15   and this is where I wonder, is it enhancement, is it

16   software issues? So, for example, if you go through and

17   do a retirement estimate, unless you know -- so you get

18   yours and then you get your spouse and your beneficiary.

19   You have to know to add the two together. And I don't

20   quite understand why it displays that way. I mean, in my

21   example, my wife is my beneficiary. So why I get two

22   columns on display? And I have never been told if we can

23   fix that or not. And so is that an enhancement or a

24   software issue, you know, from a...

25   Second, is why is it for purposes -- I've got to

1   quit pointing. Sorry. It's a bad lawyer trait. I'm

2   trying not point. My wife said that to me the other

3   night, "Don't point at me."

4   (Laughter.)

5   BOARD MEMBER COSTIGAN: So the -- why is it that

6   on the defined benefit it'll give me my vesting, for

7   example; but when I click over to the health care side of

8   it, it doesn't tell me where I've -- I know I'm vested

9   because I have a letter from Anthony's team. But it

10   doesn't tell me. So is that an enhancement or is that a

11   display issue? Because that's the struggle, is we all

12   know the formula to vest, right? You know, 5 years, 10

13   years, depending on what you are. But sort of the

14   question -- and this is -- I raised this with Mr. McKeever

15   before he left because when the health rates came out

16   there was information that -- all the information wasn't

17   in there. So I'm trying to reconcile to my|CalPERS for

18   the other information.

19   So is that an -- because that's -- back to the

20   analogy about building the house. We built the house.

21   Now we're just maintaining it. Or how do we expand, add a

22   new deck, you know, what -- because when I look -- because

23   I'm on the site right now. And It's fantastic, right? It

24   tells me exactly how much I've contributed, my total

25   service and credit, fact I can retire, and my formula.

1   But, again, when you click on "health," all it tells me is

2   that -- currently what my premium is and that -- but I

3   know I have vested, so...

4   And then I'll go a little further. We always

5   talk about defined benefits. And what we provide here is

6   part of a 3-legged stool towards retirement. We have no

7   interface with Savings Plus. Now, is that a Savings Plus

8   issue? As I told Director Gillihan, their site also is

9   static for -- and I don't know -- this is a larger project

10   about -- because you talk about spending and enhancements

11   is. The Savings Plus program only takes the number I get

12   and doesn't assume I get a COLA, doesn't assume any future

13   increase, right? So it too is a little bit of a static

14   model, but it updates my 401 and 457 on a daily basis.

15   So you've got -- for our members, who typically

16   have a 401 or 457, a DB, we're not giving -- maybe that's

17   not our job. But I just -- when I look at what we spend

18   on this, my Schwab does a better job overall of helping me

19   prepare for retirement than the information I get here.

20   So how do we address that or what do we do?

21   And like on the health issue, why don't we have

22   something on this that says I vested for health? Same

23   formulas. Statute exist.

24   BENEFIT SERVICES DIVISION CHIEF SUINE: So, it's

25   an enhancement, the types of things you're referring to.

1 And as I mentioned, the demand just far outweighs the

2 capacity. So we try to prioritize those things that are

3 meeting all those criterias and goals to say which ones

4 are going to benefit us the most.

5   So it's definitely something we want to look at

6 and enhancing our member self-service tools. I think

7 through the retirement option simplification we're taking

8 another look at our member self-service functionality and

9 our pages to optimize those.

10   You know, the health question in particular, you

11 know this better than anybody, Mr. Costigan. It's easy to

12 tell you you're vested for retirement. Right? Five

13 years, you're age 50. Were you appointed in this fashion,

14 were you appointed in that fashion, when did you come into

15 membership?

16   BOARD MEMBER COSTIGAN: You have to produce that

17 if -- if I were to retire today, you'd have to produce

18 that information for me. So plan --

19   BENEFIT SERVICES DIVISION CHIEF SUINE: Yes, but

20 that would come to the back-office team to review that

21 particular eligibility situation or you would meet with

22 our regional office team to guide you through what you're

23 health vesting is. So it's not as simple to display as,

24 say, a retirement vesting where it's just two criteria.

25 Right.

1   So the amount of criteria would go into enhancing

2   the system to make sure we always get that information

3   right when we display it.

4   BOARD MEMBER COSTIGAN: Well, and again --

5   probably have a longer discussion. But here's, Mr. Suine,

6   what I don't really understand from an enhancement

7   standpoint is, each year that I get additional service

8   credit the defined benefit side of the house updates it.

9   If I have vested for purposes of health care, whether it

10 was pre-1989, pre-'91, or pre-2000. So it's 50 percent,

11 and in each addition. So we'll take a pre-PEPRA but

12 after-2000 employee. 50 percent, plus 5 percent per year.

13 So if you can tell me over here each year how much service

14 credit I have, why can't you tell me over here on the

15 health side -- because it's just a formula. I mean, you

16 know that, because you tell me, I'm a miscellaneous

17 employee in Bargaining Unit 50. I mean, you al --

18   BENEFIT SERVICES DIVISION CHIEF SUINE:

19   Definitely.

20   BOARD MEMBER COSTIGAN: And that's why -- I'm --

21 and it's not picking on you. I'm just saying, I

22 appreciate -- I just want to say how much I appreciate

23 Anthony, because not many people get the opportunity to

24 call him up and say, "Can you explain this to me" and walk

25 it through.

1   And I know if I'm struggling, it's -- and I don't

2   want you over -- well, and that's what I'm just trying to

3   get at. We spend a lot of money, and at times I feel the

4   system is fairly static. It just updates on a yearly

5   basis what my retirement is. Doesn't provide me a lot of

6   other information. And part of it I think is you all

7   needing to again reinforce to everybody how much

8   information flows in. I mean, all the employers, all the

9   controller information. I know when we first had

10   CalPERS -- excuse me -- my|CalPERS, we had a problem with

11   communicating with the controller's office, just on some

12   of the data coming in. We've worked through all that.

13   And then just last point - and I'll look to Ron -

14   I think brain drain, you -- this is a conversation you

15   have to have with the vendors, because one of the problems

16   we had with my|CalPERS was the vendor decided, "Oh, look,

17   shiny new object over here at Fi$Cal. Oh, look, shiny new

18   object over here at Covered California." And we saw the

19   migration of folks go. And that is something I think

20   that's -- back to Mr. Jelincic's points -- very important,

21   both on the internal and the external, to work on that.

22   And I am so glad, as Ms. Mathur said, when we're looking

23   at risk, that's something that you guys are recognizing,

24   because that is the big -- otherwise Anthony will keep

25   getting phone calls from folks like me saying "Why doesn't

1 the system do this?" - without realizing having all the

2 talent. So, anyway.

3   Thank you, Mr. Feckner.

4   ACTING CHIEF INFORMATION OFFICER HURLE: And a

5 couple -- I'm not sure, from maybe a closing comment.

6 But -- so the first reason for the strategy of having the

7 group here, rather than just one individual, is to show

8 that there's steps, that there is more than just the

9 process. There is an intimate -- if I consider with the

10 actual systems and the process that go into play, there's

11 a discipline that's in place in our governance.

12   I don't disagree with the consultant comment at

13 all. I will tell you to live without consultants and have

14 the speed that you need, and the swiftness you need, is

15 probably an impossibility. I do think that -- to your

16 point, that we have to reduce the reliance on them. If

17 something has gone wrong, that's not their fault. It's

18 that we screwed up in our governance, we screwed up in our

19 project management. That's not going to happen. What

20 we're going to do is pay attention to those disciplines;

21 at the same time still utilize them in first capacity

22 where we need them, and use the ones that have been good

23 partners to us.

24   But I just want to make sure that it's not going

25 to be going away, all of them and that. But we definitely

1   will do our best to do the reduction of the dependency.

2   But I do want to thank the team for the attention

3   they paid to in giving you the representation they did

4   today. They are a crack team, and we appreciate the time.

5   PRESIDENT FECKNER: Okay. Well, seeing no other

6   requests, I do note you have a few slides left.

7   Mr. Hoffner, are you -- we're good?

8   All right. Well, thank you all for a great

9   presentation. Appreciate it.

10   Brings us to Agenda Item 12 - State and Federal

11   Legislative Update. Ms. Ashley, as soon as there's a seat

12   available.

13   LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:

14   Hello. Good morning, Mr. President, members of

15   the Board. Mary Anne Ashley, CalPERS team member. I will

16   be presenting the State and federal legislative update.

17   And the legislative summary is available in your Board

18   materials for your reference.

19   The status of bills continues to change quickly.

20   And several of the bills noted in the highlight section of

21   the report have since been heard in the fiscal committees

22   and have even been reported to the floor or been placed on

23   the suspense file. The fiscal committees have until May

24   26th to hear and report to the floor all bills that were

25   introduced in their house of origin. And June 2nd is the

1 last day for bills to be passed out of the house of

2 origin.

3   I'm very happy to report that all four of our

4 sponsored bills have passed both the policy and fiscal

5 committee, and three of the four have since been moved to

6 the second house and are awaiting committee assignment.

7   We continue to work with the legislative offices

8 on other bills that we've identified as potentially

9 impacting CalPERS. We have submitted amendments to

10 Assemblymember Kalra's office regarding AB 20, which is on

11 the Dakota access pipeline. The amendments are to address

12 concerns that we have regarding a provision that was newly

13 added to the bill that we believe could be viewed to be in

14 conflict with the Board's plenary authority.

15   We are also working very closely with Senator

16 Allen's office on Senate Bill 560 regarding consideration

17 of financial climate risk assessment and reporting. And

18 we anticipate that we'll submit amendments to his office

19 later this afternoon.

20   We will keep the Board updated as the legislative

21 session continues to progress.

22   And then on the federal level, our federal

23 representatives provided their updates in their written

24 reports. And the federal bills that we are monitoring are

25 noted in the federal report section of the legislative

1   summary. Additionally, the federal representatives will

2   be calling in a verbal report and update at the June

3   committee hearings.

4   Two issues that we are closely following are the

5   American Health Care Affordability Act -- I'm sorry -- and

6   the Financial CHOICE Act 2.0.

7   In regards to the AHCA, the House passed their

8   bill on May 4th. And the Senate officially cannot --

9   cannot officially start working on the bill until after

10 the Congressional Budget Office has scored the bill with

11 the House amendments considered. However, Senator Orrin

12 Hatch, who is the Chairman of the Senate Committee on

13 Finance, has indicated that the Committee is seeking input

14 from key stakeholders that represent the interests of

15 patients, providers, employers, and thought leaders.

16   CalPERS is currently in the process of drafting a

17 letter to submit to the Committee, as we feel this would

18 be a good time to go on record regarding several

19 provisions of the bill.

20   Regarding the Financial CHOICE Act, the House

21 Financial Services Committee concluded its markup of the

22 FCA and reported the bill favorably to the full house for

23 a vote, which is anticipated to occur around May 22nd. It

24 is anticipated that the FCA will pass the house. And on

25 May 12th CalPERS joined with the Council of Institutional

1   Investors as the signatory on a letter to all members of

2   the U.S. House of Representatives strongly opposing

3   certain provisions of the FCA, noting that the bill would

4   weaken critical shareholder rights.

5   CalPERS team members are currently working on

6   completing an analysis of the FCA. And additionally we

7   have team members that will be visiting key capital

8   offices in D.C. next week.

9   We will keep the Board updated on the FCA and the

10 AHCA and other federal legislation as it moves through the

11 congressional process.

12   And this concludes my update. And I am happy to

13 take any questions.

14   PRESIDENT FECKNER: Thank you.

15   Ms. Taylor.

16   BOARD MEMBER TAYLOR: Yes, thank you,

17 Mr. President.

18   I just had a -- I'm glad that we are having team

19 members go and talk to folks on Capitol Hill about the

20 Financial CHOICE Act. But I only heard that we're sending

21 a letter for the AHCA. Are we actually going to be

22 lobbying anybody on the AHCA on what we want to see kept

23 in, what we --

24   LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:

25   That's to be determined still. We haven't

1   reserved our engagement activities until after it passed

2   from the House to the Senate. So now we feel this would

3   be a more appropriate time to start those types of

4   activities.

5   BOARD MEMBER TAYLOR: Right. So you are

6   strategizing around that right now?

7   LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Yes.

8   BOARD MEMBER TAYLOR: Okay. Thank you.

9   PRESIDENT FECKNER: Thank you.

10   I have one request to speak from the public. I

11   have Ms. Martha Turner.

12   Please come forward to my left, and microphone

13   will be turned on for you. You'll have three minutes.

14   Please identify yourself and your affiliation for

15   the record please.

16   MS. TURNER: Thank you for the opportunity to

17   speak today. My name is Martha Turner. And I'm with

18   Fossil Free California. And I'm speaking with regard to

19   State Senate Bill 560.

20   I last week had the opportunity to attend the

21   National Climate Adaptation Forum. About a thousand

22   persons in St. Paul who come together, both from the

23   private and public sector, to address how we will

24   functionally both in terms of infrastructure and also

25   programmatically move forward with addressing climate

1 change.

2 And to my pleasant surprise, I noticed that --

3 not just noticed. I was participating in the session

4 where SB 560 was raised in very favorable terms. And it

5 was raised in the terms of looking at what is happening in

6 France with regard to finance climate risk reporting. So

7 I wanted to share that with the Board. You may not have

8 heard that that was the case.

9 And I also wanted to -- in addition to that, to

10 mention that one can look at SB 560 as a bill that is --

11 it might allow CalPERS to behave somewhat complimentary to

12 what you recently -- the Investment Committee, I should

13 say -- recently spoke very favorably with regard to

14 Occidental Petroleum's board vote regarding climate

15 scenario requirements for Occidental Petroleum. So in a

16 sense, the idea of SB 560 can deepen and strengthen the

17 work that CalPERS is already doing with regard to

18 addressing internally and externally climate risks and

19 take this farther and take it out into a more public

20 forum.

21 So I, first of all, just wanted to mention that

22 there is a very wide audience that is interested and very

23 favorably disposed to languishing around SB 560 that is

24 climate forward and climate supportive and also human

25 community supportive.

1   And that this is an opportunity for CalPERS if

2   the bill is -- moves through both houses and is signed by

3   the Governor, it's an opportunity for CalPERS in a sense

4   to say, "We're doing the duty just as when we do

5   stakeholder engagement. The companies that we're invested

6   in, we're asking them to do the duty as well."

7   So thank you very much.

8   PRESIDENT FECKNER: Thank you for your comments.

9   Brings us to Agenda Item 13 - Summary of Board

10   Direction.

11   Ms. Frost, do you have any summary items?

12   CHIEF EXECUTIVE OFFICER FROST: I have one. That

13   was Mr. Gillihan's request to add project dependency to

14   the project score cards.

15   PRESIDENT FECKNER: All right. Very good.

16   Item 14 - Public Comment. I do have two requests

17   to speak. I have Mr. Jim Auck and Bryan Snow.

18   Mr. Snow, you put Agenda Item 11. I assume you

19   meant 14.

20   MR. SNOW: Yes.

21   PRESIDENT FECKNER: All right. Please come

22   forward, gentlemen, to my left.

23   Again you have up to 3 minutes. And identify

24   yourself for the record, please.

25   MR. AUCK: Hello, Board members, Mr. President.

1   My name is Jim Auck. I'm the president of the Corona

2   Police Officers Association. And I just wanted to take a

3   minute and share a rank-and-file perspective with you

4   today.

5   I represent 162 sworn police officers who are

6   CalPERS members and depend on you to make sound financial

7   decisions to ensure the promises made to them will be

8   kept.

9   The city of Corona is the third largest city in

10   the County of Riverside, and during the past 10 years

11   we've gone from nearly 900 employees -- full-time

12   employees to 650, a reduction of 250 employees.

13   The police department's sworn staffing has seen a

14   reduction of 31 police officers. And to demonstrate the

15   impact that has had: A few years ago we had five

16   detectives working on white color crimes - identity theft,

17   embezzlement, fraud. Today we have one for a city of

18   165,000 people.

19   Citywide our staffing is at bare bones and any

20   future cuts will have a huge impact on services.

21   I think we were all hopeful that revenues would

22   increase when the stock market surge and the economy

23   seemed to be coming around. However, any revenue increase

24   realized by the city of Corona is being devoured by the

25   increase in the PERS rates. While there are many factors

1　causing rate increases that are understandable - the

2　longevity changing, the ramp up to reach the heightened

3　funding levels - there's one factor that is unacceptable

4　to us and, that is, the divestment policies of this Board.

5　　　　　During a recent public retirement journal seminar

6　I witnessed the anger and fear expressed by the management

7　of several cities and special districts. They all know

8　that the rates -- if the rates continue to skyrocket,

9　something has to give.

10　　　　　They all know that additional reductions in

11　service are inevitable. It's likely more bankruptcies

12　will occur. And ultimately the fund may be unable to keep

13　the promises made to the working class in this State.

14　　　　　From a law enforcement perspective, I can tell

15　you with great confidence that the policies in Sacramento

16　towards the rule of law in California are making it a more

17　dangerous place to live and work. We cannot afford to

18　lose funding for law enforcement officers in exchange for

19　a socially responsible investment strategy.

20　　　　　Your fiduciary responsibility is to the

21　employees, the employers, and the taxpayers of this State,

22　not to the many agendas of the many special interests that

23　dominate Sacramento politics.

24　　　　　In closing, I want to tell you that although the

25　Corona POA is one small group in the grand scheme of

1   things, we are committed to following through on this

2   important issue. We're in contact with our state senator,

3   our assembly member. We are meeting with PORAC leadership

4   and other police associations in our area. And we are

5   encouraging our city council members to bring this issue

6   to the League of California Cities. We may be a small

7   group, but we're going to do everything we can to have

8   impact on this matter.

9   Thank you for your time.

10   PRESIDENT FECKNER: Thank you for your comments.

11   Mr. Snow.

12   Mr. SNOW: Mr. President and the Board of

13   Administration. Thank you again for having this

14   opportunity to speak to you.

15   I want to bring up just a few points from things

16   I heard on Monday at the Investment Committee meeting.

17   Also, something more personal. A friend -- a personal

18   friend who retired in the last few years. He was

19   diagnosed with pancreatic cancer recently. He served over

20   30 years in a law enforcement career. Has -- I think he

21   has five -- five kids, who have grandchildren. He's only

22   been able to enjoy his retirement for a few years.

23   And then I only bring that up not to try and

24   evoke emotion but rather to just show you and demonstrate

25   the sacrifices and the dangers that come with the

1 profession that we're engaged in.

2 And the retirement is one thing that we have to

3 look forward to. I know that was one reason CalPERS was

4 instituted in the first place. And one of the benefits of

5 making that 3 percent at 50 was to entice quality workers

6 for the State and for government employees. And sometimes

7 we don't get that long retirement because of the

8 environments that we work in. Not just policemen but also

9 firemen.

10 One comment that was made on Monday was about the

11 work that is done by this Board and by CalPERS itself.

12 And it had to do with the -- was the corporate engagement

13 in the shareowner campaigns, which are pretty awesome. It

14 was good to hear that. But I wanted to remind you of the

15 work that is the sole work of this Board and of CalPERS;

16 and, that is, right outside these doors back here on the

17 little -- on the display, and it says to provide

18 responsible and efficient stewardship of the system,

19 deliver promised retirement and health benefits.

20 So this isn't to be done on the backs of cities

21 or taxpayers, but it's done through investments.

22 And I think what you've done with Exxon and

23 Occidental can also be done with some of the other things

24 that we've divested from -- or CalPERS divested from and

25 that is the -- either -- whether it's guns, whether it's

1   tobacco. Currently you have no influence in those

2   industries in those areas. Whereas, if you were investing

3   in them you would have some sort of say through those

4   shareowner campaigns and through the corporate engagement,

5   whereas now you have zero.

6   We've lost billions of dollars because of

7   divestments. And that's billions of dollars that could

8   have been used to -- you know, we wouldn't have -- maybe

9   we still have these same issues but we don't know that.

10   All that compounding money has just -- it sometimes blows

11   our minds that we're losing that money because of the

12   policies that are in place through divesting.

13   I'm not saying that we have to invest in

14   everything and that divestment has to go away completely.

15   But I think in some areas we can review it and maybe look

16   into investing again in some of those industry.

17   Thank you for your time.

18   PRESIDENT FECKNER: Thank you for your comments.

19   Seeing no other requests, I do want to address a

20   comment that was made last month under public comment and

21   state that I held a meeting with Mr. Jelincic and his

22   counsel and Mr. Slaton. I listened intently to all the

23   information delivered by both sides. I then rendered my

24   decision, and my decision, one that Mr. Jelincic had

25   violated our confidentiality rules.

1   I then a month ago met with Mr. Jelincic about

2   the issue, informed him that he was going to be receiving

3   training, additional training in Bagley-Keene and

4   open-meeting laws. And with that I considered the matter

5   to be closed.

6   And the same comment that I've had for media in

7   the past, will not disclose that information that was

8   given because it was in a confidential matter and by doing

9   so, I would be violating the same issue.

10   So as far as I'm concerned, this matter is

11   closed.

12   With that, this meeting is adjourned. Everyone

13   have a good month. We will see you next month.

14   And Board members, in consultation with

15   Mr. Jacobs, there is no closed session following this

16   because there's no information.

17   So we are done for the day.

18   (Thereupon the California Public Employees'

19   Retirement System, Board of Administration

20   open session meeting adjourned at 11:11 a.m.)

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1   C E R T I F I C A T E   O F   R E P O R T E R

2   I, JAMES F. PETERS, a Certified Shorthand

3 Reporter of the State of California, do hereby certify:

4   That I am a disinterested person herein; that the

5 foregoing California Public Employees' Retirement System,

6 Board of Administration open session meeting was reported

7 in shorthand by me, James F. Peters, a Certified Shorthand

8 Reporter of the State of California.

9   That the said proceedings was taken before me, in

10 shorthand writing, and was thereafter transcribed, under

11 my direction, by computer-assisted transcription.

12   I further certify that I am not of counsel or

13 attorney for any of the parties to said meeting nor in any

14 way interested in the outcome of said meeting.

15   IN WITNESS WHEREOF, I have hereunto set my hand

16 this 23rd day of May, 2017.

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23   JAMES F. PETERS, CSR

24   Certified Shorthand Reporter

25   License No. 10063